



Marjan SVETLIČIČ *

HOW MUCH ARE (WE) ACADEMICS TO BLAME FOR THE GLOBALISATION BACKLASH?

Abstract. *Based on an evaluation of teaching and research, mostly on international economics and business, the article concludes that academics must share responsibility for the globalisation backlash and the rise of populism. The reasons include not sufficiently communicating the whole story about the free trade (FT) principle, about the distribution of the costs and benefits among the actors, and the compensatory measures required. Finally, the over-mathematisation of economics has rendered certain issues (like inequality) of secondary relevance. A. Smith's 'invisible hand' maxim has generally been misinterpreted. Arguments are made for the return to more political economy, a multidisciplinary approach, to help overcome the wrongdoings of the past, calling for more out-of-the-box thinking and a rethinking of theories; not least, to improve scholars' ability to communicate their ideas in simple understandable language.*

Keywords: *Globalisation, academics, inequality, redistribution, invisible hand, methodology, relevance, crises, international economics, A. Smith*

Introduction

Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist.
(Keynes, 1936/2016: 383–384)

The above citation is one of the motives for writing this article. The second is the growing backlash against the current type of globalisation (GLO) following the 2008 global economic crisis (GEC) and accompanied by rising inequality, as illustrated by Milanovic (2016) with his *elephant curve*. Yet,

* Marjan Svetličič, PhD, Professor Emeritus, Faculty of Social Sciences, University of Ljubljana, Slovenia.

The author is grateful for the very constructive comments received on the first draft of this paper from Damijan J., Ellerman D., Kovač B., Mencinger J., Raškovič M., Šabič Z., R. van Tulder and E. Zavodnik.

“*slowbalisation*” (The Economist, 26 January 2019) seems in many ways to be confined to the global West and an Anglo-Saxon problem. Despite their inherent growing pains, many emerging markets (i.e. China) and some post-transitional markets (i.e. Poland) seem to be surviving the present globalisation storm quite well.

Following similar patterns like those seen after the Great Depression, rising populism, (economic) nationalism and mercantilist protectionism have resurfaced in many developed markets, in some cases eroding the very pillars of western democracy. The wide consensus in political economy has been that democracy (as an institutional development) promotes trade liberalisation, which is to everyone’s benefit as a pie-expanding game (Chen and Lee, 2018). The underlying reverse implication is that a departure from free trade (FT) may thus imply less democracy. However, economists have been unable to give a comprehensive answer regarding the nature of these two phenomena: are we talking about correlation, causation or complex cyclical and non-linear effects? Are we experiencing a simple swing of the pendulum of history, evolution, or devolution? Indeed, we seem to forget the black-swan nature of the 2008 GEC, which arose as much from intellectual hubris (too much ‘scientism’) as from human greed (Taleb, 2010). While we might also feel we are living in unprecedented times, the current US-China trade war and ‘America-first’ stance advocated by President Trump echo the trade tensions between the USA and Japan three decades ago (Irwin, 2002) when Japanese companies shook global markets and signalled a new era of globalisation (Raskovic, Makovec Brencic and Jaklic, 2013). Leaving the debate on a possible US-China *Thucydides trap* scenario to one side (Zoellick, 2013), we academics should engage in some critical rethinking and questioning of our approaches, assumptions and toolkits (Taleb, 2010), instead of seeking to promote the enlightened understanding of ‘the ignorant’.

It seems that Adam Smith was right and GLO did not provide an even playing field for all. It is increasingly clear that inequality has become the biggest ‘headache’ of global and national economies. Yet, is inequality truly a new problem for economics? On the contrary, in Rousseau’s 1754 “*Discourse on inequality*” he claimed that “equality needs to be enforced as a way to counter the selfish desires and subservience that society breeds in individuals” (The Economist, 8 September 2018a: 55). Similarly, despite calling for free markets, Adam Smith voiced serious concerns about increased inequality as a result of societal commercialisation and turned it into a moral question in the “*Theory of Moral Sentiment*”. His considerations of how greater inequality leads to public sympathy towards the rich, not the poor (Rasmussen, 2016) echo contemporary society, particularly in the neoliberal Anglo-Saxon world, and support the elephant curve.

The social discourse concerning FT and GLO has mainly been negative or at least critical. On the other hand, the scientific discourse has generally been positive or superficial – based on a wide consensus and unquestioned dogmas that FT is the first-best option and is therefore in its nature welfare-enhancing (by expanding the pie, even if some get a bigger slice). There have also been more nuanced and context-sensitive views on this subject related to discussion of the benefits and costs of FT, but these have largely been downplayed or simply ignored. Rejecting GLO has become like rejecting the natural law of gravity. Rodrik's book from 1997 that questions certain traditional arguments about GLO and advocating the need for more policy-correcting interventionism has been underestimated. He foresaw the cost of greater "economic integration" would be greater "social disintegration". The inevitable outcome would be a huge political backlash. As Rodrik would later recall, other economists tended to dismiss his arguments – or feared doing so. Krugman privately warned Rodrik his work would provide "ammunition to the barbarians" (Saval, 2017). Indeed, GLO seemed to be the domain of the enlightened.

In developing our arguments, the paper is structured as follows. The second section looks at what may be wrong in our theories and teaching, pulled out of context, or simply misrepresented and misunderstood. It also questions whether we, as academics, are indeed addressing the big questions and relevant issues, or has the methodology and tenure-led, publish-or-perish pragmatism made substance and thought irrelevant. To test our assumptions, we try to explain why the GEC has been overlooked. The third chapter focuses on the particular position of academics and asks what role did we play in the current GLO backlash? Were we simply ignorant, blinded by academic hubris, did we enable or perhaps even cause the GEC? In the conclusion, we offer some suggestions to move us forward so that academia may resume its original role as the consciousness of society.

What went wrong in theory or its interpretations?

Misinterpreting or misrepresenting Adam Smith?

The 'grandfather' of international trade theory, Adam Smith (1776/1975), is attributed with a primary role in all international economics textbooks with his "invisible hand" metaphor that later became a substantial basis of capitalist laissez-faire philosophy. Yet, it has been forgotten that the invisible hand analogy was mentioned just three times in Adam Smith's work (Courtemanche, 2011: 5) and its function depends strongly on whether business agents pursue their own interests by political influence or by market action (Forsgren and Yamin, 2010: 99). When speaking of Adam Smith's

work and legacy, two things need to be recalled. The first is the imperial historical context in which his works emerged. Second, we should not forget that his earlier work *“Theory of Moral Sentiment”* (1759/1982) very much addressed the question of the inequality and moral issues associated with the commercialisation of society. While he did advocate a laissez-faire approach and acknowledged some “useful inequality” as a necessary by-product of the free market, he also acknowledged “oppressive inequality” which prevented the free entry of firms and participation of society, and distorted public sympathy in favour of the rich, not the poor (Rasmussen, 2016: 344).

The first sin that academics teaching international trade may have committed is thus having misinterpreted his invisible hand concept as “God – or Divine Providence, arranging matters in such a way that our pursuit of self-interest would nonetheless promote the general welfare” (Graeber, 2014: 60, 61). Forsgren and Yamin claim, “that A. Smith would not have been a comfortable member of the A. Smith Institute. Maybe he would have refrained from being a member at all. He would, not support FT wholeheartedly” (2010: 95–109). Smith is seen as unquestionable authority even though “there is no consensus on what Smith might have intended when he used the invisible hand, or on what role it played in Smith’s thought. To ascribe to him a broadly neoliberal politics on the basis of only one partial reading of *Wealth of Nations* is anachronistic at best, and intellectually misleading at worst” (Kelly, 2009: 542). Academics, particularly economists, made much more out of it, overlooking that Adam Smith was a social scientist who emphasised morality, justice and institutions as a precondition for well-functioning markets. “We mistakenly equated free markets with unregulated markets” (Acemoglu, 2009: 2).

The proverbial invisible hand has been overplayed and oversimplified, too narrowly interpreted, in the end neglecting morals, the principles of justice. “Smith’s economic analysis went well beyond leaving everything to the invisible hand of the market mechanism. He was not only a defender of the role of the state in providing public services, such as education, and in poverty relief and also deeply concerned about the inequality and poverty that might survive in an otherwise successful market economy” (Sen, 2009: 3). In modern vocabulary, we would say that “people, social structures and institutions matter” (Acemoglu and Robinson, 2012) because they make a difference to outcomes, allowing for both constraint and enablement in their two-way interactions. “Therefore, the invisible hand cannot be interpreted as the first order system in Smith’s world, but second-order system contingent on first order system of strong institutions and regulations in which no agents have enough power to influence politics in line with their own interests” (Sen, 2009, in Forsgren and Yamin, 2010: 99). Indeed, Adam

Smith's understanding of the free market was not contingent on a modern understanding of perfect competition obsessed with the number of actors in a market and information, but with the simple principle of "freedom of entry" which is closely related to the principles of justice, fairness and equality of participation (Anderson and Tollison, 1982: 1239).

What we are teaching: international economics theories

Based on the invisible hand principle, the mantra of international economics theories is that FT is a win-win solution. Paradoxically, scholars frequently speak of the 'winners' and 'losers' of FT, which is vocabulary taken from the zero-sum game and economic functionalism. The consensus that trade is the first-best solution is widely supported, as shown by the near-unanimous support for FT among leading American economists. This is interesting for a country whose foreign trade makes up less than one-quarter of its GDP, but which has benefited the most from its tailor-made international world order. Of 37 economists on a panel who answered a survey, 35 picked "strongly agree" or "agree." The "general public" also supported FT. "More than half of the individuals in all surveyed countries in 2012 said that trade was good, although lately the world has become more critical of trade, with the share of individuals perceiving trade as good in an average country dropping" (Pavcnik, 2017: 10). "The consensus in favour of the general statement supporting FT is not a surprise. Economists disagree about a lot of things, but the superiority of FT over protection is not controversial. The principle of comparative advantage and the case for the gains from trade are crown jewels of the economics profession" (Rodrik, 2018a: 74).

The classicists, from Adam Smith and David Ricardo onwards, in their resistance against mercantilists, largely built their repertoire on arguments in support of international trade, but warned the benefits and costs were unevenly distributed among the partners. Theories from Adam Smith's theory of absolute advantage, David Ricardo's comparative advantage theory through to the more elaborated factor-endowments approach of Heckscher-Ohlin all claim that FT is the first-best solution. While Marx did not specifically work on international trade, he revealed his support for FT, which seems to be consistent with Adam Smith's notion of the principle of free participation (as opposed to protectionism) and the potential elevation of the working class, which also holds the potential for social revolution (Ghorashi, 1995).

Still, modern trade theories based on economies of scale like strategic trade theory took a more nuanced view. The arguments include that it is welfare-enhancing, increases the size of the pie, expands a nation's consumption-possibilities frontier, fuelling growth and increasing productivity.

Consumers also have a larger variety of goods available, while producers learn abroad as well. Later trade theories confirmed the above general conclusion, adding that they also depend on the size of a country. New trade theories emphasised additional channel conflict and trade-offs; for example, those related to market power, consumer vs firm interests, small vs large firms etc. (Goldberg, 2018).

Somewhere during the process, the lines between industries and country markets became blurred, while international trade became linked to country 'competitiveness' as opposed to the competitiveness of industries and comparative advantages of country markets. The question of the wealth of nations mistakenly became the question of the competitive advantage of nations, not their comparative advantage, with Michael E. Porter stealing the show (Davies and Ellis, 2000).

Mainstream international economic textbooks strongly push FT as the first-best solution. However, they also mention that not everybody is gaining from trading and that the distribution of the costs of trade are downplayed and overshadowed by the benefits. Although GLO is frequently mentioned in all textbooks, there is no discussion on GLO's winners or losers in Salvatore's International Economics book (2013), yet it is often mentioned in Krugman and Obstfeld's one (2003). There are better results when it comes to discussing the gains from trade (Table 1 for an illustrative comparison).

Table 1: COMPARISON OF TWO WIDELY USED INTERNATIONAL ECONOMICS TEXTBOOKS RELATED TO THE TERMS GLOBALIZATION AND FREE TRADE (NO. APPEARANCES OF WORD SHOWN)

Mentioned terms	Salvatore (2013)	Krugman and Obstfeld (2003)	Mentioned terms	Salvatore (2013)	Krugman and Obstfeld (2003)
<i>GLO</i>	61	38	<i>Trade gains</i>	61	49
<i>GLO winners</i>	0	0	<i>Winners</i>	3	5
<i>GLO losers</i>	0	57	<i>Benefit(s)</i>	117(67)	107(79)
<i>GLO backlash</i>	0	0	<i>Losses/losers</i>	11/3	11/4
			<i>Hurt</i>	7	35
			<i>Redistribution</i>	13	3

Source: Own analysis.

On top of focusing on aggregate gains, another deficiency of the discipline is the belief that trade policy is not relevant. The only exception is that a large country may be able to manipulate its terms of trade at the expense of its trading partners by applying the *optimal tariff*. This provides the rationale for entering into trade agreements and curbs trade protectionism (Rodrik, 2018a).

The costs and benefits of trade have become controversial these days because, first, the emerging economies are asking for a bigger share of the international trade pie, which has significantly disrupted trade balances even though these imbalances are generally based on nominal and not actual added value and often the result of FDI from developed markets (Haft, 2015). Quantity does make sense (i.e. China's export expansion), bringing about qualitative changes. Second, structural changes, deindustrialisation, growth of the service economy, and the commodification of intellectual property have also profoundly impacted employment as well as the migration of manufacturing to emerging markets. Although GLO has facilitated technological progress around the world, it also comes with some negative effects. People are losing jobs due to automation and, more recently, robots and artificial intelligence. However, also due to political manipulation, trade and GLO have become the 'dirty words' used in public denigration of the neoliberal world order.

While disentangling the effects of automation and GLO is difficult, in the past most studies attributed the bulk of the decline of manufacturing employment in industrial countries to technological progress, but new studies show the role of trade is more important than previously thought. It was originally believed that the share of imports from these countries or outsourcing, compared to domestic sales, was too small to hold any important implications. Yet, we do not see populist campaigns against technology or automation, but against trade/China or GLO in general. "GLO became a scapegoat tainted with stigma of unfairness that technology evaded" (Rodrik, 2018c: 7). Why is this so? One explanation may be that it is easier to blame others (foreigners/immigration) for one's own mistakes, or 'Cheap China' for job losses than to recognise the unequal distribution of the benefits of GLO. It is easier to demonise 'foreigners' than local elites for appropriating the lion's share of the benefits also due to political lobbying. Instead of conflict with domestic elites, we are encountering a global conflict between labour from industrial markets and labour from emerging markets, as clearly revealed by Milanovic's (2016) elephant curve. Ironically, this almost sounds like the inverse of Emmanuel's (1972) Unequal Exchange thesis or, in Marxist terminology, a global class struggle where the western working class needs to defend itself against the global poor. This bears not only an uncanny resemblance to Adam Smith's discussion of the effects of "oppressive inequality" (Rasmussen, 2016: 344), but is also fertile grounds for populism and conflict (Steinbaum, 2016). In a way, it replicates the polarisation between the cosmopolitan rich and nativists (lower middle class) in rich countries (Milanovic, 2016).

We, academics, have been unable to respond on time to such a populist discourse with convincing arguments or theories. Due to enlightened

academic hubris, we have not sought to communicate our research results to the general public, nor acknowledge the “big questions” and “grand challenges” before contemporary society in terms of international business (IB), trade and GLO (Buckley, Doh and Benischke, 2017). Although the IB literature initiated the debate on the Janus Face of Globalisation (Eden and Lenway, 2001), it failed to provide answers to most of the vital issues we face today.

The limits of redistribution policies

The need to compensate the losers of FT is theoretically clear. If we wish trade to be beneficial, the winners must compensate the losers. Ricardo believed that, in order to make trade beneficial for all, it is necessary for the players who lose to recover this loss through a redistribution policy. Adam Smith (1776/1975: 445, 450) claimed that

the second duty of the sovereign, that of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it /.../ The establishment of perfect justice, of perfect liberty, and perfect equality, is the very simple secret which effectually secures the highest degree of prosperity to all three classes.

Empirical analyses also show “that there is a direct link between exposure to trade and expansion of public transfers” (Rodrik, 1997). Building on the previous Samuelson factor price equalisation theorem, the Stolper-Samuelson theorem (1941) points out very sharp distributional implications from opening up to trade. The factor which is used intensively in the importable good must experience a decline in its real earnings. However, it is assumed that it will affect only a small minority of workers.

The problem is that “such calls [for redistribution] have been not loud enough in the public” (Rodrik, 2018b: 4), nor in economics textbooks. Keynes’ *warning* that “the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes” (Keynes, 1936/2016: 372) also went unheard. Compensating the losers of trade did not occur, as demonstrated by the growing inequality today. The calls for FT resonated much louder. The redistribution effects of FT were somehow more of a footnote in the mainstream textbooks, even though “redistribution is the flip side of the gains from trade. No pain, no gain. This is standard economic fare – familiar to all trade economists” (Rodrik, 2018b: 4).

Discussion of the winners and losers of GLO as the major manifestation of trade is not new. It is therefore surprising that textbooks are falling short

(Table 1) on this issue despite the fact that even the The Organisation for Economic Co-operation and Development - OECD finds rising inequalities to constitute one of the three big challenges for the next 50 years (OECD, 2014: 22). The public perception is mainly that GLO is responsible for inequalities, deindustrialisation and unemployment. "Such a large increase in inequality, partly attributed to trade, is clearly not possible to compensate only with redistribution policy /.../. The governments managed to compensate only a small part of this increase in inequality" (Piketty et al., 2016: 1). Frieden (2017) says there are two reasons for this. Governments are reluctant to deliver on the promised compensation by taxing the winners because the bargaining power of capital is greater than that of labour. Second, compensation is economically costly and complex. Another is that we are not merely talking of monetary compensation for lost jobs, but also for other social aspects (i.e. well-being, loss of identity and dignity). The Universal Declaration of Human Rights states the right to human dignity is an inviolable fundamental principle. It has become a constitutional category. "There are only 14 countries whose constitutions were enacted after 1980 that do not include the term (Shulztiner and Carmi, 2014).

Even the most ideal institutions cannot completely eliminate all the negative effects of GLO, technical progress and digitalisation. They must be "inclusive", not "extractive" whereby elites extract resources from the rest of society (Acemoglu and Robinson, 2012). Redistribution policies must therefore be enriched by more ex ante policies, like providing equal opportunities for education, and training for instance, rather than addressing it ex post (redistribution). Redistribution policy needs to be upgraded as part of reforming, not just correcting, the entire capitalist consumerist system. The gains from GLO can only be defended and extended if the losers are compensated by the winners.

Rigor vs relevance

Two issues are crucial in scientific research: methodology and relevance. A robust methodology is the prerequisite for scientific research. But to be relevant, it must address the most pressing, real-life problems. In the past, methodology became more important than relevance. The implication of concentrating on technically-oriented research leads to addressing ever narrower issues because mathematics can provide solutions for them, while the big (social) issues are side-tracked due to difficulties addressing them using mathematical approaches (Yueh, 2018). J. Robinson figuratively expressed this trade-off by saying "I never learned math, so I had to think". Heilbroner (1996: 65) similarly argues, that "economics is in retreat from political reality. It's embracing mathematics and elaborate models resulting in an enormous

loss of relevance. Have you looked at an issue of the American Economic Review lately? It's just abstract formulas. Angels dancing on the head of the pin". The "methods that prevail in modern economics, whilst fundamental to understanding how recently prominent theories have been sustained, do not carry the warrant that their widespread usage seems to presuppose" (Lawson, 2009: 763). He also doubts "that many would suggest that we seek to use pencils to cut hedges, telephones to dig gardens, forks to fly us to other countries. Yet pencils, telephones and forks can be very useful to us in certain contexts, with respect to very specific tasks and phenomena" (ibid. 2009: 736). In Taleb's (2012) words: "More data – such as paying attention to the eye colours of the people around when crossing the street – can make you miss the big truck".

In Taleb's black-swan critique of economic science (2010), he notes that the so-called scientism of using complex methodological tools, whose basic assumptions (i.e. on the nature of the distribution of the observed phenomena) are detached from the real world, should not be mistaken for methodological rigor. This view is shared by Nobel prize laureate in economics Paul Romer in his critique of the "mathiness" in economic modelling (2015: 89), "which lets academic politics masquerade as science".

Pick any field of social science, for example organisational research, international business or international relations, and you will find a plethora of papers discussing the assumed dialectic nature of rigor and relevance, which are viewed as trade-offs. This perspective has two inherent problems. First, it assumes one must be sacrificed at the expense of another to satisfy the so-called page-to-contribution publishing formula. Second, somewhere during the process, scientism and method-driven research have become mistaken for research rigor. As demonstrated by Marcus et al. (1995), "there is no absolute trade-off between rigor and practical relevance". This means researchers would have to descend from their ivory towers, abandon their academic hubris and get their hands dirty with messy, real-life phenomena. With regard to the second issue, Einstein perhaps most famously pointed to the inherent paradox in social science research that all the things that can be counted do not actually count, while not all the things that count can also be counted.

Perhaps, best proof of academic 'rigor' having been taken too far is the explosion of recent calls to make social science research more relevant and impactful. The international business (IB) discipline is perhaps a nice example, with calls lately to address the "big questions" and "grand challenges" (Buckley, Doh and Benischke, 2017). Yet, this appeal stems from the IB discipline's attempt to remain a discipline in a world in which everything has become international. One area where IB can perhaps indeed contribute to the wider social sciences is its inherent sensitivity and preoccupation with context. By acknowledging context, the relevance of academic research

can be enhanced, inappropriate methodological tools become harder to justify, while the boundary conditions of existing theories and models can be tested (Buckley, Doh and Benischke, 2017; Teagarden, Von Glinow and Mellahi, 2018).

More proof comes from the number of published articles that address the most relevant issues or how many times key relevant words are included in scientific papers (like inequality, crises). We found that just 2% of the articles published in the Web of Science Core Collection and the SciLO Citation Index Journals in the period 2008–2013 listed the word “crisis” in their titles, summaries or keywords. Similar results emerge when looking at papers presented at the European International Business Academy (EIBA) and Academy of International Business (AIB) conference papers (2006–2013). At the EIBA conferences, just 1 article had “crisis” in the title, and 3 in the AIB case. Similarly, inequality did not appear in the index of key words of articles in the Journal of International Business Studies (2007–2017). The majority of articles relate to other, less acute problems or to very narrow, specific and more theoretical questions. *Attacking* such issues with powerful methodological apparatus is like using a sledgehammer to crack a nut.

What about economics? The situation is similar. Relevance is also underestimated since, for instance, “according to an approximate count, there are 848 sub-categories in the classification codes of the Journal of Economic Literature but only 5 relate to inequality. Under International Economics there is no reference to inequality at all, nor under Development Economics” (Galbraith, 2019: 1). Rodrik (2015), a leading critic from within, argues that the discipline’s much-derided mathematical models are its true strength, but economists should not be too confident about the outcomes of the models. He warns economists to be humbler concerning how much they really know. Sometimes, it seems that models are mistaken for reality. Their results, often presented as universalistic, are rarely conclusive, often pointing to different outcomes for different places and times. Everything lies in interpretation of the model results, depending largely on the context and the assumptions made. The methodology may be OK, but the assumptions might be wrong (i.e. like rational expectations or predicting the future based on the past). A decade ago, amid the full devastation of the GEC, Krugman (2009) alarmed the profession with a popular piece in The New York Times, saying that “[...] the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth. [...]” (Krugman, 2009: 2). Ironically, 15 years before then, Krugman (1994) had criticised Hirschman for not developing mathematical models.

Striking a better balance between prioritising methodologies compared to prioritising contemporary big issues seems necessary. Contemporary issues cannot always be evaluated using robust methodologies (i.e. no long

data series). Instead, simpler and more explorative and descriptive tools might work much better. Or their results might be at least as impactful on society. Vermeulen's (2005) call for a change in system seems appropriate as it is high time that academics rebalance the power asymmetry in publishing. It is time for scientific journals to address more urgent and important *current* issues. Both rigor and relevance seem to have ever shorter expiration dates.

“Why did no one see the crisis coming?”

It was not only the Queen of England who asked this simple question, but many people on the street as well (Turner, 2017). Economic forecasting has indeed done a very poor job not only with respect to the GEC, but generally. Mencinger evaluated the forecasts of many international institutions and established they were almost always wrong (2013), reflecting the now infamous quote by the irreverent economist J. K. Galbraith that economic forecasting makes astrology look respectable (The Economist, 9 January 2016).

Very few economists, except Roubini, saw the crisis coming. Interestingly, so did Shiller, who won the Nobel prize in 2013 for his work on behavioural economics. The mathematician-turned-philosopher Nicholas N. Taleb also published the first edition of his book *The Black Swan* in 2007, prior to the GEC. Yet, there are those who predicted the GEC and those who piggy-backed off acknowledging the inherent cyclicity of world economics. For example, much earlier, Minsky claimed that stability also destabilises (1986), while Susan Strange spoke of Casino Capitalism (1986) and Mad Money (1998) – pointing to the gambling nature of financial markets. Taleb (2018) developed this thinking much further by saying that crises arise due to inherent human behaviour, which is not curbed by one's “skin in the game”.

It is interesting to note that modern views of GEC, including that of Taleb (2010), adopt a very much single-disruptive-event view of the GEC, unlike earlier views on crises. For example, Marx as well as Malthus already talked about crises as an inherent inbuilt feature of capitalism (Ferguson, 2002). Roubini and Mihm (2010: 211) declared them part of the very “capitalism genome”. According to Kondratieff (1935), their cyclicity is closely related to technological disruptions in society. Failure to acknowledge systemic faults in our society (i.e. growing inequality, environmental challenges) leads us to adopt un-systemic remedies, which address the symptoms but do not treat the underlying cause or cure the ‘patient’.

As Taleb (2012) has perhaps best pointed out, our preoccupation with prediction, stemming from academic hubris and systematically institutionalised stupidity (by pursuing a publish-or-perish logic) has made us ever more

vulnerable to black-swan events that *cannot* be predicted. This is because we do *not* live in a world of normal distributions. Instead of trying to predict the next crisis by using refined models which failed to predict the previous one, we should design an anti-fragile system that is resilient to black-swan events and build into market transactions a simple 'skin-in-the-game' logic whereby actors bear the consequences of their actions, as Strange once claimed (1986).

To what extent are academics guilty?

Our theories and ideas have done much to strengthen the management practices that we are now so loudly condemning. (Ghoshal, 2005: 75)

Is Ghoshal right? Are we, academics, by not paying enough attention to "on-the-ground developments", to new and pressing phenomena, to the context and sticking to the old 'mantras', also to be blamed for what is going on society (the GLO backlash, populism, crises)? Did we not see the events unfold because we were locked away in our ivory towers, or could we simply not see the forest for the trees? A few months before the financial crisis hit, Paul Krugman was already confessing his "guilty conscience". In the 1990s, he had been very influential in arguing that global trade with poor countries only had a small effect on workers' wages in rich countries. By 2008, he was having doubts. The data seemed to suggest that the effect was much larger than he had suspected (Saval, 2017).

The argument of this article is that academics must share responsibility since most of us have been either uncritically advocating FT as a pie-and-therefore-welfare-enhancing natural law or simply been too pragmatic in our criticism and refused to swim against the flow. Enlightened scientism, academic hubris, and the lack of appropriate redistribution policies for compensating the losers of GLO have all played their part. As Driskill (2012: 1) critically observed while stepping out of the mainstream, "the standard argument made by economists in favour of FT is either incoherent or implicitly impose philosophical value judgements about what is good for the nation or society". This is a complete departure from how Adam Smith approached FT, where freedom was seen as inherently intertwined with the question of morality and the meaning of equality.

Academics have over-stressed the benefits of trade, while downplaying its negative effects. The pie-expansion effect took centre stage of today's growth-and-winner-takes-all obsessed world. Yet, we have tended to forget that one grows by both adding and by subtracting. Distributional questions, in other words, the political economy perspectives were seen as secondary and the profession "did not switch from the imaginary world of rational

agents” (Wolf, 2014: 37). Yet recent developments and manifestations of GLO and FT have clearly set on fire the political economy trilemma (trade-offs) between sovereignty, globalisation and democracy (Rodrik, 2011).

Theory has not yet discovered how to resolve this trilemma. Can we have all three at once? Rodrik doubts this and claims we can only have two, thus implying an inherent zero-sum logic within GLO. The dilemmas are ironically more understandable for those who come from small countries for which international trade and internationalisation are the norm, not the exception. Therefore, academics might feel ‘obliged’ to emphasise more the benefits and sweep under the rug the built-in costs in order not to pour gasoline on the fire of the existing protectionism, economic nationalism and xenophobia. Without skin in the game, it is easy to be enlightened and to seek to enlighten the ignorant. Such a patronising attitude is wrong. What is missing is critical self-evaluation and the ability and interest to get down from our ivory towers and get our hands dirty in the field (Kaspar, 2017) and all the messiness of real-life phenomena and problems. In such a world, emotions and animal instincts might prevail over enlightened reason and scientism.

Conclusion

505

What is the lesson for us social scientists? First, we should be more modest and critical regarding the scientific nature of our disciplines when teaching our courses or giving out advice. Mathematical models and methodological hubris have created a sense of over-inflated superiority in which economics has become elevated above the social sciences. We have deluded ourselves into thinking we can predict the unpredictable, even black swans. Yes, economic models are helpful, but they seldom mirror how markets and societies really work. Second, it is time to rethink some of the “built-in-stone assumptions” behind our theories and pay attention more to context, as well as people’s social preferences in order to ensure we have a more nuanced view. In short, old ideas should not limit our ability to rethink established theories because “the difficulty lies, not in the new ideas, but in escaping from the old ones” (Keynes: 1936/2016). Third, to understand the contextual richness and messiness of real life, we need broad and holistic thinking, not specialised “idiots”. As Linda Yueh (2018) pointed out in her review of the Great Economists, they were all generalists, thinkers about big issues, very much grounded in the broader social sciences. Adam Smith was as much a sociologist as he was an economist. Fourth, we need greater interdisciplinarity. When it comes to FT and GLO, this not only requires just abandoning the absurdities of neoclassical economics and a return to political economy, but a more profound return to the social sciences. It also requires the tyranny of

short-termism to be replaced by a long-term approach to addressing the ever more complex and interrelated really big issues of the day. Paradoxically, the economy is too serious a social business to be left (alone) to economists. Adam Smith was well aware of that. This explains why he never considered himself an economist. Fifth, we must revise our optimism concerning the reach of our profession and its 'predictive powers'. Contemporary developments in the international economy are becoming increasingly complex, ambiguous and uncertain. Ironically, our lives have become more and more leveraged, based on increasingly fragile systems and structures where black-swan events will bring exponentially detrimental consequences. We need to build more anti-fragile systems, structures and processes. Above all, we need to put 'more skin in the game' in economic behaviour.

Based on our discussion, academics should plead *guilty* for their part in the current GLO backlash. We have not communicated enough or appropriately (using plain language) the whole story behind FT. We have disregarded the distribution of the costs and benefits among various social actors (people, industries, countries) and the changing contexts across the international economy. We need to modify our teaching, our textbooks, our communication with the world, with the general public and with students in order to avoid the situation whereby "the vast majority of the output we produce isn't read by either the business community or the political decision makers" (Kaspar, 2017: 7). A more nuanced and critical approach to the principle of FT is needed.

With regard to FT and GLO, the focus should shift from the aggregate gains of trade to the distributional effects of trade and to trade policies to address the changing arena of the global economy. The size of markets should be taken more into account, as it does make a difference, particularly when it comes to issues of distribution. The assumption of rational expectations should be adjusted to the new realities with new achievements from behavioural economics. The existing development model based on consumerism should be re-examined because it is turning out to no longer be a suitable market strategy in the light of global resource scarcity. As so eloquently put by the UK Secretary of State for the Environment: "If capitalism's friends don't reform the system, then capitalism's enemies will do it for them" (The Economist, 8 September 2018). The same may well hold for academia and the politicians who actually make decisions and are hence guiltier than academics.

BIBLIOGRAPHY

- Acemoglu, Daron (2009): The crisis of 2008: Structural Lessons for and from Economics. CEPR Policy Insights No. 28. Accessible at https://cepr.org/sites/default/files/policy_insights/PolicyInsight28.pdf, 1. 10. 2018.
- Acemoglu, Daron, David Autor, David Dorn, Gordon H. Hanson and Brendan Price (2016): Import Competition and the Great U.S. Employment Sag of the 2000s. *Journal of Labor Economics* 34 (S 1, Part 2): 141–198.
- Acemoglu, Daron and James Robinson (2012): *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown Publishers.
- Anderson, M. Gary and Robert D. Tollison (1982): Adam Smith's Analysis of Joint-Stock Companies. *Journal of Political Economy* 90 (6): 1237–1256.
- Autor, David, David Dorn and Gordon H. Hanson (2013): The China Syndrome: Local Labour Market Effects of Import Competition in the United States. *American Economic Review* 103 (6): 2121–2168.
- Buckley, J. Peter, Jonathan P. Doh and Mirko H. Benischke (2017.): Towards a Renaissance in International Business Research? Big Questions, Grand Challenges, and the Future of IB Scholarship. *Journal of International Business Studies* 48 (9): 1045–1064.
- Chang, Ha-Joon (2011): *23 Things They Don't Tell You About Capitalism*. New York: Bloomsbury Press (Penguin).
- Chen, Chao and Andrew X. Lee (2018): Does Democracy Cause Trade Policy Liberalization? Unpacking the Black Box of Trade Policy. *Journal of International Relations and Development* 21 (4): 1014–1037.
- Courtemanche, Eleanor (2011): The 'Invisible Hand' and British Fiction, 1818–1860. Adam Smith, Political Economy, and the Genre of Realism. Accessible at <https://www.amazon.com/Invisible-British-Fiction-1818-1860-Nineteenth-Century/dp/0230290787>, 12. 8. 2018.
- Davies, A. Howard and Paul Ellis (2000): Porter's 'Competitive Advantage of Nations': Time for a Final Judgement? *Journal of Management Studies* 37 (8): 1189–1213.
- Driskill, Robert (2012): Deconstructing the Argument for Free Trade: A Case Study of the Role of Economists in Policy Debates. *Economics and Philosophy* 28: 1–30.
- Eden, Lorraine and Stefanie A. Lenway (2001): Introduction to the Symposium Multinationals: The Janus Face of Globalization. *Journal of International Business Studies* 32 (3): 383–400.
- Emmanuel, Arghiri (1972): *Unequal Exchange: A Study of the Imperialism of Trade*. New York and London: Monthly Review Press.
- Forsgren, Mats and Yamin Mo (2010): A Commentary on Adam Smith and International Business. *Multinational Business Review* 18 (1): 95–111.
- Ghorashi, Reza (1995): Marx on Free Trade. *Science & Society* 59 (1): 38–51.
- Ghoshal, Sumantra (2005): Bad Management Theories Are Destroying Good Management Practices. *Academy of Management Learning & Education* 4 (1): 75–91.
- Gideon, Rose (2018): Is Democracy Dying? Foreign Affairs online. Accessible at

- <https://www.foreignaffairs.com/articles/2018-04-16/democracy-dying>, 9. 10. 2018.
- Graeber, David (2014): *Dolg: Prvih 5.000 let dolžništva*. Ljubljana: Založba CF.
- Haft, R. Jeremy (2015): *Unmade in China: Hidden Truth About China's Economic Miracle*. Malden, MA: Polity Press.
- Harrison, Peter (2011): Adam Smith and the History of Economic Thought. *Journal of the History of Ideas* 72 (1): 29–49.
- Heilbroner, Robert (1996): Dismal Days for the Dismal Science. A chat with R. Heilbroner by Wechsler Linden. *Forbes* (22. 4.): 65.
- Irwin, Douglas (2002): *Free Trade Under Fire*, 4 ed. Princeton, NJ: Princeton University Press.
- Kaspar, Martin (2017): The Role of AIB and IB in a De-Globalizing World. *Martin Kaspar. AIB Insights* 17 (4): 7–9.
- Keynes, J. Maynard (1936/2016): *The General Theory of Employment, Interest, and Money*. London: Paperback Macat Int.
- Kelly, Duncan (2009): Time for sympathy: Some thoughts on the 250th Anniversary of Adam Smith's Theory of Moral Sentiment. *New Political Economy* 14 (4): 535–543.
- Kondratieff, Nikolai (1935): The Long Waves in Economic Life. *Review of Economic Statistics* 17 (6): 105–115.
- Krugman, Paul (1994): The Fall and Rise of Development Economics. In *Rethinking the Development Experience: Essays Provoked by the Work of Albert O. Hirschman, Lloyd Rodwin and Donald Schon* (eds.), 39–58. Washington: Brookings Institution.
- Krugman, Paul and Maurice Obstfeld (2003): *International Economics: Theory and Policy*. Boston: Pearson Education.
- Milanovic, Branko (2016): *Global Inequality: A New Approach for the Age of Globalization*. Cambridge, MA: Harvard University Press.
- Minsky, P. Hyman (1986): *Stabilizing an Unstable Economy*. New Haven, CT: Yale University Press.
- Raskovic, Matevz, Maja Makovec Brencic and Marko Jaklic (2013): Antecedents and Evolution of the Bartlett and Ghoshal Transnational Typology. *Multinational Business Review* 21 (2): 148–173.
- Rasmussen, C. Dennis (2016): Adam Smith on What is Wrong with Economic Inequality. *American Political Science Review* 110 (2): 324–352.
- Rodrik, Dani (1997): *Has Globalization Gone Too Far?* Washington, D. C.: Peterson Institute for International Economics.
- Rodrik, Dani (2011): *The Globalization Paradox*. New York: W. W. Norton & Company.
- Rodrik, Dani (2017): *Straight Talk on Trade*. Princeton, NJ: Princeton University Press.
- Rodrik, Dani (2018a): What Do Trade Agreements Really Do? *Journal of Economic Perspectives* 32 (2): 73–90.
- Rodrik, Dani (2018b): Populism and the Economics of Globalization. *Journal of International Business Policy* 1 (1–2): 12–33.

- Romer, Paul (2015): Mathiness in the Theory of Economic Growth. *American Economic Review* 105 (5): 89–93.
- Salvatore, Dominick (2013): *International Economics*. New York: Wiley & Sons.
- Sen, Amartya (2009): *Capitalism beyond the Crisis*. The New York Review of Books. Accessible at <https://www.nybooks.com/articles/2009/03/26/capitalism-beyond-the-crisis/>, 20. 9. 2018.
- Smith, Adam (1776/1975): *An Enquiry into the Nature and Causes of the Wealth of Nations*, 2 Vols., Campbell, R. H. and A. S. Skinner (eds.). Oxford: Oxford University Press.
- Smith, Adam (1759/1982): *The Theory of Moral Sentiments*, edited by Raphael, D. D. and A. L. Macfie. Oxford: Oxford University Press.
- Shultziner, Doron and Guy E. Carmi (2014): Human Dignity in National Constitutions: Functions, Promises and Dangers. *The American Journal of Comparative Law* 62 (2) (SPRING): 461–490.
- Stare, Metka, Andreja Jaklič, Klemen Knez (2019): Manufacturing and Services Interactions in International Trade and Global Value Chains. *Teorija in praksa* 56 (Special Issue): 472–491.
- Steinbaum, Marshall (2016): Should the Middle Class Fear the World's Poor? *Boston Review* online, 11 May 2016. Accessible at <http://bostonreview.net/world/marshall-steinbaum-branko-milanovic-global-inequality>, 8. 1. 2019.
- Strange, Susan (1986): *Casino Capitalism*. London: Basil Blackwell.
- Strange, Susan (1998): *Mad Money: From the Author of Casino Capitalism*. Manchester: Manchester University Press.
- Taleb, N. Nassim (2010): *The Black Swan: The Impact of the Highly Improbable*. 2 ed. New York: Random House Paperback.
- Taleb, N. Nassim (2012): *Antifragile: Things That Gain from Disorder*. New York: Random House.
- Taleb, N. Nassim (2018): *Skin in the Game: Hidden Asymmetries in Daily Life*. London: Allen Lane.
- Teagarden, B. Mary, Von Glinow Mary Ann and Kamel Mellahi (2018): Contextualizing International Business Research: Enhancing Rigor and Relevance. *Journal of World Business* 53 (3): 303–306.
- van Staveren, Irene (2014): *Economics After the Crises: An Introduction to Economics from a Pluralist and Global Perspective*. New York: Routledge.
- Vermeulen, Freek (2005): On Rigor and Relevance: Fostering Dialectic Progress in Management Research. *Academy of Management Journal* 48 (6): 978–982.
- Yueh, Linda (2018): *What Would the Great Economists Do? How Twelve Brilliant Minds Would Solve Today's Biggest Problems*. London: Penguin Press.
- Zoellick, B. Robert (2013): U.S., China and Thucydides. *The National Interest* 126 (July-August): 22–30.

SOURCES

- Ferguson, Niall (2002): Full Marx. *Financial Times*, 16 August 2002. Accessible at <http://www3.amherst.edu/~pmachala/Current%20Politics/PS-81-miscellaneous>

- ous/Readings%20for%20the%20First%20Class/Ferguson,%20Full%20Marx.doc, 8. 1. 2019.
- Goldberg, Pinelopi Koujianou (2018): The Backlash Against Globalization. DEC Lecture Series: Development Economics. Washington: World Bank. Accessible at <https://www.worldbank.org/en/events/2018/03/02/the-backlash-against-globalization>, 7. 1. 2019.
- Krugman, Paul (2009): How Did Economists Get It So Wrong? The New York Times Magazine, 2 September 2009. Accessible at <https://www.nytimes.com/2009/09/06/magazine/06Economic-t.html>, 1. 10. 2018.
- Mencinger, Jože (2013): Lestvice uspešnosti in Slovenija, *Gospodarska gibanja* 443. Accessible at <http://www.eipf.si/publikacije/gospodarska-gibanja/2012/gospodarska-gibanja-443/lestvice-uspesnosti-in-slovenija/>, 8. 1. 2019.
- OECD – The Organisation for Economic Co-operation and Development (2015): *In It Together; Why Less inequality Benefit All*, Paris, 330.
- OECD (2014): *Policy Challenges for the Next 50 Years*. Accessible at <http://www.oecd.org/eco/lookingto2060.htm>, 1. 10. 2018.
- Pavcnik, Nina (2017): *The Impact of Trade on Inequality in Developing Countries*. NBER Working Paper No. 23878. Accessible at <http://www.nber.org/papers/w23878>, 27. 9. 2018.
- Piketty, Thomas, Emmanuel Saez and Gabriel Zucman (2016): *Distributional National Accounts: Methods and Estimates for the United States*. NBER Working Paper 22945. Accessible at <http://www.nber.org/papers/w22945>, 8. 8. 2016.
- Post-autistic economics newsletter, No. 1. (2000, 1. 9.). Accessible at <http://ffv0.tripod.com/id30.htm>, (1. 10. 2018).
- Rodrik, Dani (2015): *Economics Rules: The Rights and Wrongs of the Dismal Science*. Department of Economics and Centre for Macroeconomics public lecture, London, October 7. Accessible at <http://www.centreformacroeconomics.ac.uk/pdf/Events/Slides/1510-RodrikD.pdf>, 19. 8. 2018.
- Roubini, Nouriel and Stephan Mihm (2010): *Crises Economics*. Accessible at <https://www.nytimes.com/2010/05/07/books/excerpt-crisis-economics.html>, 6. 9. 2018.
- Saval, Nikil (2017): *Globalization: the rise and fall of an idea that swept the world*. Accessible at <https://www.theguardian.com/world/2017/jul/14/globalisation-the-rise-and-fall-of-an-idea-that-swept-the-world>, 9. 8. 2018.
- The Economist (2019): *The Global List: Briefing Slowbalisation*. Singapore: The Economist Newspaper Limited, Printed edition 430 (9127): 17–20.
- The Economist (2018a): *The prophets of illiberal progress*. Accessible at <https://www.economist.com/schools-brief/2018/09/06/the-prophets-of-illiberal-progress>, 8. 9. 2018.
- The Economist (2018b): *Schumpeter: An Empire of the Mind* (71), 15. 9. 2018.
- The Economist (2018c): *Bagehot: Good capitalism v bad capitalism* (32), 9. 6. 2018.
- The Economist (2016): *Free exchange: a mean feat*. Accessible at <https://www.economist.com/finance-and-economics/2016/01/09/a-mean-feat>, 9. 1. 2016.
- Turner, Dave (2017): *A Response to Queen Elizabeth's Question on the Global Financial Crisis*. Accessible at <https://OECDecoscope.blog/2017/11/22/a->

response-to-queen-elizabeths-question-on-the-global-financial-crisis/, 15. 8. 2018.

Wolf, Martin (2014): The Shifts and the Shocks: Emerging Economies in an Age of Financial Crises. Luncheon Keynote Address, accessible at <http://www.frbsf.org/economic-research/files/Wolf-AEPC2013.pdf>, 8. 1. 2019.

storitve so v preučevanem obdobju povečale delež v dodani vrednosti izvoza predelovalnih dejavnosti v vseh državah EU, pri čemer je bilo povečanje v novih članicah EU, vključno s Slovenijo, še večje. Analiza kaže rastočo vlogo storitev v poslovnih procesih in mednarodni trgovini, kar je smiselno upoštevati pri oblikovanju politik, podjetniških strategij (posebej v predelovalnih dejavnostih) ter v prihodnjih raziskavah mednarodne trgovine. V prehodu na industrijo 4.0 se integracija storitev in predelovalnih dejavnosti še pogloblja, saj postajajo predelovalne dejavnosti pri implementaciji novih tehnologij še bolj odvisne od storitev. Zavedanje o rastočem pomenu tujih storitev v dodani vrednosti izvoza pa je posebej pomembno v obdobju rastočega protekcionizma in regionalne koncentracije verig vrednosti.

Ključni pojmi: storitve, mednarodna trgovina s podatki o dodani vrednosti (TiVA), izvoz storitev, izvoz predelovalnih dejavnosti, globalne verige vrednosti, podatkovna baza WIOD, model input-output

UDK 005.44:316.443

516

Marjan SVETLIČIČ: SMO AKADEMIKI SOKRIVI ZA UPOR ZOPER GLOBALIZACIJO?

Teorija in praksa, Ljubljana 2019, Vol. LVI, posebna številka, str. 492-511

Na osnovi analize raziskav ter poučevanja, največ mednarodne ekonomike in poslovanja, članek ugotavlja, da so akademiki sokrivi za upor zoper globalizacijo in krepitev populizma. To je zato, ker so preveč poudarjali prednosti svobodne mednarodne menjave in pogosto napačno interpretirali »nevidno roko« A. Smitha ter podcenili stroške svobodne trgovine in nujnost kompenziranja tistih, ki z mednarodno menjavo izgubljajo s pomočjo politike redistribucije in drugimi ukrepi, ker je sam njen domet omejen. S pretiranim matematiziranjem se je podcenilo pomen raziskovanja najbolj žgočih in relevantnih problemov. Članek dokazuje potrebo po povratku k političnoekonomskemu interdisciplinarnem pristopu, da bi se presegle pretekle pomanjkljivosti, in izboljšanju komuniciranja teorij javnosti in študentom.

Ključni pojmi: globalizacija, akademiki, neenakost, redistribucija, nevidna roka, metodologija, pomembnost, kriza, mednarodna ekonomija, A. Smith

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.