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The global political economy
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DEWS: Welcome to the Brookings Cafeteria – a podcast about ideas and the experts who have them. I'm Fred Dews. On today's show, the author of a new Brookings book talks about policies for a globally interdependent world. Plus, a listener asks an expert about ideology formation in American voters. Then, a new metro lens segment focuses on the divide between big city and small-town America that we saw in the presidential election. And finally, highlights from a recent event featuring Chicago's mayor and a British member of parliament, who discussed cities in the age of Trump and Brexit.

The Brookings cafeteria is brought to you by the Brookings Podcast Network. Follow us on Twitter @policypodcasts to stay up to date on all of our shows. To learn about Cuba's economic future, listen to the most recent episode of our Intersections podcast. Also, the Brookings cafeteria will be off next week, December 23rd, but will return just in time for New Years' Eve. And now, on with the show.

Is the world giving up on the promise of ever-greater prosperity for all, on functioning democratic institutions, and on long-term peace? Does the rise of authoritarianism and populism over the last few years threaten to unravel the global order that has been built since the end of World War II? These are some of the questions addressed by Kemal Derviş, Vice President and Director of Global Economy and Development at Brookings, in his new book, a collection of his essays on the global political economy. My colleague from the Brookings Press, Bill Finan, sat down recently with Kemal to talk about the book.

FINAN: Thanks, Fred. And hello to you, Kemal.

DERVIŞ: Hi, Bill.

FINAN: Thank you for joining us this afternoon. Your new book is Reflections on

Progress: Essays on the Global Political Economy. The book collects your pieces from Project Syndicate on globalization, global governance, and equality in Europe. For listeners who don't know, what is Project Syndicate?

DERVIŞ: Project Syndicate is a website, really, a global website that collects columns from all over the world from people, and there are some who just contribute one or two occasionally and then there are others who contribute or are committed to contribute every month like I am. And so it gets published on the website, it gets translated into six, seven, eight languages depending on the article, and it also has a deal with many, many newspapers around the world. It is not unusual that one column will be published in newspaper format around the world by 40 or 50 newspapers, so it really does get around. And of course, the minute it gets published on Project Syndicate, it gets published on the Brookings website.

FINAN: One thing that I found that I truly appreciated about the Project Syndicate pieces, and yours too, is that they're short; very digestible.

DERVIŞ: Yeah.

FINAN: You're forced to focus on your topic, get right to it and discuss it and --

DERVIŞ: Not easy! Sometimes it's much easier to write a longer piece.

FINAN: That's what I always tell authors. It's much harder to write shorter than longer. But you've done an incredible job with this and writing shorter on a host of important topics at the moment. And also you've done a good job of putting it together in a cohesive fashion so we don't just have a disparate collection of pieces that you've written over the last three years, approximately; but that have some analytical precision to them and offer a

chronological narrative of some important events that occurred in the world, especially in Europe.

One of the topic areas that you deal with is globalization, and you write positively about the benefits reaped by globalization over the last couple of decades. But you also write about the possible end of convergence – the catching up of the developing world with the developed – the end of that, as a possibility. But you yourself are optimistic. Why so?

DERVIŞ: Well I think one can divide very broadly globalization – the period, you know, of modern economic growth and which has increasingly become global – into three periods, really: the period that started with the Industrial Revolution and which led to ever-greater divergence between the industrial advanced countries and the poor developing countries, that lasted until the second war and over; and then with the independence of many of the developing countries with the change in the structure of the world economy with more spread of skills – the end of imperialism, I will also say, in its crass form – some developing countries started growing reasonably fast, and there was a period from 1950 to 1990, roughly, where one couldn't talk of convergence – in other words, they weren't getting closer together but at least divergence had ended; and then starting in the late eighties and nineties – and I'm talking about aggregates, broad aggregates here, of course there are exceptions to these statements – the emerging and developing countries as a whole – as an aggregate, put all their populations together – started growing significantly more rapidly than the advanced industrial countries; and that phenomenon I call convergence, in general it's called convergence. It doesn't mean that we're there yet, but it does mean that the relative gap started to narrow.

And of course China was the great leader, but India, Indonesia, some South American countries such as Chile, at some point Mexico, Brazil, Turkey, other countries participated in that, and we had a period until about 2014 where the average per-capita income growth in the emerging and developing countries was around four percentage points more rapid than the advanced countries, so this convergence was pretty rapid. Of course, Asia led it, always. Asia was the fastest-growing continent. And for the last two or three years there's been a market slowdown in the emerging markets. Some are experiencing negative growth, such as Brazil. China has slowed down – of course, it's still growing rapidly, the numbers are debated. China watchers are not quite sure what the right numbers are. So, there seems to be that the aggregate convergence has slowed down.

It's still continuing, I'm optimistic that it will continue, but there are, you know, as usual there are fads, and the fad about a year ago was to say "well, it's all over. The advanced countries will grow at least as rapidly as the emerging countries." I don't think that's true. A lot will depend on what Danny Roderick calls capabilities – human skills. It will be much more than catching up in manufacturing, and a lot of will develop how technologies diffuse around the world.

FINAN: That brings me to another question, too, and you do see some problem areas in globalization and two things that you mention are secular stagnation and the other, the impact of technologies. Can you talk about that a little bit?

DERVIŞ: Well you know, Larry Summers re-coined or relaunched Alvin Henson's secular stagnation hypothesis and in its simplest form the theory is that there is a savings glut – there's too much savings, particularly in the advanced countries, and Larry Summers

really started analyzing it in the U.S. context 3-4 years ago, and not enough investment opportunities. So in the classical Keynesian adjustment mechanism, the interest rate falls until there's enough investment to absorb the savings. But if the interest rate falls to 0, there's a nominal level beyond which it cannot really fall, unless you abolish money which is not such a far-fetched hypothesis anymore. And this lower bound at zero creates a problem because, you know, investment is chronically below savings and that depresses world growth. So that's one version, if you like, of the secular stagnation hypothesis, which I touch on in several of the essays. It's more of a demand-side analysis coming from the aggregate demand and supply side.

There's another version perhaps best associated with the name of Professor Gordon, Robert Gordon, who really looks at it more from the technology side and kind of argues that many of the new information technologies, compared to electricity, the steam engine, the jet engine for the airplanes and so on, are, you know, interesting innovations, help a lot of people, make life more pleasant for many, but are not huge transformative innovations of the type we had before, and there's a big debate, and that's more of a supply-side. And you can put the two together because if technology is not as promising as it was in the past then the incentives to invest, of course, aren't as promising either. So the demand side joins the supply side in that sense. And the pessimists, if you like, think that growth will be significantly slower in the world – in the advanced countries but also in the emerging countries – than it was before.

FINAN: Because of those two...

DERVIŞ: Because of various combinations of those two factors. The optimists view

this as temporary. They see a lot more promise in new technology, in artificial intelligence, in robotics, in 3D printing, and think that this is just not diffusing rapidly at this point but the frontier of knowledge is moving into very, very revolutionary territory. And they do believe that actually this will have an impact on the whole economy rather than on small restricted sectors. So there's a big debate going on there. But in this debate there tends to be an overall agreement, though, that no matter what happens, income distribution will become more unequal. It's already pretty unequal because the new technologies are going to be associated and are going to require extremely good skill levels, and that the labor force in the advanced countries, but even more so worldwide, is not really ready for that. So even if you're an optimist on growth, you can be a pessimist on inequality, and some very proactive policies will have to be put in place in order to counteract the tendency to greater inequality which we already see.

FINAN: I, from reading the pieces in your book, I get the sense that you're an optimist when it comes to new technologies, and don't adhere to Gordon's vision of the future world as not capturing huge gains because of new technologies, but you're a pessimist when it comes to inequality.

DERVIŞ: I'm a pessimist not because nothing can be done about it, I think a lot can be done about it, but there are two huge obstacles to more egalitarian fairness-oriented policies. One is you have to redistribute at the national level. There're winners and losers from trade, from globalization, from technology. The winners have to share their gains. This is something that, particularly after the Brexit vote, became one of the big debated, you know, why has there been Brexit? There have been so many winners in the UK. But somehow the losers didn't get compensated. The trade debate has that in the U.S. Even

very pro-trade people admit that there are some losers from trade. The problem is that this is all about political economy and political power, and as long as the power is with those who gain, largely, policies and the legislations that are needed to organize the transfers to those who gain less and to broaden the base of growth are politically difficult. Money talks too much in politics. That's one reason.

The other reason is some of these things cannot be done at the national level, but have to be done at a global international or at least mega-regional level. You cannot, for example, avoid the race to the bottom in corporate taxation unless there's an overall approach to make sure that corporations are not just able to shift – legally, mind you, they don't do anything illegal mostly in these cases – shift their tax base to the lowest tax jurisdiction, you know. So it's not just an issue of national politics. It is also – and that's even more difficult – an issue of international politics and international cooperation. That's why global governance, in many areas, is so important.

DEWS: It's time for Ask an Expert, a new segment in which you ask a question, and I get an expert to answer it. Here is Joe, a Nevada listener with an interesting question about what comes first for American voters – their ideology or their choice of a candidate.

JOE: Hi Fred, my name is Joe and I'm studying a Master's in Public Policy at the University of Nevada Reno. I have a question about ideology formation in American voters. I read recently that most American voters really seem to shape their ideology based on what a candidate that they support is saying, and not necessarily choose a candidate whose ideology more closely aligns to theirs. With this kind of finding, does this mean that voting patterns are generally based off subtle cues of identity more than they are about

actual policy considerations? How does this actually impact the leaders that we choose?

Thanks, Fred.

REYNOLDS: My name is Molly Reynolds and I'm a fellow in the Governance Studies program at the Brookings Institution. So this is a great question and I'm so glad that I get a chance to answer it. It's true that for many voters, their stated policy preferences follow their partisanship and not the other way around. Actually, this isn't just true of policy preferences. It's also true of lots of other political judgements, including evaluations of political figures and judgements about the economy. The former, especially during the Obama administration, we've seen real polarization and presidential approval.

So Democrats are much more likely to think Obama is doing a good job, and Republicans are much less likely to think he's doing a good job. On the latter, on the economy, for example, there are real systematic differences in how Republicans and Democrats view the economy depending on whether their party is in the White House. And this all has a lot to do with how people find and process information. People will tend to gather information that supports their party's position, and reject new information that portrays the party negatively.

There's also lots of evidence in political science that people don't actually think about politics in ideological terms. Yes, the party's positions are more ideologically consistent than they once were – there are fewer pro-life Democrats than there once were, there are fewer pro-choice Republicans; that sort of thing – but most voters don't actually walk around carrying consistent ideologies in their heads. What we do see, though, is that partisanship is the biggest driver of voting patterns. People who identify as Republicans

vote for Republicans for office; people who identify as Democrats vote for Democrats for office.

There's one school of thought in political science suggests that identity can be an important driver of this partisanship. That is, one's decision about which party to ally with is determined in part by one's other social identities, like their race, or gender, or their religion. Importantly, party identification also becomes a social identity. That is, people will tend to think of members of their political party like they think of other members of social groups that they're members of, like other member of their religion or other members of their race, and this helps to make partisan attachments very durable. It makes it hard to change them over time.

So yes, identity matters, but not necessarily because voters look at each political candidate that they have to vote on and say, "Does that person look like me?", "Does that person feel like me?" Rather, it's because identity-based concerns help drive partisanship, which in turn is the principle driver not just of vote choice, but of many other political judgements.

DEWS: Thanks, Molly, for your answer, and thank you, Joe. To express my appreciation for sending in your question, I'll be sending you a Brookings coffee mug. Listeners, if you want to ask an expert a question, just send an email to me at bcp@brookings.edu. If you attach an audio file, I'll play it on the air. Then I'll get an expert to answer, and include it in an upcoming episode.

And now, back to the interview between Bill Finan and Kemal Derviş.

FINAN: Another theme you bring up too, and which I found intriguing, was the idea of a new social contract for the 21st century. Can you tell us a little bit about that?

DERVIŞ: Yes, I think there is need. You know, the social contract that in the Industrial Age and after the Industrial Revolution, after unions became stronger, particularly in Europe and the U.S., was a social contract where people got jobs. They worked for corporations, they worked for businesses – medium, but also large businesses – they accepted the division of national income into capital income and labor income, and a certain amount of inequality, but in exchange they got jobs. They got long-term jobs. They stayed in these jobs sometimes for a lifetime, not always but often. And with these jobs often came healthcare, social protection, family leave, care for early childhood, and things of that sort. The corporate world, industrial structure, provided part of these benefits and of course, the other part was provided by governments local and national.

And what's happened now is that the fiscal base has weakened in many countries. Debt has gone up. There are fiscal strains, fiscal difficulties with growth slowing down, that won't go away. If growth picks up again, it may become somewhat better. And on top of that, jobs are no longer lifetime jobs. People have to change jobs a lot, find new jobs, adapt themselves, learn new skills, join a startup, and that's all fine, but when they do that they need a social safety net that they can carry with them. They need health insurance that won't disappear when they change jobs. They need accumulated family leave over time, and not that they have to start it all over again each time they join a new job. And that, I think, this portability of social benefits that reflects the need for more mobility and the structure of the economy with new technology, is what I call this new social contract.

FINAN: And you see that implemented at a national level by the nation-state?

DERVIŞ: Well, it's a – yeah, it has to be. Although, there can be cooperative

agreements where business recognizes the benefits accumulated in past jobs and so on, but that has to be legislated. So the legislative policy function in the state, local, or national state function is essential for that. It won't happen just by negotiations between business and workers.

FINAN: You make a connection between globalization and the rise of identity politics, which we're seeing both in Europe and the United States itself. What is that connection?

DERVIŞ: Well, I would never have believed forty years ago, you know, when I was a student at the London School of Economics, that we would have so much nationalism and identity politics that we have today. I really believed the world was becoming, in that sense, smaller, that people were communicating more, and that the extreme nationalism and calls for extreme identity-based politics were going to be a thing of the past; they had created so much damage in the 20th century.

But I guess what has happened is that globalization has brought with it a lot of insecurities. And the winners win, but the losers feel very insecure, and at moments of insecurity people look for structures that provide security. People retreat somewhat onto themselves and onto their communities, so I believe that's what's happening. That's the counterpart of inequality. It's lack of sufficiently strong social contract, lack of sufficient solidarity. It also may reflect, you know, the inherent difficulty of organizing politics beyond national borders. I don't want to minimize that difficulty and make global cooperation sound like something easy. It's difficult. Languages differ, people's histories differ. So it's going to be tricky. And nationalism shows much more resilience, in a bad sense I would say, than we had thought. Patriotism is something very different. Patriotism where you love your

community, your nation, you want to give, you want to sacrifice. But what I'm calling nationalism is where you place your nation above others, and you derive your identity from a kind of antagonism towards others. That kind of nationalism, not the patriotic, I-love-my-nation-type of nationalism, but the identity-based and the aggressive nationalism that we see.

And, you know, there was a time when we thought Russia might join NATO. Now we look at rivalries that remind us of what was the case 30, 40 years ago. We have a huge anti-immigrant wave in the world, in many countries, including the U.S. which after all has been based historically on immigration. Of course, it has to be managed. I can see that when people are afraid for their jobs, immigration seems to pose more of a threat to them. And then there is of course the disasters of the Middle East which make people scared of terrorism and violence.

So all these things are not just things one can dismiss with a wink of hand, but at the end of the day when we look at the world and what international cooperation can provide, when we remember what our parents and grandparents had to go through, you know, which 20 million people killed in World War I with trench warfare between Germans and French for months, and then they broke for Christmas for 2-3 days which, in a way, is nice and beautiful but shows how completely mindless the whole thing was in the first place. If you're willing, you know, to celebrate Christmas together, then why on earth are you killing each other for the rest of the year? So I think these memories must not be forgotten and we must build a world where those kinds of antagonisms, violences, and destructions are kept at bay, particularly since modern technology, after all, can be more devastating than it used to be in the past.

FINAN: The last part of your book is dedicated to essays dealing with Europe, where some of these same themes of nationalism and refugees are explicitly addressed. The book came out just as Brexit – the vote itself – occurred, although you talk about the lead-up to that vote. In those essays you talk about the problems that erupted in Europe from Greece’s financial catastrophe to the migrants to Brexit. Yet again, here, is another case of optimism. You remain optimistic about the European project. Why?

DERVIŞ: The European project is the most advanced form of supranational cooperation that the world has yet tried and experienced. As I said, German and French and British people were killing each other, to just name three nations, continuously over decades and centuries. And they decided “no more”, and they decided after the second World War to build a European community that then evolved into the European Union, which is first and above all to end war and to build a lasting peace; but second, of course, to reap the economies of scale of a larger market, to have benefits of travel – free travel – within large areas, to be a little bit like the United States in Europe, without becoming a nation-state like the United States.

I think the problem has been that too many people – too many of the technocrats – felt that economics and economic cooperation, obvious economic interest, would drive these European nations ever closer together. And with the euro, particularly, they kind of stepped ahead of themselves, because the common currency requires a great deal of political cooperation, you know, currency is a symbol of nationhood, in a sense. Kingdoms had currencies, republics had currencies. Joining monies together into one money, which the British didn’t join, of course, should be the expression of the will for much greater

political cooperation and fiscal cooperation. Not necessarily the emerging to a nation-state, but nonetheless a degree of policy cooperation which independent state don't have.

And so I think it was a little bit too optimistic, to think. It was a little bit putting the cart before the horses. I'm a believer in the euro. I believe the European Union needs a common currency, but it should have built the politics and the fiscal arrangements, institutional arrangements, ahead of introducing the money, rather than introducing the common currency and then waiting for the crisis to happen to be forced at difficult times to try to build the institutions that go with it. And that, I think, will create the big, big problem. And, of course, it didn't give a great image of Europe.

Now having said that, I think it would be a mistake to try to dismantle it now. It's there, you know, you can't really easily make eggs out of an omelet once you've got the omelet, and I think the only choice now is for those who want to go ahead, and Britain is different because Britain never joined the common currency, like some other countries also didn't, you should make it work by building the fiscal banking and labor market institutions that will make it work.

DEWS: We're going to take another break from the conversation for another installment of Metro Lens. Here is Richard Shearer from the Metropolitan Policy program with some insightful comments about the city-town divide and how it plays out in our politics.

Stay tuned after Metro Lens for the final part of the interview with Kemal Derviş, in which he addresses whether Brexit presages other exits from the European Union.

SHEARER: Hello, this is Richard Shearer, Senior Research Associate at the

Brookings Metropolitan Policy program. Last month, Donald Trump rode a wave of populist enthusiasm to win the presidency. This victory is a stark reminder of how divided the fortunes and attitudes of many Americans have become. For some voters, this outcome had been unthinkable prior to the election, but other described Trump's candidacy as their last hope.

As it turns out, the gap between these divergent points of view lies between big cities that prospered during the economic recovery from the Great Recession and small towns and rural areas that the recovery left behind, and the economic and social dynamics of big-city America and small-town America played an important role in the outcome of this election.

Trump's victory would not have been possible without the voters in small-town America, by which I mean non-metropolitan areas and smaller metropolitan areas of fewer than half a million people. Voters in these places accounted for a little more than one-third of all votes cast this election. In this election, those votes proved to be decisive. Trump received 58% of the votes cast in small-town America. By comparison, Romney received 56% of the votes from these places in 2012. That two percentage-point difference may sound small, but it was more than enough to flip Pennsylvania, Michigan, and Wisconsin from blue to red this election, winning Trump the Electoral College.

However, despite his big win in small towns, Trump actually lost support that Romney received from voters in big cities. Large metropolitan areas with over half a million people accounted for the other two-thirds of votes cast this election, and just as in 2012, a minority of voters in large metropolitan areas cast their vote for the Republican nominee. But in 2016, that minority was smaller. Trump received 42% of votes in large metropolitan

areas compared to Romney's 44%. Notably, Trump received less support than Romney in every type of community within large metropolitan areas, even in typically more conservative counties at the suburban fringe of metropolitan areas.

Obviously, Trump's surge of support in small-town America and declining support in big cities reflects how well or how poorly his message resonated with the concerns of voters in those places. Small-town America has been hurting economically, and Trump's promise to stem the tide of job loss likely resonated there. Global trade has enabled many companies to relocate less productive types of manufacturing from small towns to lower-cost locales abroad.

New technologies have also displaced workers in routine jobs, which are disproportionately concentrated in small towns. In part as a result of trends, small metropolitan areas and rural areas had not recouped all the jobs they lost during the Great Recession by the start of this election cycle. Job levels in rural areas remain more than two percent below their pre-recession levels. Some communities in these areas have not seen job growth in decades. Furthermore, small-town America remains lower-income than big-city America. The average annual wage in rural areas is less than half of what it was in the central cities of large metropolitan areas.

Meanwhile, big cities have grown more prosperous, in part by benefitting from the same economic forces that have buffeted small towns. Communities from within large metropolitan areas were hit hard by the financial crisis and Great Recession. However, all large metropolitan areas had recovered from the Great Recession by the start of this election cycle. Today, central cities boast 8% more jobs on average than they did prior to

the recession, and many of these new jobs in central cities and their dense inner-ring suburbs are highly paid.

Though these trends might suggest that Trump support stemmed from the economic distress or resentment of voters in small-town America, there are other dynamics that also help explain voting patterns between small towns and big cities. For her part, Hillary Clinton's campaign made appeals for a more open and pluralistic America made stronger by its embrace of diversity. This message won Clinton about as much support as Barack Obama enjoyed in 2012 within most parts of large metropolitan areas, where only 55% of adults are white. But over 70% of adults in small-town America are white, and Clinton's message failed to win over voters in these areas. In fact, compared to Obama, Clinton support among voters in small metros and rural areas declined by 4 percentage points and 6 percentage points respectively.

The results of this election suggest the big cities that define metropolitan America are feeling more optimistic about the economic and social direction of the country, while small-town America is increasingly anxious about its future. Those attitudes, along with the country's changing demographics, led to big shifts and some notable upsets in the typical political geography of the nation this election. President-Elect Trump was the beneficiary, but to maintain his edge, President Trump will have to figure out how to govern small-town America and big-city America as one nation. It will be interesting to see if his policy positions shift at all to accommodate this new reality once he becomes President.

DEWS: And now, back to the interview between Bill Finan and Kemal Derviş.

FINAN: Do you see Brexit presaging other exits?

DERVIŞ: There is a danger of that. There's a big danger of that, I think. It depends a

lot on what happens in Europe: whether the Europeans will take this wake-up call seriously and will, as I just said, you know, build the institutions that are needed to make a currency union work. If they don't, I think the tensions and forces are strong. So I think it's an open question. I hope that the will will be there.

I also hope, and I think this is my last piece of the whole book, says "two Europes in one", I always believed that. I believe in Europe there are countries that really are, deep down, willing to move further with political integration. That despite complaints and despite, you know, all kinds of debate and negativism at times, deep down there's a feeling that there should be a more federal Europe. And I think in many continental European countries that feeling is still very strong, particularly in Germany and in France, despite the recent difficulties.

And then there are other countries, such the Scandinavian countries and maybe others: countries which would like to have a lot of cooperation – a big market, a free trade market; a common defense and security policy; much-reinforced security arrangements; maybe a common climate policy; scientific policies – that cooperate but that don't want to go the next step toward further political integration. And what I mean by "two Europes in one" is we have to invent, and I'm giving some ideas of how to do that, a big Europe that actually is the one Europe but it actually contains two Europes – one, strongly integrated countries around the Eurozone, around the euro, around the common monetary unit; and then another group of countries that are part of Europe in many other ways but that are not as integrated as the first group, and I think that's the way forward.

FINAN: So it's an adaptive system and we don't have to throw away the entire idea, the concept of Europe but –

DERVIŞ: We have to make it simple enough so that it's not what I call the spaghetti bowl. I mean, not everybody can have, you know, institutions tailor-made. Some choices have to be made, otherwise citizens won't figure out, you know, how are we governed, who makes decisions, these things have to be transparent.

FINAN: I want to come back with a final question to the larger issue of globalization again, and ask you this larger question, too, about globalization. Have we entered a new era of globalization?

DERVIŞ: Globalization, I think, has morphed and evolved. I think we have entered the new area, mainly because of technology and the way technology is bringing everything together, but at the same it creates tremendous dangers. I think it's an area where more cooperation is needed. But I also believe that the United States remains crucial in this architecture of the world, because it still is by far, by far the strongest military power, and with China it is now becoming, you know – these are the two big economic giants. Europe is not a giant because it's disunited. If it actually was more united, then it could be a third pillar. And then there are all kinds of countries, small, medium, medium-small, all kinds.

So it will require a very flexible structure, and it will require the principle of subsidiarity, which is a technical term but basically means solve your local problems at the local level. Don't try to have traffic ordinances, you know, that cover a large number of states. It's useless, every city can always more or less decide how it wants to manage its traffic. Let there be room for experimentation at the local level. Let cities, let mayors, let counties experiment if they want. Let people feel close to a lot of the decision that are made, but at the same time realize that there are some issues that must be resolved at a much higher level, either at the national level or at the global level. Global warming will not

be defeated except by global international cooperation. The danger of pandemics is an obvious one, but we're beyond that. Financial stability, macroeconomic health, depends much more on cooperation than before, and to come back to your question, is it new? It is new in the sense that causality used to run from advanced countries to the rest of the world, whereas now what happens in China or in India and tomorrow in Africa, where a huge part of the world population will be, has feedback effects on the United States, on Europe, on Japan which are much stronger than they were before. So it's become much more of a two-way street, or multiway street, than it was before.

FINAN: Kemal, thank you for your realistic optimism about globalization and about Europe. I appreciate you taking the time to talk about your book today.

DERVIŞ: Thank you, Bill, thanks a lot for your questions.

DEWS: You can find Kemal Derviş's book, *Reflections on Progress: Essays on the Global Political Economy*, on our website: [brookings.edu/press](https://www.brookings.edu/press).

Finally in this episode, the Brookings centennial scholar Bruce Katz hosted a very timely conversation between Chicago Mayor Rahm Emanuel and British Member of Parliament Tristram Hunt on the role of cities in an era of growing nationalism and populist fervor. Cities have emerged as the continuing centers of ground-up economic, environmental, and social progress, and yet, in this new age of Brexit and Trump, they face rollbacks of government investment and international engagement. The full conversation can be found on our website. Here's a sample featuring first Bruce Katz, then Mr. Hunt, and finally Mayor Emanuel.

KATZ: The UK decision to leave the European Union and the election of Donald Trump exposed a deep geographic divide in our two countries. In the UK, London, the UK's

economic engine, voted to remain in the EU, while a wide swath of secondary cities, tertiary cities, rural areas voted to leave.

In the United States, as my colleague Mark Muro has showed, Hillary Clinton carries less than 500 counties, but those counties represent sixty-four percent of the economic output of this country. There are 3000 counties, if anyone wants to take a test tomorrow.

There are clear conclusions to draw here. Globalization has not just fueled income inequality, but it's fueled spatial inequality. In our two countries and throughout the world, major cities have become the engines of national economies, the centers of global trade and investment, but the benefits of growth have not been shared widely, both within these winning places, and then across their nations. So this economic balance and the free movement of labor and capital represented by globalization has upended our national politics.

We're going to talk about three things today: first, how deep, how real is the spatial divide and how do we begin to overcome it; second, what are the consequences of Brexit and Trump for our major cities, given the fact that national governments – this is hard for me to say, as you know – do play an important role on issues as diverse as safety net, healthcare, infrastructure, trade, so forth and so on; and finally, how can cities begin to take greater ownership and responsibility for their future, because cities have enormous public wealth, basically driven by their economic position in the world.

So Tristram, you are our guest in our nation, you have come from across that little pond...

EMANUEL: He also has a better accent.

KATZ: And you have a much better accent. To use Brookings terminology, what the hell happened with the Brexit vote?

HUNT: Well, Bruce, thank you very much for having me here today, and I do think we can extrapolate some interesting correlations between what happened with the Brexit vote and what happened with the Trump vote when it comes to this divide between metropolitan and non-metropolitan areas. And for those of us on the center-left, this is a particularly challenging issue, because I think what the Brexit vote did was really calcify some of these tensions within the progressive coalition, between those areas which are feeling left behind by globalization and those areas which are prospering from globalization. And we're seeing, in a sense, a political split, which is moving from traditional left-right axes to a communitarian, cosmopolitan split, and at the moment, the Labour Party in the UK often represents both these kinds of areas, and we're seeing real tensions into how it manages that coalition.

So let me just draw out a few things when it comes to the nature of the Brexit vote in terms of the geography of this divide. What we know is that those areas with lower incomes, with lower levels of educational attainment, with traditionally higher levels of manufacturing, but today higher levels of manual occupation which are particularly at risk of automation and job losses as a result of globalization; those areas voted to leave the European Union, and if we had to draw out, I think, one area to focus on which really brings together this question of income and culture, it would be education, and that was – and levels of educational qualification – were the real divide in terms of where the vote fell. And so what we did see was this great divide between the metropolitan areas, Bristol, London, voting to stay in Europe, and rural and non-metropolitan areas voting to leave. It comes more complicated in a UK context because Scotland voted to stay in Europe, Northern Ireland voted to stay in Europe, but Wales and by quite a margin England voted to leave.

So it seems to me the outcome of this is to think about, culturally, how we bring these metropolitan and rural areas together more, to think about how we challenge inequality and how the nature of inequality has been distributed. But also, as a historian, I never lose sight of the fact that going right back to Rome, the sort of contempt for urban cosmopolitan elites and sort of rural virtue versus urban immorality has always been there, and so this could be another turn of the cycle on that.

EMANUEL: In '92, Bill Clinton ran on middle-class first. We win. In '96, against Dole, the President ran on building a bridge to the 21st century, and the economy was in a certain condition that was more optimistic and people were going to stay with what they got because it was working. In 2008, President Obama ran on hope and a harsh criticism of what he would say the shortcomings of both Bush economics at home and also Bush foreign policy, and was a better alternative than John McCain. These are personality-driven alternatives. By '12, he ran against Bain Capital plutocrat, that "you would let the auto industry fail, and I saved it."

We lose in 2000, 2004, and 2016. So what is about what we won, when we won, and what is it that we didn't do when we lost? And I'm all for – and I think it's not only right politics but the right policy – I'm all for a socially inclusive message, but not at the exclusion of an economically robust message. And if you look at when we won versus when we lost, the takeaway is clearly about something that's a more robust and inclusive economic message versus one that is just socially. And even if you look at the campaign, the criticism of Trump coming out of the Democrats and Hillary in particular was on character and on socially inclusive. The kids commercial was not an economic message, it was one on character, kind of temperament, etc. And I think we should go back to what I think has

worked and I don't...and that to me is a very strong – and this will get eventually in this discussion, what are the policies, what is the politics around those policies – a very strong economic with a strong socially inclusive message, but not one is the expense of another, and that's how I...and then, in the end of the day, look, both candidates had certain personal negatives that people saw, ok, so that negates that. Then you got a change versus a status quo candidate and a change election. It's not more complicated than that. I mean, he's a historian, I don't...I mean, that's not a poli-sci 105, ok? It became down to, in a change election, change candidate versus one that was seen as more as a continuity.

Every election, if you look at, Clinton was a response to Bush, Bush was a response to Clinton, Obama was a response to Bush, and Trump is a response to Obama. I mean, that is the history. And so, at a certain point it's more fundamental, it's not really obscure, and I mean, there are other factors that drive this but in the sense of when you look at developed worlds today and the politics which is following, and then I probably would say one other thing.

A lot of this is focused, as I just did, on economics. We were talking about this a little before. Do not underestimate that this actually a rejection of failed politics as much as failed economics. That the political system in England wasn't addressing people's insecurities in the same way that they're saying that in other elections, and here in the United States it was a reaction to a political system that was not dealing with fundamental economics, not outside of the first two years when President Obama had an incredibly brilliant Chief of Staff, and outside of President Bush's first term when he had a Republican majority. The political system has not responded, and so they took a cudgel and a hammer to the political system before it wasn't working. Where you have broken politics not addressing concerns,

the concerns are driving this, but it's also the inability of – what drove their reaction – was the inability of the government to be reactive to their concerns.

That's what's happened. They don't think England was standing up to the EU and actually driving part of this. You go through these elections and you look what's happening. It is as much a reaction to the ossification and the failure of the political system to address core economic issues, and so it was, yes, the foundation's economics, but the hammer was very focused on breaking up and moving the political system into a place that would actually address these core insecurities.

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