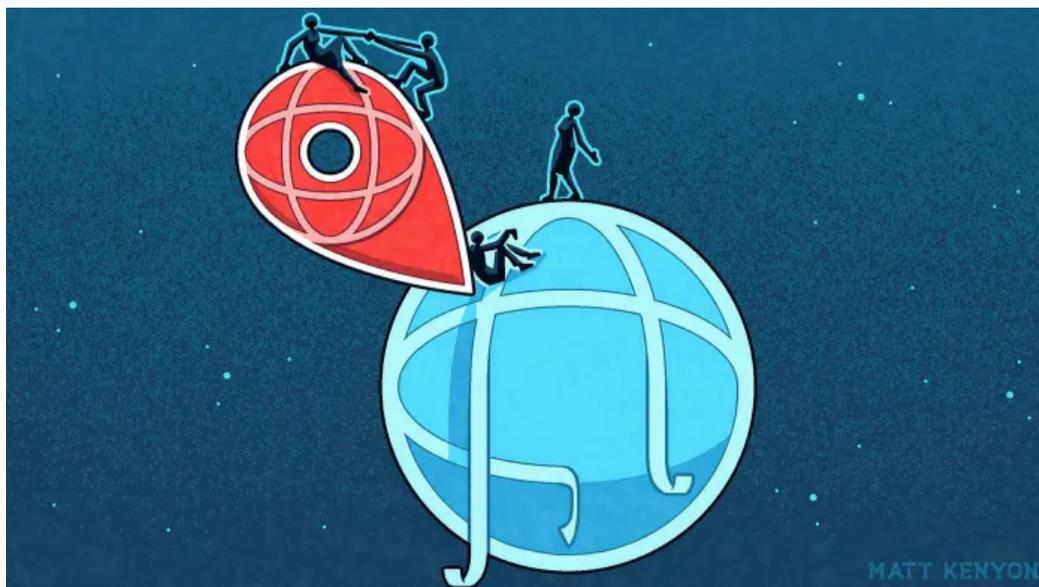


It's not just the economy, stupid

Politics will play a bigger role in a world where regionalisation, not globalisation, is the future

RANA FOROOHAR



© Matt Kenyon

Rana Foroohar YESTERDAY

Remember the phrase, “It’s the economy, stupid?” It was coined by James Carville, strategist of US President Bill Clinton’s successful 1992 campaign against George H W Bush.

The quip was meant to bring voters back to the fact that the campaign was being held in the middle of a recession, which the Clinton team used successfully to unseat Bush the elder, despite the fact that 90 per cent of the country approved of the job that the incumbent was doing just a year before the election. Since then the phrase has been as much of a truism as you can have in politics.

Yet it doesn’t appear to be working for Joe Biden, even though many of the top economic indicators, from unemployment to economic recovery from the pandemic, have been in his favour. Of course, rising inflation has scared the US public, though it’s also bolstered their wages. The upshot is that the old line isn’t holding as true as in the past. I suspect if Carville was on Biden’s team today, he might come up with a different phrase for the next election cycle: “It’s geopolitics, stupid.”

As has been apparent for a couple of years now, the world is changing — and the change isn't going to stop when the pandemic is finally over. That's because Covid-19 is a scrim that has been lifted up over the new realities of the post-neoliberal world, one in which politics, not just “efficient” markets, matter.

It turns out that the world *isn't* flat, after all and the general public feels the bumps, even when many domestic indicators are telling them that everything is all right.

Surveys show that Americans are [paying attention](#) to what's going on with political tensions in Ukraine — more than they would have about [past foreign affairs issues](#). That is in part because the crisis dovetails with the issue of inflation — in this case, particularly energy inflation — but it is also a reminder that we are now in a post-American world, where the US no longer calls all the shots and there are new regional powers including China that are [shaping global economics and markets in new ways](#).

It's important to start to grapple with all this honestly. Take supply-chain disruptions, for example. Many experts are predicting they'll abate by the end of the year, and that may be true in the short term. But in reality, supply chains are only at the beginning of a long-term, fundamental change.

This shift is for all sorts of reasons. One is politics — witness China becoming a more inwardly focused “dual circulation” economy as well as its growing use of supply chains as political leverage in places like [Lithuania](#) and [Germany](#). Another is a result of shifts in wage and energy arbitrage — there's just [no point in shipping](#) low-margin products such as furniture or textiles all over the world. A third is due to a push for higher environmental, social and governance standards. All point to the conclusion that regionalisation, not globalisation, is the future.

That will mean a profound change in how business operates, though the largest and most powerful multinational companies are desperately trying to buck this trend and pretend they can be apolitical. Electric vehicle group Tesla is continuing its push into China despite concerns about human rights abuses in Xinjiang. Tech giant Apple has compromised on privacy under pressure from Beijing.

Many economists are also trying to pretend nothing has shifted in the past 20 years, and that driving down prices should still be the ultimate goal for society. “The objective has to be buying as cheaply as possible,” said former Treasury secretary Lawrence Summers, [in reference to procurement](#) for the Biden administration's \$1.2tn infrastructure programme.

I beg to differ. We've left the age of neoliberalism behind. We know now that markets are not perfect and that consumers and large multinational companies aren't the only economic stakeholders. In this new world there will be new trade-offs to be made between a larger and more diverse group, from businesses of all sizes, to workers and the environment. Most people seem to understand that [ever-cheaper goods](#) have raised wages in some parts of Asia, and created incredible profits for big companies, but they haven't led to a healthier and more sustainable form of market capitalism. Liberal democracy hasn't fared well, either.

The new world is, admittedly, messier and it will come with some downsides in the short term. Inflation, for example. Let's face it, products made by robots, big companies and autocratic states that suppress wages are cheaper. We need to be honest about the inflationary implications of moving from a highly globalised economy to one in which production and consumption are more tightly geographically connected, and in which stakeholders, not just shareholders, have a voice.

But that doesn't mean we should go back to the old, unsustainable paradigm, which led to environmental degradation, labour abuses, rising inequality and toxic politics. It means we should start addressing tough questions: what is the right balance between, say, foreign and domestic concerns when thinking about [trade policy](#)? How might better education and competition policy mitigate the downsides of our new era? What comes [after neoliberalism](#)? This is, after all, a political economy, stupid.

rana.foroohar@ft.com

Sign up for Rana Foroohar's US politics newsletter, Swamp Notes, ft.com/newsletters

