

Adam Posen: 'There are many echoes between Brexiteers and the Trump way of thinking'



Adam S. Posen has worked for central banks on both sides of the Atlantic – the US Federal Reserve and the Bank of England – and has written extensively about fiscal and monetary policies, Japan, the Eurozone and the US. Since 2013 Mr Posen has been the president of the think-tank Peterson Institute for International Economics (PIIE.) He is currently concerned about the wave of anti-multilateralism in the world, fed not only, in his view, by right-wing populism, but coming also from the left, as represented by the UK Labour Party leader, Jeremy Corbyn, and Senator Bernie Sanders in the US. “You’ve got a bunch of people who are seeing the world as a zero-sum game,” he told LSE Business Review managing editor Helena Vieira before his talk at an LSE [Financial Markets Group](#) event.

Could you define multilateralism?

There’s a strict definition and a practical one. The strict definition is that you do international agreements in a way that’s meant to be rules-based and meant not to be individual power relationships between countries, but in agreement with all countries, treating them equally. So in some ways, the idea of this is, as attacked as it is, the WTO, the World Trade Organisation, where if there’s going to be a new agreement, every member has to vote for it. Everyone is treated equally.

There’s also what I’m trying to talk about here at LSE, which is also part of a more practical sort of spirit. It’s the idea that maybe you’re not doing everything universally to give Burundi a veto over everything the US and the EU do, but that you’re trying to make agreements that are not simply treaties between the most powerful states, and you’re trying to engage multiple countries at once, and generally a commitment to rules-based international order and an open order.

On both these counts the Trump administration, and now the May government in the UK, are not really going down that road.

We’ve been reading about the decline of multilateralism for a while now, so it’s not a recent phenomenon. What’s behind this decline?

I think the issue of the decline versus the current sort of anti-multilateralism has to be distinguished. The decline was that, partly in late Cold War and partly immediately after the Cold War, there were a lot of countries that really wanted to be part of the global market system or various other agreements that were not trade or finance, or even climate. But they were also very willing to take US leadership, frankly. And under both Republican and Democratic administrations, to varying degrees, but never violating certain norms, there was a sense that the Americans had to not boss people around, and at least act as though they cared about fairness and rules and consistency.

What started declining, initially, was just that there wasn't enough energy behind that. Again, using the critical example of trade, there was a great sense of frustration, not just in the US, but particularly in the US and in Europe, that during the last few rounds of trade talks meant to be at WTO level, Brazil or India would effectively block everything. And of course Brazil and India were understandably, perhaps not justifiably, but understandably, trying to make up for ways they had been overlooked and cut out in previous decades. And so for the best bulk of people, but also for people in the US, there was kind of a feeling, 'why are we bothering with this?'

But I think the decline really did accelerate in recent years, and that is because we've shifted from American administrations, British administrations, even Chinese, who would say, 'I still want to hold back, I still want to aspire to try to do something multilateral. If we do something plurilateral, meaning, multiple countries but not everyone who wants to be open to other countries,' to just saying 'Why do we bother? Actually this is harmful.' And I think that's the shift.

And the current wave of right-wing populism is exacerbating things?

Absolutely. I think it's interesting, striking, depressing, pick your adjective, that there are so many echoes between the Brexiteers and much of the Trump way of thinking about the international economy.

But also even on the left. I mean, I think the left ultimately has not gotten as crazy in our democracies as the irresponsible right certainly has in the US. But you can see it. We've just had the Labour Party conference. There's been a lot of discussion from Corbyn and people around him of the left critique of the EU, Lexit as it's sometimes called, and in the US of course, we have a lot of people associated with Senator Bernie Sanders and others who were very strongly against the Trans Pacific Partnership (TPP), and against the WTO.

That's what I mean by multilateralism as a set of beliefs, a set of convictions, not so much strict multilateralism. You've got a bunch of people who are seeing the world as a zero-sum game, particularly the world economy but also security and other things, and who very explicitly don't like international institutions, don't like international rules.

Is Britain too vulnerable now? Does it stand a chance on its own?

It certainly stands a chance, in the sense of existing and continuing to have better or worse growth. Nothing is going to make Britain disappear. But there's no sugar-coating it. There's nothing good in economic terms about Brexit. And as many people know, we've just see the breaking news that the Trump administration, reflecting this destructive position on multilateral trade, used unilateral tariffs on Bombardier.

As several pundits commented on Twitter: "Good thing Theresa May had that handshake agreement with her best buddy agreeing to have a special trade relationship." At the same time this will potentially put thousands out of work in Northern Ireland. I mean, if Bombardier had lost ground for business reasons, you should have to cope with it. But it's a good warning that the US is not going to be doing the UK any favours.

So you don't see any chances of the US and the UK striking a trade deal?

I see chances of them doing it, but I see chances of them doing it as a very symbolic act probably, very light on substance, as I've said a few times. The thing is, the UK is a 80%+ service economy, the US is almost that much a service economy. They compete, they're the world leaders in all the business services, finance, insurance, also in media and many other services. So a trade deal between the two of them is actually not that likely to expand trade that much. They're already pretty liberalised in those areas and they're very competitive with each other. So I think a shallow trade deal, just so that the May and Trump governments can say "we did it and we like trade with rich, white people," rather than trade with the rest of the world where we'd actually bring broader benefits but more adjustment. It's entirely possible, but I just don't think it's going to be very meaningful.

Do you see a chance the EU will be able to deepen its monetary union and come out stronger as President Macron mentioned?

I think there's a good chance. I just came back from Brussels, where my colleagues at the Peterson Institute and I were presenting some work on this topic to the DG ECFIN, the economics and finance group at the Commission. We looked carefully at US history, how economic and monetary integration proceeded in the US over the 19th and 20th centuries to try to distil some lessons for the EU. I think it's quite doable. I think to his credit President Macron, and to a less degree but still well, President Juncker, a couple of weeks before, outlined visions that were pro-European, bringing out more public goods, multilateral within the European context, where everyone has to be aboard. And I have to hope that Germany, despite some unfortunate setbacks in the election, continues to see its vision in Europe, and I think that's right. I think that unlike with the US and the UK governments, there are lines that the next German government won't cross.

You mentioned the WTO. What's in its future? A weakened position in the world? And what about the IMF, the World Bank?

The WTO has this sort of low-level equilibrium. The multilateral trade rounds, like the so-called Doha Round, were stalled. But the WTO is continuing to function very well as a dispute settlement mechanism, as a forum, as a breeding ground for trade ideas and for encouraging higher standards and fairer trade. It is very much multilateral. And that was sort of the decline of multilateralism in trade, a decline to something not ideal, but very useful.

The fear is that if the Trump administration pursues unilateral economic policies on trade, that other countries, including China and the EU will take the US to the WTO, and the WTO will rule against the US. That's not to be feared. What is to be feared is, then, the Trump administration throwing a temper tantrum and withdrawing at that point. And that's potentially very destructive. That has echoes of the League of Nations falling apart when the major players, including the US, said "well, I don't think that applies to me." So, that's the big risk in the background.

For the IMF and the World Bank I remain much more confident. The IMF does have a challenge: their very aggressive role, but not control, in the European crisis, and the provision of lots of resources to Greece, not to the degree that people were well off, but by comparison to other bailouts, very large resources. That means they've got a multilateral problem. They seem to have favoured the ones who are members over the others. But they clearly are useful in terms of programmes for many countries around the world, and as a source of economic expertise and as a coordinating mechanism.

And the World Bank, I think, even from the Trump administration, but broadly, has a lot of support as they've defined their mission to be about global public goods, such as public health, water, women in the workplace and in economies, education, etc. There are worries there, but I'm much more worried about the trade system and the nascent, but not yet formed, international climate regime, which may get, I don't think killed, but may get arrested development.

The Fed has just announced the end of quantitative easing, and economies are picking up in the US and Europe. What are the perspectives for the next few years in Europe and the US, notwithstanding Brexit and the Trump administration?

It's easy to say notwithstanding Brexit. It's hard to say notwithstanding the Trump administration. They are taking a long time to get past the budget in the US and as a result they haven't yet had the effect on the economy many have thought they would. If they pass anything close to the major tax cuts they're talking about, that will for the next few years have a major repercussion on the world. It'll unbalance growth. It will probably lead to a boom and a bust in the US, in the classic cycle.

But broadly speaking, the Federal Reserve, the Bank of England, even the Bank of Japan, are sort of getting back to normal policy, in the sense that their decisions are not life-and-death, and the markets are not going to swing hugely on their decisions, whereas recently, a year or two ago, if one of the central banks had tightened significantly too soon, or made a misstep, it could have had very big repercussions. There's still room for the Euro, there's still a little more fragility there, as reflected in the weakness continuing in Portugal and Greece, and the massive unemployment in parts of the Euro area, but even there, given the extremely strong, compared to potential, and very broad recovery we're seeing in Europe right now, I think even the ECB is just getting back to normal. Central banks will be less important for the next couple of years.



Notes:

- Adam Posen spoke at LSE on 27 September about the topic "Multilateralism under Attack? UK, USA and the others," an event organised by LSE's Financial Markets Group ([FMG](#)).
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