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## 'Davos consensus' under siege



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If nothing else, Newt Gingrich's campaign for the US presidency has contributed an excellent new phrase to the language. His coinage – “pious baloney” – kept popping into my head in Davos last week, every time I saw the World Economic Forum's ubiquitous slogan: “Committed to improving the state of the world”.

Shocking as it may seem, the assorted bankers, businessmen, oligarchs and autocrats who descend on Davos each year are not motivated principally by altruism. And yet Davos this year did feature much agonising about inequality. In a few cases, this may have reflected moral unease. But pragmatism was even more important. Davos is effectively a festival of globalisation for men in suits and snow boots – who now fear that the argument for globalisation may be lost in the west.

Peter Mandelson, a former EU trade commissioner, caught the mood when he told a lunch that politicians need to persuade people that globalisation and free trade are still good, even when they are blamed for higher unemployment and stagnant wages. From the platform came numerous suggestions of how this might be done: stimulate growth in Europe, invest in education, get the Chinese and Germans to spend more.

Yet for all the words spilled, the two most significant speeches made on these themes last week were not delivered in Davos. They were Barack Obama's State of the Union address and a barnstorming campaign speech made by Francois Hollande, the Socialist party's candidate for the French presidency.

These speeches deserve to be read as a pair. Both men bemoaned rising inequality. Both promised higher taxes for the rich and more support for the middle classes. Both attacked high

finance. Mr Hollande went as far as calling the world of finance a faceless government and “my true adversary”. Both speeches promised to bring manufacturing jobs and factories back home – an idea that is usually deemed impossible in Davos. Mr Obama said his blueprint for strengthening the US economy, “begins with American manufacturing”. Mr Hollande called for France’s “reindustrialisation”.

Alongside positive measures to encourage manufacturers, both the American president and the French would-be president stressed measures that are implicitly protectionist. Mr Obama promised to set up a trade enforcement unit charged with investigating “unfair trade practices” in countries such as China. Mr Hollande denounced “unfair competition” and proposed to rectify it, by telling foreign countries to raise their social and environmental standards, or face tariffs.

If these speeches weren’t ringing in the ears of Davos delegates, they should have been. Davos is all about globalisation. And yet here were the likely winners of the two most important elections in the western world this year calling key elements of the whole construct into question. Mr Hollande promised to reassert the “sovereignty of the republic, in the face of globalisation”.

In Davos, the most popular explanations for the backlashes against globalisation and high finance stressed the change in political mood after the financial crisis. Lavish rewards for bankers are a tough sell these days. The west is struggling while Asia booms.

But there are also structural forces at work. Globalisation contributes to inequality in the west by creating a global labour pool that holds down wages, while boosting corporate profits. Before the financial crisis – when economies were growing strongly and credit was easy – the middle classes were able to share in the proceeds of growth by borrowing heavily, while the poor could be protected through generous social spending. But now, with a credit crunch and pressure to cut welfare budgets, these adjustment mechanisms are much weaker.

The Davos consensus is that Europe needs more “structural reform” to balance budgets and spur growth. Raising the retirement age is almost always on the list of necessary reforms. Angela Merkel, the German chancellor, made a speech in Davos that stressed the need for austerity and economic liberalisation. She has warmly praised Mario Monti, the Italian prime minister, who is committed to cutting the costs of pensions.

Yet Mr Hollande is kicking against this consensus. He promised to lower the French pension age back down to 60, reversing one of president Nicolas Sarkozy’s few significant reforms to the welfare state. If Mr Hollande wants to find somebody talking the same language, he should look across the Atlantic, rather than across the Rhine. Mr Obama is also trying to strengthen the social safety net, by expanding health benefits.

It should not be forgotten that both Mr Hollande and Mr Obama are campaigning. The US president’s stress on higher taxes for the rich is helpful when he is likely to be running against a multi-millionaire whose effective rate of tax was less than 15 per cent. Mr Hollande’s tack to the

hard left may be partly a ploy to ensure he makes it to the second round of the election, by scooping up votes from small far-left parties.

But words have consequences. If the next French and American presidents are returned on the basis of campaigns that take aim at Chinese manufacturers and western bankers, that is likely to be reflected in future policy.

At the World Economic Forum last week, for all the talk of inequality and the need to demonstrate the benefits of globalisation, I heard little to suggest that "Davos man" is equipped to fend off a populist assault. The idea that "structural reform", plus austerity, plus better job training will do the trick is – well – pious baloney.

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