This text is based on:

Dani Rodrik, *The Globalisation Paradox*, 2011.

Dani Rodrik is a professor of international political economy at Harvard University. In this book he questions many of the standard ideas in international economics which are based on the idea that free trade is generally beneficial to all trading parties.

This is a very strongly held view in mainstream economics. Going back to Ricardo's theory of comparative advantage, the idea that trade helps raise every country's income is really based on the fact that trade allows for a further deepening of the division of labour. By allowing countries to specialize in those areas in which they have a comparative – although not necessarily absolute – advantage, trade helps resources to be used better all around.

Since Ricardo, and before him Montesquieu, economic and political liberals have also held the view that trade softens our behavior (*le commerce adoucit les moeurs*). There is the strongly held view that trade therefore strengthens peace between nations.

For these reasons, the international institutions which the USA and its allies created at the end of World War II – including what is today the European Union – have been based on promoting increasing trade liberalization over time, on the basis of consolidating the rule of law between countries.

Rodrik challenges the simplicity of these views, especially in the current age of globalization. He notes that many of the world's major economies have not always practiced free trade. This was the case of the United States in the 19th century. More recently, the Asian development model which first emerged in Japan, has been based on pursuing export-led growth, while protecting domestic markets at the same time.

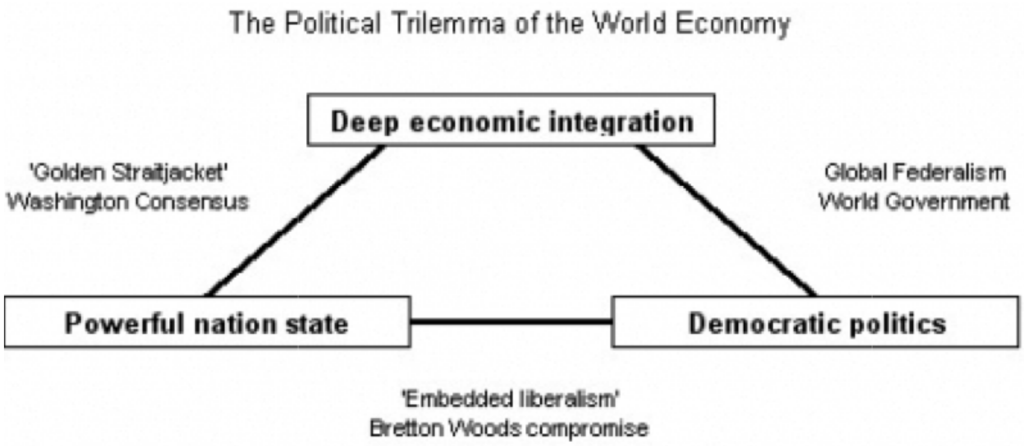
Similarly, he points out that the gains from trade liberalization within a society are generally widespread, whereas the costs in terms of lost production and employment may be strongly concentrated. This is especially so when economies are already open. For example, an economy like the US is already quite open, and average tariffs are below 5 percent. In this case, implementing complete free trade would lead to a transfer of <u>$50 between different groups within the US, for every $1 of efficiency or "net" gain created!</u> In other words, small changes in tariffs or the liberalization of certain economic sectors contribute to overall well-being in a society. But, such welfare gains are accompanied by very strong and concentrated costs in activities that are liberalized, with significant consequences for jobs and wages in these sectors.

Indeed, Rodrik supports the argument that trade has put downward pressure on wages in certain sectors where import competition has strengthened in the last thirty to forty years. He stresses that this is something which international economists have been slow to admit. For a long time they have understated the impact of trade, stressing much more the importance of technology in pushing down wages for low-skilled workers.

Another point which Rodrik underlines is that government spending often has a tendency to expand in open economies. This stems from the way public spending is used to protect domestic workforces from the most destructive aspects of trade liberalization. He specifically also states that, “[d]emocracies have the right to protect their social arrangements, and when this right clashes with the requirements of the global economy, it is the latter that should give way”.

Rodrik also reviews the way finance, capital mobility and the financialisation of many types of real assets (i.e. the way real assets like companies and property (buildings & land) have been transformed into tradeable financial assets) has aggravated the inequalities of the costs and benefits of globalization. This coincides with the way trade liberalisation and international law (e.g. rulings by the WTO disputes settlement body) have created a form of deep globalisation in which many sectors that were previously closed to external pressures (such as services and government) are increasingly open to foreign contracting.

The result is that globalization is undermining national communities and the political processes – the democracies – of nation states. In particular, Rodrik puts forward the idea that economic integration ends by creating the political “trilemma” shown in the diagram. This means that it is not possible to have deep economic integration and powerful nation states and democratic politics. Societies must choose. In principle, they could choose to strengthen transnational democracy as economic integration deepens. But this means moving towards “global federalism and world government”, and accepting weak nation states. The European Union is to some extent an example of this.



Alternatively, a choice in favour of deep economic integration and a powerful nation state means that national democracy is weakened. Such a choice is often imposed from outside, by international institutions pursuing the “Washington Consensus” of essentially neoliberal policies. [Greece is a clear, present example, as austerity policies are being imposed from outside, but the EU and the IMF.*]

Finally, a society which seeks to maintain a strong nation state and democratic politics needs to limit its economic integration into the world economy. [This is what Brexit and the election of Donald Trump may lead to. But we do not yet know to what extent this alternative, which suggests going back to a less-open economy is possible.*]

* Rodrik’s book was published in 2011 and he does not give these examples in this book.