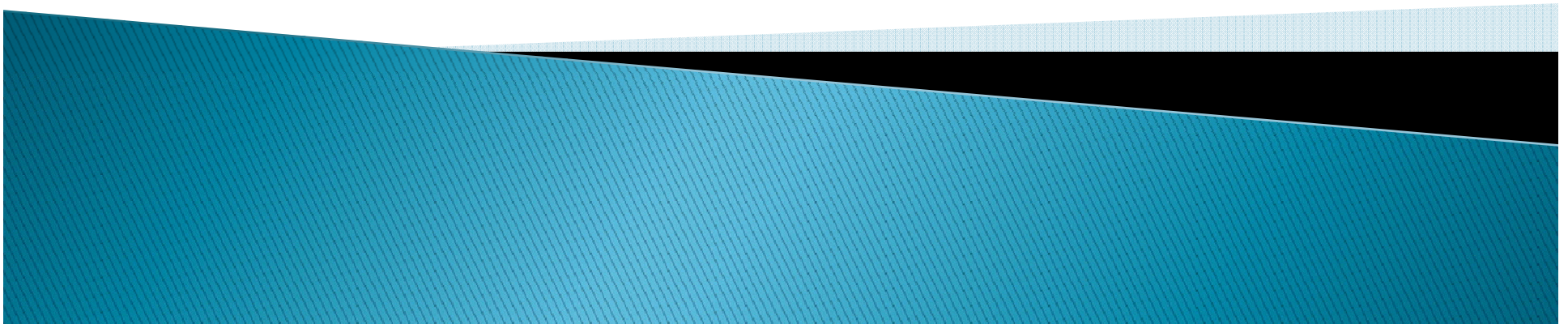


# The Globalization Paradox

Democracy and the  
Future of the World  
Economy

Dani Rodrik  
May 2011



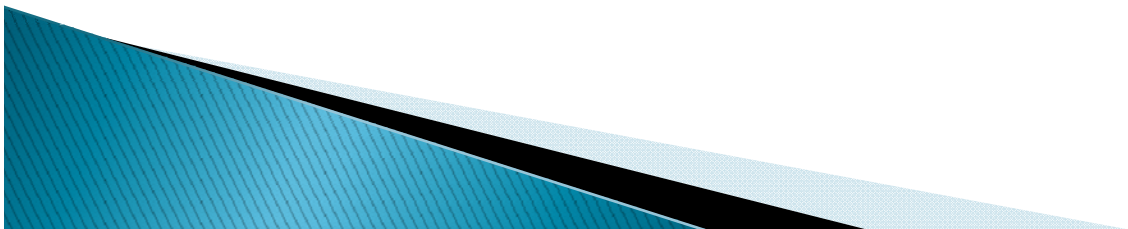
# Three key ideas

- ▶ The extent of the market is limited by the scope of workable regulation/governance
  - A corollary to: Adam Smith's "The division of labor is limited by the extent of the market."
  - Markets need a wide range of non-market institutions. They are not self-creating, self regulating, self stabilizing, self-legitimizing. Markets cannot work properly and be politically sustained in their absence.
- ▶ The main locus of legitimate governance remains the nation state.
  - That is where democratic deliberation resides
  - Transnational forms of "global governance" likely to remain weak at best
- ▶ There are legitimate differences across nation states on the shape that regulatory institutions ought to take
  - Differences in history, culture, levels of income result in divergences in needs and preferences



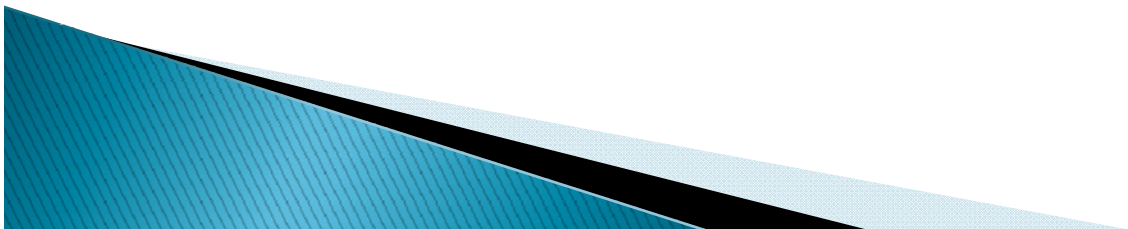
# Therefore

- ▶ We have to contend with a world economy that remains a patchwork in terms of governance
- ▶ ... and moderate our ambitions regarding economic globalization
- ▶ We run one of two risks when we get the balance wrong:
  - legitimacy deficit when we push global rules too far
  - Inefficiency and instability when we push global markets too far
- ▶ Recognizing the centrality of nation-states is more likely to contribute to a healthy global economy than trying to eviscerate it



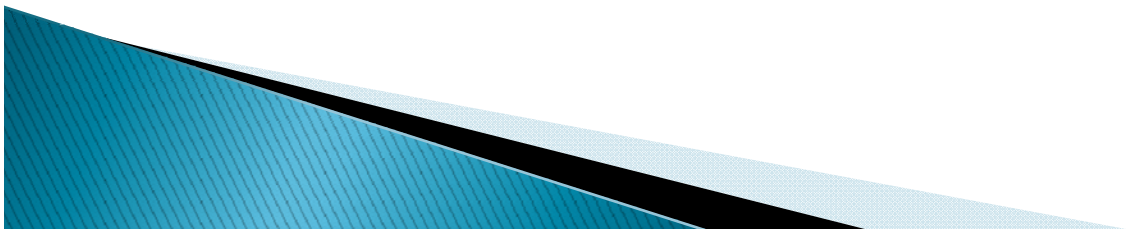
# National sovereignty isn't withering away anytime soon...

- ▶ The balance of global forces is becoming more centrifugal
  - Declining role of U.S. in global economy
  - EU likely to remain preoccupied with own matters
  - China and the other emerging powers place, if anything, greater emphasis on national sovereignty
- ▶ The supply of global leadership will be in short supply



# But this isn't a terrible thing

- ▶ The world economy is not a “global commons”
  - Open trade and finance policies are semi-private goods
- ▶ (Misleading) analogy with climate change
  - where in the absence of global coordination, we get the “tragedy of the commons”
- ▶ An open economy is in every country's own interest
  - Subject to the terms of trade and mercantilist exceptions
- ▶ When nation states have “policy room” the outcome need not be the slippery slope to protectionism
- ▶ Democratic politics *can* “malfunction,” but it is locals who pay the bulk of the costs
  - e.g., agricultural subsidies
- ▶ So improved deliberation at home is likely to be more powerful stick than external constraints



# Economizing on global governance: where the gains are

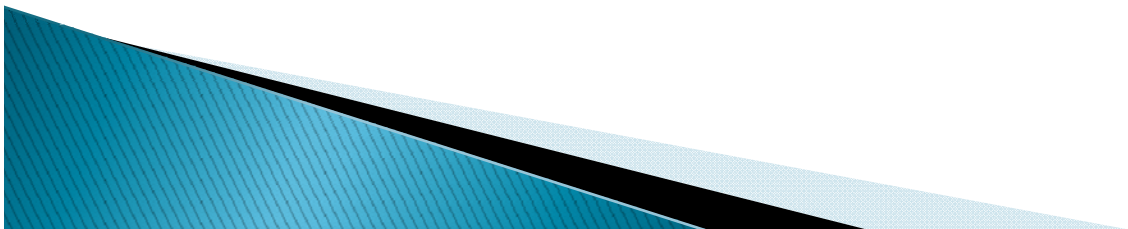
- ▶ Dealing with macro imbalances
  - Potential cross-border spillovers are large
    - China's "mercantilist" policies create unemployment and growth costs for others
  - But China has also valid concerns about the employment and social consequences of renminbi appreciation
    - China needs an "insurance policy"
  - So greater discipline over macro/currency policies viable only if matched with less discipline over micro/industrial policies
    - A quid pro quo





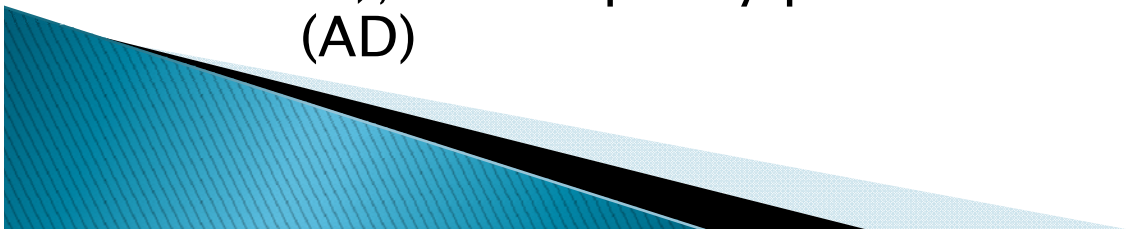
# Economizing on global governance: where the gains are

- ▶ A global temporary labor mobility scheme
  - World labor regime today is where trade regime stood in 1950
  - Size of barriers means that global efficiency gains are quite large relative to distributional/social costs
- ▶ A small increase in temporary work visa allocations would yield net gains several times those from complete removal of trade barriers
  - E.g., 3% of rich countries' employment
  - Need to apply carrots and sticks to ensure high rates of compliance, but not impossible



# Economizing on global governance: where the gains are

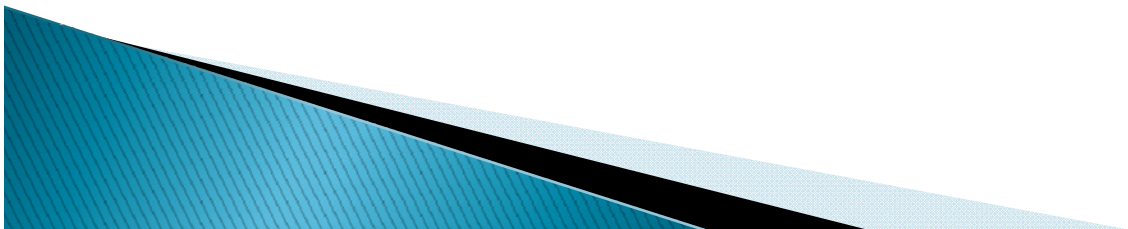
- ▶ Focusing on global rules that enhance the quality of domestic deliberation
  - Instead of global rules that try to harmonize on substance
  - Key principles: transparency, accountability, representativeness, use of scientific/economic evidence
  - Legitimize national differences in regulatory structures, subject to procedural safeguards that ensure high-quality deliberation
    - Some WTO agreements already have that flavor (SPS); some are based on harmonization model (TRIPS, AoS, ...); some specify procedures that are poorly designed (AD)





# Economizing on global governance: where the gains aren't

- ▶ Doha Round (or any other round built on the “exchange-of-market-access” mindset)
  - Declare victory and walk away
- ▶ Harmonization of financial regulations
  - Risk of lowest common denominator and/or inappropriate standards



# New traffic rules for the world economy

- ▶ Countries have the right to protect their own social arrangements and institutions
  - But not to impose them on others
- ▶ The objective of international economic arrangements must be to attain the maximum “thickness” in economic transactions (in trade and investment flows) that is consistent with maintaining space for diversity in national institutional arrangements.
  - Enable like-minded countries to deep integrate
  - When deep integration is not feasible or desirable, rely on traffic rules to manage interface among national institutional arrangements
- ▶ These traffic rules must create “policy space” to allow:
  - rich nations to provide social insurance, address concerns about labor, environmental, health, and safety consequences of trade, and shorten the “chain of delegation”
  - poor nations to position themselves better for globalization through economic restructuring
  - all nations to create financial systems and regulatory structures more attuned to their own conditions and needs

