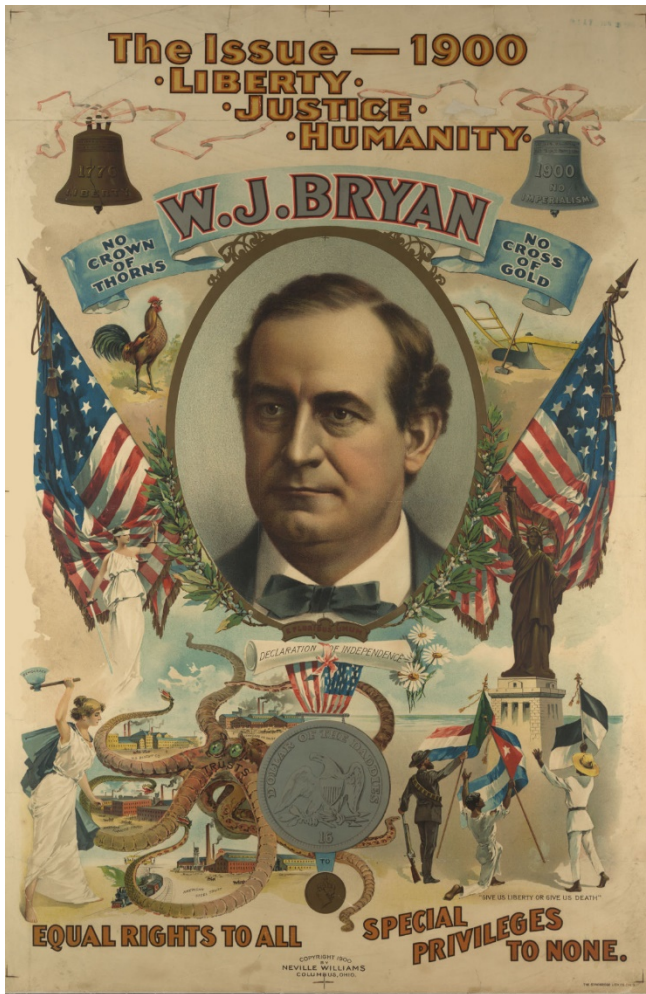


GLOBALIZATION, POPULISM, AND INCLUSION

Dani Rodrik

December 2018

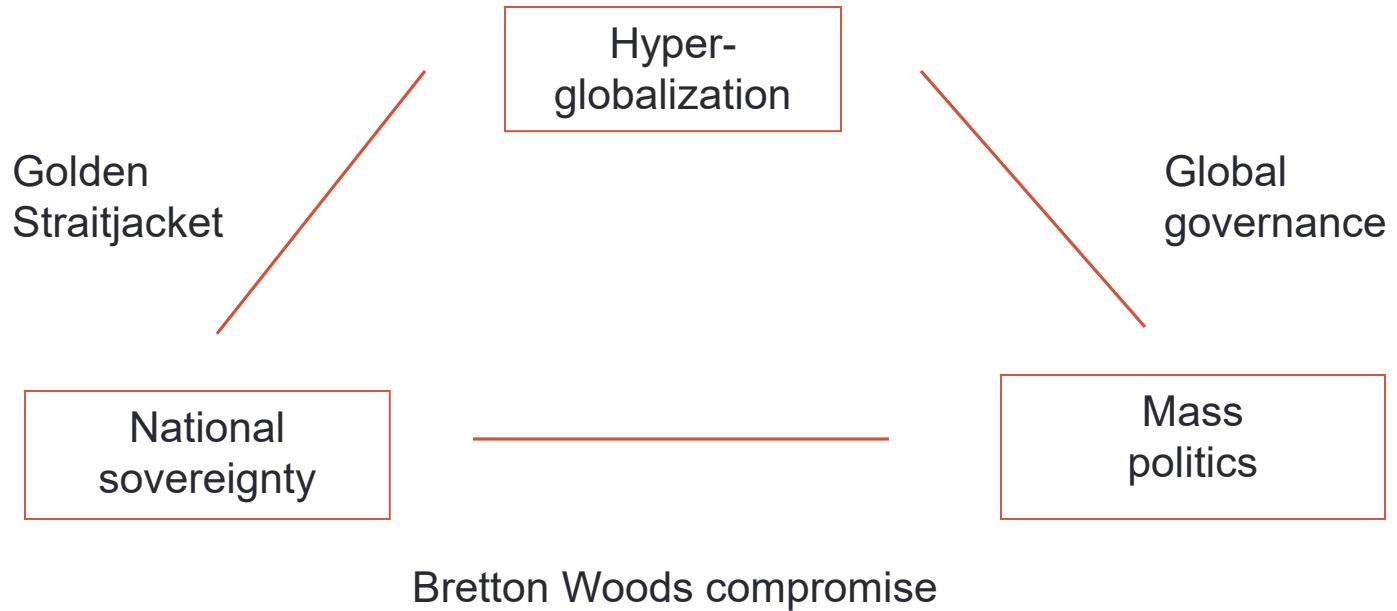
The long history of populism as backlash to globalization



“...we shall answer their demands for a gold standard by saying to them, you shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold.”

William Jennings Bryan
(1896)

The political trilemma of the world economy



Pick two, any two

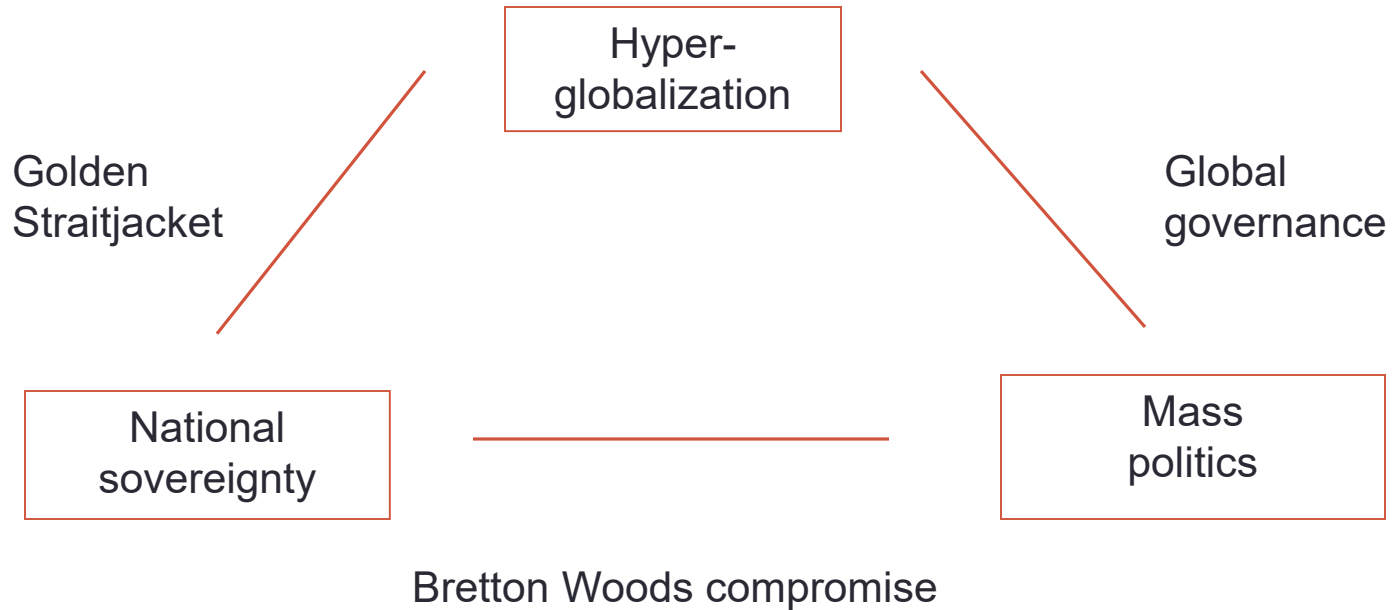
Consequence of:

- Markets need to be embedded in institutions
- There are multiple ways of constructing those institutions
- In democracies, institutional choices reflect electorate's preferences
- Differences in national institutional arrangements create cross-border transaction costs

The (subtle) tension between democracy and globalization

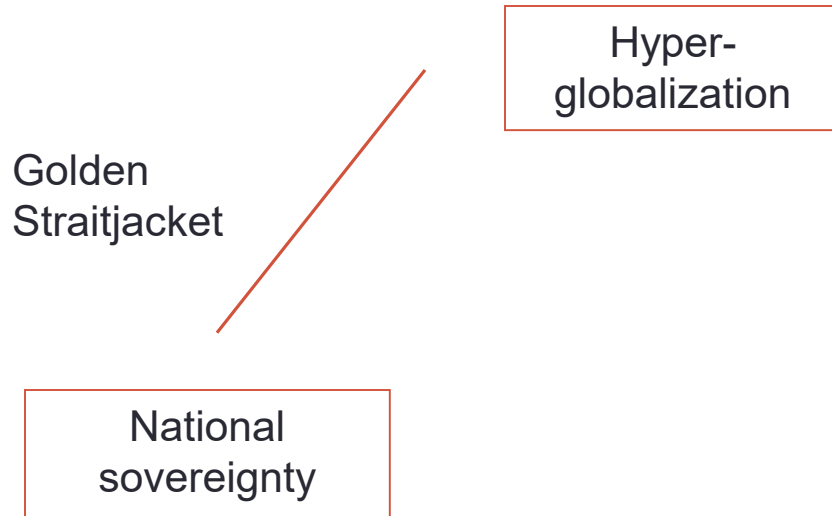
- Global rules constrain domestic policy space, but this on its own does not undermine democracy
 - the principle of democratic delegation
- Global rules can enhance performance of democracies by:
 - limiting power of special interests
 - enhancing the quality of democratic deliberation)
- But need not do so. How can we tell difference?
- Distinguish between
 - global rules designed to address genuine problems of democratic polities (commitment, time-inconsistency)
 - global rules that strengthen bargaining leverage of special interests over the rest of society, undermining social contracts

World economy through prism of a trilemma



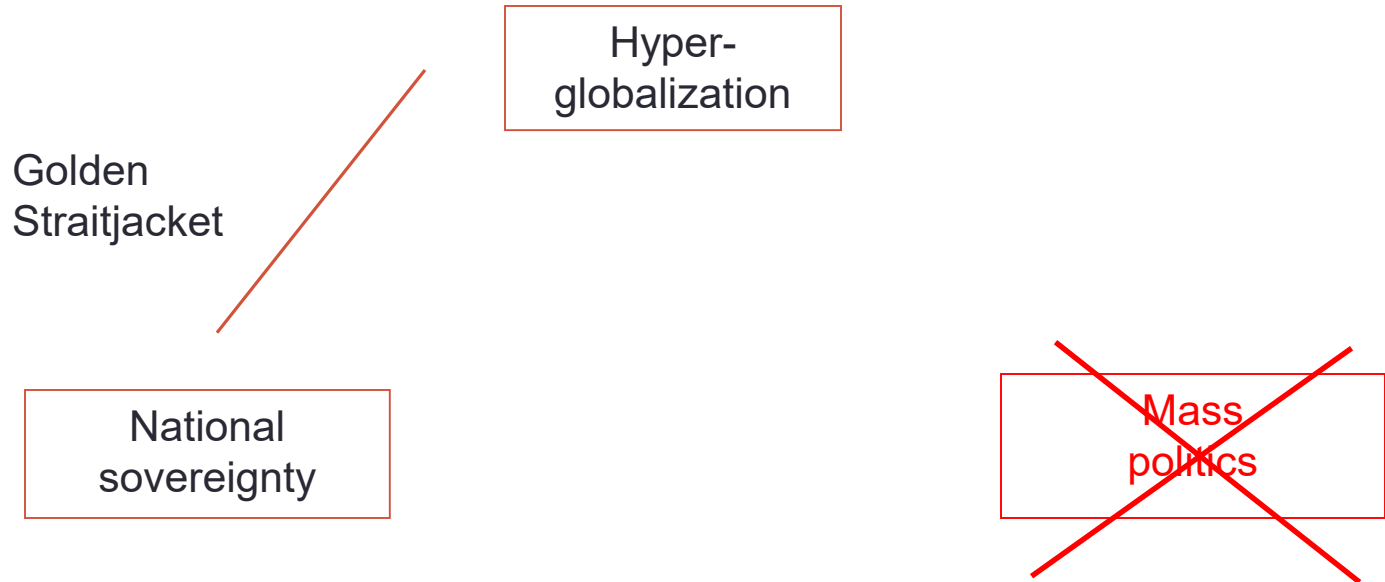
Pick two, any two

The history of globalization viewed through the prism of the trilemma



The Gold Standard model: narrow domestic “policy space” in macro, financial, tax, structural and other domains to minimize impediments to free flow of capital and goods

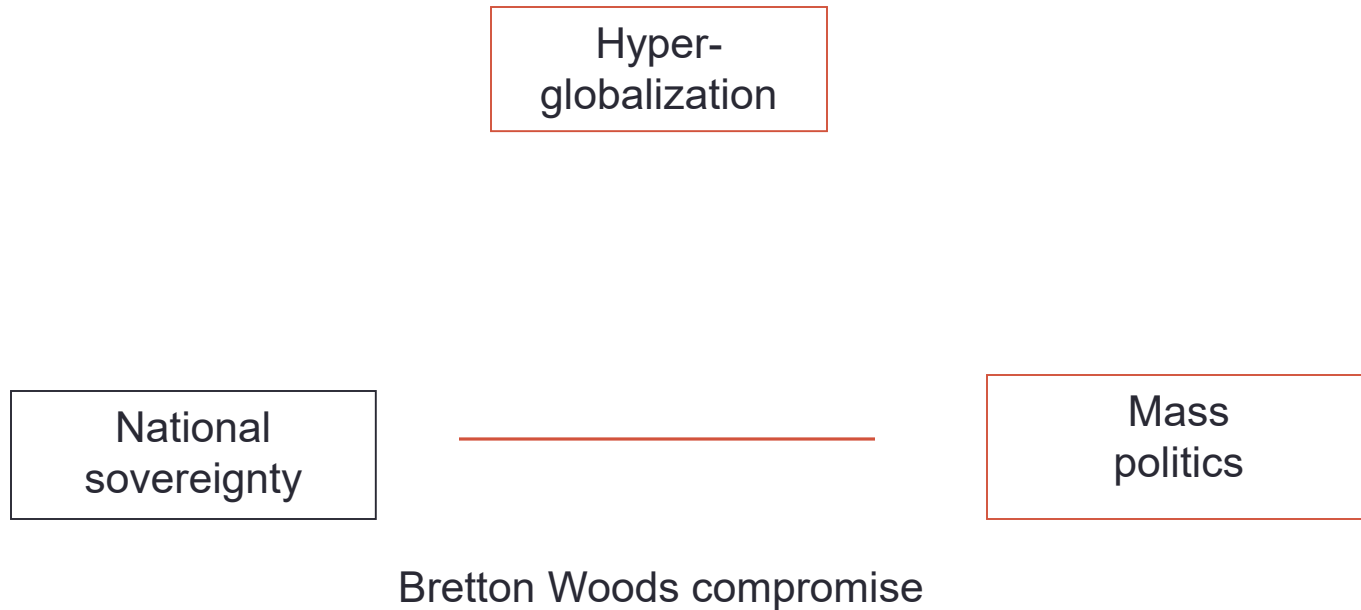
The history of globalization viewed through the prism of the trilemma



Problem: historically, this model has not been compatible with democracy (Great Britain 1931, Argentina 2001, Greece today?)

Thomas Friedman's Coke and Pepsi analogy

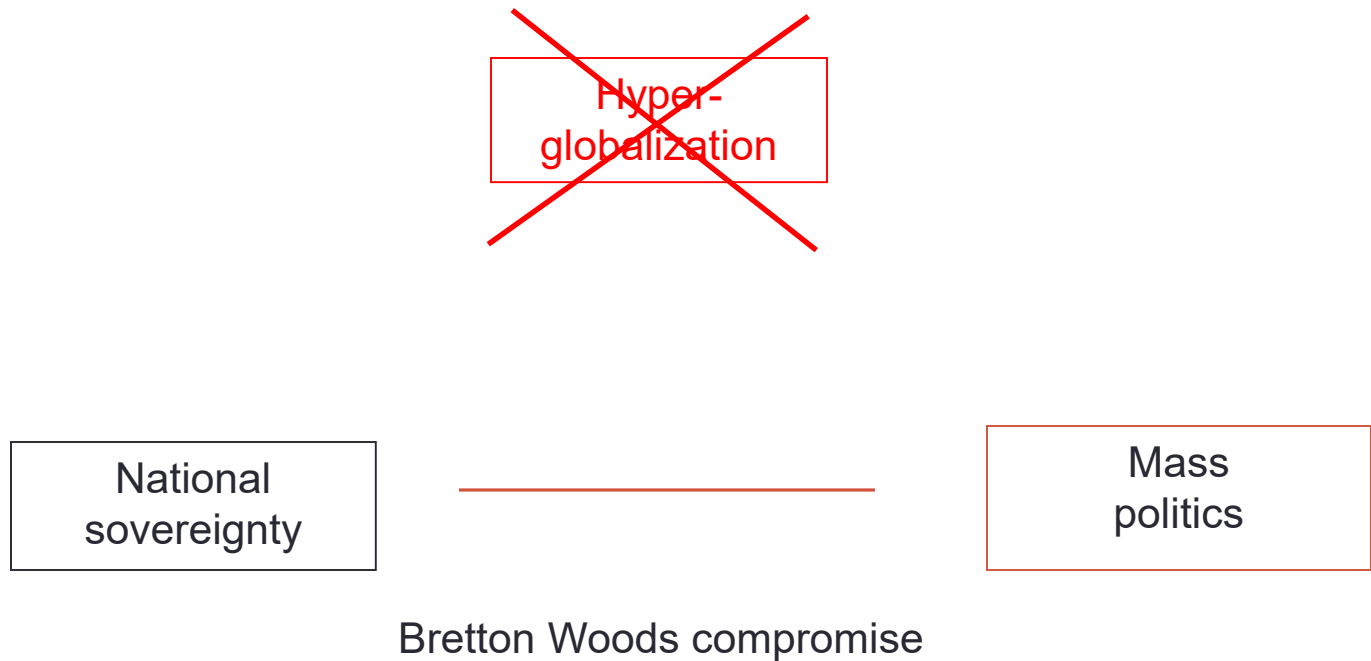
The history of globalization viewed through the prism of the trilemma



The Bretton Woods compromise: maximize democratic legitimacy at home

Keynesian macro policies + welfare state + economic restructuring

The history of globalization viewed through the prism of the trilemma



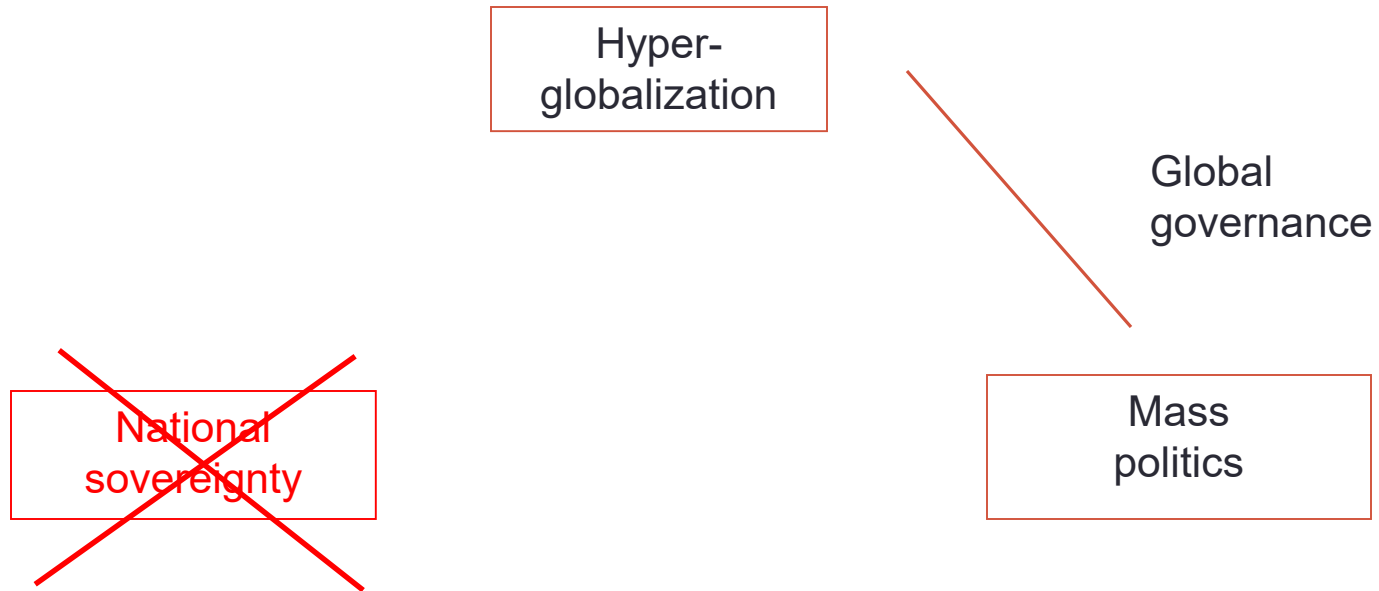
An explicitly *incomplete* globalization:

Keynes and capital controls; The GATT model in trade

The post-1990s movement towards hyper-globalization

- Traditional model of trade liberalization/trade agreements (GATT/IMF)
 - tackling restrictions at the border, limited scope, w/ compensation
 - export-oriented groups as counterweight to domestic protectionists and means
 - capital account management
 - policy space, autonomy for each national developmental model
- The hyper-globalization model (WTO, FTAs)
 - tackling behind-the-border “restrictions;” capital mobility, deep integration, (necessary) decline of compensation
 - international firms and banks as the new rule and agenda setters
 - approach predicated on ultimate convergence of economic models
 - globalization as the end rather than the means

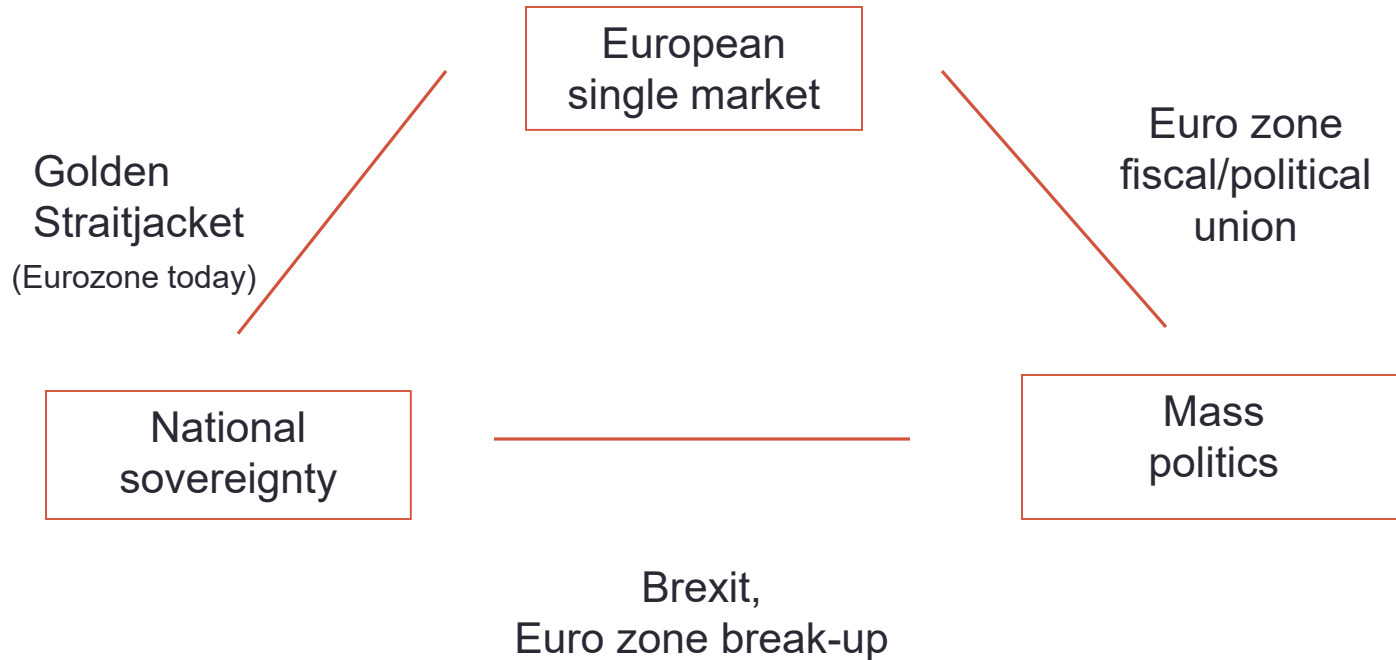
The history of globalization viewed through the prism of the trilemma



A third alternative: “global governance”

Requires significant restraint on national self-determination and reduction in regulatory, institutional, and policy diversity

The political trilemma of the world economy: euro zone version



Pick two, any two

Why are Populists winning?

- “Because they are the only ones telling the truth about the trilemma”
 - centrist political leaders have long maintained you could eat your cake and have it too
 - claiming they retain control while periodically hiding behind trade agreements and global competition
 - populists are clear and upfront about their preference for national sovereignty (and popular democracy) over hyper-globalization
 - this preference is matched domestically typically with a nativist domestic agenda
 - though it can (and should) be matched with a progressive, inclusive agenda as well
 - the New Deal example

The Roots of Populism

- Economic explanations
 - globalization, austerity shocks
 - income distribution, unemployment, economic anxiety
- Cultural explanations
 - nativism, anti-immigrant sentiment, racism
 - conservative backlash against social liberalism

A reconciliation

- Demand for populism
 - economic stress and anxieties
 - social, cognitive divisions in society driven by globalization, technology
- Supply of populism
 - right-wing narrative
 - nativist, ethno-nationalist
 - left-wing narrative
 - targeting banks, corporations, austerity, trade deals

Remedies...

A thinner but more sustainable globalization

- New traffic rules for world economy: greater policy space
 - to address inequality at home, while providing room for poorer countries to devise their own growth strategies
 - developed countries (e.g. US): reconstitute domestic social contracts through appropriate tax, social, and labor-market policies
 - developing countries (e.g. China): economic restructuring policies to sustain and speed up growth
 - from “exchange of market access” to “exchange of policy space”
- Focus global governance where economic gains are large
 - cross-border labor mobility
 - international coordination on tax havens

Re-integrating domestic economies

- Productivist economic policies
 - shift in focus from finance to middle-class jobs
 - public investment in infrastructure and skills
 - regional policies
 - “new industrial policies” connecting frontier firms with rest of economy
 - egalitarian tax policies
- New responsibilities for business elites: from globalism to social solidarity
 - quid pro quo: investment in local suppliers, communities, and workforce in return for government support
- New responsibilities for political elites
 - governance that prioritizes domestic stakeholders over footloose companies, financial institutions, and professionals
 - possible exception in Europe, if there is true fiscal/political integration...

Conclusions

- International economic integration has produced domestic disintegration
- Reconstructing healthy polities requires a reintegration of domestic economy and society
 - a reordering of priorities between the domestic and the international
- History suggests a dose of (economic) populism may well be necessary
 - economic populism can sometimes forestall its much more damaging cousin, political populism