



The Globalization Paradox: Democracy and the Future of the World Economy

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Surveying three centuries of economic history, a Harvard professor argues for a leaner global system that puts national democracies front and center.

From the mercantile monopolies of seventeenth-century empires to the modern-day authority of the WTO, IMF, and World Bank, the nations of the world have struggled to effectively harness globalization's promise. The economic narratives that underpinned these eras—the gold standard, the Bretton Woods regime, the "Washington Consensus"—brought great success and great failure. In this eloquent challenge to the reigning wisdom on globalization, Dani Rodrik offers a new narrative, one that embraces an ineluctable tension: we cannot simultaneously pursue democracy, national self-determination, and economic globalization. When the social arrangements of democracies inevitably clash with the international demands of globalization, national priorities should take precedence. Combining history with insight, humor with good-natured critique, Rodrik's case for a customizable globalization supported by a light frame of international rules shows the way to a balanced prosperity as we confront today's global challenges in trade, finance, and labor markets.

The Globalization Paradox: Democracy and the Future of the World Economy Details

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Alex says

Rodrik configures a triangle: "hyperglobalization," democracy and national self-determination--and posits that only two of the three corners of the triangle can hold. Given the impossibility of a system of global governance, the choice is either to eliminate democracy and ignore domestic interests in favor of a global laissez-faire economic policy with liberalized trade as well as finance, or to reduce the ambitions of globalization, being content with the liberalization of trade to date and slowing down the flow of "hot money" which has led to speculation and economic instability in many countries. Rodrik tends to idealize the Bretton Woods era as one where nation-states were free to act as they needed in order to maintain domestic stability and build the welfare state. There is a lot of truth to this description, and the loss of national autonomy that has characterized the international system since the 1980s is regrettable. However, Bretton Woods was built on both a "baby boom" in Europe and the US as well as postwar political conditions that no longer hold today. In that sense, while Rodrik is able to argue convincingly that the merits of financial liberalization are dubious at best--in particular due to the lack of global governance and market support structures--and that trade liberalization may have maximized its value and there is little to gain from pressing ahead, the weakest part of the book is Rodrik's prescriptions for the future. Having almost simultaneously read the (more conservative) Paul Collier's "The Bottom Billion," it is also notable how many African countries in particular were left out of the gains of the postwar era and have failed to realize the benefits from trade, which could perhaps benefit from certain (though by no means all) additional liberalization or compensation policies.

Rodrik's core message is that the economics cannot be separated from the politics, and markets cannot succeed without a strong state and strong market institutions; that globalization and its related changes hurt many people, permanently, regardless of what its advocates say, and these effects must be considered; and that therefore, in order to attain growth that is compatible with national sovereignty and democracy, we must commit to "thin" globalization that is customizable to countries' needs. The message--that economics alone do not and cannot serve as a substitute for policy judgment--is forgotten every few generations. The global economic system, and the European Union in particular, have provided clear examples of the perils of overliberalization without credible market enforcement institutions and the failure to take into account domestic political constituencies.

Ariane says

I really wish I could give a 3.5 in Goodreads: I liked this book for more than a 3, but probably less than a 4.

Overall, I'm quite happy I read Rodrik's book. It's very well written, even entertaining (I have to say that it made me laugh a lot while reading) and enjoyable. This is not often the case when it comes to this kind of books.

What I liked most about it was its critical reflection of globalization. The historical perspective is very well constructed and makes a very convincing case for being cautious about globalization or free trade as an end in themselves. I liked that and I would even say it has changed to some extent my way of viewing things.

I didn't like so much, though, the way in which conclusions were drawn from this analysis. Even if the "Trilemma" seems quite appealing for me as an idea, I didn't really feel it was the natural conclusion of the facts presented. Also, while the dangers of hyperglobalization are quite well presented in the book, there is little (if any) mention to the dangers of state intervention or national governance: I can't recall, for example, reading the word "corruption" throughout the analysis. SO yes, I may be more convinced now than before that hyperglobalization is not a good thing, but I'm equally skeptical about the wonders of national (and especially non-democratic) governments.

Finally, the book stresses (a lot) how happy and well we all were under Bretton Woods, as it also stresses what a great model of growth are countries such as China. I kind of missed on those examples the same criticism towards non-economic circumstances that arises when the author speaks about the evils of free trade.

I may sound a bit too critical, so let me recall that I did enjoy the book. A lot. And that I'd recommend it to anyone interested in the topic of globalization nowadays.

Kirsten says

This book is pretty much what my macroeconomics professor was trying to teach me, but much more interesting. The author does a nice job explaining some very complex topics in a way the lay reader can understand.

Mehrsa says

Unique among academics, Rodrik writes in order to be understood and is humble in his outlook. This book is an excellent read and an essential one. We can't have complete free trade, not capital controls and expect robust democracy too. Something has to give. Rodrik offers three solutions: more modest trade, limits on capital controls and allowing for more domestic control of the rest. The other options are global governance regimes or we say good bye to democracy. Every policymaker, especially in the developing world should read this book. It's especially good in its analysis of the economic profession, especially through pointing out some of his colleagues' hubris and hedgehog-ness about trade and free market fundamentalism

Dawei Liu says

Rodrik gives a nuanced and well researched argument into why he believes unfettered globalization in its current form doesn't make sense. He presents his argument well and overall, I supported his viewpoint. Most of the chapters in this book are well-written, however, Rodrik's biggest problem is the way in which he attacks other academics (especially fellow economists) and commits a large part of the book into a huge "I told you so". This sort of polemical argument draws away from this central theme, especially his unique realization of the trilemma faced by developing countries today.

Rishabh Kabra says

This book tries to go after the following question: "if we want to increase our economic growth, should we throw ourselves open to the forces emanating from the world economy, or protect ourselves from them?"

Rodrik puts forth nuanced arguments suggesting countries have lost much as they opened themselves.

I'll start with the merits of the book and the author's arguments:

1. He sets the stage well, opening with Hudson's Bay, the world's first joint stock trading company. He goes on to explain everything from Corn Laws to the gold standard and Keynesian economics to recent financial crises.
 2. The author's writing shines when he makes lists. The best example is his list of areas where "hyperglobalization impinges on democratic choices," namely: labor standards ("who can work, the minimum wage, the maximum hours of work, the nature of working conditions, what the employer can ask the worker to do, and how easily the worker can be fired"), corporate tax competition, health and safety standards, regulatory takings, and industrial policy in developing nations. Other small examples are the lessons different economists could walk away with given South Korea's growth story, and the list of steps that underscored the legitimacy of national governments in the wake of the crisis of 07-08.
 3. He eloquently summarizes the key consequences of the deep model of globalization on:
 - a. Development: "By restricting in the name of freer trade the scope for industrial policies needed to restructure and diversify national economies, it undercuts globalization as a positive force for development."
 - b. Democratic arrangements: "There is a fundamental tension between hyperglobalization and democratic politics. Hyperglobalization does require shrinking domestic politics."
 - c. Institutional underpinnings: "One [of the blind spots in the vision that hyperglobalizers offered] was that we could push for rapid and deep integration in the world economy and let institutional underpinnings catch up."
- At the very least, the author succeeds in arguing that "globalization on its own does not generate [technological] capabilities; it simply allows nations to leverage better those that they already possess."
4. Aside from critique, he offers his approach to constructive economic policy: "The trick is to identify the most binding constraints that prevent entrepreneurs from investing in the modern industries and services that fuel economic growth." He emphasizes that poor countries don't need to address their "multiple shortcomings" all at the same time and endorses a fox's approach.
 5. A couple of points he makes deserve special mention:
 - a. He argues convincingly, although without much evidence, that when trade is already pretty free, reducing barriers further produces much larger economic dislocation than net economic gain. It is the only time in the book he resorts to a mathematical model from textbook economics.
 - b. His point about opening labor markets to unleash larger gains than freer trade was appealing. He blueprints a program to bring temporary migrants to rich countries and cites World Bank figures estimating \$360 billion of gains to the global economy. I would certainly not have said no to more proposals and their expected gains throughout the book.

But here's why I think the book deserves only three stars:

1. Some of the author's rhetorical devices are just ridiculous:
 - a. The epilogue ("bedtime story for grown ups") is offered as a deeply meaningful parable. Collecting tolls on the main road out of the village would allegedly solve all the local fishermen's worries. But does it in fact solve the local fishermen's profitability woes from foreign competition? When they also pay high taxes in their own village (to compensate the weavers), while paying the same price to fish in the lake (i.e. nothing)

and to use the road as foreign fisherman, why shouldn't they move elsewhere?

b. The author's Mauritius story is misplaced and weak. He ends the story saying, "Mauritius... faces the challenges of the next stages of diversification. The garment sector can no longer propel the economy forward... Boosting growth requires a new strategy" Then why do we spend time hearing about Mauritius and its past success at boosting exports via active intervention?

c. Traffic rules analogy: as he espouses thinner globalization, the author suggests that "we need traffic rules that help vehicles of different size and shape and traveling at varying speeds navigate around each other, rather than impose an identical car or a uniform speed limit on all." There's very little value in this analogy because it oversimplifies the argument. This is clear if we map the components of the author's trilemma (nation states, democratic politics, and globalization) to this analogy. Say

i. A nation state is a cohort of vehicles traveling on a road that can bargain collectively.

ii. Democratic politics is the process of deciding, within a nation state's cohort, who gets to travel in which vehicles, and how much of the nation's fuel they get access to.

iii. Globalization is the process of traveling fast on the road by buying faster vehicles from advanced players, selling them fuel, and agreeing to travel per the rules of the fast players instead of constructing one's own roads and vehicles.

Now it is even harder to see what is wrong with hyperglobalization and free trade. The analogy merely clouds the author's central message.

2. The author seems to have a populist bias that is neither informed nor informative e.g. "The opportunity gap [between skilled workers and less workers with fewer skills] reveals a certain dark side to the clamor for global governance. The construction of transnational political communities is a project of globalized elites attuned largely to their needs." Firstly, this directly contradicts with his positive rendition of Latvia's experience in the crisis, in whose case, freedom of movement within the EU acted as a "safety valve" to take the pressure of a Latvia's then uncompetitive economy. Secondly, it also contradicts with the author's calls for labor market liberalization as a source of gains for the world economy. To simultaneously claim that a global identity and the freedom to move are a project of the elite as well as a boost to economic security and productivity is a serious gap in reasoning.

He also uses Netville as an example to assert that "distance matters" and arrive at the conclusion that "our local attachments still largely define us and our interests." With this sweeping, unwelcome generalization, I can only explain some of the author's protectionist arguments as strong biases.

3. The author backs democratic politics within national borders as a magical solution to a variety of problems. He argues it is the only way to determine when free trade makes sense (over protectionism/industrial policy): "Democratic politics is messy and does not always get it 'right.' But when we have to trade off different values and interests, there is nothing else to rely on." Neoliberals and hyperglobalizers typically counter-argue that democratic politics does not offer effective tradeoffs between values/interests and economic efficiency; that unless trade is free, there is always wasteful investment.

I start to feel uncomfortable when Rodrik further argues that democracies should be able to preserve domestically agreed distributional bargains. Democratic politics is largely a fight over a pie that grows at a well-defined rate. Preserving distributional bargains tends help the rich get richer and deprive the poor of opportunities to rise, just as (the author himself claims that) globalization currently helps rich industrialized nations maintain their advantage over resource exporting nations. So why don't we focus on redistributing the gains of globalization and trade more fairly instead of defending the right to maintain status quo?

The author is also a bit delusional about the extent to which we can rely on democracy to protect from protectionism. He suggests "when social safeguards pose serious threat to poor countries... non-governmental organizations and other groups may mobilize against the proposed opt-out, and those considerations may well outweigh ultimately the costs of domestic dislocations." He further suggests that labor unions "are much less likely to carry the day against countervailing domestic interests when foreign working conditions reflect poor productivity rather than repression of rights." Does he in fact not know any case when democratic discussions can be hijacked by interest groups? A single look at the guns lobby or

airline oligopoly in America is enough to poke holes in this argument.

Lastly, I don't agree with the author's stance on taking away non-democracies' leeway in trade negotiations. Countries have a right to organize themselves as they like. They shouldn't be bullied to give up their politics systems. It is the only way diversity and natural selection can prevail.

4. Rodrik's most significant policy proposal in the book, that trade deals should come with flexible opt-outs, is far from bullet proof. He tries to appeal to the fact that both players in a trade deal have an incentive to participate, unlike participation in environmental programs where everyone has an incentive to free-ride. But how does he expect that unilateral opt-outs can sail through without retaliation? One opt-out could lead to the disintegration of a whole deal via retaliatory triggers. The whole point of a deal is the bundling of benefits and non-benefits.

Rodrik tries to cherry-pick the past in his defense: "if mechanisms explicitly designed to facilitate protectionist barriers, such as the anti-dumping rules of the GATT, have not destroyed the multilateral trade regime thus far, it is not clear why well-designed exit clauses would have consequences that are worse." This is a non-argument as the circumstances of GATT have little relation to the present.

The naivete of Rodrik's suggestion in the final chapter that China should take opt-outs from rich importing nations "in its stride" as regular maintenance to the system exposes the weakness of this mechanism. Overall, my impression is that figuring out the means to deliberalization are less important to Rodrik than the end itself.

5. He is also slightly self-aggrandizing as he recounts being invited to South Africa to scope industrial policies, a pointless story given South Africa's economic situation has barely improved. But I didn't expect less from a Harvard economist.

Ultimately, it seems that the author's chief inclination is to partly rollback the world's trade regime, so that "advanced countries could seek temporary protection against imports" to preserve democratically agreed standards and distributional bargains and "poor nations might be allowed to subsidize industrial activities... aimed at stimulating technological capabilities." Everyone could also be happier about reclaiming their sovereignty and policy space. What the author tries to propose as democratic mechanisms to achieve this rollback are questionable at best. But in the absence of better justification of the benefits of hyperglobalization from its proponents for everyone involved, I am happy to accept that a bit of creative destruction won't hurt. If anything it could help produce a better model for globalization.

Vineet Tandon says

The central idea behind this book that - governments need to intervene in order to optimise / balance outcomes delivered by free markets - is best presented by Hyman Minsky as brilliantly detailed by L Randall Wray in his book 'Why Minsky Matters' .

The shallowness of this book, which covers the ideas of various economists who have worked on this subject is best revealed by the fact that in this entire book Hyman Minsky is not mentioned even once.

Shocking !!!

Andreas says

It took me more than two months to finish this short-ish book, so I wouldn't call it a pageturner, but it did me

teach me a lot about international economics, trade agreements and sovereignty issues. I would recommend it to anyone trying to make sense of the whole CETA-TTIP affair and the current backlash against hyperglobalization.

Zöe Yu says

Well written. One important point, from all the other political books, this book is outstandingly clear and to the point.

Ed Terrell says

"When domestic needs clash with the requirements of the global economy, domestic needs emerge victorious .."

So what is globalization about anyway? In three words: "Minimizing transaction costs". Trade is accomplished basically in three ways: Long term relationships, belief systems and third party enforcement. You need something to ensure the next guy isn't going to screw you. Contrary to what we may have thought, globalization didn't start in the 1980s but rather has been around since steamships and telegraphs. This was followed by the narrative of Adam Smith and David Ricardo and the relaxing of trade restrictions. Rodrik does an admirable job of defining the history in which these major changes came about. From the gold standard, and protectionism to the Reagan/Thatcher years, globalization grinds its way ever forward to GATT and the WTO.

I came to this book, a free market advocate, but having read it and digested its lessons of history, I, like Keynes, am willing to say ""When the facts change, I change my mind. What do you do, sir?". If we look at the historical facts, as Rodrik suggests, then we can come to only one conclusion. That is, that the success stories of the world such as South Korea, Taiwan, China succeeded in large part in different manners because the problems they were solving were different. It isn't a one size fits all solution.

International capital markets due to short term speculation can lead to financial panics. For the US, by 2007, \$3.2 trillion daily foreign currency transactions are 100x the volume of daily trade (\$38 billion). OK, thats nothing to sneeze at. Capital control may be a good thing.

David Donaldson says

This book helps explain a lot of the hostility we've seen this year with Brexit and Trump, I think: Rodrik argues we can't have hyper-globalisation, democracy and national self-determination all at once; only two of three is sustainable. So rather than pushing for very high levels of economic integration that minimise states' ability to respond to what the people want -- restrictions of the type pushed through free trade agreements, the World Trade Organization and so on -- it's more sensible to aim for an updated version of the Bretton Woods system -- 'thin' integration that recognises different countries want different things out of globalisation and will impose different social, environment and safety standards. Rather than seeing national restrictions on imports or capital movement that protect labour or financial standards as a failing, Rodrik argues we should see these as necessary to the preservation of the benefits of globalisation. He also makes

the case that pushing developing nations to adopt the kind of open economy policies of developed countries is harmful in many cases, and that a contextual, pragmatic approach is preferable to a standardised 'shopping list' of reforms.

Gumble's Yard says

Cited as one of the few economics books which predicted the recent upheavals such as the rise of Trump, Sanders and particularly the Brexit vote, Rodrik's Central thesis is what he calls the political trilemma of the world economy - that it is possible to have any two of hyper-globalisation, democracy and national self-determination but not all three. He concludes that global government for now is a largely utopian dream (hence ruling out the dropping of the national state).

He characterises much of politics in the recent Washington consensus years as the golden straight jacket, a model which he also ascribes to the gold standard pre-World War I years and to (in a different guise) the years of mercantilism and imperialism in the 17th and 18th centuries. As a keen fan of democracies he explicitly rejects this model (although not to the extent of its rejection by voters since the book was written) and argues for what he calls the Bretton Woods compromise - a version of the post-World War 2 settlement which he asserts led to the greatest growth the world has ever seen and still largely is the way in which China engages in globalisation - where some constraints are imposed but where countries are free to impose their own democratic customs in areas such as labour standards, health and safety and consumer protection, the social compact, industrial policy and (in fact an area he actively encourages) in imposing constraints on capital flows.

Much of the book lays the groundwork for this thesis and conclusion and also presents the author's very firm views on globalisation and on related topics.

These include: a rather naive but firmly expressed view in the importance of economists and their ideas and hence the danger when groupthink ends with them making wrong conclusions as he believes has been the case in their public if not private un-nuanced support for free trade; a view that markets and states are not just not incompatible but that a firm state is essential for the prosperous operation of free-trade, establishing and enforcing rules of conduct to reduce transaction costs, setting up safety nets for those disadvantaged by trade - this in itself leading to the conclusion that successful global trade could only work with global government; a strong argument based on empirical research that contrary to what is assumed to be the case the overall benefits of free trade measures to economies (particularly incremental improvements to free trade given the already fairly open global economy) are dwarfed by the redistribution effects they produce, a situation exacerbated because unlike technological improvements the effects (both positive and negative) tend to be on the same groups of people every time; a damning if not fully argued evaluation of the effects (follies in his view) of financial globalisation - and dangers of free capital flows which have added instability to countries without compensating benefits.

Overall an excellent book, easy to read and coherently argued despite presenting an original view.

The only weak part is the end where the author presents what he calls Capitalism 3.0 (after the mixed state/markets part globalisation consensus of the Bretton Woods years and the globalisation pro-markets view of the years up to the financial crisis) and sets out plans for a sane globalisation. This part becomes rather idealistic and short on detail envisaging a world where opt outs from free trade are permitted where a country can clearly show it reflects the democratic consensus in their country (which he believes will only

lead to sensible and justifiable opt outs), where democracies are given preference.

Most idealistically of all (and showing that he was not in fact an economic prophet of Trump and Brexit) he argues that the one area which can unequivocally benefit from greater globalisation is freedom of movement of labour flows by a system of mass temporary work visas.

Jonathan Biddle says

Rodrick's trilemma states that we cannot simultaneously pursue democracy, national determination, and economic globalization. We can hold a maximum of two factors at the same time. Holding onto democracy and economic globalization and eliminating the nation state is the ideal solution. In this scenario, everything from labor to goods to capital flows would be released to move freely without barriers. A world economy functioning as the United States would be much more efficient at distributing labor and shocks. At this point, nevertheless, in our history, this solution seems to be no more than a pipe dream. Most people are not ready to give up their national identity for an international order. The differences in values, culture, and geography are so great across the world that uniting everyone under an international organization is impossible.

The second choice, national det. and econ. globalization, are what the world seems to be presently pursuing. The goal is to gain the benefits from absolute and comparative advantage while still retaining control over local policies. This option looks good on paper and is ideal from the political perspective, but it does not seem to be possible in the real world. When globalization extends to the global financial sector, the reduction of barriers actually increases instability. For globalization to continue to succeed, international controls on capital would be required, thus requiring nations to give up more of their rights. The swift flow of capital in and out of countries. However, because of the great disparities across the globe, international rules could not be agreed upon nor enforced without peoples giving up their freedoms. Even today's attempts are excruciatingly slow. In short, these two are not compatible because the rules of economic globalization pander to the rich countries who made them and can hurt poorer, developing countries.

Retaining democracy and national determination at the expense of full globalization is Rodrick's choice. This option preserves what most people who are having this conversation hold dear: personal freedom and national loyalty. Rodrick explains that the benefits we would gain from even more globalization are small in comparison to the freedoms that we would lose. His key point is that having a thin layer of international rules while holding democracy and national determination is actually a better globalization. This suggestion runs the risk of being derailed on what rules should be in that "thin" layer. For this suggestion to work, rich countries will have to give up a lot more of their pet policies than they have been willing to in the past and allow flexibility. The perennial question of who makes these rules will be difficult to answer.

I appreciate that fact that Rodrick's approach takes the world as it is, not how one wishes it was. The benefit is that his suggestions are workable in today's environment, not some future utopia. The present world is divided by language, different values, and geography, and supporting democracy and national determination at the expense of globalization makes sense. The downside, however, is that concessions we make today could enshrine backward ways of looking at the world into tradition that is hard to escape. Although I support Rodrick's policy suggestions, I think we still need to be constantly pushing forward toward a globalized ideal. Financial controls may be the last thing to go, if ever, but in our efforts to be realistic we

should not lose sight of the goal. The policies we make today should have clauses in them that make it understood that the goal is eventually discard them in favor of global governance. These thin layers of international rules should encourage regional trade unions that head the same direction the EU is (supposedly) heading. Maybe those regional unions could one day unite to form a better world.

Cyrus Carter says

A highly accessible explanation of the pros and cons of globalization. Readable and chronological, the book explores the history of our increasingly globalized world and why our current questions have been asked throughout time. Importantly, it posits that it is essential that countries maintain their own values while developing a global outlook. No matter what you may feel about globalization, you will have your eyes opened by this pivotal piece. And I recognize that neither the US nor China is a bogeyman in the race to connect.

Venky says

Globalization first reared its tentative head, courtesy a revisionist package popularly known as the "Washington Consensus". The term was coined in 1989 by John Williamson and represented as its edifice three indispensable words: stabilize; liberalize; and privatize. Two and a half decades and a crippling recession later, the world is still coming to grips with the shock and awe impact caused by a rampant globalization that had its most fervent advocates fleeing for life!

In this compelling work, Dani Rodrik demonstrates with sincere zeal the perilous outcomes signifying the impact and encouragement of unfettered and unalloyed globalization. Drawing reference to what he calls the political "trilemma" of the World Economy, Rodrik articulates the difficulty of choosing globalization over democratic preserves and the cohesive building of a nation state. Calling for a balanced approach to free market theory and interventionist measures, the author advocates the embracing of what he terms "sane" globalization, a system whereby national interests are not sacrificed at the altar of undisguised greed.

Cocking a snook at free market mavens, the author takes great pains to demonstrate the pernicious effects of ignoring the power of and the need for a nuanced state intervention. The Invisible Hand of Adam Smith at times has very visible adverse ramifications. Rabid free market proponents such as Jagdish Bhagwati of Columbia University would do well to read this work from cover-to-cover so as to realise their headstrong follies and ill-perceived notions.

"Globalisation Paradox" - A Universal wake-up call!
