

The Death of the Globalization Consensus

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A protester at the 2005 WTO meeting in Hong Kong. Photo by [fuzheado \(CC\)](#).

The world economy has seen globalization collapse once already. The gold standard era—with its free capital mobility and open trade—came to an abrupt end in 1914 and could not be resuscitated after World War I. Are we about to witness a similar global economic breakdown?

The question is not fanciful. Although economic globalization has enabled unprecedented levels of prosperity in advanced countries and has been a boon to hundreds of millions of poor workers in China and elsewhere in Asia, it rests on shaky pillars. Unlike national markets, which tend to be supported by domestic regulatory and political institutions, global markets are only "weakly embedded." There is no global anti-trust authority, no global lender of last resort, no global regulator, no global safety nets, and, of course, no global democracy. In other words, global markets suffer from weak governance, and therefore from weak popular legitimacy.

Recent events have heightened the urgency with which these issues are discussed. The presidential electoral campaign in the United States has highlighted the frailty of the support for open trade in the world's most powerful nation. The subprime mortgage crisis has shown how lack of international coordination and regulation can exacerbate the inherent fragility of financial markets. The rise in food prices has exposed the downside of economic interdependence without global transfer and compensation schemes.

Meanwhile, rising oil prices have increased transport costs, leading analysts to wonder whether the outsourcing era is coming to an end. And there is always the looming disaster of climate change, which may well be the most serious threat the world has ever faced.

So if globalization is in danger, who are its real enemies? There was a time when global elites could comfort themselves with the thought that opposition to the world trading regime consisted of violent anarchists, self-serving protectionists, trade unionists, and ignorant, if idealistic youth. Meanwhile, they regarded themselves as the true progressives, because they understood that safeguarding and advancing globalization was the best remedy against poverty and insecurity.

But that self-assured attitude has all but disappeared, replaced by doubts, questions, and skepticism. Gone also are the violent street protests and mass movements against globalization. What makes news nowadays is the growing list of mainstream economists who are questioning globalization's supposedly unmitigated virtues.

So we have Paul Samuelson, the author of the postwar era's landmark economics textbook, reminding his fellow economists that China's gains in globalization may well come at the expense of the United States; Paul Krugman, today's foremost international trade theorist, arguing that trade with low-income countries is no longer too small to have an effect on inequality; Alan Blinder, a former U.S. Federal Reserve vice chairman, worrying that international outsourcing will cause unprecedented dislocations for the US labor force; Martin Wolf, the *Financial Times* columnist and one of the most articulate advocates of globalization, writing of his disappointment with how financial globalization has turned out; and Larry Summers, the U.S. Treasury chief and the Clinton administration's "Mr.

Globalization," musing about the dangers of a race to the bottom in national regulations and the need for international labor standards.

While these worries hardly amount to the full frontal attack mounted by the likes of Joseph Stiglitz, the Nobel Prize-winning economist, they still constitute a remarkable turnaround in the intellectual climate. Moreover, even those who have not lost heart often disagree vehemently about the direction in which they would like to see globalization go.

For example, Jagdish Bhagwati, the distinguished free trader, and Fred Bergsten, the director of the pro-globalization Peterson Institute for International Economics, have both been on the frontlines arguing that critics vastly exaggerate globalization's ills and under-appreciate its benefits. But their debates on the merits of regional trade agreements—Bergsten for, Bhagwati against—are as heated as each one's disagreements with the authors mentioned above.

None of these intellectuals is against globalization, of course. What they want is not to turn back globalization, but to create new institutions and compensation mechanisms—at home or internationally—that will render globalization more effective, fairer, and more sustainable. Their policy proposals are often vague (when specified at all), and command little consensus. But confrontation over globalization has clearly moved well beyond the streets to the columns of the financial press and the rostrums of mainstream think tanks.

That is an important point for globalization's cheerleaders to understand, as they often behave as if the "other side" still consists of protectionists and anarchists. Today, the question is no longer, "Are you for or against globalization?" The question is, "What should the rules of globalization be?" The cheerleaders' true sparring partners today are not rock-throwing youths but their fellow intellectuals.

The first three decades after 1945 were governed by the Bretton Woods consensus—a shallow multilateralism that permitted policymakers to focus on domestic social and employment needs while enabling global trade to recover and flourish. This regime was superseded in the 1980s and 1990s by an agenda of deeper liberalization and economic integration.

That model, we have learned, is unsustainable. If globalization is to survive, it will need a new intellectual consensus to underpin it. The world economy desperately awaits its new Keynes.

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