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Straight Talk on Trade: Idea for a Sane World Economy

Dani Rodrik. Princeton and Oxford: Princeton University Press, 2017, 336 pages.
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In *Straight Talk on Trade*, economist Dani Rodrik discusses the danger of hyperglobalization – when the rapid expansion in world trade reaches beyond the boundaries of what the global political economy can sustain. He argues that the imbalance between economic integration and global governance is a root cause of many problems that the world faces today. The loosely structured yet insightful book is a collection of some of his recent essays on economics, politics, democracy and global governance. In these essays, Rodrik expounds many unconventional ideas across multiple disciplines that could lead to a healthier world economy.

Rodrik, a renowned Professor of International Political Economy at Harvard University, is known for his scepticism of unfettered international trade. He is among the few economists that warned us about the backlash of globalization as early as two decades ago. In his 1997 book, *Has Globalization Gone Too Far*, Rodrik first entertained the idea that globalization has not lifted all boats. Rodrik argued that globalization has exacerbated inequality between skilled professionals, who can take advantage of the global market, and unskilled workers, who find their jobs and livelihoods destroyed by cheaper imports from manufacturing powerhouses such as China and Mexico.

In his new book, *Straight Talk on Trade*, Rodrik explains how the world's leaders' fascination with economic integration abroad, coupled with their inability to address the challenges of globalization at home, have fuelled the rise of populism and anti-trade sentiment around the world. Governments' ineffective responses to the growing inequality between skilled and unskilled workers engendered a growing resentment towards globalization among the working class. Rodrik argues that right-wing populists, such as American president Donald Trump and 2017 French presidential candidate Marine Le Pen, were able to capitalize on this anger to increase their vote share amidst this escalating discontent.

Rodrik identifies a fundamental problem with hyperglobalization: the global market's rapid expansion is not matched with the emergence of strong global political entities to guide and safeguard it. Just as domestic markets need rules and nonmarket institutions to support them, a more integrated global market requires effective international rules and institutions to protect property rights and enforce contracts. Nevertheless, in today's world economy, global governance is still largely constrained by national sovereignty and domestic interests.

Rather than adhering to the conventional view advocating for more global rules and better international institutions to match the speed of economic integration, Rodrik proposes a controversial alternative: dialling down economic globalization to a point that the current world economy is able to sustain. Rodrik justifies this seemingly counter-productive proposal with well-reasoned arguments based on an incisive understanding of political economy and astute observation of historical development patterns. When global governance clashes with domestic priorities such as economic security, social stability and cultural identity, politicians have no choice but to place their domestic constituents' worries at the top of their lists. Otherwise, Rodrik argues, they face the threat of being replaced by another populist demagogue eager to capitalize on these worries for their own political gains.

Rodrik remains pessimistic that new forms of global governance can be developed or become strong enough to sustain the current level of economic globalization. Moreover, he argues that there are many different institutional forms to support the market and there is no clear sign of convergence in market supporting rules. Empirical evidence suggests that the countries that have effectively leveraged globalization to their advantage, such as China and Viet Nam, did so by adopting mixed strategies of export promotion, rather than strictly adopting the concepts of "free trade" enshrined in today's trade agreements. Rodrik proposes a light version of global governance that focuses on "laying down the traffic rules for managing the interface among national institutions." As Rodrik deftly explains, "What we need are 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."

Rodrik's controversial ideas are perhaps a product of what economists refer to as "theory of the second best". In an ideal world, the best option is of course having a fully integrated global market governed by homogenous institutions. However, in a world where communities differ in their preference for institutional forms and nation-states remain the most crucial players in regulating and legitimizing market transactions, the second-best option of reversing hyper economic integration might be the optimum solution. Rodrik envisions a pluralist world economy where nation-states retain sufficient autonomy to fashion their own social contracts and develop economic strategies tailored to their needs. "Such a rebalancing would leave plenty of room for an open global economy," Rodrik argues, "in fact, it would enable and sustain it."

Rodrik not only adds a dose of much needed healthy scepticism to our knowledge of globalization, he also does not shy away from criticizing his fellow economists from enabling or at least failing to prevent the backlash of globalization. Long have economists known the distributional effects of international trade, yet the idea that free trade makes everyone better off is still a consensus among most scholars. Their justification is that if labour is flexible and mobile between industries, or if governments can transfer income from the winners of international trade to the losers, everyone would be better off. Rodrik argues that this fascination with economic efficiency has clouded economists' vision and caused them to neglect real-world complications. He argues that their narrow focus on preferred models and the failure to stick to their discipline and training in public debates have precipitated their loss of credibility and prevented them from offering sound advice to policy makers.

Economists use models to predict what happens in the real world. These models are subject to various assumptions. When different assumptions are used, the models can churn out vastly different answers. As Rodrik notes, "there is virtually no question in economics to which 'it depends' is not an appropriate answer". In the years leading to the 2008 financial crisis, economists' tendency to favour models of efficient and self-correcting markets over those that generate warning signs resulted in inadequate government oversight over financial markets. Similarly, advocates of the Trans-Pacific Partnership trade agreement marshalled many economic models that showed massive benefits with relatively no cost to American employment and wages at the aggregate level. However, these advocates either discounted or simply ignored other models that predicted depressed American wages and elevated unemployment in import competing sectors. Such practices have become common among economists these days.

To restore public credibility, Rodrik argues, economists should make the limitations to their study more salient instead of fearing that negative results in their studies will be hijacked by protectionists. One good example can be found in Gilbert, Furusawa and Scollay (2016)'s working paper "The Economic Impact of Trans-Pacific Partnership: What have We Learned from CGE[1] Simulation?". In their concluding remarks, Gilbert et al. emphasize that the results of their study largely depend on the assumptions, but they also point out that if similar patterns emerge from a large number of modelling exercises with different underlying assumptions, those patterns will be accepted as robust. At the end of their paper, they present a table with all the CGE studies on Trans-Pacific Partnership to summarize each study's model and selected results.

Rodrik goes on to argue that the curriculum that one undergoes to become an economist focuses mainly on academic rigor and rarely includes training on how to choose among alternative models. Nonetheless, the ability to choose a different intellectual framework when circumstances demand it, and the ability to deliver clear scientific findings without pedantry or generalization, are much needed if economists want to continue being a relevant and reliable guide for the future. Such training could be valuable additions to economics programs.

Rodrik's final message is toward politicians and policy makers: "they should no longer hide behind technology or unstoppable globalization, and they must be willing to be bold and entertain large-scale reforms in the way the domestic and global economy are run." Without these reforms, the entire world will be

[1] CGE, or Computable General Equilibrium model, is a numerical simulation technique widely used to analyze the effect of regional trade agreements.

at stake. Rodrik paints a gloomy picture of the future, a world where developing countries struggle to identify sources of growth and developed countries face ever-increasing inequality and challenges to democracy. One can easily fall into despair when reading *Straight Talk on Trade*. However, in the age of blind optimism and misguided contentment, perhaps we could all use a little despair. As the American novelist William Faulkner said, "you cannot swim for new horizons until you have courage to lose sight of the shore (Faulkner, 1966)."

Bibliography

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