Book Reviews

Straight Talk on Trade: Ideas for a Sane World Economy

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Twenty years ago Dani Rodrik warned that too much openness and economic integration could result in a political backlash.[1] In this his most recent book he lays out his appraisal of the conflict he foresaw, a conflict that has seen the rise of populist political movements at home and abroad, movements broadly hostile to trade and immigration. Elements of the conflict include Brexit, border walls, and the election of a US president openly hostile to the institutions and rules on commerce long championed by leaders of both political parties.

In this book, Rodrik lays out his vision for how the world community can find a road that leads away from the current backlash, away from the demagoguery and right-wing populism. But this book is much more than a discussion of trade conflicts: Rodrik argues that economists' advocacy for what he calls "hyper-globalization" in trade and finance, and the attendant subordination of the nation state to global rules-making bodies, puts liberal democracy at peril. As such, this book is aimed at the economics profession, raising critiques both about the way we frame our models and the way we produce our voices in public debates.

Readers of Rodrik's work over the last two decades will find much that is familiar, though there is new light here, and as well the benefit of reading a longer, non-technical, narrative that is able to cover a lot of ground. The book consists of 316 pages divided into 12 well-written chapters and appendices; major contributions include a defense of flexibility in policy making for the nation state (and a critique of ceding that flexibility to global treaties), a strong focus on the historical and contemporary experience of low-income countries, and a detailed analysis of the current economic problems faced by the European Union.

Rodrik is a Cassandra figure in the profession; he is well respected for his intellect and his contributions, but his colleagues for the most part have not adopted his views on trade liberalization. Readers hoping to find Rodrik directly engaging with the reasons for his limited success in moving the profession will be disappointed. Moreover, at various points the book moves from well-supported argument into more speculative or opinionated realms, not unreasonable per se, though the author would have helped his readers by being more transparent about these transitions.

To summarize up front: there is much to commend this book for an audience of Christian economists. It addresses a set of topics – immigration, inequality, fairness in trade – that are at the heart of the economic and political discussions of our time. And there's no mistaking the prescient nature of Rodrik's predictions. As a work of scholarship the book is up-to-date in its understanding of the economics literature, as one would expect from a scholar of Rodrik's standing. It is interdisciplinary enough, bringing in insights from sociology and political science at important points, while still maintaining a strong focus on the methods of economics. And the text takes on topics that Christian economists will appreciate: for example, Rodrik argues that economists have too long ignored the role of ideas (or worldviews) in creating economic outcomes. The author insists that economic actors don't have "interests," as economists' models insist, they instead have ideas about what their interests are, and therefore economic outcomes are malleable based upon changes in the dominant ideas of the day. Said differently, public debate matters. The road back from demagoguery to social cohesion will need well-informed voices that can critique and explain both economic policies and the worldviews that undergird them.

There's a lot of ground covered in this book, and I don't like book reviews that are quick gloss-overs. So I'll focus on the author's most provocative argument, and I will offer my sense of where Rodrik's arguments are strong and where they are weak.

The most provocative theme in this book is the idea that hyperglobalization threatens liberal democracy. To understand this argument we need to understand what's hyper about recent trends in trade and finance, and we need to understand the author's definition of liberal democracy. Rodrik defines hyperglobalization as the attempt to eliminate all transaction costs that limit trade and capital flows (Rodrik, p. 28). The argument goes like this: WTO rules eliminate, or nearly so, the ability of nations to release protectionist pressure with selective import restrictions, and, simultaneously, trade rules have expanded to contain areas like agriculture, services, and sanitary and phytosanitary rules, all once considered to be under individual nations' purview. Moreover, "free-trade" agreements are often now focused on preserving intellectual property (patent rents), establishing international dispute resolution mechanisms that limit nations' discretion over the enforcement of these rules. Finally, we have also witnessed a lowering of barriers on international capital flows, once again supported by efforts to harmonize rules on financial flows. Taken together these trends represent a radical departure from the Bretton Woods model, in place roughly from the end of the Second World War to the creation of the WTO, that sought to balance liberalization with policy autonomy.

The second piece of the argument connecting globalization to the health of democracy hinges on the author's distinction between (relatively rare) liberal democracies and (more common) electoral democracies; countries in the latter category (including Argentina, Croatia, Ukraine, among others) provide rights for property holders and they also guarantee electoral freedom. Liberal democracies (examples include Canada, Chile, S. Korea, and Uruguay) also guarantee property and electoral rights, and to these they add civil rights that ensure equality before the law, as well as justice, education, health, and other guarantees (Rodrik, p. 96). Ruling elites prefer electoral to liberal democracies. In electoral democracies rulers can maintain their power by stoking religious and ethnic concepts of identity, and then discriminating in favor of the largest and most powerful religious and ethnic groups.

Continuing the author's argument, we can now see how the stage is set for conflict. Economists in their public role understate the costs of liberalization, even though we have good evidence that these costs can be large. Rodrik cites Autor, Dorn and Hanson's (2013) work, for example, to argue that the costs of liberalization (in this case China's dramatic rise as a trading economy) include large and persistent reductions in wages and employment for affected US workers. The USA and other nations buffeted by the distributional consequences of hyperglobalization have limited options, given the expansion of rules on trade and finance. In a less globalized time nations could use a variety of trade-reducing measures to shield affected workers, policies that economists have decried as ad-hoc protectionism but are better seen as measures necessary to protect the social cohesion that sustains a liberal democracy. As policy autonomy declines and globalization proceeds unimpeded, we should not be surprised to see right-wing populists gaining power through nativist, blood-and-soil propaganda.

The punch line to this argument is clear: we should prioritize liberal democracy over globalization. To do that it is essential that nations have the policy space necessary to reply to their citizens' preferences when the consequences of liberalization are too much to bear.

To this argument, a few comments. Rodrik is unfair to his colleagues at points, and his arguments strain the conclusions from the research. For example, there have been two flourishings of the literature on trade and inequality. The first dates to the 1990s, when trade economists saw the striking data on rising inequality and as well the seeming correlation with rising trade volumes. Despite much effort, there was little evidence found to suggest that increases in international trade and immigration could be causally linked to rising wage inequality.[2] As such the preferred explanation for inequality trends was skill-biased technological change. A fair treatment of the profession would note that public expressions by economists, to the effect that trade does not imperil the wages of unskilled US workers, was in fact exactly what the literature to that point was saying.

The literature flourished again in the 2000s, when new work began to find links between trade and wages. Initial evidence pointed variously to heterogeneous firms, offshoring, labor market frictions, and other causes.[3] Autor et al.'s paper in 2013 surprised many by finding evidence of a large and direct linkage between trade with China and US labor market outcomes, including reductions in wages, employment, and labor force participation in areas of the USA that were directly competing with firms in China. Importantly, however, there is still no consensus that overall wage and inequality trends can be causally linked to trade liberalization, though the old confidence to the contrary is no longer possible. This is a more nuanced story than one finds in Rodrik, and he harms his efforts at critiquing the profession by not engaging with the literature's complexity.

The strength of the argument derives from Rodrik's expansive reach as a scholar and a public intellectual. He draws from the political science literature and adds his own framework to distinguish electoral from liberal democracies. The distinction is convincing, and we have seen the liberal democracies struggle to respond to illiberal voices raised in reaction to trade and immigration. Would his efforts to link the rise of populism to trends in globalization satisfy an econometrician's identification concerns? Not by a long shot, and that should not concern us.[4]

As economists we have discovered that international borders generate significant inefficiency, reducing trade and investment that would otherwise exist apart from border-caused "multilateral resistance." Rodrik, as a scholar, sees these costs as well. As a public intellectual he is asking whether borders also yield something worth preserving, what we might call "polity space," the ability to tolerate a bit more inefficiency in return for social cohesion. I am less convinced than is Rodrik that liberal democracies would use expanded trade policy discretion wisely; I worry that such discretion could in fact be used as a tool to help undermine liberal democracy. But there's no denying that his arguments need to be part of our conversation in this troubling time.

There's much more to this book than the one argument that I have highlighted above. With more space I would talk about his normative case for the nation state, a provocative point in a time when elites fashion themselves as global citizens. As noted above, Rodrik also makes a case for the role of ideas in shaping economic outcomes, which if correct has important consequences for our understanding of political economy. Economic actors are capable of changing their ideas about where their interests lie, a phenomenon Rodrik calls "political innovation." Like technological innovation, political innovation can make possible what was once impossible. Rodrik notes intriguing examples, from the Glorious Revolution in Britain, reform in modern-day China, and a post-apartheid political compromise in South Africa, to support the idea that change can come from a richer understanding of political economy.

If it's not clear already, this is a bold book. It's not a call for a bit more trade-adjustment assistance, or some tinkering around the edges of free-trade agreements. It's Rodrik's call for big ideas, a New Deal that can save the global economy from its own excesses. Perhaps, this time, Cassandra will find a receptive audience.

Endnotes

1. See Rodrik, 1997.
2. See, for example, the contributions in Collins, 1998. Ed Leamer, in this volume, is an exception to the consensus at the time; he strongly argued for linking trade to rising wage inequality.
3. See Harrison, 2011.

4. Rodrik's analysis is a good example of Rhum's (2018) argument that the concern for strong identification should not dominate our need to examine important questions.

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