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BOOK REVIEW

Has Globalization Gone Too Far? By Dani Rodrik. Washington, D.C.: Institute for International Economics, 1997.

Paul B. Stephan*

What unites the loony left and the far right in much of the developed world is hostility to the global economy. In the United States, Ralph Nader, Pat Buchanan, and Ross Perot decry the inroads that international capitalism has made on national sovereignty. Europeans such as Eric Hobsbawm, Jean-Marie Le Pen, and the late James Goldsmith join in the chorus. Whether these figures are sincere or opportunistic, they are on to something. Many people in the richest nations fear change, and they see the forces that threaten them as having a foreign face.

Mainstream economics tends to dismiss these anxieties out of hand. The theory of comparative advantage, which celebrates the potential gains from trade, is as close to being an unassailable orthodoxy as anything gets in economics. One reason for this air of conviction is the evidence that supports the theory. The developed world has seen its wealth grow enormously over the last three decades as its commitment to a liberal international economic order has strengthened. To be sure, the distribution of these riches has been uneven, with the incomes of the least skilled workers in the rich world declining or, at best, holding steady. But most economists interpret the diminishing returns to these workers as attributable almost entirely to changes in the methods of production, not to competition from foreign workers. According to the consensus, technological innovation, not trade, has produced growing income inequality. We have met the enemy and they are us.

The alternative view asserts that free flows of goods, people, and capital across national borders has put us in a race to the bottom. Capital is mo-

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bile, labor is not, and nations compete for capital by offering cheap labor, less regulation, and lower taxes. Labor rights, workplace safety, environmental protection, and a fair distribution of the tax burden all suffer in this downward spiral of globalization. It is some variant of this argument that forms a bridge joining both ends of the political spectrum.

One of the problems that otherwise sympathetic people have with the alternative view is that many of its proponents clearly have other agendas. Labor unions have invested heavily in putting out the claim that globalization equals immiserization, but the unions' interests are specific and arguably at odds with society's. Many environmentalists have a preference that, in the eyes of some economists, simply reflects Engels' Law: Wealthier consumers prefer a greater portion of nonstaple goods, and a cleaner environment can be seen as a consumption good that becomes more attractive as one's appetite for economic growth decreases. We can respect that preference without privileging it, as the race-to-the-bottom story would do. Instead, the conventional response of economic liberals is to argue that wealth is what makes people want a cleaner environment, that free trade promotes wealth, and that therefore free trade leads to increased demand for higher environmental standards.[1]

To this debate comes Dani Rodrik, an economist on the faculty of Harvard's John F. Kennedy School of Government. In his brief and intriguing book, *Has Globalization Gone Too Far?*,[2] he seeks to make the race-to-the-bottom story respectable for those who take economics seriously. Rather than preaching radical opposition to globalization, however, he proposes moderate and incremental resistance. He outlines policy responses to what he argues are legitimate concerns about the growth of the world economy, encouraging targeted trade barriers based on a demonstrated national consensus about legitimate and illegitimate means of production.

I will begin by describing Rodrik's arguments about why we should take seriously some aspects of the critique of globalization. I then will question some of his claims, more out of skepticism than opposition. Finally, I will discuss the links between globalization and technological innovation. I will describe how the world we are making might be one that many could fear, but why Rodrik's policy prescriptions almost certainly are the wrong ones.

I. THE CASE FOR THE RACE TO THE BOTTOM

One reason that most economists have difficulty taking seriously the argument that international trade has produced social divisions in the developed world is that the evidence seems to point so clearly in another direction. No one disputes that since the beginning of the 1980s the gap between

[1] *See, e.g.*, Secretariat of the General Agreement on Tariffs and Trade, *Trade and the Environment*, *in* 1 INTERNATIONAL TRADE 90-91, at 18 (1992).

[2] DANI RODRIK, HAS GLOBALIZATION GONE TOO FAR? (1997) [hereinafter RODRIK].

the incomes of high- and low-skill workers in the developed world has grown. But most studies have interpreted the data as suggesting that only a small portion of this gap (ten to twenty percent) can be attributed to jobs moving offshore. The remainder, the economists argue, stems from technological innovation and not from international trade. If trade is not the problem, then trade-based responses are not the solution.

Rodrik proposes both theoretical arguments and presents new evidence to rebut this claim. He argues that the existing literature assumes that the relevant issue is whether there has occurred a drop in the demand for low-skill labor because of the possibility of shifting production to countries with a more abundant supply of low-wage labor. Using conventional supply-and-demand illustrations, these economists ask whether the demand curve has moved to the left. Looking at the data for trade with countries that have more unskilled labor than does the United States, most studies find that the link between trade and the leftward shift is small.

But this inquiry is too limited, Rodrik argues, because international competition also can affect the price elasticity of the demand for low-skill labor. Even if the power to move production across borders does not affect the amount of low-skill labor that employers need, it allows employers to put workers in different countries into competition with one another, including countries whose supply of low-skill labor corresponds to that of the United States. This competition in turn changes the incidence of costs associated with changes in the labor market, such as higher safety standards or sudden shifts in consumer demand for the workers' products. Put graphically, the demand curve becomes more horizontal.[3]

Rodrik argues that increasing price competition among comparable national labor markets has three negative implications for low-skill workers. First, the incidence of labor-associated costs should shift more toward workers. If a firm were to confront new and more rigorous workplace safety standards, for example, it would use its ability to relocate as a means of forcing workers to swallow the lion's share of the cost of complying with the standards, rather than passing on those costs to its shareholders or customers. Second, the risk of changes in demand for their services would be borne more by workers. Employers should have greater freedom to alter wages or change the size of their workforces in response to volatile economic conditions, rather than cushioning workers by keeping them on the payroll at their regular wages during short-term economic swings. Finally, workers should find it more difficult to resort to collective bargaining to respond to these first two phenomena. Employers can use threats of plant closings to break unions and relocation to avoid them.

The second and third claims have strong if episodic empirical support. The volatility of wages has increased over the last two decades, and the United States, at least, has seen a significant decline in union membership.

[3] For the graph, see *id.* at 18.

The first claim is harder to establish because of the difficulty of disaggregating the effect of higher labor costs on wages from the consequences of technological innovation. Rodrik acknowledges the counterargument that government can finance whatever level of worker benefits they want by compensating employers, using funds raised through general taxation. But he fairly notes that this option only ameliorates the problem, and in any event presents other issues of tax competition, a question addressed separately.

The heart of Rodrik's argument lies in an extensive empirical analysis of the relationship between government spending and openness to foreign trade. He first studies the correlation between two gross measurements of spending and openness, namely government spending as a fraction of gross domestic product (GDP) and the sum of imports and exports as a fraction of GDP. He subjects this data to a static cross-country analysis based on averages for each country during the late 1980s. He finds a strong positive correlation both within the developed world and across 115 very different countries. He then breaks out the factors that go into these gross variables and finds that exposure to external risk, measured by volatility in the terms of trade multiplied by the value of trade, correlates strongly with government spending on social insurance for wealthy countries and government spending on consumption for poorer countries.[4]

What do these data mean? Rodrik interprets his findings as indicating a strong historical link between the vulnerability of workers to the vagaries of foreign trade and government assistance. In rich countries, this assistance takes the form of transfer payments. In less developed countries, an expanded government bureaucracy serves as a safety net for displaced workers.

One might look as this discovery and conclude that globalization presents no threat to workers. Those who have paid the cost of increasingly liberal economic relations through lower wages and greater job insecurity have managed to extract compensation from the government. As long as they remain capable of bringing pressure to bear, whether through voting or civil disturbance, they should continue to receive their benefits. According to Rodrik's own data, governments have worked as engines of redistribution to ensure that some portion of the gains from trade have reached the pockets of those whom trade has harmed.

But another massage of the data leads Rodrik to a different conclusion. He undertakes a time series analysis to determine what the relationship between openness and social insurance has been over roughly the last thirty years. Limiting this inquiry to wealthier countries, he looks at the exports-plus-imports-over-GDP number for specific years, but not volatility in trade, and makes a time-lagged correlation to social insurance-as-a-fraction-

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[4] For graphical presentation of the data, see *id.* at 52-53.

of-GDP in later years.[5] This method produces a striking result, namely that government expenditures on social insurance goes down as openness goes up. The correlation is strongest during periods when countries have eliminated restrictions on capital transfers.[6]

On its face, this analysis contradicts Rodrik's previous finding and suggests that empirical evidence does not support any clear connection between trade and social insurance. Rodrik, however, chooses another interpretation. The positive link between free trade and social insurance revealed in the static cross-country comparison, he argues, reflects the great social compact of the postwar period. John Ruggie coined the term "embedded liberalism" to capture the notion that the Western powers that rebuilt Europe combined a commitment to free trade with strong welfare states.[7] But as the global economy grew, a shift in balance has taken place. Freer capital mobility both raised the costs of worker welfare and forced governments to shift the tax burden from capital to labor. Faced with the threat of exit, tax collectors throughout the developed world have responded by lowering taxes on those who might withdraw their investment. Since the mid-1960s, governments have found it harder to respond to labor's demands for social insurance. Those governments that have been most open to capital mobility have had the greatest difficulty in meeting these demands.[8]

Stripped of economic jargon, Rodrik tells the story of a global bait-and-switch. The great powers were able to build a consensus in support of international economic liberalism because they had come out of the war with strong state structures that permitted the management and development of robust welfare states that cushioned the victims of globalization. The economic expansion that marked the quarter-century following the war allowed these welfare systems to grow unimpeded. But at some point in the past thirty years, things began to change. The global economy that international economic liberalism had enabled to thrive reached the point where the rich states no longer could dictate terms, and the owners of international capital refused to pay any more for the social costs of the changes they produced in domestic economies. Slowly and begrudgingly, modern states have had to withdraw some of the safety net that had allowed their workers to tolerate the transformations produced by globalization. The result has been an unraveling of a series of social compacts formed at the dawn of the

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[5] Rodrik did not study the correlation between trade volatility and social insurance because his measurement of volatility involved a single measurement based on one twenty-year period. *Id.* at 61. I leave it to others better versed in econometrics than I to explain why it would not be possible to generate a running measurement of volatility that varied from year to year, rather than relying on a static measure that cannot be tested in a time series.

[6] *Id.* at 61-62.

[7] John G. Ruggie, *International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order*, 36 INT'L ORG. 379 (1982).

[8] RODRIK at 62-64.

postwar international economy. Today's young workers, unlike their fathers and grandfathers, face an uncertain world without a comforting society to sustain them in hard times. These uncertainties and an inchoate sense of betrayal rend the social fabric.

Having told a story of seduction, if not quite deception, and betrayal, Rodrik responds with a nuanced sense of social justice. He does not attack the global economy as such, and he certainly does not call for a return to some imagined time when embedded liberalism was still a project that could be reversed. Instead, he argues for the moral salience of two issues. The first is the loss of employment due to a transfer of production. The second is the tolerance by one country of methods of production that another finds objectionable. Only when these two factors coincide, Rodrik argues, is protection justified.

Thus, Rodrik strongly criticizes the current practice in the developed world of treating normal pricing practices as constituting dumping, subject goods to punitive tariffs, when carried out by importers.[9] Nor does he support the use of trade sanctions to push countries toward economic reforms in cases where the disapproved practices do not result in the loss of existing U.S. jobs. He objects, for example, to proposals to attack the cartelized domestic Japanese economy, because in his view Japan has the right to form any social contract it wants.[10] Although he is not clear on this point, he apparently does not mind that the *keiretsu* may stunt job formation in the United States by shutting off export opportunities for U.S. producers. More broadly, he criticizes labor advocates for their rigid protectionism and failure to differentiate between acceptable and objectionable losses from globalization.[11]

Rather, Rodrik wants protection targeted at a clearly defined wrong, namely the losses caused by an overseas transfer of production where the new host country tolerates practices that would not be acceptable in the United States. If a U.S. textiles producer were to close its plant and move to a country that permits sweatshop working conditions and child labor, he would support barriers to those products entering the country. More broadly, he wants developed countries to resort more freely to what trade specialists call the "escape clause," *i.e.*, trade barriers that protect struggling domestic producers. He would combine a more permissive escape clause with stronger international discipline to ensure that countries do not use this device as a pretext for protection.[12]

I will take up Rodrik's policy prescriptions in a later section. We first need to ask whether the case for the race to the bottom is as strong as he makes it out to be.

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[9] RODRIK at 80.
[10] *Id.* at 80-81.
[11] *Id.* at 75-77.
[12] *Id.* at 81-85.

II. UNDRESSING THE CASE

In making the case for a race to the bottom, Rodrik leaves me dissatisfied on three key points. Is the link between government assistance and globalization as strong as he makes it out to be, or is something else at work? If government assistance indeed is going down as globalization decreases, does this mean that governments are less able to do what they should or only that they have learned that assistance does not work? How likely is it that globalization has crippled the power of governments to tax capital? Each of these questions undermines a fundamental part of Rodrik's empirical argument.

A. What is the Real Link between Trade and Government Assistance?

First, one can raise both technical objections and broad thematic arguments concerning the claimed link between free trade and social insurance. The static cross-country analysis undertaken by Rodrik suggests that welfare payments go up with openness; the time series suggests that they go down. The first study determined that volatility in trade flows, rather than the absolute size of trade as a fraction of the economy, correlates closely with welfare; the second does not measure volatility. Rodrik offers a historical theory to back up the seeming discrepancy in results, but he does not test that theory by seeing whether during some period before 1965 increasing economic liberalization was followed by stronger government safety nets. Having neither training as an econometrician nor my own study of the numbers, I cannot tell whether the data supports Rodrik's hunch or not. But in its present state, Rodrik's research, although interesting, by no means nails down the case that openness first produced greater safety nets, then weaker ones.

Moreover, there exist some reason to speculate that Rodrik's data may suffer from masking — that is, the apparent tie between free trade and welfare is really a link between some other factor and welfare that happens positively to correlate with free trade. The obvious candidate is technological innovation. Both theory and historical evidence suggest that bigger and freer markets have a positive impact on the rate of innovation. People are willing to invest more in projects that will pay off only in the future if the prospects of future returns are greater, and one way to brighten one's prospects is to expand the market in which the project may produce rewards.[13] One study has found a strong correlation between the high rate of technological innovation in the United States between 1865 and 1935 and its broad internal free market, with a gradual loss of U.S. technological lead as the world economy became more open to all players.[14] It may be that at

[13] *See generally* Paul M. Romer, *Endogenous Technological Change*, 98 J. POL. ECON. 71 (1990).

[14] *See* Richard R. Nelson & Gavin Wright, *The Rise and Fall of American Technological Leadership: The Postwar Era in Historical Perspective*, 30 J. ECON. LIT. 1931 (1992).

least the first of Rodrik's findings, namely a positive link between openness and social welfare, could reflect the social dislocation caused by technological innovation, with greater openness only indicating those societies that experience a faster rate of innovation.

Finally, there is the question of openness itself. Note the point made in the previous paragraph about the United States' internal market. Although for many years protected from foreign competition, U.S. producers had to face fierce competition within their own country. The challenges and opportunities they confronted exposed their workers to great risk and some setbacks. Consider the flight of textile jobs away from New England, not overseas but to the Carolinas and Virginia. One cannot factor in the effects of freer trade without comparing those changes to the preexisting size and openness of a nation's domestic economy. Yet Rodrik's data does not seem to distinguish among these factors.[15]

None of these objections means that we should ignore Rodrik's argument about the links between trade and social insurance. His findings are far from unambiguous, but they remain interesting. What he needs to do now is undertake further research that will reassure the doubters. In the meantime, policymakers have a basis for paying attention to this issue, but not for taking precipitous action.

B. Does Assistance Work?

Let's assume that Rodrik is right, that workers discomfited by foreign trade used to enjoy some success in getting benefits out of government, and that their facility at doing so has waned. Is globalization the culprit? Implicit in Rodrik's argument is that government assistance is a beneficial component in a social compact that reflects the true desires of broad elements of the population. He cites as an example the French strikes of December 1995, which forced the government to back away from spending cuts required by the Maastricht Treaty. He claims that "the strikes expressed a clear desire on the part of a sizable portion of the country not to sacrifice social protections to trade."[16]

Embedded in this argument is an assumption that social protection is what it calls itself, a system of transfer payments that compensates victims of economic and social dislocation. One might look at the French system and come to other conclusions. Much of what advertises itself as social welfare serves other functions or is inextricably embedded in other arrangements that one might find objectionable. We must entertain the speculation that governments may be moving away from these programs not because of a lack of compassion, but because they have come to recognize that they do not accomplish what they claim.

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[15] Rodrik controls for size of the country and its economy, but not for the degree of domestic openness. RODRIK at 60 n.6.

[16] *Id.* at 44.

First, one cannot separate the largesse the French government gives to workers from that given to firms. Surely the extraordinary, not to say extravagant, combination of subsidies and blind-eye oversight that the government accorded *Credit Lyonnaisse* (at a cost of US $4 billion and rising) is every bit as much a part of the French system of social protection. Rodrik neglects to note that an important part of French labor resistance to the government's austerity plan was hostility to privatization of several bloated utilities. French workers recognize that the protection of managers from competition is part of a larger program of insulating workers from the need to learn new skills or to work harder. At least in French eyes, corporate welfare is just another form of social insurance.

Second, the French as of this writing (August 1997) suffer from an unemployment rate of 12.5%. Compared to other developed countries, a large portion of these unemployed are young workers. It is hard not to see a tie between the inability of the French economy to create new jobs and the high cost of worker benefits.

To be sure, the state could finance worker benefits out of general revenues rather than impose the cost on employers. France's new left-wing government has proposed to do just that. But there are many reasons to doubt whether this strategy can work, even excluding the threat of plant relocation. These practical difficulties aside, there remains the troubling question of exactly how much nonworkers should pay workers through the agency of a redistributive government. Rodrik invokes an implicit social compact, presumably struck during the immediate postwar period. But why should this deal, made by people that had just survived the horrors of war and occupation, necessarily bind future generations? Is the status quo so privileged? And if not, where do we draw the line? If it were left up to the workers, of course, they would want what any interest group would want — as much as could be squeezed out of the rest of society. But surely social cohesion means something other than that.

Third, social insurance requires bureaucrats to administer the programs and politicians to mediate between the bureaucracy and its clients. There are stories to be told about programs that begin as genuine efforts to meet the needs of specific needy groups, but that over time function mostly to serve the interests of the administrators and the politicians. In many cases, the appropriate policy response is to slash the program's budget, rather than continuing to feed a pernicious enterprise that has a strong interest in maintaining and expanding the problem it was supposed to eradicate.

Recall the debate over welfare reform in the United States that culminated in the 1996 legislation. I suppose one might explain what happened as an example of globalization's corrosive effects on social cohesion, but there is more to the matter than that. Both the majority in Congress and the President purported to believe that the failures of the existing program to serve the needs of the poor justified radical changes. One can challenge the validity of this perception and the merits of the legislative response. But

surely there was something to the point of view that, at least in this instance, the bureaucratic tail was wagging the policy dog. And just as Rodrik asks us to consider whether some cries for protection represent legitimate claims to maintain desirable social compacts, we must ask whether some reductions in social insurance programs represent a belated recognition that the existing structures do not do what they claim, and that throwing money at a problem is not always the right solution.

C. The Tax Competition Story

A central part of Rodrik's argument about the race to the bottom rests on the claim that globalization produces a shift in tax incidence away from capital and toward labor just as it produces a greater need for transfer payments to labor. Greater mobility of capital means giving capital more choices about how it will be taxed. Not only does the state need more money to compensate workers, but finding that money becomes harder.

This claim is not outlandish. The *Economist* recently devoted a survey article to the subject, drawing on an International Monetary Fund study.[17] In the United States, the 1980s saw a significant drop in individual and corporate income tax rates coupled with a sharp increase in wage taxes. Other developed countries also have dropped the top rate of taxation of personal and corporate income, typically alongside the imposition or expansion of a valued added tax (VAT). On the face of it, global capital threatens to beat national tax collectors into submission. And if one were to focus only on financial intermediaries (banks, insurance companies, securities dealers, pension plans, etc.), the pattern of disappearing taxation seems even clearer.

Yet this superficial impression may not stand up to closer analysis. Yes, the United States has reduced some taxes on capital and increased others on labor, but the U.S. economy by dint of its size remains less exposed to the pressures of globalization than those of most other developed countries. Elsewhere it seems just as fair to characterize the change as one from taxing savings to taxing consumption. A VAT, after all, is simply a flat rate consumption tax with withholding. And a consumption tax falls on suppliers of capital and labor alike. As a final note, it never is entirely fair to look at how financial intermediaries are taxed, since that tells you nothing about taxation of either the end user of capital or its ultimate supplier.

Nor is the threat of international capital to flee taxation as powerful as one may think. Imagine a multinational firm that has the ability to shift production among a number of states. At least three countries will have a shot at taxing the rents from capital controlled by that firm. Whatever country ends up hosting production will have primary jurisdiction to tax corporate profits, and it may offer lower rates as an inducement to the firm. But the firm's home country also will tax these profits, accounting for host

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[17] *The Tap Runs Dry*, ECONOMIST, May 31, 1997, at 21.

country taxes through a credit mechanism. Any reduction in the host country's income tax will reduce the available credit in the home country and thereby increase the home's country's tax revenues.

The general point is that in a world of income taxes where the foreign tax credit serves as the principal means of allocating tax jurisdiction, low tax rates in host countries will not affect a firm's overall tax payments. Rather, home country rates are the relevant consideration. Putting financial intermediaries to the side, firms have greater difficulty shifting their tax homes. First, there generally are strong non-tax reasons why a firm has a home where it does. Second, a firm generally cannot change its home nationality without paying a significant exit tax. Finally, the suppliers of capital to the firm will pay another income tax on the dividends, interest, and royalties they receive. Again the source country of these payments, typically the home country of the firm, will have primary jurisdiction, with the suppliers' home country using the credit mechanism to adjust for payments to the firm's home country. Ultimately, then, only competition among states to become the home of suppliers of capital would reduce the tax burden this input bears. And suppliers of capital — households, for the most part — typically find it difficult to change their tax homes.

An example may help. Firm X produces in Country A, resides in Country B, and obtains capital from persons in Country C. Assume that X generates 100 in income, that A imposes a 10% income tax, B a 25% rate on both corporate earnings and payments of dividends, and C a 30% rate on dividends. Ignoring integration (and most corporate tax integration systems do not apply where the suppliers of capital to a firm reside in a country other than that taxing the firm) and assuming that A has a branch profits tax that X pays rents only as dividends, A will collect 19, B 24.25, and C 4.25. Any reduction in A's rate will result in a greater take for B and no change for C; any reduction in B's rate on dividends will produce a corresponding increase in C's take.

Capital provided in the form of debt or intellectual property makes the revenue-sharing aspect of the credit system even clearer. Assume instead that X's capital is entirely in the form of a loan on which X pays interest of 100 to lenders in Country C, and that A, B, and C impose a withholding tax on interest payments to offshore lenders tied to their top income tax rates. Further assuming that Country A has a branch profits tax regime, A will collect a tax of 10 on the imputed payment of interest to X, B will collect a tax of 15 on the interest paid to the lender in C, and C will collect 5 from the lenders. The point is the same as in the prior example: changes in the tax rate in A affect the distribution of taxes among countries, but not the burden of taxation on capital.

In other words, tax competition among users of capital is pointless unless there also is competition among countries that supply capital. And remarkably enough, no country uses the credit mechanism as a means of competing to be the residence of suppliers of capital. In theory, a home

country might attract residents by promising to credit all foreign taxes no matter what the host country's income tax rate. But every country that allows credits limits their use by with a cap pegged to the home country's tax rate. Thus if country B in our example imposes an income tax of 30% on both corporate income and dividends and C of 20% on dividends, residents of C cannot use the higher taxes collected by B as a means of offsetting taxes on income earned in C.

Thus if one focuses on suppliers of capital rather than consumers, the claim that freer movement of capital results in lower tax rates seems less plausible. This insight in turn suggests that we need to find another explanation as to why suppliers of capital may have seen their taxes decline in recent years. Again, the usual suspect is technological innovation. Many countries have tried to encourage savings as a way of increasing the supply of capital available to underwrite new forms of production. This strategy will lead to lower taxes on capital formation and higher taxes on disinvestment. Over the short run taxes on capital drop; over the long run the relative tax burden on capital and labor will depend on the consumption patterns of the suppliers of these inputs.

In sum, Rodrik has not given us a convincing story about globalization, even if he has told a vivid one. To take seriously his argument for selective resistance to capital mobility and relocation of production, we would have to believe that the postwar deals between governments and their populations represented optimal redistributional projects and that nothing that has occurred since then justifies changing the bargain. Such alterations that we have seen, in his eyes, represent unintended if inexorable encroachments on national sovereignty by international capital. But there are good reasons to believe that globalization, as opposed to technological innovation, has not rent the social fabric to the extent that Rodrik claims. At a minimum, neither theory nor the available evidence provides compelling proof that greater capital mobility leads either to much worker immiseration or a significant shift in the tax burden. Rodrik tells us something we would like to hear: that others, and not we, are responsible for our discontent. But regrettably, it is not so easy to evade the notion that each of our developed societies, launched on a path that has left the horse, buggy, and blacksmith way behind, must take the blame for the worlds we have made.

III. WHAT IS TO BE DONE?

Suppose that international capitalism has gotten out of hand, that the faceless managers of the multinationals not only rape the environment and exploit the workers of the developing world but suck away the social glue of the metropolitan countries. How should a decent society respond? Assume that, for whatever reason, we will retain some sort of commitment to the institutions of private property and market exchange, so that expropriating the oppressors is not an option. How might national governments regain some degree of control over the global economy?

Rodrik believes that we must distinguish between capital movements that undermine our core values and those caused by legitimate applications of the principle of comparative advantage. The example he uses is a domestic factory serving the domestic market that moves overseas to exploit child labor. He would not erect trade barriers either for straightforward protection (hence he, like I, would do away with contemporary antidumping law) or simply to impose one nation's values on another (let Japan be Japan as long as she does not steal our factories). But he would embargo imports from firms that produce in a manner that is inimical to our way of life *if* those imports threaten domestic producers.

At the outset, part of Rodrik's policy program strikes me as obscure in principle and unworkable in practice. He believes it is appropriate for a country unilaterally to bar imports made in a manner offensive to its principles, but not to use trade sanctions to force a country to change its business practices.

> The second category [where trade sanctions are inappropriate] concerns cases in which other nations are unilaterally asked to change *their* domestic practices so as to equalize competitive conditions . . . While considerations of fairness and legitimacy will guide a country's own social arrangements, even by restricting imports if need be, such considerations should not allow one country to impose its own institutions on others . . . . It may . . . be legitimate to restrict imports from a country whose labor practices broad segments of the domestic population deem offensive. But it is not acceptable to unilaterally threaten relation against other countries because their business practices do not comply with domestic standards at home *in order to force these countries to alter their own standards.*[18]

It is not clear whether he means to distinguish labor from business practices, and if so what that distinction is. Why one is more reprehensible than the other is a question I am unable to answer. And in practice they must coexist a good portion of the time. A nation that tolerates bribery of government officials probably permits firms to buy off unions. The anticompetitive practices of the *keiretsu* make it harder for unions to wield much muscle. Most environmental degradation complaints can be told as worker safety stories. Certainly any good lawyer should be able to manipulate this distinction, either to exonerate foreign producers or to indict them.

Alternatively, Rodrik may mean that trade sanctions never are appropriate if the objective only is to force a country to change its behavior, even with respect to labor practices. Does he mean to argue that an embargo on goods produced with child labor is illegitimate if one of its objectives is to force the producer to abandon that practice? I doubt it. In any event, how could such a distinction be applied in practice? He does assert, with what strikes me as excessive sanguinity, that normally one can tell whether a nation wants to express its own community values or impose its will on oth-

[18] RODRIK at 80-81.

ers.[19] I am not so sure. Are U.S. restrictions on tuna fishing meant to protect dolphins (presumably an illegitimate effort to impose U.S. values on Latin American fishermen) or to boost sales of U.S. fishing technology (a domestic interest, although arguably one Rodrik might not support). I cannot imagine a standard more open to manipulation by lawyers and other partisans.

More generally, Rodrik argues for extensive public debate over trade sanctions, so that we can identify those foreign practices that broad segments find objectionable, and international supervision of the cases where countries invoke these objections. Thus he would relax the international rules governing trade restrictions imposed to meet domestic needs — the GATT's escape clause — but enforce the more relaxed standard with greater vigor.

Both prongs of this prescription strike me as wrong-headed. I doubt that procedures designed to force public participation in administrative decision-making do much more than feed the budget of "public interest" interest groups. And giving international institutions the authority to review the extent of public participation in national administrative procedures is potentially pernicious.

First, one must distinguish wider public debate from greater transparency. Rodrik does not argue that, at least in the United States, the present administrative processes hide valuable information from the public or otherwise directly suppress discussion of trade practices. Rather, he argues, the government does not do enough to encourage the public to get involved.

Lawyers love public debate, the more the merrier. It is, after all, how we make our living. Whether we the people, as opposed to we the technocratic elite, necessarily and in all cases benefit from government efforts to promote that debate is another question. To argue that the government has to stimulate wider discussion of issues where the public does not seem to care all that much has at least two unattractive implications. First, some official entity, whether the executive, the courts, or some international body, will have to decide whether the level of discussion is satisfactory. Second, to ensure that the "public" puts on an adequate enough show to satisfy that arbiter, the government will have to find some way to reward those who come forward. What we have seen in the past when our government has sought to promote "public participation" in the administrative process is direct or indirect subsidies for self-designated representative groups. Often these groups are accountable only to the bureaucrats that recognize their status as advocates and to donors who fund their activities. At best, such groups consume significant resources to no clear benefit; at worse, they enable the bureaucracy to avoid genuine accountability by insulating it from the electorate and the legislature.

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[19] *Id.* at 81 n. 10.

Most fundamentally, my concern with this aspect of Rodrik's proposals stems from the apparent distinction between debating and voting. The well educated and the well connected value discussion because, compared to others, they are good at it. If the legitimacy of a government action turns not on whether it has been subjected to some form of legislative or electoral mandate, but rather on whether it has received adequate public discussion, then opinion-shapers will have a disproportionate role in deciding what is and is not legitimate. The chattering class — politicians, lobbyists, academics, journalists — already has an outsized role in determining the outcomes of voting. I do not see the need to expand its power further here.

The other prong of Rodrik's program involves strengthening the role of international institutions in supervising derogations from free trade commitments. At least for the United States, that in most cases would mean bolstering the authority of the World Trade Organization (WTO). Rodrik is sketchy on the details, but apparently he would accord the WTO the right to determine whether a trade restriction reflects a broad national consensus about the impermissibility of an exporting country's labor practices or instead an illegitimate effort to impose change on another society.

International discipline is one of those mom-and-apple-pie issues that, like full public debate, seems impossible to oppose. What could be wrong with forcing states to observe widely accepted norms concerning acceptable conduct in international trade? If liberty based on law is an essential part of a civil society, then surely an ordered liberty operating at the international level ought to make ours a better world.

The operative words are "forcing" and "widely accepted." Giving international institutions coercive power ought immediately to trigger questions about the definition of their mandate and mechanisms for holding them accountable for their choices. The more amorphous the standard that an institution is authorized to uphold and the greater the difficulty for individual states to exercise a veto over what the institution does, the more we should worry. Although these institutions can do great things for us, leaving them with poorly defined standards to enforce and no effective means of supervision opens them up to abuse. There is no reason that international organizations are immune from the rent-seeking tendencies that we see in other forms of organized activity, whether private firms or governments.[20]

Speaking in the most general terms, the possibility of two different kinds of abuses of the WTO process presents itself. First, the WTO decision-makers may act in a way that maximize the amount of resources subject to their supervision, rather than as faithful servants of the preordained international rules of trade. Working from this expectation, one might predict intrusive and open-ended review that fails to produce clear and self-

[20] For a fuller treatment of these arguments, see Paul B. Stephan, *Accountability and International Lawmaking: Rules, Rents and Legitimacy*, 17 NW. J. INT'L L. & BUS. 681 (1996-97).

executing standards for determining the circumstances under which states might permissibly withdraw free trade concessions. Second, private interest groups, such as particular industries, might capture the WTO dispute resolution process and shape it to their own ends. When the standard being invoked is as amorphous and multifaceted as that advanced by Rodrik — broad opposition to methods of production versus illegitimate efforts to impose one country's standards on another's business practices — the likelihood of these undesirable outcomes seems unacceptably high.

The general problem of strategic management of departures from multilateral commitments is fascinating, perhaps the single most intriguing issue in international political economy today. This is why Rodrik's uncritical resort to international bureaucracies as regulators is especially disappointing. Rather than assuming that regulation works, he might have better served his position by exploring other, more innovative approaches.

One might compare, for example, Alan Sykes's work on the GATT escape clause. Sykes, along with Rodrik, assumes that some departures from multilateral trade commitments are appropriate but that a structure should exist to discourage defections. He then notes, contrary to Rodrik, that the ad hoc solution of the 1970s and 80s — "voluntary" export restraints (VERs) that allowed foreign producers to act as cartels when selling goods into the markets of countries seeking these restrictions — had more positive features than have been generally recognized. A VER, Sykes argues, should be permitted exactly because it is so costly to the importing country. Although foreign producers lose market share, they may extract monopoly profits from the portion of the market the VER permits them to retain. The importing state loses revenues from import duties or the sale of import licenses, and importing state consumer pay higher prices. How ingenious, Sykes observes, to permit protection only when it is imposed in the most costly way possible, and therefore only when the importing country genuinely sees it as a last resort.[21] Rodrik, by contrast, seems to believe that an international bureaucracy will do a better job than a self-imposed tax to limit escape-clause resort to the truly appropriate cases.

In the end, Rodrik fails to make a persuasive case for his approach to the negative consequences of globalization. His alarm seems misplaced and his solutions unworkable. It does not follow, however, that we should slip into complacency about the future of the global political economy. Rodrik's most fundamental point — that we should not accept the transformation of the world economic system over the last quarter century as an unalloyed good — still seems right.

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[21] Alan O. Sykes, *Protectionism as a "Safeguard": A Positive Analysis of the GATT "Escape Clause" with Normative Speculations*, 58 U. CHI. L. REV. 255 (1991); Alan O. Sykes, *GATT Safeguards Reform: The Injury Test*, *in* FAIR EXCHANGE—REFORMING TRADE REMEDY LAWS 203 (Michael J. Trebilcock & Robert C. York eds., 1990).

The truth is that we have confronted enormous technological, institutional and conceptual changes, both domestic and international, that we need to understand better. The postindustrial revolution has changed both the relative value of skills and undermined command-and-control systems in the public and private spheres alike. Familiar structures that give our lives coherence and meaning have disappeared because they could not adapt to these changes. And herein lies one of the many paradoxes of economic and social revolutions.

Economic growth demands technological innovation, which in turn requires savings and investment. But the rate of investment is sensitive to expectations about the future: the more uncertainty, then, *ceteris paribus*, the lower the rate of investment. The less confidence we have in the future, the less fuel will be available to run the engine of change. And so the postindustrial revolution may sow the seeds of its own demise.

Putting the point less technically, economic growth empowers more people, and in that sense is a largely democratic phenomenon. Global economic transformation in particular has altered the lives of the great masses of humanity that, until some time in this century, worked and lived essentially as their ancestors did a millenium ago. But providing people with a greater command over a wider array of goods and services does not necessarily mean that they will feel better off. Frightened by new surroundings (both metaphorically and literally — the sudden movements of rural populations into cities is a great source of discontent), people experience anxiety rather than fulfillment. And these fears may produce deep problems that go well beyond post-Cold War malaise.

But rebuilding the social fabric does not mean giving in to the always present temptation to demonize the other. We have seen in the formerly socialist countries a tight correspondence between anxiety in the face of massive social and economic change and the rise of xenophobia, sometimes vicious (*e.g.*, the Balkan wars, Chechnya) and always ugly. In the more comfortable West, similar impulses express themselves as hostility to immigrants and attribution of local economic problems to free trade. We need to face these fears with clarity of vision and complete honesty, not with reflexive formulae and dogmatism.

Rodrik helps us to think about the state as a mechanism for reducing the risks associated with globalization. One need not agree with either his diagnosis or prophylaxis to recognize that he has helped move the debate. In particular, he has used careful analysis and rigorous empirical methods to test ideas that both sides of the free trade divide either accept or reject automatically. One might wish that others could do as well.