Saving Globalisation from its Cheerleaders: The Economics of Dani Rodrik

By

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‘Which is the greatest threat to globalisation: the protesters on the streets every time the International Monetary Fund or the World Trade Organisation meets, or globalisation’s cheerleaders, who push for continued market opening while denying that the troubles surrounding globalisation are rooted in the policies they advocate?’

A good case can be made that the latter camp presents the greater menace’.

[Dani Rodrik, ‘The Cheerleader’s Threat to Global Trade’, Financial Times, March 27, 2007]

Introduction

Dani Rodrik, an award-winning economist at Harvard’s Kennedy School, plays a key role in shaping current debates on economic globalisation. Three Nobel Laureates in Economics have acclaimed the launch of his latest book [One Economics, Many Recipes]. A prolific scholar and media-savvy public intellectual, Rodrik has forcefully argued the need to provide policy autonomy to developing countries in their pursuit of growth strategies. More importantly, he maintains that such country-specific approaches are consistent with sound economic principles. This sets him apart from neoliberal economists who proclaim the need for universal rules encompassing both ‘market fundamentalism’ [free trade, capital mobility and free markets] and ‘institutional fundamentalism’ [market-friendly institutions, or ‘good’ governance, of the Anglo-American variety]. Such rules – overseen by technocrats in the Bretton Woods Institutions and urged by international investors - facilitate ‘deep’ economic integration and engender national prosperity for developing countries. Neoliberal economists are thus cheerleaders of economic globalisation. They – and their adherents - are embedded in ‘political’ and ‘technocratic’ Washington, the Bretton Woods institutions and in the

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2 Professor of International Business, School of International Business and Asian Studies, Griffith University, Nathan, Qld 4111, Australia. Email: i.islam@griffith.edu.au.
[mostly North American] elite universities of the world. Rodrik suggests that the cheerleaders of economic globalisation represent a threat to the emergence of a development-friendly global agenda. One has less to fear about the allegedly pernicious influence of the so-called anti-globalisation movement because the latter, despite their populism and street-level visibility, lack cohesion, resources, and political clout.¹

Some economists have described Rodrik as a ‘globalisation skeptic’. ² Others have expressed concern that his work has encouraged a new wave of populism in the developing world.³ I will argue that these concerns misrepresent his ideas. While Rodrik does not regard the anti-globalisation movement as a threat to the international community, he does not share their rejectionist disposition. Rodrik, as I seek to demonstrate in this paper, is certainly a critic of the cheerleaders of globalisation primarily because he believes that their prescriptions are not based on sound economic analyses, nor are they anchored in robust empirical evidence. The cheerleaders make their case by conceptualizing mainstream economics as a representation of neoliberal economics. Cheerleaders of globalisation thus fail to recognize the eclecticism inherent in mainstream economics. Globalisation as a process can engender multiple benefits for both poor and rich nations, but it needs to be rescued from the narrow world-view of the cheerleaders.

I also argue that while the scholarly work of Rodrik [and like-minded scholars] has been critical in providing a credible alternative narrative to neoliberal economics, the broader acceptance of such a narrative is being shaped by a variety of global events and policy-

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³ Amartya Sen argues that the anti-globalisation movement, despite its confrontational and unruly style, plays a major role in engendering ‘global doubts’ that could pave the way for ‘global solutions’. See Sen, A.K. [2001]’ Global Doubts and Global Solutions’, Alfred Deakin Lectures, May 15, Melbourne, Australia. See also Gandz, J [2001]’ Globalization and the Legitimacy of Dissent, Ivey Business Journal, November/December


cum-political debates within the United States. Such developments in turn have constrained the proselytising capacity of the cheerleaders of economic globalisation. This has created an environment in which the apparently heretical ideas of Rodrik are likely to receive a fair hearing from the political class in Washington and elsewhere.

I develop the key propositions of this paper in a number of ways. I introduce the case of the cheerleaders and use Bill Clinton as an example. I then illustrate Rodrik’s scholarly contributions by focusing on three areas: trade, financial globalisation, and the debate on rules vs country-specific discretion. This leads to an evaluation of the impact of Rodrik’s ideas on the development community. The concluding section serves as a conduit for a central proposition, namely, that the ideas of particular scholars can shape the intellectual climate of the day, but ultimately external forces and factors determine whether such ideas will receive a fair hearing from the broader community and key stakeholders.

**Globalisation and development: a cheerleader’s perspective**

It is necessary to make a distinction between globalisation as process and globalisation as prescription. Economists usually define the former as a study of the linkages among nations engendered and sustained by movements in goods and services, capital and people. One can readily agree with the proposition that the world economy provides many opportunities that a typical poor nation can tap into. It is a source of new markets, capital, skills, technology, and ideas that can augment the resources and capabilities of a developing country. Hence, developing countries can, in principle, prosper by engaging with the global economy. Such a seemingly reasonable proposition, however, can become a highly prescriptive strategy if one insists that globalisation is the only route to national prosperity entailing a prescribed set of policies and institutional reforms. Why do the cheerleaders sometimes convey this impression? They can justify their position by citing some studies that show a dramatic reversal of economic fortunes if a ‘less globalised’ economy becomes a ‘more globalised’ entity.

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Manfred Steger maintains that globalisation [or ‘globalism’ as he prefers to call it] ‘…constitutes the dominant ideology of our time against which all of its challengers must define themselves’. See Steger, M.B. [2005:11] ‘Ideologies of globalization’, *Journal of Political Ideologies*, 10[1]:11-30
Consider, for example, the case of the former American President Bill Clinton. He asserts: ‘We have to reaffirm unambiguously that open markets are the best engine we know of to lifting living standards and build shared prosperity’. Where is the evidence to support such a sweeping claim? Clinton offers the following information: ‘contrary to the anti-globalization protesters, in poor countries, the countries which chose to grow through openness to trade and investment grew at an average of five percent a year. The countries that chose to remain closed to the outside world grew at only one percent a year’.

While the source of this evidence is not acknowledged, it does not take long for an intrepid investigator to discover that an even stronger claim is embedded in a 2002 World Bank Policy Research Report. On page 5 of the report, the reader will find a graph that classifies various countries of the world into three groups based on their growth of trade volumes [trade/GDP ratios] and corresponding rate of per capita GDP growth for the 1990s: ‘less globalised’ countries; rich countries; ‘more globalised’ developing countries. The graph suggests that ‘more globalisation’ has the potential to move an economy from -1 per cent growth to +5 per cent growth – a rather dramatic turnaround of economic fortunes.

Underlying such a claim is a body of research that might be called the ‘policy view’ of growth. In other words, growth is primarily driven by ‘good’ policies. Furthermore, given that growth is a necessary condition for a reduction in poverty, it follows that poverty reduction – a fundamental goal of development – is driven by ‘good’ policies. Paul Collier and David Dollar observe: ‘Poverty reduction – in the world or in a particular region or country – depends primarily on the quality of economic policy’. The authors of

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this thesis then go on to claim that policy reform, by accelerating growth, can cut world poverty by half.  


Williamson was primarily interested in identifying a desirable set of economic policy reforms that could respond to the debt crisis in Latin America. Although ten issues were identified as part of a policy reform agenda for Latin America, Williamson concluded his paper by stating that: ‘The economic policies that Washington urges on the rest of the

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12 ibid, p.1
world may be summarized as prudent macroeconomic policies, outward orientation and free market capitalism’.\textsuperscript{13}

It is this summary rather than the ten policy issues that became part of the grand narrative of the ‘Washington Consensus’. In retrospect, it has to be said that Williamson was actually quite cautious noting various reservations, expressing disappointment that Washington did not always practice what it preached and acknowledging that ‘[it] is not …clear that the policy reforms sought by Washington adequately address all the critical current problems of Latin America’.\textsuperscript{14} The ‘Washington Consensus’ was quickly co-opted as part of the global discourse on development, but it became evident that Williamson, by using an infelicitous epithet, had committed a major strategic error. He proposed the notion of a global compact that was forged within a narrow circle of key stakeholders based in Washington. None of the other G7 nations rate a mention, while all the UN agencies are conspicuous by their absence. This raised understandable concerns about its legitimacy that has tainted its supporters ever since the publication of the article.\textsuperscript{15}

A newer version of the Washington consensus emerged in the latter part of the 1990s – although it was never codified in the way that Williamson sought to do.\textsuperscript{16} The discussion that follows draws on a suggested interpretation by Rodrik and Moses Naim.\textsuperscript{17}

\begin{footnotesize}
\textsuperscript{13} ibid, p.7
\textsuperscript{14} ibid, p.7
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The old version of the Washington consensus focused primarily on growth and did not take on board broader developmental goals. This has led to a focus on such issues as environmental sustainability. There is a renewed commitment to poverty reduction that is now enshrined in the ‘Millennium Development Goals’ [MDGs]. The transition to a ‘new’ version of the ‘Washington Consensus’ also happened because the ‘policy view’ of development was superseded by new research that suggested that deep-seated institutions were the ultimate determinants of growth. Hence, the ‘first generation’ reforms that Williamson discussed needed to be complemented by ‘second generation reforms’ that entailed a focus on broader societal concerns, a renewed commitment to poverty reduction and an ambitious agenda of ‘good’ governance.

In sum, the prescriptive strategy of globalisation rested on twin pillars. One of them drew inspiration from Williamson’s summary of ‘good’ policies; the other drew inspiration from the need to reinforce ‘good’ policies with ‘good’ institutions and a broader conceptualization of development. This sets the appropriate context for introducing Dani Rodrik’s scholarly contributions and the way he has sought to develop the case against the cheerleaders of globalisation.

**Rodrik on globalisation and development – the case against the cheerleaders**

A number of issues can be highlighted in discussing Rodrik’s critique of the cheerleaders’ version of the globalisation-development nexus. I emphasise the following

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19 I eschew an article-by-article exposition of Rodrik’s scholarship and rely on a small number of papers that are broad-ranging enough to capture the essence of his ideas. See Rodrik, D [2001] ‘The Global Governance of Trade as if Development Really Mattered’, UNDP, New York; Rodrik, D [2006] “Goodbye Washington Consensus, Hello Washington Confusion? A Review of World Banks Economic Growth in the 1990s: Learning from a Decade of Reforms” *Journal of Economic Literature*, December, Vol.44: 973-987. Rodrik, D [2007] ‘How to Save Globalisation from its Cheerleaders’, mimeo, Harvard University, July. Articles/media commentaries in addition to these sources are highlighted where relevant. All papers cited here are available on-line at: ksghome.harvard.edu/~drodrik/papers.html
themes: the contested nature of the evidence on trade, growth and poverty reduction; the promises, pitfalls and perils of financial globalisation; the discourse on global rules vs country-specific discretion stemming from a careful enunciation of the complex relationship between policy goals, instruments and institutions. At various junctures, I draw on the work of other scholars that can be used to reinforce Rodrik’s arguments.

Trade, growth and poverty: the contested nature of the evidence

The globalisation-growth-poverty linkage is often narrowed down in the professional literature to a study of the trade-growth linkage. Less attention is given to a study of the direct linkage between trade and poverty, but given that growth is a necessary condition for poverty reduction, any attempt to test the trade-growth nexus also represents [at least indirectly] a test of the trade-poverty linkage.

The standard way in which the impact of trade on growth is established is to rely on cross-country data and test causality by using regression analysis. The conventional procedure is to use trade volume [trade/GDP ratio] in combination with other measures that represent policy instruments, usually pertaining to macroeconomic policy [such as budget deficits and inflation, exchange rate controls and exchange rate overvaluation]. Rodrik’s point is that the conventional procedure entails a fundamental error of specification, because trade volume is an outcome-based variable, not a conceptually valid approximation of trade policy. One really needs to focus on tariffs and non-tariff barriers and then test for causality between trade policy and growth.

What happens when this is done? The statistical association between trade policy and growth runs counter to the expected relationship, that is, instead of tariff rates having a negative relationship with growth [higher tariffs associated with lower growth], one observes a positive relationship [higher tariffs associated with higher growth]. Rodrik’s joint work with Rodriguez makes this important point. It also emphasises that most of the influential studies in this area misattributes a number of variables to trade policy,

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20 This discussion draws on Rodrik [2001] ‘The Global Governance of Trade’.
although they really belong to either the impact of geography or institutions or even macroeconomic policy. When allowances are made for these misattributions and misspecifications of explanatory variables, it becomes difficult to establish causality between trade and growth.  

Rodrik also offers a refreshingly different interpretation of the recent post-war and post-colonial economic history of the developing countries. A standard refrain in the literature is that import-substituting industrialisation [ISI] that was widely adopted by most developing country policy-makers in the post-war and post-colonial period bred widespread inefficiencies that ultimately stalled economic growth in many countries. Rodrik argues that the empirical record suggests otherwise. Growth was respectable during the so-called ISI. It was underpinned by significant growth in total factor productivity [TFP]. Indeed, median per capita GDP growth in the ISI period [1960-1979] was higher in all developing countries – and in all regions of the world - than in the period that the cheerleaders associate with the onset of a new wave of globalisation [1980-2000]. This is an important finding that has been independently corroborated by a number of scholars – see Milanovic [2002], Weisbrot et al [2000] and Easterly [2001]. Furthermore, TFP growth in a number of economies that embraced ISI, were, in fact, higher during the relevant period than the much-vaunted outward-oriented economies of East Asia.

There was certainly a ‘growth collapse’ in many developing countries –especially after the mid-1970s - but it is a mistake to attribute this solely or even largely to ISI. Evidence

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21 Note that Andrew Warner has responded to this critique with some updated results where he claims vindication for the view that trade is the engine of growth. See Warner, A [2003] ‘Once More into the Breach: Economic Growth and Integration’, Working Paper No.34, Center for Global Development. Warner’s joint paper with Sachs is one of the key papers criticised by Rodrik. Warner does concede, however, that his updated results still rely on a binary comparison between open and closed economies and does not allow for incremental variations in trade policy.

of widespread dynamic inefficiencies cannot be corroborated using estimates of TFP. The standard critique of ISI really relies on documenting static inefficiencies that cannot be used to explain growth collapses. The latter probably reflect the inability of many countries to respond to external shocks and hence belong to the macroeconomic – rather than microeconomic – realm.

Rodrik focuses on the post-war industrialisation of the developing countries. Such an exposition can be complemented by drawing on the work of Ha-Joon Chang who offers a powerful critique of the trade-growth linkage based on the economic history of the industrialised countries. His point is that one can delineate important lessons for developing countries by focusing on the history of the developed world. His primary conclusion is that:

Almost all of today’s rich countries used tariff protection and subsidies to develop their industries in the earlier stage of their development. It is particularly important to note that Britain and the USA, the two countries that are supposed to have reached the summit of the world economy through free-market, free-trade policy, are actually the ones that most aggressively used protection and subsidies.23

Ha-Joon Chang then proceeds from this observation to argue that if rich countries now advocate comprehensive trade liberalisation for developing countries as the only route to national prosperity, they are betraying a lack of knowledge of their own history. If creative use of industry and trade policies were used by developed countries of today to climb up the ladder of growth in the past, why should one kick away such a ladder for the developing countries of today?

The cheerleaders are usually silent on drawing lessons from a systematic examination of economic history, but appear keen to highlight the experiences of certain countries in demonstrating their case that globalisation confers remarkable benefits. It used to be a select band of Northeast Asian economies. The experiences of South Korea and Taiwan

were usually pressed into service to highlight the success stories of globalisation. Now the attention has shifted to China and India – two of the most populous economies in the world. Arvind Panagariya offers a good depiction of this view. As he puts it: ‘India and China are the best recent examples of countries that started with relatively closed trade policy regimes in the 1980s but subsequently achieved accelerating growth while opening up their economies.’

Once again, Rodrik takes on such standard interpretations and highlights the empirical lacuna that afflicts them. There is, by now, a well-established literature that shows that South Korea and Taiwan do not fit neatly into the world-view of globalisation’s cheerleaders. These countries used trade and industry policy to actively promote domestic industries that subsequently prospered in world markets. Policy-makers in these countries often went against the ‘Washington consensus’ strategy of ‘good’ policies. They are certainly a lot more open now than in the past, but this only lends weight to the view that countries reduce usually reduce trade barriers as they grow richer.

The cases of China and India are even more problematic. The growth of the Chinese economy was initially driven by agrarian reforms that led to rapid growth of the rural economy. Similarly, the rapid growth of India in the 1990s preceded respectable growth in earlier periods that reflect rising productivity in the agrarian economy and some incremental reforms in the industrial sector directed towards domestic industries rather than export markets.

As noted, neither Rodrik, nor do other scholars, usually directly analyse the trade-poverty nexus. Here, I draw on an insightful paper by Martin Ravallion to show that the view that more trade leads to lower poverty cannot be corroborated statistically. This is as true of

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the cross-country data as it is of the experiences of specific countries. The Ravallion paper is particularly relevant because it highlights the case of China.

Ravallion arrives at two important conclusions. First ‘[b]ased on the data available from cross-country comparisons, it is hard to maintain the view that trade openness is, in general, a powerful force for poverty reduction in developing countries’. Second, ‘the aggregate time series evidence data …. for China suggest that trade reform has [not] been an important factor in reducing poverty. A range of “non-trade” factors appear to have played a more important role in explaining China’s (considerable) success against absolute poverty since the early 1980s.’

Evidence assembled by Ravallion show that the sharpest fall in poverty in China occurred in the 1980s when there was a modest increase in trade/GDP ratio. Furthermore, poverty incidence was constant and even rose moderately despite rising trade/GDP ratio between 1985 and 1990.

One can also re-examine the evidence using the standard Rodrik critique that the impact of trade policy on economic performance should really rely on policy-based variables, such as tariff and non-tariff barriers [NTBs] rather than trade/GDP ratio [the latter being an outcome variable]. When this approach is used, it is easy to show that the trade-poverty nexus in the case of China is even more problematic. In 1991-1993, mean tariff rates in manufacturing, for example, were higher than in 1984-1987. NTBs rose sharply between 1984-87 and 1988-90. Between 1981 and 1993, the poverty incidence [as measured by $1 a day] fell sharply from 52.8 per cent to 20 per cent.

What, then, accounts for the steep fall in poverty in China- particularly in the 1980s? Ravallion suggests two prime candidates – agrarian reforms of the 1970s that boosted the growth and diversification of the rural economy and macroeconomic stability that restrained inflation and shielded the poor from unsustainable cost-of-living increases.

\[27\] ibid, p.21
\[28\] These estimates are available in Ravallion [op.cit], although the problematic trade policy-poverty link is not highlighted by the author.
In sum, the central role that advocates of globalisation ascribe to trade policy as an engine of growth appears exaggerated. There is always the risk that overstating the growth and poverty reducing benefits of trade liberalisation to developing countries could merely become, as Rodrik puts it, an unconscionable case of ‘trading in illusions’. Yet, the enthusiasm for further market opening on a global scale remains undiminished among the multilateral agencies. The irony is that some studies have argued that the gains from the latest Doha round of trade liberalisation, if it is fully implemented, are likely to be rather modest. A 2006 Carnegie report authored by Sandra Polanski claims an aggregate ‘one-time increase in world income’ of 0.2 per cent of current global GDP. More importantly, some of the poorest countries of the world, such as those in Sub-Saharan Africa – and Bangladesh in South Asia – could become net losers from the successful conclusion of the Doha round. The report draws on these estimates to offer the following salutary advice that the cheerleaders of globalisation should consider seriously:

It is important not to overstate the possible gains from the Doha Round, as has been done by many political leaders, commentators, and activists. It has been fashionable to state that trade can do more than development aid to lift people out of poverty in developing countries. Though this may be theoretically true, it is clear from the Carnegie model and a close study of most other recent models that trade is not a panacea for poverty alleviation or for development more generally. Trade is one factor among many that can contribute to economic growth and rising incomes, but its contribution is likely to be very modest. At the same time, changes in existing trade policies can also cause economic contraction and must be designed and implemented with great care. An unrealistic expectation of gains can lead to pressure for inappropriate policies and could create a bandwagon effect where the very legitimate defensive concerns of developing countries are ignored to achieve illusory gains. Errors in analysis can lead to increases in poverty, not the hoped-for reductions, in a broad range of developing countries. For the poorest countries, where there is little margin for error, the risks are particularly acute.

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The undue emphasis given to the prospective gains from trade liberalisation also means that insufficient attention is given to the prospective gains that would accrue from other forms of globalisation – most notably a well-managed process of limited liberalisation of labour flows. In an op-ed piece for the *New York Times* Rodrik points out that liberalisation of labour flows – such as a well-designed and well-regulated ‘guest workers program’ – can engender benefits to developing countries that easily exceeds the benefits that would flow from even full-scale trade liberalisation.\(^{31}\) This is because of the enormous wage differences that exist between workers in developing countries and workers in rich countries with comparable skills. Yet, the agenda of more open labour flows receives low priority in any WTO or global forum. This is a point that Rodrik has made on a number of occasions. The most recent substantive research on the topic of liberalisation of labour flows made by others – most notably Lant Pritchett – strongly support Rodrik’s position.\(^{32}\)

**Financial globalisation: promises, pitfalls and perils\(^{33}\)**

An important theme in Rodrik’s work pertains to his critique of financial globalisation. The advocates of globalisation claim that financial globalisation entailing free movement of capital across the world is a ‘win-win’ process. Developing countries, so goes the argument, have ample investment opportunities, but are savings-constrained. Rich nations, on the other hand, have a large pool of savings but the returns to investment in high-wage, capital-rich economies are not as high as the returns to investment in low-wage, capital-scarce economies. Hence, financial globalisation – and not just foreign direct investment [FDI] – entailing free movement of capital from rich to poor countries - can alleviate the savings constraints in developing countries and finance much-needed investment. This is a positive-sum game: developing countries gain through higher growth and lower poverty, while shareholders in rich countries capture some of the benefits of this capital flow in higher profits.

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31 Rodrik, D [2007] ‘Be our Guests’, *New York Times*, June 1  
33 This section draws on Rodrik, D [2006] ‘The Disappointments of Financial Globalization,’ Harvard University, November 26
International investors are also supposed to play an important role in inducing macroeconomic prudence in developing countries. The argument is that capital flows are attracted to a predictable macroeconomic environment engendered by sound monetary policy and a conservative fiscal stance. This means that countries that fail to maintain a predictable macroeconomic environment are unlikely to be the beneficiaries of capital inflows.

Another claim in favour of free capital mobility draws on the political economy argument that its absence leads to capital controls that can breed corruption and poor governance. Thus, self-proclaimed neoliberal economists, such as Bradford De Long, saw it as one of the most important reasons for dismantling capital controls in the developing world. He argued: 'capital controls created large-scale opportunities for corruption and we hoped that the removal of capital controls would reduce corruption and improve the quality of government in these countries'.

The advocates of financial globalisation became influential in the 1990s to the point where the IMF was prepared to seek changes to its constitution by requiring that all member countries must aim for capital account liberalisation. As discussed later, this move was thwarted because of the outbreak of the 1997 financial crisis in East Asia.

Rodrik maintains that the risks associated with financial globalisation have been seriously underestimated by its advocates. One deleterious consequence of large-scale capital inflows is that it leads to an appreciation of the real exchange rate. This in turn impairs the competitiveness of domestic industries with predictable consequences on growth and employment.

Capital inflows also exhibit considerable volatility reflecting the fact that global financial markets are prone to various kinds of "market failures". The harbingers of short-term

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capital seem to be highly sensitive to herd-like behaviour driven by sudden shifts in investor sentiments even though economic fundamentals in a particular country or region may remain essentially unchanged. Furthermore, when the macroeconomic policy framework is geared towards international investors, policy-makers lose a good deal of policy autonomy and have insufficient discretion to respond to the needs and aspirations of national constituencies. This poses a great danger to the nature of democratic politics that requires sovereign nation to exercise policy autonomy rather than being beholden to the preferences of a particular group.

Rodrik points out that the evidence so far has not been kind to the advocates of financial globalisation. The most recent research undertaken by the IMF has not been able to identify any growth-promoting effects of capital inflows. The causality seems to be contrary to what is expected, with capital inflows associated with lower investment and growth. Rodrik notes that this might well reflect a situation in which many developing countries are investment-constrained rather than savings-constrained.

The debate on financial globalisation has, especially since the 1997 Asian crisis, shifted significantly in favour of its critics. Even vigorous defenders of free trade and globalisation – such as Jagdish Bhagwati – are equally vigorous opponents of financial globalisation. In a highly contentious piece that he wrote in Foreign Affairs in 1998, Bhagwati went so far as to claim that that a powerful ‘Wall Street-Treasury Complex’ under the Clinton Administration – akin to the famous military-industrial complex highlighted by the late American President Eisenhower – essentially championed the cause of financial globalisation. Bhagwati suggests that card-carrying members of the ‘Wall Street-Treasury Complex’ drew on a specious parallel with the mutual gains from free trade in goods and services to make the case for free capital mobility. This position represented a combination of ideology and private interests rather than sound economic analysis and evidence. After all, the primary beneficiaries of full-scale financial
globalisation are likely to be the shareholders of US-based financial institutions rather than ordinary citizens either within the United States or in the world at large.\footnote{Bhagwati, J [1998] ‘The Capital Myth: The Difference between Trade in Widgets and Dollars’, \textit{Foreign Affairs}, 77[3]: 7-12}

It is also important to note that Bradford DeLong now concedes that his earlier enthusiasm for free capital mobility was probably misplaced. As he puts it:

Fifteen years ago, I found it easy to be in favor of international capital mobility … Today, however, it is much harder for me to support untrammelled international capital mobility…I am no longer as sure that capital flows are efficient. Too many external costs associated with financial crises, and the fact that capital seems to want to flow not from, but to, where it is already abundant, make me fear that my standard economist’s model is simply not working.\footnote{DeLong [op.cit: 1]}

In sum, Rodrik’s concerns about the deleterious consequences of financial globalisation no longer seem to be a minority view. Passionate advocates of free trade – such as Bhagwati – offer a critique of free capital mobility that makes Rodrik’s critique rather tame by comparison. Rodrik can also derive considerable satisfaction from the current humility expressed by self-proclaimed neoliberals.

Goals, instruments and institutions: global rules vs country-specific discretion\footnote{This section draws on the three broad-ranging papers of Rodrik [2001,2006, 2007] cited in fn. 19.}
so-called ‘second generation’ reforms that emphasise the primacy of institutional reform to support policy reform. Such a view has been translated in the language of the multilateral agencies into an agenda of ‘good governance’ for developing countries. This is a core plank of a new template that Rodrik has called the ‘augmented’ version of the Washington Consensus. In essence, this is a form of ‘institutional fundamentalism’. In other words, ‘good governance’ in practice means the adoption of market-friendly institutions that prevail in the mature democracies in the Western – and more specifically Anglo-American - world.

Those who subscribe to the twin pillars of ‘policy fundamentalism’ and ‘institutional fundamentalism’ probably see themselves as being vindicated by mainstream economics which they simply view as a representation of neoliberal economics. Perhaps the most important and original insight that one can identify in Rodrik’s scholarship is that mainstream economics does not support either ‘policy fundamentalism’ or ‘institutional fundamentalism’. While one can agree on goals, there are multiple policy instruments and institutional arrangements for attaining these goals. Consider, for example, the case of price stability. One can readily agree that prudent monetary and fiscal policies are necessary for sustaining price stability. It is difficult, however, to argue that so-called ‘fiscal rules’ [e.g. fiscal deficits must not exceed prescribed limits as a proportion of GDP] and central bank independence are institutional prerequisites for attaining price stability in all countries. Fiscal rules and central bank independence might be effective – and might even be necessary – in some countries, but it takes a leap of faith to prescribing it for all countries regardless of their specific circumstances. Yet, various commentators and multilateral agencies sometimes behave as if there is a one-to-one correspondence between price stability, fiscal rules and central bank independence.\(^{38}\)

Rodrik has consistently argued that cheerleaders of globalisation need to pay a lot more attention to the actual experiences of developing countries rather than some textbook notion of how the process of development is supposed to work. What one learns from the

\(^{38}\) For example Williamson [op.cit:3] insists that ‘…an operational budget deficit in excess of around 1 to 2 per cent of GNP is prima facie evidence of policy failure’. During the 1997 Asian financial crisis, the reform agenda proposed by the IMF invariably emphasised central bank independence.
specific experiences of some of the success stories in the post-war period and post-colonial period is that they did not succumb to either ‘policy fundamentalism’ or ‘institutional fundamentalism’. Thus, policy makers in some of the successful East Asian economies did not rely on unilateral and across-the-board trade liberalisation to gain a foothold in export markets. Instead, they experimented with discretionary industry and trade policies, set up special economic zones and even used state enterprises to become successful exporters. India emerged in the global marketplace by becoming a leader in the export of IT services facilitated by offshore outsourcing by multinational companies. Traditional students of comparative advantage could not have anticipated such an outcome. They would have presumably recommended to Indian policy-makers to focus on labour-intensive manufactured exports facilitated by across-the-board trade liberalisation.

Rodrik and others have argued that the ‘policy fundamentalism’ of the original Washington consensus could have been inspired by the faith that the multilateral agencies placed in cross-country regressions as a source of policy advice. This point is clear in the sustained criticism of trade policy that is the hallmark of his scholarship. One can also draw on the work of William Easterly to suggest that the use of cross-country regressions in prescribing policy advice is fundamentally flawed. Easterly has shown that even if one sticks to conventional measures that serve as proxies for the quality of macroeconomic and trade policies in different countries, the relationship between policies and growth evaporates once ‘outliers’ or ‘extreme observations’ are omitted from the sample. Cross-country regressions are thus notoriously sensitive to data manipulations even if no other analytical adjustments are made to the relevant regression equations. To Easterly, the regression estimates simply demonstrate that extreme policies – such as unsustainable fiscal deficits and autarchy – can kill growth. One cannot, however, make the inference that such estimates provide any clue to the causes of growth. Cutting a tree, he says, is not the same as growing one. What the statistical studies on growth do show, however, is that deep-seated institutions that protect private property, encourage productive investment, induce democratic accountability and respect for civil liberties, elicit cooperation and trust are the ultimate determinants of growth. Unfortunately, institutions
cannot be readily created in the same manner as ‘stroke-of-the pen’ policy reforms. More importantly, external agencies are even less qualified to pursue an agenda of institutional reform.\textsuperscript{39}

Rodrik agrees that his own work shows that deep-seated institutions are the primary drivers of growth, but he maintains that the multilateral agencies misread this literature as well. They succumbed to a ‘rule-of-thumb’ mind-set and interpreted the relevant research to mean that ‘good’ institutions, like ‘good’ policies, are universal. Hence, the penchant for a ‘good’ governance agenda that seeks its inspiration from the institutional arrangements in mature Western [and more specifically Anglo-American] democracies that can be transplanted to the developing world. What this leads to is a conflation of superficial appearance with substance and the perverse tendency to regard the replication of the institutional features of an advanced economy as a substitute for the rather complex and protracted task of ‘institution building’ in a developing country context.

As Ha-Joon Chang argues, what the ‘good’ institutions advocacy overlooks is that ‘…most of the institutions that are regarded as prerequisites for economic development emerged after, and not before, a significant degree of economic development in the now-developed countries’.\textsuperscript{40} It is also important to note that indigenous institutions and informal networks can emerge to attenuate the lack of well-functioning formal institutions that one associates with mature Western democracies. Otherwise, one would have seen the virtual absence of growth in large parts of the non-Western world. In any case, an externally driven governance reform agenda consumes scarce administrative and intellectual capital and imposes substantial opportunity costs on developing countries in exchange for benefits that cannot be readily observed.\textsuperscript{41}

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\textsuperscript{40} Chang, H-J [2002:5] ‘The Real Lessons of Developing Countries from the History of the Developed World’.
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\textsuperscript{41} In the case of Australian development assistance, an internal review found that ‘[a] much-vaunted federal program designed to improve governance in the Pacific region is flawed, with no way of knowing whether it has been a success’. See Parnell, S [2007] ‘Governance Plan Lacks Coherence’, \textit{The Australian}, August 17.
\end{flushleft}
Once one allows for the possibility that developing country policy-makers working in concert with local actors and stakeholders have the capacity to develop indigenous institutions to compensate for the absence of advanced country institutions, the task of alternative pathways to development becomes a lot less ambitious and a lot more promising. The diverse nature of success stories in the contemporary developing world suggests that one should encourage country-specific approaches to development rather than cajoling or coercing poor countries to conform to universal rules. This approach is consistent with the intellectual tradition of mainstream economics that encourages eclecticism rather than dogmatism in working out the appropriate balance between states, markets and non-state institutions that is necessary for sustainable and equitable growth. Another advantage of advocating a country-specific approach to development is that it creates the possibility of a ‘grand bargain’ between rich and poor nations in which both use their ‘policy space’ to pursue their particular concerns. Thus, poor nations would focus on the primary task of sustainable and equitable development, while rich nations would pay greater attention to domestic issues rather than chasing the contentious enterprise of deepening globalisation as an end in itself.

Rodrik has some harsh words to say about economists in their role as policy advisors. In their professional role, economists usually take care to ensure that they make contingent propositions; they are usually sensitive to the contested nature of the evidence. When they don their hat as policy advisors, the same economists tend to shed their inhibitions and make claims that hide the complex nature of the available evidence and the contingent nature of the analytical framework. Take, for example, the 2002 World Bank report and the claim that policy reform that leads to greater globalisation can lead to a dramatic reversal of economic fortunes – a proposition that, as I noted earlier, served as the inspiration for Bill Clinton to act as a cheerleader of globalisation. Anyone who has knowledge of the statistical realities of long-run growth [spanning, say, 50 years] would know that the promise that a typical poor country has the potential to grow at 5 per cent per annum on a per capita for long periods simply lacks credibility. The historical
evidence shows that in a sample of more than 40 developing countries, only two [South Korea and Taiwan] grew in excess of 5 per cent over the 1950-2001 period.\textsuperscript{42}

I make the stronger point that economists in their role are prepared to offer highly prescriptive policy advice because they do not have to bear a personal price for the consequences of their actions. Erroneous policy advice, if faithfully implemented, can affect the lives of large sections of the population. The IMF, for example, mismanaged the Asian crisis that plunged millions at least temporarily into poverty. It happened under the watch of Stanley Fischer – a distinguished American economist. Yet, neither Fischer nor his staff who made up the core policy team that designed the policy-cum-institutional reform package to deal with the crisis-affected economies had to bear personal consequences for their actions. There is, it seems, a much greater need for economists – especially those that operate in the policy realm – to exercise both humility and due diligence about policy prescriptions.

There are a number of ways in which due diligence can become the norm rather than the exception in the propagation of policy advice, especially those emanating from multilateral agencies. One way is, of course, to eschew the heavy reliance on cross-country regressions as a source of policy advice and rely a lot more on country experiences and case studies. Gustav Ranis predicts that this will happen. As he puts it: ‘…I think that we will be moving away from …cross-sections, which have included more and more variables…accompanied by diminishing robustness…towards a small set of comparative historical studies’.\textsuperscript{43}

Another approach is to draw on the lessons that one can learn from randomised ‘field experiments’ that have been carried out in a number of developing countries. One advantage of field experiments is that, if properly designed and administered, they can reduce the self-serving biases of investigators that can afflict econometric and statistical


studies using non-experimental cross country data. Esther Duflo, one of the key proponents of this approach, argues that randomised field experiments have been successfully used to test what motivates both individual and collective behaviour in poor communities and to test the effectiveness of various policy interventions. So far, these experiments – administered on a small scale – have been useful in highlighting what works and what do not in health, education, savings, microcredit and farming practices.\cite{Duflo2006}

The challenge is to explore whether they can be extended to test more ‘macro’ ideas about what works in the policy and institutional realm.\cite{Duflo2007} Duflo suggests that the international community can make field experiments a mainstream tool of development policy by setting aside a ‘substantial fraction of aid to help countries experiment and evaluate solutions to the fundamental problems of their poorest citizens’.\cite{Duflo2007} This proposal is consistent with Rodrik’s call for policy experimentation at the country-level, but whether the international community will accept this approach remains an open question.

Rodrik as scholar and public intellectual: an evaluation of the impact of his ideas on the development community

Dani Rodrik is, of course, not the only economist urging a re-thinking of globalisation as it has evolved over the last two decades. Nobel Laureate Joseph Stiglitz is widely known for airing his ‘discontents’ on a Washington-centric project of globalisation. In his most recent book on the topic, Stiglitz urges ways in which one can ‘save’ globalisation from its ‘advocates’.\cite{Stiglitz2006} Jeffrey Sachs has championed the cause of ‘enlightened globalisation’

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that will entail a renewed commitment by the rich nations to foreign aid to the developing countries.\(^{48}\) World Bank economist Branko Milanovic has registered his dissent against ‘globalisation as we know it’,\(^ {49}\) while ex-World Bank economist William Easterly has vigorously argued that ‘globalisation from above’ led by the Bretton Woods Institutions has been primarily responsible for a counter-productive backlash against the free market system in various parts of the world. Indeed, Easterly has courted considerable controversy for his tirade against ‘developmentalism’ – a creed that he argues entails a fatal attraction to the idea that external agencies are the primary catalyst for bringing about economic and social transformation in poor countries.\(^ {50}\) Despite his polemical overkill, Easterly is probably right in ascribing central importance to local actors [or ‘searchers’ as he calls them] in shaping the destiny of nations vis-à-vis external actors [or ‘planners’ as he disdainfully refers to them]. In this respect, his ideas bear a strong intellectual affinity to Rodrik’s views on country-specific approaches to development.

Other scholars explicitly endorse the thesis of policy autonomy or policy space that permeates Rodrik’s scholarship. It is prominent in the work of Ha-Joon Chang who maintains, drawing on the economic history of the rich nations of today and a careful dissection of the contemporary global development agenda, that the policy autonomy available to developing countries have shrunk to a point where it is antithetical to the development aspirations of many countries.\(^ {51}\)

While Rodrik is by no means unique in his critique of globalisation as it has currently evolved and in using that critique to advocate policy autonomy for developing countries, he was among the first economist from the community of elite universities in the United

\(^{48}\) Sachs [op.cit]

\(^{49}\) Milanovic [op.cit]


States, who highlighted concerns about the limits of trade policy reforms in the developing world. One must remember that his early work as a dissident economist emerged at a time when the ‘Washington Consensus’ was at its zenith. He has – in contrast to most of his illustrious peers – been persistent in his critique of trade liberalisation. Over time, he has fine-tuned this critique and has offered to the economics profession what is arguably his original and important insight, namely, the need to eschew universal prescriptions on development policy and embrace country-specific discretion on growth strategies that are in turn compatible with sound economic principles. What marks his role as a dissident economist is not opposition to mainstream economics, but his celebration of the eclecticism of mainstream economics. Not surprisingly, it enables one to recognise the limits of neoliberal economics when applied to development policy.

The quality of Rodrik’s scholarship has been reinforced by his media-savvy role as a public intellectual. His personal website acts as a clearing house for all his papers, including short, informal notes. His ‘blog’ is a source of information, insight and entertainment. Influential outlets in the print media are paying attention to what he has to offer in terms of fresh ideas on the current discourse on globalisation. A recent issue of *The New York Times* showcased his work. He has also written for the *New York Times* and *Financial Times* as well as such influential periodicals as *Foreign Policy* and *Foreign Affairs*. Without this combination – the quality of scholarship and a determined effort to reach out to the broader community – Rodrik’s influence would probably have been limited to those who work in the field of development economics.

Another important factor – both in influencing the prolific nature of his scholarship and the cross-fertilisation of ideas – is his ability to form partnerships with a variety of very able fellow economists. His evaluation of the role of trade policy in development has drawn heavily on his joint work with Francisco Rodriguez, while his work on growth economics reflects a productive partnership with Francesco Trebbi, Ricardo Hausman and others. He has also played an important role on behalf of UNCTAD and through his advisory role in the influential Washington-based think tank Center for Global
Development headed by Nancy Birdsall. Such activities highlight Rodrik’s ability to build networks with like-minded luminaries.

Has Rodrik’s attempt to play the role of a public intellectual and his advocacy for adopting a fresh approach to growth and development paid off dividends in terms of reaching his intended audience – the multilateral agencies and other donors directly involved in development policy? Even a few years ago, Rodrik was not confident that the Bretton Woods institutions would have the predilection and the capacity to eschew ‘Washington Consensus’ policies as the panacea for all developing countries and adopt a strategy that would let a ‘thousand flowers bloom’. Now, it seems, one is detecting an important change in current development thinking. The World Bank appears to have absorbed some of his ideas. In a landmark report released in 2005, the World Bank maintains that country-specific approaches to the enunciation and implementation of development strategies are to be preferred to universal prescriptions. The tone of the report is one of caution and humility rather than the confident and hubristic tenor that one associates with a cheerleader of globalisation. The World Bank maintains that a lot still needs to be understood about the process of economic development – a remarkable conclusion coming after about two decades of experimenting with a framework that assumed comprehensive knowledge about what causes growth and the prescriptions that followed from it. In keeping with this current thinking, the World Bank has announced the creation of a *Commission on Growth and Development* in an effort to engender a deeper understanding of the process of growth and development.

One could also draw attention to the changed thinking of some bilateral donor agencies on development. Consider, for example, the case of Australia – an important bilateral donor in the Asia-Pacific region. It has recently released a White Paper on foreign aid that seeks to develop a new framework of external assistance in the Asia-Pacific region based on lessons learnt from decades of development experience. While claiming that

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52 This discussion draws on Rodrik [2006] ‘Goodbye Washington Consensus’.
54 The Commission was launched in April, 2006. See www.growthcommission.org
countries engaged with the global economy grew more rapidly vis-à-vis countries that failed to engage with the process of globalisation, it proceeds to make the remarkable observation: ‘While there are common fundamentals to development, there is no universal policy prescription to achieve it. Each country’s situation is unique as is its path to reform and growth.’\(^{55}\) This, of course, is a replication [although unacknowledged] of Rodrik’s key point about re-thinking development.

Thus, there are promising signs that multilateral and bilateral donor agencies are rethinking the globalisation-development nexus. Unfortunately, there is also enough evidence of a ‘business as usual’ mindset. Rodrik concedes that, despite the seemingly revisionist tone of the 2005 World Bank report, it is not clear that the operational arms of the World Bank, most notably the country offices, are suddenly going to change the way they conduct business. This is because bureaucracies typically suffer from some degree of inertia: they usually take time to disengage from rules of behaviour that they have become accustomed to over many years. Reorienting thinking at the operational level – so that deeds match words – might be more difficult to achieve. Furthermore, while the intellectuals and strategic thinkers within the World Bank might be prepared to embrace the vision promised by Rodrik’s brave new world of development policy, it is by no means clear that the Bank’s more influential sister organisation – the IMF – is prepared to follow the same path. As Rodrik concedes, there is hardly any evidence that the intellectuals and strategic thinkers within the IMF are prepared to join the revisionist bandwagon. The message still seems to be a resolute commitment to ‘deeper reforms’ in developing countries along ‘Washington-consensus’ lines.

Ultimately, transforming development paradigms requires more than the ideas – however innovative – of particular scholars and public intellectuals. Such ideas are certainly critical in shaping a credible alternative narrative to conventional wisdom, but extraneous factors and forces that lie beyond the confines of academic discourse usually shape the acceptance of such a narrative by key stakeholders. The role of geopolitical forces, the

fallout from recent global events and internal debates within the United States will shape the re-thinking on the globalisation-development nexus that is currently underway. This is the subject of discussion in the subsequent section.

**Re-thinking the globalisation-development nexus: the importance of geopolitical forces, global events and the role of the United States**

Political scientists and specialists in international relations could legitimately complain that Rodrik – in common with many prominent economists – do not pay sufficient attention to the importance of the geopolitical environment – and in particular the hegemonic role of the United States - in shaping global policy debates. The Cold War and its aftermath influenced the transition from the Bretton Woods system and the evolution of GATT to the ‘Washington Consensus’ framework of the World Bank and IMF as well as the ethos of the WTO of the 1990s. Rodrik praises the pragmatism of the pre-WTO global economic architecture that focused on removing some of the most egregious restrictions on international trade and capital flows. Such pragmatism, argues Rodrik, led to a historically unprecedented post-war boom in the world economy and the rise of East Asia as policy-makers in the region made use of the policy space under the GATT system to pursue industry and trade strategies geared towards export markets. The ‘Washington Consensus’ era and the WTO as GATT’s successor have essentially deprived developing economies of this policy space and is thus averse to their developmental aspirations. Yet, the pragmatism of the past as it pertained to an ethos of constrained globalisation [or ‘shallow integration’ as Rodrik prefers to call it] was heavily influenced by the geopolitical framework that guided the internationalist role of the United States.

The need to adopt a ‘containment’ strategy towards the perceived expansionism of Soviet Communism of the Cold War era led US foreign policy to view development through a pragmatic lens. Successive US administrations encouraged economic development in the

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countries that were seen as close allies using the logic that domestic prosperity will enable them to act as a bulwark against Communism. However, considerable latitude was granted to the policy-makers of developing countries that fell within the arc of close allies, especially in the formulation of industry and trade policy. Such a foreign policy stance was also compatible with an intellectual environment in which a mixed economy model to regulate capitalism held sway in the West. This mixed economy model rested on the twin pillars of social welfarism in the provision of public goods and Keynesianism in the domain of macroeconomic policy.

The global compact that underpinned the mixed economy model began to unravel towards the end of the 1970s. A conservative political movement that saw the ascendency of Margaret Thatcher in the UK and Ronald Reagan in the USA emerged against the backdrop of turbulent global economic circumstances in the wake of the oil price shocks. The World Bank launched its ‘structural adjustment programs’ in 1980 that foreshadowed the policy prescriptions of Williamson’s Washington Consensus. At the same time, both social welfarism and Keynesian macropolicies went into retreat in the face of a neoliberal counter-revolution in the West.

The end of the Cold War accelerated the unravelling of the global compact forged among the Western Powers during the Cold War. There was a distinct change in US foreign policy. The strategy of containment shifted to the need to enlarge the role of the United States as the gatekeeper of global capitalism. Thomas Friedman of the New York Times celebrated ‘America’s victory in the Cold War’ and observed that the ‘free market is the wave of the future – a future for which America is both gatekeeper and the model’. The Clinton Administration officially endorsed the ‘enlargement’ strategy. Its

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58 New York Times, June 2
enunciation was offered by Anthony Lake [who was Assistant to the President for National Security Affairs] in an important speech that he delivered to the Johns Hopkins University’s School of Advanced International Studies on September 21, 1993. He declared that ‘the successor to a doctrine of containment must be a strategy of enlargement – enlargement of the world’s free community of market democracies’ [italics in original].\(^5\) It is in such a milieu that the use of the infelicitous epithet of the ‘Washington Consensus’ makes sense. Instead of continuing with the pragmatism of constrained globalisation that characterised the first two decades of the post-War era, the Clinton Administration moved in the direction of offering political support to a strategy of ‘deep integration’. One could argue that this was inspired by the logic of the enlargement strategy that drew on the political and intellectual ascendency of neoliberal economics in the 1980s.

Unfortunately, global events have not been kind to the enlargement strategy. It could not foresee the traumatic experiences of the ex-Communist economies in Eastern Europe as they sought a rapid transition to a market economy in Eastern Europe. Even Jeffrey Sachs, who played an important role as an external advisor in Poland and the ex-Soviet Union during their transition to market economies, has bitterly complained that the project was politicised by the Clinton Administration to the point where they effectively endorsed the emergence of robber-baron capitalism in Russia.\(^6\) The backlash against the import of Western-style capitalism and the assertive nationalism that one witnesses in Russia today under the Putin Administration was probably shaped by the dismal experiences of the transition years.

The 1997 financial crisis in East Asia was also a watershed development that has tarnished the project of Washington-centric globalisation. Prior to the crisis, the East Asian economies were hailed as iconic exemplars of economies that prospered by fully engaging with the global economy. They were arguably endowed with distinctive


institutions that enabled policy-makers to make a resolute commitment to macroeconomic prudence and outward orientation. Yet, almost overnight, such ‘miracle’ economies were blamed by the cheerleaders of globalisation for harbouring deep-seated institutional weaknesses that led to the crisis. This ‘blame the victims’ strategy unfortunately exposed the internal contradictions of the pro-globalisation brigade when it came to the interpretation of the recent economic history of East Asia. How can the causes of miraculous growth mutate, almost overnight, into the causes of a region-wide crisis? Furthermore, the IMF, that came to the rescue of the crisis-ridden economies with billions of dollars, stringent conditionality and promise of a swift recovery had to grudgingly concede that it did not anticipate that the region was heading for a ‘major economic slowdown’. This admission – that grew from its initial mismanagement of the East Asian crisis – merely impaired the IMF’s legitimacy and credibility.

The 1997 financial crisis was a turning point in the globalisation debate in other ways. First, it short-circuited the attempt by the IMF – and its political boosters in Washington - to incorporate the requirement that all member countries are obliged to liberalise their capital account - a move that was afoot until the eve of the 1997 crisis. Second, it accelerated a tendency among many developing countries to invest in a variety of initiatives to build a buffer against the shocks emanating from global financial instability. These initiatives include: pre-paying debts to the IMF, accumulating foreign reserves and enhancing the resilience of the domestic financial system. This has paradoxically meant that developing economies of considerable stature can afford to ignore the IMF and thus constrain its proselytizing capacity for pushing a prescriptive policy agenda. The IMF now faces, contend Devesh Kapur and Richard Webb, ‘irrelevance’ rather than ‘opprobrium’.

Developments in Latin America have also dented the optimism of the cheerleaders of globalisation. One detects a leftward movement in politics across several important Latin American countries ranging from Bolivia to Venezuela and a backlash against neoliberal

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economics to the point where many in Washington admit that the United States has ‘lost’ its backyard. Such political developments have roots in the recent past. Despite more than a decade of experimenting with Washington-consensus style policies, the outcomes have been disappointing – and in the case of Argentina when the economy imploded under IMF tutelage – quite disastrous. Growth across the region has been modest, while poverty and inequality have remained entrenched.\(^{63}\)

There is, in addition, the special case of what Paul Collier – an erstwhile cheerleader – calls the ‘bottom billion’. This is a label that he uses to highlight the case of one billion people stuck in stagnant economies. Most of these 54 ‘failed’ states are in Sub-Saharan Africa. Neither conventional prescriptions of engaging in globalisation, nor merely enhanced aid, can rescue these economies and their peoples from their misery. These economies are stuck in a series of traps stemming from their geography, their undue reliance on natural resources and bad governments – a vicious combination that kills growth. Collier suggests preferential and unrestricted access to the markets of rich countries, an ambitious governance reform agenda and military interventions. These ideas are no doubt controversial, and some would even say passé – but the point is that Paul Collier is prepared to make an important exception to the general prescription that globalisation as a strategy is applicable to all countries.\(^{64}\)

Perhaps the biggest challenge to a US-led project of globalisation has emerged in the post 9/11 era. When Anthony Lake proudly proclaimed the United States was the ‘most powerful and respected nation’ as part of enunciating his enlargement strategy, he could not foresee that the US administration would be mired in widespread anti-Americanism. The current administration under President George Bush has certainly subscribed to the

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\(^{63}\) See, for example, Lustig, N and Arias, O [2000] ‘Poverty and Inequality Trends in Latin America and the Caribbean, Finance and Development, March

enlargement strategy but this has been overshadowed by aggressive unilateralism. The US government has responded to the tragedy of the terrorist attacks on the USA on September 11, 2001 by engaging in a war in Afghanistan and a highly contested occupation of Iraq by the USA and a narrow band of allies. These global events have fed into a new wave of anti-Americanism, especially in the Muslim world. What is perhaps less well-known is that, during the initial years of the occupation of Iraq, the Constitutional Provisional Authority [CPA] led by Paul Bremer used the country as a ‘laboratory for Western, market economic policies’. Import tariffs were dropped to 5 per cent in most cases; income taxes were reduced to a flat rate of 15 per cent, while the FDI regime was fully liberalised. An ambitious privatisation program was drawn up, while the ‘De-Baathification Program’ effectively led to a drastic reduction of public sector employment. The Economist regarded the experiment as a ‘capitalist’s dream’, while the Bretton Woods institutions dutifully lined up to lend their support, despite the fact that the World Bank, in conjunction with UN agencies, issued a report in 2003 that emphasised the need for Keynesian-style large-scale reconstruction and social safety nets to deal with the challenges of post-Saddam Iraq. The neoliberal experiment never really took off, as a violent insurgency overwhelmed the Bremer administration’s capacity to persist with the neoliberal agenda. Critics allege that the insurgency was in turn significantly spawned by a backlash against this imported version of ‘market fundamentalism’.

Finally, many Americans – and some prominent American economists – are themselves becoming concerned about both the ex-ante and ex-post costs of globalisation on the United States. A contentious debate is underway on the employment consequences of

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65 The aggressive unilateralism under the Bush Presidency is clearly laid out in the US government’s National Security Strategy of 2002, but Bush also proclaimed that ‘America’s national ambition is the spread of free markets, free trade and free societies’ [as cited in Singer, P [2004:149] The President of Good and Evil: The Ethics of George Bush, Text Publishing Company, Melbourne]. Such a proclamation is consistent with Anthony Lake’s formulation of the enlargement strategy.
large-scale offshore outsourcing. As a Business Week review of the issues has put it, this debate is ‘shaking up trade theory’ and causing cracks to emerge in the professional consensus among economists that globalisation is a win-win game.\(^69\) Some prominent mainstream economists – such as Alan Blinder – argue that the current employment consequences of offshore outsourcing might be modest, but the prospective employment consequences could be quite significant amounting to between 28 and 42 million jobs that would migrate to developing countries in the service sector – an amount that is two to three times the prevailing manufacturing employment. Indeed, Blinder regards offshore outsourcing as a transformation that is tantamount to another ‘industrial revolution’. Industrial revolutions in the past have created far more ‘winners’ than ‘losers’, but they have also wrought wrenching and protracted social changes. These are consequences that cannot be ignored by politicians and policy-makers who must think creatively – and urgently – on reorienting the education system towards training in skills that produce ‘impersonal’ services, enhancing the trade adjustment assistance programs and making a commitment to more comprehensive social safety net arrangements. Unless, these proactive steps are taken, the political momentum within the United States to erect protectionist barriers against offshore outsourcing will become unstoppable.\(^70\)

Other economists, such as Gregory Mankiw – who also served as chairman of the White House Council of Economic Advisers – have displayed a remarkable degree of complacency about the consequences of offshore outsourcing. On one occasion, he declared that offshore outsourcing is simply ‘the latest manifestation of the gains from trade that economists have talked about at least since Adam Smith…More things are tradable now than were tradable in the past, and that’s a good thing’.\(^71\)

Are the mutually beneficial gains from offshore outsourcing - and offshore production in general by US-based corporations– that obvious? William Baumol and Ralph Gomory have shown, using standard trade theoretic tools – that the gains from

\(^{69}\) Aron Bernstein [2004] ‘Shaking up Trade Theory’, Business Week December 6. Available at www.businessweek.com


\(^{71}\) As cited in Blinder [op.cit:1].

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trade in a world where multinational corporations can roam the globe in search of low-cost sites can be asymmetric. Paradoxically, it is the rich nation [such as the United States], rather than an aspiring developing nation [such as China or India] – who can turn out to be the victim. Baumol and Gomory have shown that as the wage gap between the United States and a populous Asian trading partner gets reduced even moderately through a process of productivity catch-up, the United States could experience a permanent cut in living standards, while the trading partner prospers. Yet, US corporations are oblivious to the social consequences of their actions because offshore production delivers rich dividends to their shareholders. In this case, the interests of the corporation become misaligned from the interests of the nation. Furthermore, this creates a powerful constituency of ‘pro-globalisation’ cheerleaders in the corporate sector who have captured the benefits from trade at the private level, while the social costs are being borne by broad segments of the population who, because of their sheer size and diversity, cannot become an effective countervailing force.72

Gomory, drawing on his joint work with Baumol, is now part of a lobby group entitled the Horizon Project that is actively engaged in political advocacy for a changed perspective on globalisation in the United States. The Horizon Project argues that the corporate tax system should be used to create incentives for US corporations to produce and invest ‘onshore’ rather than mainly offshore. It has also made the controversial point that there should be limits on what seem to be unsustainable US trade deficits and that the US administration should adopt a more stringent approach to its major developing country trading partners who do not follow the ‘rules of the game’ in international trade. Economists such as Mankiw will no doubt find these proposals a recipe for counterproductive protectionism. Yet, current concerns about offshore outsourcing and the issue of asymmetrical gains from trade are a reflection of ruptures that have emerged

within the economics profession and the discontents against globalisation in the United States.\footnote{Details on the Horizon project are available at www.horizonproject.us}

Closely related to the issues of offshore outsourcing and the asymmetric gains from trade are growing concerns about dramatic increases in inequality in the United States. A report commissioned by the Financial Services Forum [FSF] – a forum that brings CEOs from some of the most prominent US financial institutions and authored by three economists with impeccable credentials - makes an astonishing claim. It argues that between 2000 and 2005, approximately 97 per cent of the American work-force suffered a cut in real income, while barely 3 per cent of the work-force, representing the richest and the most well-endowed, attained solid real income gains over the same period.\footnote{Aldonas, G.D. et al [2007] ‘Succeeding in the Global Economy: A New Policy Agenda for the American Worker’, The Financial Services Forum Policy Research, June 26} There is also evidence of growing employment polarisation, with a declining ‘middle’.\footnote{Autor, D et al [2006] ‘The Polarization of the US Labor Market’, American Economic Association, Papers and Proceedings, May, pp.189-194} Such developments have emerged against a background where the share of profits in GDP is at a historical high.

The standard refrain from the professional economics community is to concede that inequality has grown sharply in the United States, but that it had little to do with globalisation and a lot to do with so-called ‘skilled-biased’ technological change – although this professional consensus derives from research based on data from the 1980s and 1990s. The FSF report draws attention to this consensus, but notes that further research is needed based on the most recent data. Nevertheless, it points out that popular perceptions matter and must not be ignored. The point is that the average American shapes his/her worldview based on direct labour market experiences. Public opinion surveys reveal sharply rising negative views on the perceived benefits of globalisation - sentiments that can only add grist to a protectionist mill.\footnote{Aldonis et al [op.cit]}
The FSF report is not the only example of how economists are revisiting the vexed issue of inequality. Other economists, such as Paul Krugman, who have in the past vigorously defended the cause of free trade, display a much greater sense of anxiety about the trade-inequality nexus. As he puts it:

It’s no longer safe to assert, as we could a dozen years ago, that the effects of trade on income distribution are fairly minor. There’s a good case that they are quite big and getting bigger.

This does not mean that I’m endorsing protectionism. It does mean that free-traders need better answers to the anxieties of those who are likely to end up on the losing side of globalisation.77

It would be useful to ask now: how has Rodrik engaged with these domestic debates in the United States? How relevant is his work to the domestic debate within the United States on globalisation and its discontents? Given Rodrik’s specialisation and research interests on development policy, it is understandable that he has not played a central role in US-specific debates on globalisation like some of his illustrious peers. Yet, it is clear where he stands. He is concerned that modern forms of international trade, such as outsourcing, create a global labour market for transferable skills [or ‘impersonal services’ as Alan Blinder puts it], in which middle class Americans find they have to compete with workers of comparable skills, but who are located in low-wage economies. In that case, ‘It's entirely possible that all workers will lose and shareholders will gain; you have to be concerned about that’.78 In a recent interview with the New York Times, Rodrik has signalled a greater willingness to engage with domestic policy debates. His position is that ‘as a practical matter… Washington must counteract the damage from America’s trade policies more than it has in the past’.79 His theme on the need to disengage from a project of ‘deep integration’ and move towards a more eclectic approach that accepts the need for a ‘grand bargain’ between rich and poor nations informs his sense of where the United States ought to be heading. This ‘grand bargain’ will soften the binding constraints on universal trade rules and temper the move towards further market opening

78 As cited in Berstein [op.cit]
as envisioned in the stalled Doha Round. This will also give the policy space for US policy-makers to respond to rising concerns about job losses engendered by offshore outsourcing. In particular, there is a case for building much greater public awareness in the Unites States for a ‘social insurance agenda’ that can ameliorate the adjustments costs of globalisation.

**Concluding remarks**

I have navigated a wide and diverse terrain in discussing how the ideas of leading economist Dani Rodrik have shaped the discourse on globalisation and economic development. While he has been described by some of his peers as a ‘globalisation skeptic, Rodrik does not share the rejectionist disposition of the anti-globalisation movement. At the same time, such a movement does not pose a threat to the process of globalisation because the movement lacks organisational capability, resources, intellectual credibility and political influence. Rodrik’s primary concern is that powerful cheerleaders of globalisation embedded in ‘political’ and ‘technocratic’ Washington, the Bretton Woods Institutions and North American elite universities have been infused with the intellectual appeal of neoliberal economics and have endorsed a global development agenda that seeks to deepen the process of economic integration. The paper has shown how Rodrik forcefully argues that this approach is neither consistent with the eclecticism of mainstream economics nor is it anchored in robust empirical evidence. The price of such errors and omissions is that the current agenda of globalisation is paradoxically restraining the development aspirations of many countries.

An important thesis of the paper is that while dissident ideas of individual scholars can enable one to enunciate a narrative on the globalisation-development nexus that serves as a credible alternative to neoliberal economics, the political acceptance of such ideas depends on extraneous forces and factors. The fallout from a diverse range of global events and growing anxieties about actual and prospective costs of globalisation within the United States have created an environment in which the seemingly iconoclastic ideas
of Rodrik and others are likely to get a fair hearing from the political class in Washington and elsewhere. Admittedly, more diehard elements within the pro-globalisation movement may well find it hard to disengage from their deeply held conviction that a critique of globalisation must mean the return of old-fashioned protectionism and a vindication of the populism of the anti-globalisation protest. They are prepared to disagree profoundly with the dissenting views of Rodrik and others. This is understandable. As William Baumol reminds us, ‘economists disagree…sometimes passionately…primarily because their varied political orientations, which are patently not derived from economic analysis…frequently lead them to differ sharply in their recommendations.’  

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