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Dani Rodrik

The Future of Globalization

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I Quaderni raccolgono interventi di relatori di prestigio internazionale che hanno partecipato al Festival dell'Economia di Trento.

Sono volumetti a disposizione del pubblico, che si leggono d'un fiato e compongono una piccola biblioteca del Festival.

Fra i suoi scaffali sono ospitate le voci autorevoli di studiosi di diversi saperi a testimonianza di una caratteristica importante del Festival, la sua natura interdisciplinare, la sua volontà di accogliere e riflettere insieme sul nostro presente senza steccati, senza ideologie precostituite, senza dare nulla per scontato.

Il Festival dell'Economia non è solo infatti un evento di successo, che riempie le piazze della città e le piazze della comunicazione.

È soprattutto una scommessa intellettuale che vuole far uscire l'economia dalle aule universitarie, mettere in gioco le conoscenze, mescolare i saperi e le esperienze per incontrare un pubblico curioso di comprendere in prima persona il suo futuro, il mondo e le dinamiche che lo governano.

THE FUTURE OF GLOBALIZATION

Tito Boeri Good evening to you all. Dani Rodrik, the academic who will talk to us about his theories this evening, is perhaps one of the people who has contributed most to analysing the relationship between the market and the institutions responsible for redistributing income, because one of the limits to effectively exercising freedom is the fact that the market, the relationship between the market and wellbeing, often tends to ignore the distribution of income. So the activities and openness of the markets have very important effects on distribution and it is for this reason that institutions exist. They represent infrastructures for the functioning of these markets, also serving precisely to remedy situations in which the distribution of income may be blatantly unjust and thus, to some extent, to reduce the inequality created by the operations of the markets.

Dani Rodrik is the author of fundamental papers analysing the relationship between the openness of markets, internationalisation, globalisation, the openness of commerce and redistribution systems, underlining that it is fundamental to have institutions which redistribute, guarantee social protection and avoid disparity, precisely when it is wished to liberalise trade. In general, he has underlined that the markets do not take action on their own, but need the intervention of institutions. There is however a problem: these institutions can only be set up through collective decisions, mechanisms and decision-making processes that extend beyond the choices of individuals. There are democracies, demands, organs and decision-making times in the context of which these institutions can be set up. However, today defining jurisdiction and establishing who decides and carries out these collective choices takes place predominantly at national level, while there are also many phenomena and processes which are indeed now happening on a scale going beyond national frontiers. Thus there is an underlying tension between collective decisions, institutions operating on a national scale and phenomena, such as those linked to globalisation, which go beyond the borders of sovereign states.

So I find it particularly appropriate for this first lecture by Dani Rodrik to centre on this issue, on the need to create forms of coordination between the decisions made in different countries, in order to succeed in managing processes taking place at global level. Dani Rodrik is Professor at the Kennedy School of Government. In 2007 he received a very important award for his work, which has always been on the borderline between economics, political science and social science, the Hirschman Prize. He has an amazingly impressive curriculum and his output is truly boundless. We have a small programme which we occasionally use to evaluate the impact and number of scientific publications in our field; it is called “publish or perish”, meaning that you if you fail to publish you will inevitably end up succumbing to the competition in the field of research.

Well, if you enter Dani Rodrik’s name, the programme almost freezes and then returns a message saying: “List available exhausted”; more than a thousand publications are listed, some of which have been widely quoted, with an astonishing number of citations in google scholar. Thus it is truly a very restricted list of citations, because these are authoritative international magazines, in which it is very difficult to get published. Few articles are published, so having such a large number of citations is genuinely a sign of a very strong impact on the subject area.

His most cited work is a book published in 1997 entitled *Has globalization gone too far?*, a work which not by chance was cited by "Business Week" and put on the list of the ten most influential books of the decade.

This evening he will perhaps talk to us about the consequences and the subsequent phase in his considerations. The title that he has decided to give this lecture is *The future of globalisation*. Dani, the floor is yours!

DANI RODRIK Thank you very much Tito for that very gracious introduction and for your invitation. It is wonderful to be in this great town, in this beautiful hall, talking about some of the most burning problems of our days. I will try to give you an over-

view of some of the ideas in my new book, which has just been translated into Italian, has been in the bookstores I guess in Italy for now about a week or so, and try to relate some of these issues to both how we think about the crisis, in which the European Union finds itself in and what it says about the future of globalization.

Of course my title *The future of globalization* is a teaser. I have no idea about the future of globalization and maybe I should stop here and give those of you who want to leave at this point, the chance to do so. But in any case, any time an economist talks to you and promises to tell you something about what the future will look like, that is a good time to leave the room. We have an absolutely terrible record. I think it was John Kenneth Galbraith that said that economic forecasters exist to give astrologers a good name. I'm not sure in light of the last few years whether in fact it may not be the other way round.

I'm known as a critic of globalization, but what I'm going to try to do here is not suggest that globalization is a bad thing, not going to suggest that we should resist globalization. I'm going to try to suggest that globalization and capitalism, which is very closely allied to it, is a set of institutions, that is in fact quite malleable, quite variable, and it is in our hands to construct a different narrative, a new set of understandings, a new conception about what globalization ought to be and what an appropriate form of capitalism for the present century would look like.

And it is towards the creation of this new narrative, this new story line about what globalization ought to be, that I want to present a few ideas. But first, let me go a little back to suggest how we got here and in particular how our ideas about capitalism, market systems, globalization, have evolved over time. Just to give you a sense of what I mean when I say that capitalism is something that is highly malleable, highly flexible. We have had several versions and I'll give you a very capsule summary of our changing conceptions of capitalism. The earliest intellectual construction of capitalism, what I call version 1.0, is an idea that goes back to Adam Smith and Adam Smith's central insight was that the market, the market system and competition are the most dynamic form of an economic engine that we could think of and that markets and competition were a source of generating wealth and material well-being.

And the simple textbook renditions of the way that a market economy or a capitalist market economy works presumed that that a market economy really requires a very minimal state, a very minimal set of governance arrangements for the market. In particular the way that Adam Smith put it, you need of course the state to provide for national defence, you need the state to provide for a system of protection of property rights, so that capitalism can exist, and of course you need minimal administration of justice. Those are the three things that the State really requires. Now, Adam Smith in fact, had a much more expensive view of the functions of the State which you get if you read his other work, and not just *The wealth of Nations*.

But this minimal view, this very thin understanding of what market system required, is still the residue of the Smithian system and the textbook version of the market economy that we have inherited from that initial version 1.0 of capitalism.

In practice, this version of capitalism was the view that underlay the nineteenth century conduct of economic policy; where in fact the state had very limited functions, collected very little revenue, and didn't have an understanding of conducting macroeconomic policy or providing a lot of any social protection. It is also the foundation of today's libertarian vision. Libertarianism is a current of thought that still remains quite strong in the United States and attaches a very minimal function to what the role of the government ought to be and the basic idea is that the government should do the absolute minimum, just get out of the way and markets will take care of themselves, in particular they will take care of all of our needs at the same time.

This early version of capitalism was eventually succeeded by a more elaborate version, what I call version 2.0. The central insight of this version focused on the limitations of markets and what in fact markets required in order to perform all the advertised benefits. This was based on an understanding that markets need a whole range of additional non-market institutions and non-market mechanisms of governance in order to work well, in order to become sustainable, in order to be viewed as legitimate.

So markets in fact aren't self-creating. You need not just property rights, but also a wide range of contract enforcement institutions, wide range of judicial institutions to enforce contracts as we have increasingly understood they are not self-regulating in the sense that you need rules and regulations to ensure that employers don't cheat their workers,

banks don't cheat their borrowers, that firms and producers don't cheat their customers and that countries have the productive structure to generate new industries and move into new industries that markets don't necessarily generate on their own.

So you need a whole set of regulatory institutions. In addition, as Keynes taught us, markets are also not self-stabilizing, they need monetary and fiscally institutions to ensure that they generate adequate levels of employment, that the business cycle is moderated. And ultimately markets themselves are not self-legitimizing, because the economic outcomes that they generate may not always be consistent with the values, the norms, the customs of a broader social and political community. So you need safety nets, social protection and, ultimately, of course political democracy as well, as an institution that legitimizes markets. This because, ultimately, people know that they have the power and the voice to generate the rules that can influence the way or moderate the allocative and distributional outcomes which markets produce.

That is why the evolution of capitalism during the twentieth century, in particular after the Second World War, has seen the emergence of a wide range of institutions, regulatory institutions, redistributive institutions, monetary and fiscal institutions, and institutions of social and political conflict management, which have been the complement of markets and which have been necessary to legitimize markets. Essentially the socialist revolution, the communist revolution never came to pass, because that capitalism reinvented itself in this version 2.0 form; it learnt to regulate itself, it learnt to embed itself in this broader, social and political compact.

In practice the way that this was practiced in the advanced countries of the world, it was a combination of Keynes and welfare state; Keynes in terms of macroeconomic policy, stabilization policy and the welfare state to provide for the social protections. In the newly industrializing countries of the developing world, there was a third set of interventions and those were of course import-substitution policies or industrial policies to restructure their economies to overcome market imperfections of another kind in the productive sphere.

Now this capitalism version 2.0 was a national system of capitalism, not a global one. In fact, Keynes, who was one of the architects of the post Second World War global economic system, the so-called "Bretton Woods regime", understood very well

that in order for what today we call Keynesianism, Keynesian economic policies, Keynesian moderation of the business cycle, Keynesian interventions, it was very important that the economic system not be thoroughly globalized. In particular it was very important that there be controls on the flow of capital across the world, because he understood that if you put all these countries in a globally integrated financially globalized world, giving the ease with which money can flow in and out of countries and the constraints that that would place on the conduct of macroeconomic policies, that the kind of policy that he advocated, Keynesianism, would be incompatible with that kind of a system. So, famously, Keynes said that we need capital controls not just as a temporary expedient until the post war reconstruction is completed but as a permanent element of this new regime. Similarly, in the area of trade relations, even though the GATT regime, the General Agreement on Tariffs and Trade, undertook and was successful in generating significant amount of trade liberalization, by today's standards it is interesting how unambitious the GATT system was in pushing globalization in trade: we had whole areas of world trade left out of the GATT. Services was not included, agriculture was not included, developing countries were not bound by many rules, they could do whatever they wanted. So, the rules applied only for manufacturers trade for the advanced countries and even for those countries when certain large sectors got under pressure that conflicted with prevailing social and political bargains, those sectors were taken out of the rules. Textiles and clothing were the most famous example in the context of the so-called Multi Fibre Arrangement.

So this system, capitalism version 2.0, was a national system of capitalism. It existed within a very thin regime of global rules designed as such on purpose, because that was the whole idea of the Bretton Woods regime. It left significant room for manoeuvre, for domestic policymakers, policy space – an idea that I'll come back to later. Now, for various reasons, the post war Bretton Woods compromise evaporated. It was partly because, as the regime was successful, some of the main lessons were forgotten and improvements in communication and other technologies made increased capital mobility seem inevitable. But part of it was a new way of thinking about the relationship between markets and society, something that developed during the 1980s, some-

thing that is sometimes called neo-liberalism or market fundamentalism, that basically threw away the older understanding and started to push for what I call in this book "hyper globalization", which is an attempt to attain a textbook level of economic globalization, where there is no difference between domestic markets and international markets, where national borders make no difference whatsoever. This push for hyper globalization was an attempt to do away with any regulations that imposed costs on trade and financial flows at the border. So what became potential targets for removal were not just measures at the border like tariffs or restrictions on flows of capital, but also any kind of domestic regulations in different areas that might be viewed as increasing the cost of doing business internationally.

There were two legs to this push for hyper globalization: one was the new World Trade Organization, which was much more ambitious, much more expensive in terms of how much it wanted to push the trade liberalization frontier and also how much it went beyond the border into trying to harmonize and regulate rules in terms of patent rules, copyright rules, industrial policy rules, subsidies, health and safety rules to the extent that they might impose barriers to international trade and investment. On the other side, there was financial globalization, the idea that the flow of capital, the flow of financial assets ought to be free as a norm rather than regulated.

I think there were at least two blind spots that led to this push. One was that one could push for this hyper globalization and worry about the institutional underpinnings catching up later, so people who pushed for example for financial globalization, for free capital mobility, were often aware that in order for that system to work, you needed significant improvements in the domestic regulatory apparatus and significant amount of new macroeconomic tools to come into play. But even though those regulations and tools lagged behind the increase in capital mobility, the general response was: well, it's not capital mobility we should restrict, it's just that we should make sure that those institutions and regulations come into being.

The second blind spot was that this increased attempt to integrate markets would have either no or mostly benign effects on national institutional arrangements and therefore on the working of national democracies. So we could disregard the concerns of workers and others about the problem

of "an unlevel playing field", unfair trade – concerns about "how can we compete with people when companies employ workers under labour standards", let's say, that differ significantly from ours or "how can we compete when governments are subsidizing their industries elsewhere, how can we compete with firms that are ravaging the environment".

In domestic settings commerce exists within a uniform set of institutions. The problem of level playing fields becomes an important issue in an international setting because you are now trading across jurisdictions with different sets of rules. Economists by and large said these kinds of concerns weren't of importance, that institutional differences were simply another expression of the principle of comparative advantage, that one shouldn't worry about things like corporate tax competition, and so forth.

So, the view was that the consequences of the push for hyper-globalization for domestic social arrangements, domestic regulations, and the way that domestic democracy worked, were either minimal or not very harmful.

I think many of the problems of the existing model of globalization are directly the result of that overreaching. One direct result is that we have created a world trading regime which lacks complete legitimacy. The World Trade Organization, which for economists is one of our crowning institutional achievements of the last thirty years, is probably the world's least popular organization if you ask the person on the street. Unlike economists, the public have the intuitive sense that a chain of delegation which goes all the way from the domestic electorate to a bunch of judges in Geneva is too long and not entirely consistent with our understanding of how democracy and democratically accountable decision making ought to work.

So lack of legitimacy has been the key problem faced by the new trade regime. The problem in financial globalization has been rather different in that we did not succeed to create something like the World Trade Organization and all its rules. So we ended up with inadequate regulation and therefore instability, inefficiency and a series of periodic crises in finance, arising from inadequate regulation globally and inadequate regulation domestically. The most recent of these was of course the financial crisis that emanated from the United States and spread to other countries after 2008.

With respect to developing countries, we had the

very interesting development that the period since 1980 was a tremendous success for of many countries, including most significantly, of course, China and a few other countries in East and Southeast Asia. The period since 1980 has seen unparalleled poverty reduction in the world. But the paradox here is that the countries that were the most successful in this period, countries like China, Vietnam and a few others, were successful precisely because they played the globalization game not by the post 1980 hyper globalization rules, but because they played the game by the earlier Bretton Woods rules. As the Chinese like to say – keep the window open, but do not forget the mosquito net – so this way you get the fresh air, but you can keep the bugs out.

China's approach to globalization is particularly instructive. The Chinese did not liberalize their trade until they restructured their economy. They joined the World Trade Organization very late. They liberally used their trade and industrial policies to develop and manage their industrial base, which they could leverage through trade. They managed and continue to manage capital flows; they managed their exchange rate. So, it has been this heavy management, incompatible with our existing post 1990 version of globalization, that actually lies at the root of the success of these countries.

The fundamental problem of the world economy today is the imbalance between the global reach of markets and the largely domestic scope of their governance. The question about the future of globalization is: what does a global version of capitalism 3.0 look like?

The temptation is to say, since capitalism 2.0 was one where institutions were nationally based, but now markets have become global, that this new version of capitalism should be one where we take our domestic institutions, our national institutions, our domestic mechanisms of governance, and simply globalize those as well, alongside global markets.

Hence the talk about global governance and global governance in a real sense, not a thin layer of global governance, but real global governance in the form of truly global regulation, truly global standards, truly global safety nets and truly global macroeconomic management and so forth.

Of course as soon as we think this through fully, we say "well this is impractical". Global governance places too much faith on the willingness of countries to give up national sovereignty, but I think the most

important substantive argument against this conception of our next phase of globalization is that it is also undesirable. It is not desirable, because democracy, as a way of organizing our affairs, remains national – the principal legitimate locus of democratic deliberation remains the nation state. And that is why we require room for diversity in the types of regulation and the types of institutional infrastructure that markets need.

This diversity in national preferences and needs, which is expressed through national democratic deliberative mechanisms, is not just an inconvenience. It's a desirable part of how we arrange our broader life and the way that we exercise voice and exercise our political rights. So the question becomes: if different countries have different preferences, for example, if France wants a little bit more financial stability at the expense of less financial innovation and therefore wants perhaps greater regulation of derivatives than the United States views as appropriate because the United States may value financial innovation more than financial stability, shouldn't France, or the European Union, have different rules on derivatives than the United States? And if of course they should, then it is going to be impossible to talk about a unified world markets in swaps and other kinds of derivatives. Similarly, if developing countries have very different policy needs, in terms of industrial policies, restructuring policies, to carry out a structural transformation and diversifying their economies because they are at a much lower level of development, earlier in the stage of development, is it appropriate necessarily to pigeonhole them with other countries that may not have similar needs and force on them the same kinds of restrictions on their policies, on their industrial policies and subsidies that may not be as appropriate?

Now, in some ways, the European Union is an exception that turns out to prove the rule, because the European Union, at least one conception of the European Union, was that what Europe was trying to do, was trying to construct a regional version of what I have called global governance. The idea was that if you are going to have a truly unified single market in Europe that that needed to be embedded in Europe-wide institutions and we got a fair number of those institutions: we have got the European Parliament, the European Commission, the European Court of Justice, which has been very important in enforcing the single market, we have

this ongoing process of legislation, the *acquis communautaire*, which no one knows how many pages is at present, but everybody agrees that it is more than a hundred thousand pages. Some of the European countries have gone even further in creating a unified monetary zone and the European Central Bank.

But what the crisis has taught us is that, despite all this institution building – which has gone much further than what we experienced in the rest of the world – that even that was insufficient. That Euro zone needed, in order to sustain a common monetary area, a common financial system, common monetary policy, also needed a common fiscal policy. So they needed a fiscal union, and regulations in financial markets to be harmonized. But those weren't done, I think, for the simple reason that it was much easier to transfer monetary policy to a union level organization, because that was viewed as largely a technocratic decision. It could be delegated to a bunch of technocratic central bankers, the ECB.

The moment you start talking about regulation, the moment you talk about fiscal policy, these are issues with much greater political import and it becomes much harder to agree on what the common rules are going to be, it becomes much harder to agree that you are going to delegate these to truly European institutions and therefore these remain at best handled in an intergovernmental fashion, where the national governments of individual member states still retain prerogatives, still are the ones that are carrying out these policies and not a union-wide institution.

The best way to actually see how incomplete the institution building and the building of a political union in Europe has been, is to compare Europe to the United States, because the United States after all is a collection of individual states. And the United States went through a very similar debate and similar period of integration, the United States didn't start out as a single political federal entity. The whole debate in the Constitutional Convention of 1787 in the United States was whether the United States would remain a confederacy where each individual state retains significant sovereign powers or where in fact these states would give up powers to a federal government in Washington D.C. and ultimately was the federal step one, but it took a whole century and ultimately a civil war for that gain, for that decision to have actually turned into practical reality for the United States to become a truly federal entity.

So, this is just to say that, when we complain about the lack of institutions in Europe, we have to understand that historically this is a process that takes a very long time and we shouldn't be too harsh on European policymakers for not having been able to complete this integration process, the institution and political aspects of this, judging from the American example.

In a way the misfortune of Europe was having been caught in this crisis, which came from the United States, midway in this process of institution building and institution integration. But what we see in the United States is precisely what Europe today lacks. If California has a large budget deficit, if the state of California has a very large budget deficit, and therefore looks like it might be insolvent, it might be bankrupt, what happens? Well, California shares a common currency with the rest of the United States, just like Greece and Portugal and Ireland do. But when the state of California becomes insolvent, Californians, individual Californians, are automatically getting welfare payments checks transfers, pay reduced taxes to the federal system, so there is an immediate system of transfers, of safety nets that come from the Union.

Nothing like this exists in the EU.

Moreover, just because the state of California is bankrupt, it doesn't mean that individual borrowers in California get shut out of credit markets either. As long as if you are a bank in California, if you have a good balance sheet, you can continue to borrow in American credit markets, even though the government of California is bankrupt.

Look at Greece today. Just because the Greek government is bankrupt, no Greek bank can borrow. Why? Because there's still something in Europe called country risk, sovereign risk, Greece is still viewed as sufficiently sovereign, whereas California isn't, and therefore the fact that the Greek government is insolvent means no other borrower in Greece can access markets at the same time.

In the United States we also have a Federal Reserve that automatically provides for lender of last resort, not through a series of ad hoc and highly contentious negotiations. Californian interests are represented directly in Washington, in the federal political institutions, Californians can easily move and job seek elsewhere in the United States without facing language barriers, without facing culture shock.

Effectively the "quid pro quo" in the United

States, from the perspective of California versus the federal government, is that the state of California has given up its sovereignty and has accepted the reach of federal laws and regulations and has accepted the limitation that it can never overcome those laws and regulations. Of course in return Californian residents are given political representation; they actually can stand up for their interests in the common monetary policy, in the common fiscal policy and in the common regulatory policies.

Because this is not how the European and the Euro zone system works, the crisis within Euro zone is more costly both in economic terms, because you don't have these various mechanisms of assisting parts of the Union that are in trouble, but also becomes more costly in political terms, because the process of negotiating becomes highly contentious. Therefore you have the Northerners and the Germans complaining about Greek profligacy and why should Germans bail out the Greeks, who had overspent, and the Greeks complaining about how selfish the Germans are and simply bailing out their own banks.

The central point that I am making in terms of the necessary complementarity between broader institutions, including political institutions, and single integrated markets, we can see is precisely in the dilemma that the European Union faces today, because if the European Union is going to get out of this crisis, I think it has to make a decision. The decision is either it decides to become more of a political union and that's because it has to federalize fiscal policy and it cannot federalize fiscal policy without, in some sense, building a political community at the same time, or if it is unwilling to do that, if it is unable or unwilling to achieve political integration, that it is going to have to accept less economic union. In other words, allow Greece and the others to actually have the policy instruments that they need in order to reactivate their economies.

I will finish by returning back to some of the global issues and summarize my argument by way of a number of general guidelines.

The first point is to really drive home the point again that markets need to be deeply embedded in systems of governance in order to work well.

Second, that these institutions of governance, specifically, democratic governance and political communities today are organized largely within Nation States and they are likely to remain so in the immediate future.

Potentially the European Union could be an exception, but as we are observing today and as my discussion makes clear even there, there is a big question mark.

Third, that there is no single way, in the sense of how we design institutions, these mechanisms of regulation. The institutional designs that underpin market economies will differ according to the democratic preferences of different jurisdictions.

Countries, democratic countries in particular, have the right to protect their own social arrangements and institutions, but not the right to impose them on others.

There is an important distinction here. If you want to protect your financial market regulations, your labour market institutions, your safety nets and if that requires some impediments to the free flow of goods and services, that is ok. But, what it is less ok is to impose on other countries your labour market institutions, your financial market regulations.

These ideas imply that we need to push for a system of international economic governance that is significantly less ambitious, significantly falls short from the global governance idea and creates policy space for democracies, for the advanced democracies, so that they can recreate their own domestic social and political bargains for the developing countries to have the space to undertake the kinds of policies that are needed to restructure their economies and diversify their economies. I have emphasized the importance of the normative value of creating this policy space because of the presumption that the constituent units are democratic, that the policy outputs are therefore normatively desirable, normatively have value. Of course, not all countries are democratic and therefore we need to think about a second set of considerations about how do we deal with non-democratic countries. I'm not going to go into the detail of that, but simply say that in non-democratic countries, since we cannot presume that their choices reflect the needs of their citizenry, that it would be not undesirable to subject those countries to less permissive rules in terms of how much policy space are required.

So, what is the future of globalization? I have no idea, but I do know that if we go on our current path, where we simply presume that we can build these global institutions, these global governance mechanisms as implausible and undesirable as that path might be, that we are going to be once again

finding ourselves in exactly the same set of problems that we have created, namely this dangerous imbalance between the reach of markets and the scope of the governance. And we have to figure out a way of bringing those to much more closely aligned to each other. Unfortunately, there is no way of doing that except for reducing our ambitions on how much globalization we can have.

So, the paradox of globalization is that sometimes less is more. Thank you very much.

TITO BOERI Thank you Dani for this vision, which in some ways leaves orthodox economics on these issues behind, and thank you above all for the attention you paid to the problems of the European Union, also dealing with the very difficult choices facing Europe as regards the need to in some way accompany and move further towards integration in order to deal with the public debt crisis. We have time for a few questions from the public. The first to speak is Lucrezia Reichlin.

QUESTION FROM AUDIENCE I'm Lucrezia Reichlin from the London Business School.

I find your intervention quite convincing. In a way I have to disagree that we need global governance in particular for the European mechanism in integration. I think actually your point is one of the point that I would like to make tomorrow when I'll talk about the ECB, but I have two questions. First, you're talking about what happens in the case of non-democratic states. I would say, even in the case of democracy. We live an imperfect democracy, and so it is not obvious that going first for monetary union or financial integration is a bad idea for the dynamic of devolution of other institutions like fiscal integration governance and so on.

And the second question is why do you think that the nation is the obvious unit when we talk about the democratic process, and of course if you don't talk about the nation at a more granular level of disaggregation, then it'd be quite different.

DANI RODRIK Great, great questions. On the first, you're absolutely right that democracies don't necessarily work perfectly and for that reason actually I had never chanced to talk about this, but one area which I talk about in the book, which I think is important, is one area where there is significant value in global rules, original rules. It is rules that actually enhance

the functioning of democratic deliberation, enhance the quality of democratic deliberation at home.

So, you might view, for example, delegation of monetary policy making to an extra national central bank as a sort of desirable kind of delegation, because it takes monetary policy making out of the hands of the policy and we know, with all the time consistency problems and short-termism that country policy might be otherwise subject to, that is a good thing.

We can extend that principle across a number of different areas. For example we might say, globally enough, it would be perfectly desirable for World Trade Organizations to have rules as to sort of how the trade policy making machinery in individual countries ought to satisfy certain normatively desirable standards like: accountability, representativeness, adherence to scientific and economic knowledge and research and so forth. Those are all things where I think the external regime, the global regime or the regional regime, can make hugely important contributions.

In the case of the European Union, I also agree with you in terms of the dynamics. To make it very clear, the difference between Martin Feldstein and my view was that Martin Feldstein said from day one that the Euro zone will never work, a common currency would never work. But I interpreted that like you: this is a process, as long as there is in the back of this a conception that you are integrating, that this is not where the process stops, that there is a political conception behind it, that it might make sense.

And it might still have made sense, I think, if the American crisis hadn't struck. So, I agree with you. That's why I am still not down on the process. I don't think I said that this was a bad thing.

On the second question, I agree with that as well. I think the nations state is a way of organizing a sort of like local public goods. So, if you think that different communities have different preferences for the type of public goods they want and if the nation-states are broadly aligned with those preferences, then it is ok for each different community or nation to have their own type of, their own kind of, financial regulation for example, and that significantly undercuts the argument for why they ought to be a regionally or globally harmonized.

The normative value in the nation-state is to the extent it reflects a mass of preferences that might be different from those elsewhere.

But, where differences aren't huge, as presum-

ably they may not be in Europe, hopefully, there's not any normative value that attaches to the nation-state. Then the problem is: how do you construct the political community? Here there is a big responsibility for people like Merkel who rather than telling Germans the story that she is telling now, at this point of the political union it is going to be rude to construct the political narrative about how this is the germ of a political union. So that would be the issue, but of course that's not how the discussion has been carried out today.

Question from audience I don't know much about economics, but I would be very interested in knowing what is your opinion about some major European countries being out of the monetary system, let's take UK. From your point of view, how much sense does that make? Thank you.

Dani Rodrik I think the British had their reasons, which was they have their financial institutions, they didn't want to be part of a set of common rules; I think that was probably a wise decision.

The more relevant question today is: should country like Greece actually leave the Euro zone?

and I think unfortunately there is going to come a point where, if it hasn't come already, that, if the kind of a vision of a truly political European Union isn't articulated and the problem that Greece faces today isn't fiscalized throughout the European Union, then I think it leaves very little option for Greece but to exit the Euro zone and depreciate its currency, because otherwise this existing policy of austerity upon austerity is neither economically desirable, nor politically sustainable. And unfortunately that becomes really the only other alternative for Greece and of course if Greece is going to do that, there is going to be at least a few others who has to be pushed that path as well. And the only question there is, if you are going down that path, whether the exit of Greece is done unilaterally at the moment of crisis or it is going to be done in a way that's negotiated and orderly.

Question from audience You have been very harsh on the democratic credentials of the WTO. What you said may apply to any international institutions from the United Nations downwards. So is this a signal that you don't believe in the democratic credentials of any international institution?

Dani Rodrik No. First of all the World Trade Organization is very different from the United Nations. The World Trade Organizations, just to give you a sense, is the only international organization that has ever made, for example, the United States change its policy. Think about that for a second. The United States, which is obviously the world greatest power, has never changed anything that it does because of any kind of international decision, and has had to change some of its regulatory policies because of WTO decisions. And of course what is true for United States, it's true for other countries.

WTO has a degree of enforcement power in practice, which is orders of magnitude different from any other international organizations, except for a few international climate agreements and so forth. In that way it is a big success. If you ask economists what is the UN, it is nothing, but the WTO, their decisions really make a difference.

Why is it democratic, non-democratic? I would like to see the World Trade Organisation moving in the directions that I suggested which was that it will have much greater legitimacy to the extent that the rules of the WTO are geared at enhancing domestic democratic decision making. So enhance the transparency and the evidence space nature of domestic trade and industrial policies, rather than a narrow dispace for policy diversity and harmonize all policies.

I think there has been too much of the latter, too little of the former, and the more it is the second, I think, the more problematic it becomes from the standpoint of democratic delegation.

QUESTION FROM AUDIENCE I think you didn't say nothing in favour of globalization. I mean, obviously the gains from trade, starting with manufacture goods, agriculture goods moving to services, financial products, trading assets, obviously the gains from globalization are declining. Could you come on that a little bit? I know where you come from, but there must be some gains from going somewhere and Europe is gaining a lot from having more trade, there's no question about that, within and without.

DANI RODRIK I think that we really have to look at area by area. In trade, in goods, in the 1950s there were huge potential gains from trade globalization, because their system was so highly restricted that the kind of globalization that took place in the 1960s and 1970s provided very significant benefits, but

if you look at trade in most things, including even agriculture today... So if you ask the question: What are the prospective gains from completing the Doha Round? They're about this big, they are about 0,1% of global GDP. That's not where the gains are.

If you want to look for gains, of course you would have to look at other areas. As you know, labour mobility would be a huge area where the global labour regime is roughly where the world trade regime was in the 1950s and so if you want to get some gains, that's what you would have to work for and that's where I think it would be very desirable. Similarly in financial, I think. It is very difficult to make the case at this point that there would be no losses and significant benefits from a regime that is much tighter on cross border flows.

So I think in trade and in finance, I think, prospective gains are relatively small, there are lots of services area, in particular labour services where the gains are very large, where in fact I want to see the negotiations stay place.

QUESTION FROM AUDIENCE In your presentation you said that if California had a passive, USA can help her, but how can you think all the European states can give their sovereignty to an international organism and let them be controlled by it, like all the little states of the USA will be done by the US?

DANI RODRIK There are different models of quasi federal regimes. I wouldn't necessary say that the US one is exactly the right one for the European Union, and nor would I say that this is something that ought to take place tomorrow, or next month or in two years. But this is what the logic is. Today, Trichet said that Europe needs a common finance minister. Fine, it clearly does, but then to whom will the finance minister be accountable to? to Berlin? The moment you start thinking about what the political structure behind that is, then you have to think about some kind of a federal political structure. So, yes, if you want to have a truly European Union cabinet, including a finance ministry, you need to think about a European Parliament that even has much more broader powers and a European budget that significantly goes behind 1%, that it isn't so forth, and exactly what form of representation, how the election system, the system of federalism. These are all architectural questions that need discussion, but I think yes, ultimately that's the path. It's going to

take a long time, but if that's going to be the path and as I think it's the only coherent way of sustaining the single market in Europe, including financial integration, I think that go has to be articulated today; that's nowhere we are heading.

QUESTION FROM AUDIENCE Professor Rodrik you said about the scope of the asymmetry between the scope of market and the reach of governance and, based on today's speech and based on your previous publications, I know that you're concerned not only about the scope of the governance but also the type of the governance, who's going to benefit from that government and who is not.

Talking about international trade, which is a major interest of mine, and given the stalemate in the WTO negotiations, namely the Doha Round, and the proliferation of these bilateral trade agreements, that are believed to be not in favour of developing countries and directly establishing some kind of jurisdiction with investor trades arbitration etc., so do you think this is a type of globalization 3.0? I would like to hear your comments on this, thank you.

DANI RODRIK I think the trend you are mentioning is one that I'm quite worried about, and I write about it in my book. I think that these bilateral trade agreements, these free trade agreements, which carve out extra national jurisdictions for foreign investors and so forth, aren't imposed by the United States or Europe. The developing countries are dying to get into these arrangements. The problem isn't necessarily that these powerful countries are imposing these asymmetric arrangements, is that the developing countries are following over each other because of, if I'm allowed a Marx's term, self-consciousness, that they have an idea that these trade agreements can be a shortcut to development: that you sign these agreements, your risk rating goes up, you attract a lot of investments, everything goes well. We've seen time and again this expectation actually not really fulfilled. I think the problem here is more at a level of national consciousness, at a level of what these developing countries think they are doing, what their growth strategies is and what kind of a role these trade agreements can play. I think for some kind of countries it may make sense, but in many countries they're sort of using this quite inappropriately, I think, as a shortcut to investment and growth strategy and I think they will be disappointed.

Question from audience I would like to ask what is and will be the impact on global economical decisions of the new emerging powers as China, as India? Aren't the occidental powers undervaluing them?

Dani Rodrik Clearly, we're moving into a world which is becoming much more multipower and the centre of gravity in terms of powers is moving east and south, in particular the role of China is going to be very important. I think one of the interesting thing about the new powers (China, India, Brazil and so forth) is that even though they are very different countries, there is one thing that they share, which is that they are very zealous about guarding national sovereignty and I think that tells us that in this kind of new world regime, multipolar world regime, that we are going to be moving in, the arguments that I have made here in terms of understanding that national sovereignty as value, particularly when it is underpinned by democratic deliberation, this is going to be willy-nilly part of the global architecture in the new world system that we are moving into. So, even if this consciousness doesn't exist intellectually, it is going to be forced on us by the constellation of new powers there. It does also the sense in which the kind of architecture I'm recommending is much more consistent with the shift away from Western Europe and United States, I think. The flip side of that is that countries like China will have to recognize that if they value their national sovereignty and they want to guard zealously their policy space for their own policies, then they need to understand that the systemic players, that the industrial countries have similar needs as well. So the quid pro quo will have to be that, yes, you can have your policies space, but we need it too, let's discuss how we can create an interface between those that doesn't spill over and create two adverse negative effects.

TITO BOERI These were all very good and difficult questions, so let me add a couple of easy ones. First one: it seems to me to be a great absentee in your presentation, and I think it's something that people here perhaps are interested in, and these are NGOs. In a way NGOs prove capable of monitoring, following, and addressing some of the issues we were addressing: fair trade, unfair trade by multi-national corporations and so on. I would like to have your view on this because there is also an issue of political accountability there, which is a very serious one.

And the second question is: you were saying, rightly so, that sometimes economic integration should wait for political integration, but there are clearly dynamic mechanisms. To some extent, economic integration can create the conditions also for political integration. Standard example comes from your theories about trade; the fact that if you open up to trade, then you uncover, unfold, discover your comparative advantages so then open us to trade becomes something that is more beneficial for the country doing that. But there are also cases where things may go wrong (case of migration you were just mentioning before) and I'm a bit sceptical about your idea of opening more to labour flows, because we have the history of Europe and other countries that move from a situation where there is much more mobility workers to a situation where we close borders. Not only that type of integration does not create a support and the constituency for more political integration, but… So I wonder whether there is some dynamics that we were missing.

DANI RODRIK They are great, easy questions... Let me just say something about the NGOs. I actually do talk in chapter ten about this. One chapter in the book is devoted to the question: is global governance really feasible and desirable? Obviously one of the mechanisms through which you can generate some kind of a global governance, as you suggested, is to rely increasingly on these international NGOs that provide information, that can monitor, have various kinds of accountability mechanisms and so forth. My conclusion, having looked at this, is that it's a very imperfect set of mechanisms, because the kind of global market integration that these NGOs and various other similar movements, like incorporate social responsibility or the transparency initiatives, various labelling initiatives and so forth, can sustain, I think, is a relatively limited kind of global economic integration. We see this already in a number of different areas. For example, when you scratch the surfaces, various labelling initiatives or fair trade initiatives turn up to be, in a lot of cases, not more than feel-good initiatives. There are huge problems in terms of accountability, there are huge problems in terms of who gets the information, how is it conveyed, does it actually make a difference in practice. My general evaluation is, without in the least bit wanting to devalue the work that these NGOs do, in particular in putting very important issues on the

agenda, I'm somewhat sceptical that they are a large part of the solution. In some sense we haven't come up with real alternatives to real existing democratic political institutions of the classical type and the various alternatives to whether it is these NGOs and various codes of conduct or it is, there is notions of network governance, that is the other kind of global governance that Powell has been talking about, I'm sort of sceptical that they can take us very far.

Question from audience Getting back to our country, that doesn't love NGOs, I'm talking about China, and we were talking about World Trade Organization, but not many people, who analyse international economy and policy, talk about Beijing consensus. It is not well spread in the world, but it is spreading. I would like to know about the influence of Beijing consensus? Thank you very much.

Dani Rodrik The Beijing consensus... I don't know what the Beijing consensus is, I mean, I see it been mentioned, but I'm not quite sure what it is. I sort of have a sense of what the Chinese did and why they may have been so successful in what they did. I see very little transferability to other countries in terms of its operational implications. I see a lot of transferability in a kind of frame of mind: the pragmatism, the experimental nature of policy, the willingness to put up that guard against the mosquitoes and the bugs. Some of the general principles behind their specific policies, I think those are transferable, but when you talk about their specifics, about their township and village enterprises, or the special economic zones, their institutional innovations, I don't think they are particularly transferable.

I think what has happened in the last ten/fifteen years in terms of growth strategies, developing strategies, is that we have moved from the real consensus to no consensus and I think the danger is that it leads us to a "everything goes" kind of an approach. My view on that is not that everything goes, there are still some very broad, very important principles that good economic policy satisfies. It is important to provide property rights to investors; it is important to provide macroeconomic stability; it is important to provide market oriented incentives; it is important to orient economy outwards. These are all the kind of things that are part of the consensus you can utter when you get off the plane in a country that you have never been to before.

Somebody asked what should we do? Those are in some sense empty of content, because if you say how are you going to provide market oriented incentives, how do you to get property rights protections, how do you get out with orientation, that's where the details are and my analysis suggest that those details are highly context specific and depend very much on local market conditions and local political considerations and so there you can't have consensus really.

QUESTION FROM THE PUBLIC I am not a technician so I will speak in a more simplistic manner. I am a small businessman who has unfortunately suffered from what has happened. In the last few days I have read that in practice the financial situation is more or less the same as it was before the crisis in certain ways. We have gone back to where we were, so in this period rules have not been put in place, they have not happened. I would like to understand whether in two years we will be in the same situation we experienced two years ago.

DANI RODRIK Well, you are taking me at my word of the title "the future" and I was trying to prevent from doing that. I do think that, globally, we haven't faced up to the real challenges that the crisis has revealed. I don't think the nature of regulation, of financial markets has been substantially and significantly changed and affected in the positive directions, either by way of our domestic regulations or by way of our global arrangements. So I think it has been mostly tinkering, I don't think it is going to be in two-year time, because the cycle tends to be around ten years. So you have another eight years, I would say, on the current path.

With respect to the European Union, I continue to be optimistic that the crisis will elucidate for policymakers this very stark choice that they do face and that there will be an act of leadership that will be able to move Europe or at least those members of the Union that want to go in that direction, in a significantly more politically integrated direction. If that act of leadership takes place, actually I would be more optimistic about Europe's immediate future.

TITO BOERI Thank you.