

Palley, Thomas I.

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## The fallacy of the globalization trilemma: Reframing the political economy of globalization and implications for democracy

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# FMM-WORKING PAPER

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## THE FALLACY OF THE GLOBALIZATION TRILEMMA: REFRAMING THE POLITICAL ECONOMY OF GLOBALIZATION AND IMPLICATIONS FOR DEMOCRACY

Thomas Palley<sup>1</sup>

### ABSTRACT

This paper argues Rodrik's (2011) globalization trilemma is analytically mistaken. Rather than a trilemma, globalization poses a dilemma between more globalization and reduced national policy space. Not only may globalization shrink policy space, it may also twist it. The character of the twist depends on the type of globalization. There is no inherent contradiction between globalization and the democratic nation state. However, globalization has significant implications for the content of democratic politics which it tends to restrict. Furthermore, globalization can generate policy lock-in (Palley, 2017) which permanently reduces policy space. That has enormous implications for democracy and future democratic policymaking.

<sup>1</sup> Thomas Palley Washington, DC: [mail@thomaspalley.com](mailto:mail@thomaspalley.com)

# The Fallacy of the Globalization Trilemma: Reframing the Political Economy of Globalization and Implications for Democracy

## Abstract

This paper argues Rodrik's (2011) globalization trilemma is analytically mistaken. Rather than a trilemma, globalization poses a dilemma between more globalization and reduced national policy space. Not only may globalization shrink policy space, it may also twist it. The character of the twist depends on the type of globalization. There is no inherent contradiction between globalization and the democratic nation state. However, globalization has significant implications for the content of democratic politics which it tends to restrict. Furthermore, globalization can generate policy lock-in (Palley, 2017) which permanently reduces policy space. That has enormous implications for democracy and future democratic policymaking.

*Keywords:* Globalization, trilemma, dilemma, policy space, policy lock-in, democracy.  
*JEL ref.:* F0, F02, F50.

Thomas Palley  
Washington, DC  
[mail@thomaspalley.com](mailto:mail@thomaspalley.com)

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## 1. Introduction

In his best seller, *The Globalization Paradox: Democracy and the Future of the World Economy*, Dani Rodrik (2011) introduced the notion of the globalization political trilemma, which has quickly gained widespread currency. According to Rodrik, there is an inescapable conflict between globalization, the nation state, and democratic politics. Countries can have any two, but not all three.

This paper argues the trilemma framing of globalization is mistaken. Instead of a trilemma, the paper argues globalization poses a dilemma. The dilemma is more globalization versus less national policy space. Democracy is a side issue. The trilemma framing yields mistaken understandings of globalization, which in turn impede thinking about what is politically and economically needed and possible.

The paper also argues that not only does globalization reduce policy space, it may also twist policy space by shrinking it in some dimensions and expanding it in others. Furthermore, as argued by Palley (2017), globalization can generate policy lock-in and policy lock-out so that policy space is permanently changed. Even as the democratic process remains intact, the scope and content of democracy can be radically diminished. That has enormous implications for democracy.

Lastly, policy lock-in via globalization explains why globalization may be subject to abrupt systemic crisis. Exit from a policy regime is not worthwhile as long as exit costs exceed costs of remaining. However, once that threshold is reached, the regime can rupture suddenly once the calculus of exit comes to dominate.

## **2. The globalization trilemma revisited**

Rodrik's "globalization trilemma" pivots linguistically off the "macroeconomic policy trilemma" coined by Obstfeld and Taylor (1997) to describe the policy implications of the Fleming – Mundell model, which has been relabeled the "impossible trinity" by Krugman (1999). The labels "trilemma" and "impossible trinity" show the power of language in economics. These descriptions have grabbed economists' imaginations and now frame understanding of international macroeconomic policy choices. As with the globalization trilemma, the impossible trinity also has problems and promotes policy misunderstandings and policy fatalism. Language matters.<sup>1</sup>

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<sup>1</sup> The impossible trinity asserts countries are limited to choosing between flexible exchange rates, open financial capital accounts (i.e. capital mobility), and effective monetary policy. A country can have any two, but not all three. Though the impossible trinity holds under very specific assumptions, it does not hold under more general and normal conditions. Tobin (Tobin and Braga de Macedo, 1980; see also Palley, 2004) showed it to be false if foreign assets are imperfect substitutes for domestic assets. Small international transactions taxes such as the Tobin tax also create space for policy. The impossible trinity framing encourages policy fatalism and surrender to the market (Palley, 2014). It is possible to have managed exchange rates and managed capital flows. More importantly, the impossible trinity is fundamentally misleading in that it places capital mobility on par with flexible exchange rates and monetary policy

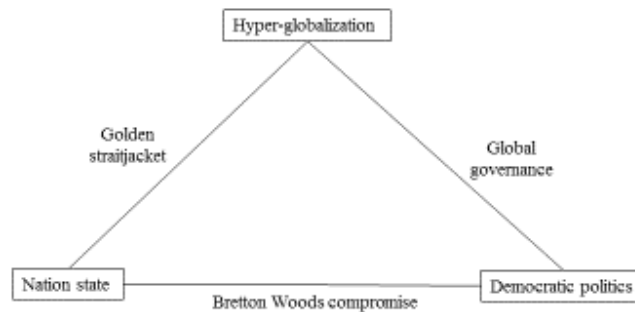
Rodrik's trilemma is based on the assumption that there exists a fundamental tension between globalization and national democracy. Given that tension, countries can restrict democracy, limit globalization, or globalize democracy.

These three political response options are captured in Figure 1 which describes Rodrik's (2011, p. 201) globalization political trilemma. There are three characteristics: hyper-globalization, the nation state, and democratic politics. Owing to the assumed fundamental tension between globalization and national democracy, countries can have any two but not all three. To illustrate the trade-off, Rodrik identifies three different political regimes: the golden straitjacket regime which corresponds to the 19<sup>th</sup> century gold standard when there was hyper-globalization with nation states; the Bretton Woods regime of the mid-20<sup>th</sup> century when democratic nation states imposed limits on globalization via tariffs and quotas, managed exchange rates, and capital mobility controls; and an imagined 21<sup>st</sup> century regime of hyper-globalization in a world where the nation state has disappeared and been replaced by democratic global governance.

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effectiveness, when capital mobility is likely of far less importance and significance to policy makers. Instead of the "impossible trinity", it would be better to reframe think in terms of the "possible trinity".

Figure 1. Rodrik's (2011) globalization trilemma.



The three regimes are distinct, with each having two of the three characteristics. The golden straitjacket regime is inconsistent with democratic politics; the Bretton Woods compromise is inconsistent with hyper-globalization; and the global governance regime is inconsistent with the nation state.

Rodrik's trilemma schema rests on the assumption of an incompatibility between globalization and national democracy. But is that true? 19<sup>th</sup> century Great Britain was a democratic nation state that was hyper-globalized. It is true the franchise was different from today (woman only got the vote in 1918), but politics was still democratic within that different franchise. The golden straitjacket regime was therefore compatible with democratic nation states. It was World War I and the financial restructurings it wrought that put an end to 19<sup>th</sup> century hyper-globalization, rather than inherent political contradictions with democracy. Indeed, in 1926 Winston Churchill restored Great Britain to the gold standard, though the restoration was abandoned in 1931 because Churchill chose an unsustainable gold exchange rate that over-valued sterling.

A second example from today is the Netherlands or Sweden which are democratic nation states that are hyper-globalized. That shows again that hyper-globalization is consistent with both the nation state and democratic politics, in contradiction of the globalization trilemma.

Analytically, the critique of Rodrik's globalization trilemma is that it conflates "political process" and "policy content", resulting in a mistaken assertion that globalization is inconsistent with the democratic political process. Democracy refers to the political decision-making process, which is not impacted by globalization *per se*. Instead, as argued below, globalization impacts the content of democratic politics by shrinking the menu (i.e. policy space) of what is economically feasible.

Once democracy is interpreted as a process, the trilemma disappears. Instead, globalization becomes a dilemma that imposes a trade-off between globalization and the content of democratic politics (i.e. national policy space). Both democracy and authoritarianism are consistent with globalization, and globalization reduces policy space for both. That is why authoritarian nation states may also reject globalization, as may democratic nation states. Equally, democratic nation states may accept globalization if they view the benefits as outweighing the costs, and so too may authoritarian nation states as exemplified by Singapore.

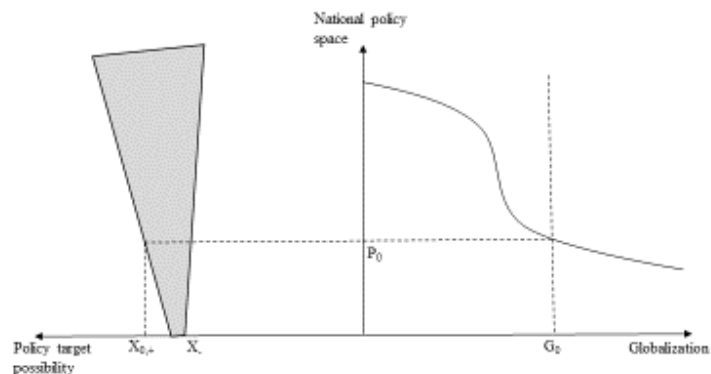
### **3. The globalization dilemma: reframing the political economy of globalization**

The problem with globalization is that it creates a dilemma rather than a trilemma. The dilemma is between globalization and national policy space, with increases in the intensity of globalization reducing the policy space of the nation state.

This impact of globalization on policy space is illustrated in Figure 2, which

provides a graphical formalization of the relationship between globalization and policy space. A country's policy space is described by a policy index (P) which determines the amount of policy space it has. Higher values of P confer greater policy space, which yields a wider feasible range for the policy target (X). The policy index declines as globalization (G) increases, which reduces the feasible range for the policy target variable. In Figure 2 there is a single policy target (which enables two dimensional graphical representation). In reality, there is a vector of policy targets, and globalization can be viewed as reducing the feasible target space for the vector of targets.

Figure 2. Globalization and national policy space.



The right-hand panel of Figure 2 shows that policy space decreases as the globalization increases. The relationship is represented as non-linear. Initially, globalization may produce only small losses of policy space: then the losses may steepen; and once the system is highly globalized, the policy space losses from further marginal increases in globalization may slow again. The current level of globalization is  $G_0$ .



The left-hand panel shows the range of the policy target variable that national policymakers can achieve. As globalization increases and national policy space declines, the achievable range shrinks. For a given level of globalization,  $G_0$ , the achievable range of the policy target variable ( $X$ ) that the policymaker can hit is  $[X_{0,+}, X_-]$ . The upper limit is  $X_{0,+}$  and the lower limit is  $X_-$ . In Figure 2, the achievable range shrinks as globalization deepens owing to a decline in the upper limit (i.e. the best outcome) that the policymaker can achieve.

Figure 2 captures the logic of Keynes' (1933) famous essay titled "National Self-Sufficiency". In that essay, Keynes argued for a retreat from international economic openness, and especially financial capital mobility. The essence of his argument for a greater degree of national self-sufficiency and economic isolation among countries was to allow them policy space to pursue different national ideals:

"But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national. ...the policy of an increased national self-sufficiency is to be considered, not as an ideal in itself, but as directed to the creation of an environment in which other ideals can be safely and conveniently pursued (Keynes, 1933)."

For Keynes, the issue was not about internationalization (i.e. globalization) being in contradiction with the democratic process. It was about internationalization restricting and shrinking the policy space in which democratic nations could pursue different social ideals.

From the perspective of the nation state there is no trilemma, only a dilemma. National sovereignty or the nation state can be identified with national policy space. Globalization creates a trade-off between national policy space and the degree of globalization, with national policy space declining as globalization deepens. It is in that specific sense that there is a conflict between globalization and the nation state.

Globalization diminishes national sovereignty (i.e. the nation state) by diminishing national policy space.

Democracy is not the issue. Countries can be democratic and engaged in globalization, or they can be democratic and outside of globalization. Democratic politics, defined as a process, is always viable. The problem is globalization diminishes the “content” of democratic politics, as measured by policy space and the achievable range of the policy target. The same trade-off between globalization and policy space holds for authoritarian countries.

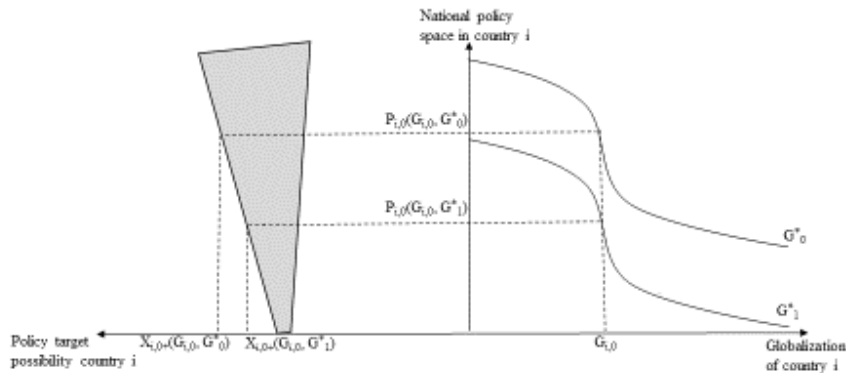
Democracy and authoritarianism concern the “political process” governing policy choice. Globalization impinges “policy space” (i.e. national sovereignty), rather than the domestic political process. Both democratic and authoritarian regimes face constrained policy space if they choose to participate in globalization. For both regimes there is no trilemma, just a dilemma between the benefits of globalization vs. the costs of diminished policy space.

In fact, the problem is likely more complex than illustrated in Figure 2 because a country that seeks to avoid globalization may still find its policy space impacted by globalization. This is illustrated in Figure 3. As globalization increases in the rest of the world ( $G_0^* < G_1^*$ ), policy space decreases in country  $i$  despite unchanged local engagement with globalization ( $P_{i,0}(G_{i,0}, G_0^*) > P_{i,0}(G_{i,0}, G_1^*)$ ), which reduces the achievable range of the policy target ( $X_{i,0+}(G_{i,0}, G_0^*) > X_{i,0+}(G_{i,0}, G_1^*)$ ).

That is because globalization is “relational”. When other countries deepen their globalization, that imposes additional constraints on countries that do not follow suit because it negatively impacts the latter’s network of relations. The exact nature of this shift

will depend on the type of globalization adopted by the rest of the world.

Figure 3. The effect of increased globalization in the rest of the world ( $G^*_0 < G^*_1$ ) on national policy space in country i.



#### 4. Globalization as politically driven twisting of national policy space

The previous section showed how globalization poses a political economy dilemma rather than a trilemma. This section introduces political preferences into the analysis.

In the simple model shown in Figure 2, political attitudes toward globalization will depend on attitudes toward the policy target variable,  $X$ . Suppose  $X$  corresponds to the wage share of national income, with a low value of  $X$  corresponding to a low wage share. Political parties with a preference for a high wage share will prefer a low level of globalization ( $G$ ) as that gives them policy space ( $P$ ) to potentially achieve a high wage share ( $X$ ). Conversely, political parties with a preference for a low wage share and high profit share will prefer a high level of globalization. That imposes restraints on national policy space that lower the maximum wage share that can be achieved.

Once political preferences are introduced even the dilemma formulation needs to be qualified. Globalization poses a dilemma for those whose policy possibilities are

restricted, but it a benefit for those whose policy possibilities are enhanced.

The model in Figures 2 and 3 spotlights both the “dilemma’ aspect of globalization and the impact of political preferences. However, it suffers from presenting globalization as if there is a single unique form (G). In fact, globalization is not a monolithic “natural” process. Instead, it is by design and works to impose new rules governing international commerce.

Whereas trade agreements fifty years ago were about reducing tariffs and quotas, today they are better described as “global governance agreements (Palley, 2016)” that are writing the rules of a new world order. As Renato Ruggerio (1996), the first General Secretary of the World Trade Organization observed at its onset: “We are no longer writing the rules of interaction among separate national economies. We are writing the constitution of a single global economy”. These global governance agreements fundamentally impact national policy space. A clear example of this is the new system governing disputes between governments and foreign-based corporate investors, which involves an extra-legal investor – state dispute settlement (ISDS) process that is outside of nations’ own legal systems.

The nature of globalization’s impact depends on its design, reflecting the fact that globalization comes in different political flavors. This different political flavors feature can be illustrated through the concept of a policy possibility frontier (PPF), as illustrated in Figures 4.a and 4.b. National policy outcomes are described in terms of left/social democratic outcomes (L) and right/market fundamentalist (R), with the policy possibility frontier (PPF) describing the mix of outcomes that are viable. Globalization can twist the PPF.

Figures 4.a and 4.b. Neoliberal globalization and the twisting of national policy space.

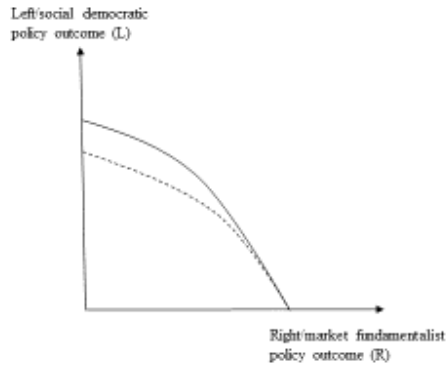


Figure 4.a. Policy space and neoliberal globalization.

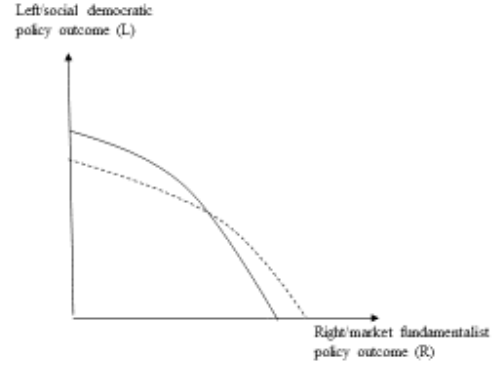


Figure 4.b. Policy space and ultra-neoliberal globalization.

Figure 4.a describes the case of neoliberal or corporate globalization. The initial PPF is described by the solid line. Neoliberal globalization rotates the PPF counter-clockwise, diminishing the value of L that can be achieved. Figure 4.b describes the case of ultra-neoliberal globalization. Again, the initial PPF is described by the solid line. Now, not only does globalization diminish the maximum attainable value of L, it also increase the maximum attainable value of R. Neoliberal globalization poses a dilemma for social democrats, but it is a boon for neoliberals.

An example of the type of policy that twists the PPF as described in Figures 4.a and 4.b is capital mobility, which enables financial markets to discipline governments. That diminishes space for delivering left/social democratic outcomes (i.e. diminishes maximum L) and increases space for neoliberal outcomes (i.e. increases maximum R).

Another example of this might be the implementation of ISDS settlement procedures that allow foreign investors to sue for damages re regulations that diminish the

value of their profits. Such procedures effectively deter regulation, thereby diminishing the value of L. Simultaneously, ISDS procedures may be paired with rules strengthening and extending intellectual property rights that increase the maximum attainable value of R.

An alternative left/social democratic globalization is shown in Figures 5.a and 5.b. such a globalization would involve such things as enforceable international labor and environmental standards, standards governing corporate behavior, managed exchange rates, managed capital mobility, and rules on tax transparency and tax competition (see Palley, 2012, p. 170 – 185; 2015). Figure 5.a shows the case of social democratic globalization which constrains market fundamentalist policy outcomes. Figure 5.b shows the case of ultra-social democratic globalization which constrains market fundamentalist policy outcomes and expands social democratic possibilities.

Figures 5.a and 5.b. Social democratic globalization and the twisting of national policy space.

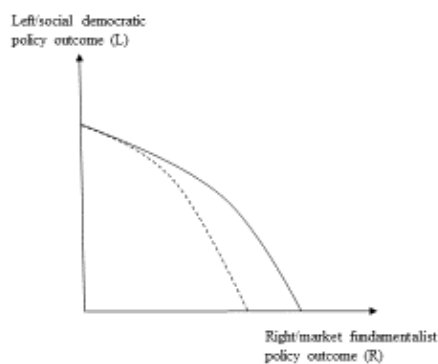


Figure 5.a. Policy space and social democratic globalization.

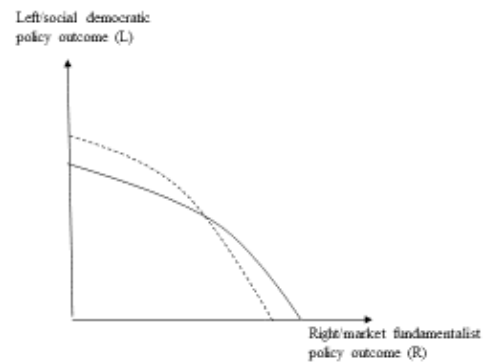


Figure 5.b. Policy space and ultra-social democratic globalization.

The above policy possibility frontier representation expands and enriches understanding of globalization. First, it shows there is no unique natural globalization. Instead, globalization varies with design, and designs have different political complexions.

Second, globalization does more than “shrink” national policy space. It also “twists” national policy space. Thus, it may shrink policy space along some dimensions and expand it along others. The complaint with the current ultra-neoliberal globalization is that it has twisted national policy space in favor of right/market fundamentalist possibilities by diminishing social democratic possibilities and expanding market fundamentalist possibilities. Third, whether globalization poses a dilemma depends on the type of globalization and political preferences.

### **5. Globalization and democracy: implications for democratic process**

What about globalization’s relationship with nation state democracy? Contrary to Rodrik’s (2011) trilemma, there is no definitive relationship. Instead, the relationship is ambiguous and highly contingent, depending on the nature of globalization and the nature of the domestic political response.

Neoliberal globalization currently appears to be generating a backlash against democracy and a drift in an authoritarian direction. However, that may be because of its neoliberal nature. It may also reflect the specific character of country politics. For instance, in the U.S. the more authoritarian inclined Donald Trump won out, but Trump’s victory also rests the failures of the Democratic Party. The pro-neoliberal Clinton – Obama wing of the party was able to freeze out Bernie Sanders. If Sanders had won the Democratic Party primary and gone on to win the general election, that might have produced a surge in democratic activity.

Likewise, it is easy to imagine how a social democratic version of globalization might also produce a rise in support for globalization. That was the case in response to the immediate post-World War II globalization which saw spreading and strengthening of

democracy. The implication is the relationship between globalization and democracy is contingent on the character of globalization.

In this regard, Palley (2005) shows democracy and labor standards are positively associated, suggesting a social democratic globalization that promoted labor standards might also promote democracy. Furthermore, a standard argument of neoliberal globalization proponents in Washington D.C. has been that trade and globalization promote democracy. That latter argument was widely used to justify admitting China into the WTO, and it shows that many believe neoliberal globalization also promotes democracy.

In sum, these arguments show the varied and contingent nature of the relationship between globalization and democracy. There are grounds for believing “neoliberal” globalization discourages democracy, but there are also arguments for saying other forms of globalization would encourage democracy. The impact may also differ by country. For instance, it might discourage democracy in developed countries (e.g. the U.S.) and encourage democracy in developing countries (e.g. China). Likewise, there are grounds for believing social democratic globalization might encourage democracy. Moreover, the outcome will be contingent on the historically specific political response within countries. Consequently, no general statement can be made about the relationship between globalization and democracy.

## **6. Globalization and policy lock-in: implications for the future of democratic politics**

The above analysis shows that the implications of globalization for democratic process are ambiguous. However, globalization has significant adverse implications for the content of democratic politics because it reduces policy space, and neoliberal globalization works to



diminish space for social democratic policies. Worse yet, this diminution of policy space may be permanent owing to policy lock-in. That has enormous implications for democracy since policy today may permanently change the space of future democratic policy making.

Palley (2017) presents a theory of policy lock-in and lock-out via hysteresis, which is a concept drawn from physical chemistry. Systems can change their behavioral characteristics by passing through trigger thresholds that act as “switch-on” or “switch-off” mechanisms. In physical chemistry, passing through the switch-on threshold acts as a switch that changes the systems behavior. The new behavioral pattern remains in place until the system passes through the switch-off threshold, at which time the system reverts to its old behavior.

The idea is that economic policies, such as those associated with globalization, can trigger hysteretic developments in the economic and political system that lock-in those policies and lock-out other policy possibilities. First, policy changes may induce hysteretic changes in the structure of the economy and those changes can make it difficult or not worthwhile to reverse policy. Second, changes in the economy (even if they are not permanent) may induce hysteretic changes in the political process, thereby permanently changing the political equilibrium and locking-in policy.<sup>2</sup>

Lock-in via globalization is accomplished via multiple mechanisms including network effects, exit costs, and permanently changed political equilibrium. Trade agreements create new rules, which foster new patterns of global production that set the basis for negotiation of future trade and investment agreements. This process of expanding globalization resembles the building of a network (Palley, 2007). For instance, NAFTA established the template for the WTO. Exiting the network is costly for individual countries

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<sup>2</sup> The notion of political equilibrium is discussed by Acemoglu and Robinson (2013).

as they face loss of market access and punitive retaliatory measures. Country go-it-alone reversal of globalization is also discouraged by other large exit costs associated with disrupting existing production and supply chains and reorganizing them along more national lines.<sup>3</sup>

Globalization policy lock-in also results from permanent changes in the political equilibrium. Businesses that have made sunk investment costs in globalization will lobby to retain the system. That includes multinational corporations which have invested offshore, and domestic businesses which rely on imports and have invested in global supply chains. Furthermore, domestic manufacturers have shut down and their organization capital has been destroyed, while unions which were concentrated in domestic manufacturing have been decimated. Consequently, globalization contains a lock-in dynamic that operates by strengthening the political forces favoring it and weakening the forces against it.

The consequences of globalization lock-in are enormous because globalization constrains the policies that countries can pursue. Trade and investment agreements place specific constraints on policies countries can pursue. Additionally, countries may feel constrained from pursuing policies they are allowed to pursue for fear of becoming internationally uncompetitive. Thus, by pressuring countries to be maximally competitive internationally, globalization *de facto* diminishes the policy choice set. In this fashion, globalization reduces national policy space directly and indirectly.

That poses considerable political problems because the current globalization was largely stitched together in the last quarter of the 20<sup>th</sup> century, a period of labor political

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<sup>3</sup> Brexit and the United Kingdom's exit from the European Union provides another illustration of lock-in owing to costs of exit. The U.K. may still decide to exit for political reasons, but the cost of exit is likely to prove large and that is prompting a backlash and rethink of Brexit.

weakness and *laissez-faire* revival. Consequently, arrangements were forged without concern for adverse labor, social, and environmental consequences. Now, there are political demands at the national level to remedy those consequences, but the system has locked-out the policies for doing so.

The impact of globalization lock-in is easily illustrated using Figure 2. As globalization deepens, it reduces policy space. The current level of globalization is  $G_0$ . Globalization lock-in means policymakers can further deepen the level of globalization (i.e. increase  $G$ ) but not reverse it (i.e. decrease  $G$ ). Viewed in that light, globalization is like a ratchet. Each new step reduces policy space, either by taking policy options entirely off the table or by reducing the effectiveness and scope of existing policy options. A clear example of this impact of globalization is tax policy, where globalization has diminished what is deemed feasible.

## **7. Global governance, policy lock-in, and the logic of a possible crisis of globalization**

The existing system of global governance apparatus rests on the treaty system which authorizes a form of contracts between nation states. Nation states sign these contracts (i.e. treaties) and agree to mutually enforce them. Additionally, nation states sign-up and participate in multi-lateral organizations like the World Trade Organization, the World Health Organization, and the International Monetary Fund. The important point is there has always existed a system of global governance in the modern era, and that system has been capable of birthing the current neoliberal hyper-globalization. However, having birthed neoliberal globalization, the system may not be capable of sustaining it.

Neoliberal hyper-globalization poses three intractable problems. First, it contributes to major externalities such as climate change. Second, it produces competitive

dynamics associated with the “race-to-the bottom”, whereby standards are eroded. That erosion may afflict conditions and regulation in labor markets, financial markets, and good markets. It can also erode the quality of corporate governance and the welfare state. The dynamics of erosion are rooted in the “prisoners’ dilemma” structure of international economic relations (Palley, 2012, p.166-170). Neoliberal hyper-globalization compels countries to be maximally competitive internationally, and countries succumb to the erosion of standards in order to gain competitive advantage. Third, as discussed above, neoliberal globalization shrinks policy space by a combination of explicitly prohibiting policies and by creating conditions that render policies unviable even if they are allowed. That strips countries of the means to address adverse fall-out from globalization, and it may also prevent them from addressing problems unrelated to globalization, which may cause political turmoil and instability.

Solving the problems of global externalities and global race-to-the-bottom competitive dynamics requires international policy coordination. However, that is difficult to achieve under the nation state treaty system. First, the treaty system is cumbersome and it is difficult to get countries to sign up. Second, it may be impossible to construct policies that fit all when countries are economically, socially, and politically highly differentiated. Third, some countries may be unwilling to sign-up as they view themselves as winning under current arrangements. Consequently, the existing global governance system may be unable to solve these problems.

One possibility is that the current model of globalization grinds on, with problems unaddressed and festering. Alternatively, some countries may peel away from globalization to regain policy space. If lock-in holds, that peeling away will only happen

when policymakers and the electorate perceive that costs of remaining in the existing system exceed the costs of exiting.

That simple observation explains why globalization may experience a crisis, defined as a systemic rupture. The theory of policy lock-in explains why polities may remain attached to dysfunctional political and economic policy regimes. It also explains why breaks tend to be big, costly, and discrete when they happen. In the presence of policy lock-in, breaking with a policy regime only happens when costs of failing to address existing problems have become significant and exceed the costs of exiting the system. When the burdens of the policy regime system are small, it is not worth paying the large costs of exit. Those exit costs are only worth paying when the burdens have become large. At that stage, the regime may collapse abruptly, imposing large costs in the process. However, the large costs can be worth it as they may be less than the cumulative smaller on-going costs of staying with the regime.

This type of dynamic appears to characterize recent “populist” political developments which challenge the neoliberal policy paradigm and globalization. Electorates may be reaching the point where the costs of policy exit are perceived to be less than the costs of sticking with the current policy regime.

## **8. Conclusion**

This paper has argued that Rodrik’s (2011) globalization political trilemma is analytically flawed. Instead, globalization is better framed as posing a dilemma between more globalization and reduced national policy space.

Closer inspection shows there is also need to distinguish between different types of globalization. Rather than just shrinking national policy space, globalization also twists

national policy space, shrinking it in some dimensions and expanding it in others. The character of the twist depends on the type of globalization, with neoliberal globalization shrinking space for social democratic policy and expanding space for market fundamentalist policy.

With regard to democracy, there is no inherent contradiction between globalization and democracy. Globalization impacts democracy by changing the feasible policy space. Whether or not that discourages democracy is ambiguous, varied and historically contingent.

Lastly, if globalization produces policy lock-in, it may eventually be subject to abrupt systemic crisis. In the presence of policy lock-in, exit from a policy regime is not worthwhile as long as the costs of exit exceed those of remain. However, once that threshold is crossed, the regime may be subject to sudden rupture as countries seek to exit.

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