

EconoFact Chats: Rethinking Global Governance
Dani Rodrik, Harvard University
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Michael Klein

I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

President Trump has said that he will put America first. Of course, national leaders are expected to give primacy to the concerns of their own country, but the America First agenda goes beyond this, and reflects a zero-sum view of the world in which, if one country wins, it's necessarily the case that another country loses. This view is at odds with the objectives of the post-World War II rules-based system. That system recognized the gains from international cooperation and the importance of a predictable and stable set of rules. President Trump promises to use the power of the United States to achieve his objectives, and seems more than happy to trash global governance rules. How has the United States benefited from the rules-based system, and more specifically, who in this country benefited? Internationally, has the rules-based system helped realize fair outcomes? Especially for smaller and poorer countries that don't have the political and economic power of countries like the United States? My guest today, Professor Dani Rodrik of the Kennedy School at Harvard University, is a leading scholar and influential commentator on the role of political and social factors in the formation of economic policies. He has written over 150 articles and authored or edited two dozen books, including most recently *Combating Inequality: Rethinking Government's Role*, *Straight Talk on Trade: Ideas for a Sane World Economy*, and *Economics Rules: The Rights and Wrongs of the Dismal Science*. Dani, I'm very pleased to welcome you to EconoFact Chats.

Dani Rodrik

It's very nice to be with you, Michael.

Michael Klein

To set the stage, can you first describe what is meant by the term global governance?

Dani Rodrik

Global governance refers to a set of rules and norms that tell countries what they're allowed to do, what they should do, and what they should not do with regard to their economic relations with other nations. I think the idea is that, just like a national economy needs rules to make sure that markets work well and that their results accord with some understanding of fairness and equity, when national markets are integrated and they become a kind of global market, there should similarly be some global rules to ensure that they work efficiently and equitably. That, at least, is the principle. The big ointment is that national governments are run by politicians who are appointed or elected, and there is domestic politics. Whereas globally, there is really nothing like that. So global governance becomes, in the end, a kind of mishmash of what is feasible or what certain powerful countries are able to do, by way of getting their way.

Michael Klein

So policies are typically made at the national level, not the international level, or not by international organizations. Do global governance rules represent an erosion of national sovereignty?

Dani Rodrik

Well, in a very strict sense, yes, but that need not be a bad thing. To the extent that countries submit to international rules or international law, they might do that to further their broad economic interests, even if that means restraining what it is they can do. In the same way that executive authorities delegate to independent courts or independent agencies in a domestic setting. Where it gets problematic is where there's that erosion of sovereignty in ways that serve particular interests within countries, and other interests, other groups feel that they have been left out in the cold, or they can't have their voices heard.

Michael Klein

So, let's unpack that a little bit. First, who makes the global governance rule? And to what extent do these rules reflect the political power of big and rich countries, and then work against the interests of smaller, poorer countries?

Dani Rodrik

By and large, I think it's been the major powers, the United States in particular, that has been dominant in rule-setting. To what extent the U.S. government has in turn reflected the interests of broader American society is another question. Many people would argue, and I would agree, that in many settings, such as in bank regulations or in trade, corporate interests, interests of multinationals or big banks have played an outsized role.

Michael Klein

Can you give a couple of examples of that, Dani?

Dani Rodrik

I think probably the most significant example would be the rules regarding intellectual property rights, the so-called TRIPS agreement in the context of the World Trade Organization. Patent rules or intellectual property rights rules have typically been a domain for national policy. International pharmaceutical companies were able to transform this into essentially a trade problem and get their way by tightening patent rules internationally. Similarly, with financial globalization, rules or expectations with regard to financial liberalization have typically reflected, predominantly the interests of big banks, particularly U.S. and European banks. I think those would probably be the two most important examples.

Michael Klein

So the argument for patent rules domestically is that it helps foster research and development because companies are insured of a return for the expenses that they spend trying to come up with new drugs, new processes, or new goods. How does that then extend internationally?

Dani Rodrik

The international rules, whether it is in the context of the WTO or in the context of free trade agreements, which typically go much further than the WTO in terms of imposing restrictions on patent rules, essentially are about establishing at least a kind of floor on how permissive domestic patent rules can be. In a setting where many developing countries might want to have for example much more permissive rules on copying or imitating patents in pharmaceuticals for example, international rules effectively prevent them from doing so. That was a big problem during the HIV/AIDS crisis and, more recently, during the COVID-19 pandemic.

Michael Klein

There's also a parallel domestic political aspect to all of this, where global governance rules reflect the interests of politically influential groups, as opposed to the wider electorate. You've already alluded to that. Beyond, say, pharmaceuticals and banks, one can think of situations like, for example, the sugar lobby in the United States. Can you describe that, and maybe talk about one or two other examples where it's not in the national interest of the United States, but [in] the interest of a politically influential group to have certain international rules in place?

Dani Rodrik

I think trade policy or financial policy, like any other area of policy, is always a result of a domestic combination of political lobbying with the interest of the broader public brought in through various mechanisms. It used to be that, probably up until the 1990s, the groups that had the upper hand are groups that economists would tend to call "protectionist lobbies." You mentioned sugar tariffs in the United States, which are very high and have been for a long time. That's because sugar producers have been very effective in getting their way. Similarly, until the 1990s, tariffs tended to be very high in clothing, and there were a number of trade restrictions in autos, steel, motorcycles, and so forth. I think the general political balance shifted with the onset of hyper-globalization, and the dominant interests became the groups that were interested in expanding trade and investment and negotiating market access in other countries. Those were large multinational corporations, big banks, and other exporting groups. I think we've seen, alongside this shift in the relative power of interest groups, a kind of a general reduction in tariffs and trade barriers.

Michael Klein

So what you're speaking to sounds like elites having made global governance rules. To what extent do you think this has fueled a populist political movement, not only in the United States but in other countries as well?

Dani Rodrik

Here, I really distinguish the rules before the 1990s with the rules that came after. This is a very crude distinction, but I make a distinction between the Bretton Woods regime, where national governments still had significant autonomy and willingness to respond to particular sources of discontent, so that when there were lot of workers that were threatened by imports of garments from East Asia, there were these multi-fiber arrangement quotas negotiated with exporting countries. So there was protection put up to protect domestic sectors. The same happened with steel and VERs (voluntary export restraints) and so forth. So from an economist's perspective, these were departures from the rules of the game. They looked like protectionism. But they were

really a way of maintaining support, social and political support for the broader system of a multilateral rules based regime, so that you occasionally provide protection for groups that come under pressure, so not to undermine the bigger regime in place. After the 1990s, that changed completely. When various regions of the United States got hit with the China trade shock for example, rather than slowing down trade liberalization, or working out temporary arrangements with exporting countries like China, basically these regions were told ‘you just go and fend for yourselves. Get an education, go and get a better job, get a skill.’ And they were left to essentially fend on their own. And I think this was at the root of this increasing resentment that we’re still living through today...about this disenchantment, about whether in fact these international rules, whether the international economy was really benefiting broadly all sectors of American society.

Michael Klein

Do you think that this resentment, which fueled a populist movement, has come up with viable alternatives?

Dani Rodrik

I do think there are viable alternatives, and I think the Biden administration made an important beginning I think, by engaging in a variety of industrial policies, whether it’s in the green transition, with regard to manufacturing and semiconductors, or with respect to investing in regional challenges and place-based policies. I think the Biden Administration actually made a good beginning. I would criticize some aspects of these policies, but I do think it was an important and noteworthy departure. More often, though, what goes under the name of ‘populist backlash’ is more like a right-wing, authoritarian backlash, which I think Donald Trump represents, which is appealing to these anxieties and disenchantment with the elites, but essentially providing them with a set of distractions or very misleading remedies policy remedies that will not really work.

Michael Klein

Well, you have a recent article with the Nobel laureate Joseph Stiglitz called *Rethinking Global Governance: Cooperation in a World of Power*. The two of you proposed general principles for global governance that recognizes the fact that some countries have a lot more power and influence than others. And it also takes into account differences in social and political conditions across countries. Can you describe the basic tenets of your proposal, Dani?

Dani Rodrik

The basic way to state our orientation is to state it in contrast to the general tendency among economists and a lot of policy technocrats in favor of more global governance.

Michael Klein

Is that sometimes called the Washington Consensus?

Dani Rodrik

I think the Washington Consensus is one form of it. But I don’t think anybody really defends the Washington Consensus anymore. I don’t think Washington Consensus remains popular because it was a very specific set of policies that didn’t really work out as planned. But I think that if you

talk to most mainstream respectable economists or mainstream policymakers, they will complain that we don't have enough global governance. That we face global challenges and we cannot make progress because we don't have enough global governance. Our standpoint was to make two points against that. Which is to say, one, that a lot of issues that we look at as problems of global governance are actually problems of domestic governance, rather than global governance. And it's not clear how more global governance would actually fix them. To take the most obvious example, if Trump goes and puts on indiscriminate tariffs on U.S. trade, and does a lot of damage to the U.S. economy, and to the rest of the world along the way, that's really not a failure of global governance, that's a failure of domestic governance in the United States. And it's not entirely clear how you can prevent that through global governance. So most problems in the world economy, such as excessive protectionism, or industrial policies that don't work, or bad rules, are really bad because they're bad for the home economy, not because they're bad for the world economy, and their sources of global governance. So that's problem number one which is that fixing these problems through more international rules isn't really going to be very effective, and potentially be counterproductive because of the backlash. The second argument is that because power globally is really unchecked by global democracy, right? We don't have accountability or democracy at the global level. If we open the door to more global rules, the chances are that we're going to get powerful countries predominantly writing those rules. And it's not clear that those rules are going to be very much to the benefit of the rest of the world. So, you might have...let's have a global carbon price for every country, which might be good not just for of course the climate, it's going to be good for a lot of countries. But a global carbon price without at the same time transfers and compensation and technology transfer to low-income countries is also going to be very harmful to very low-income countries. So you're not going to get global agreements or global rules that's going to take into account the interests of all the constituent units.

Michael Klein

So there is a storied professor of law at Fletcher named Al Rubin who was there for many, many years, and he taught a course in international law. Reportedly, in his very first lecture on international law, he would say 'there is no such thing as international law' because there aren't constraints and so on, in the same way that you have jails and police in national settings. But earlier, you said that sometimes it's good to be constrained because it makes you do what you want to do anyway. Do you think there's scope in international global governance for that to help domestic economies do better than they would if they didn't face those constraints?

Dani Rodrik

I do, and I think there are a narrower set of rules than one normally thinks of. So, I characterize these as 'beggar-thy-neighbor policies.' So let's be clear that when we're trying to negotiate rules globally, they're really focusing on in the narrow category of policies that I would call strictly beggar-thy-neighbor. So beggar-thy-neighbor is a narrower category of policies than policies that might simply harm other nations. A lot of things that countries do might harm other nations, but we would never think of disciplining them globally. If I invest in my education, if I invest in R&D, I become much more competitive in high-skill or more innovative goods, i'm going to hurt export industries in the other countries that compete in those same markets. But that would never be an argument for why we should basically globally constrain what each country can do in terms of its innovation policies or its scaling-up policies. It's impossible, really, to constrain all

policies that can have some spillovers on the other countries. The narrower category of policies that I'm talking about, which I'm calling beggar-thy-neighbor, are policies that provide benefits at home only to the extent that they actually harm other countries. So the benefits at home are a direct outcome of the harm imposed elsewhere. In other words, you wouldn't actually benefit at home if you didn't harm others. So, in a deep moral sense, they are truly things that countries ought not to be engaged in. There are examples of that. In international economics, the optimum tariff, where you're basically extracting monopoly profits from other countries, is a key example. Or if you're using currency depreciation to move employment from another high-unemployment country to your own economy, it's again a kind of beggar-thy-neighbor. If you're a tax haven, you're simply maintaining low taxes not to attract real investment but simply shell companies or paper companies, so you can essentially steal taxes from other countries. These are examples of explicitly beggar-thy-neighbor policies, and I think they ought to be subject to international discipline and rules. But the point is that this is a much narrower range of problems than we typically think of when we talk about...if you look at the WTO, all these rules on industrial policies, on subsidies, on intellectual property rights, which really are not beggar-thy-neighbor policies.

Michael Klein

So that, it seems to me, is the key important distinction here—if the policies are benefiting your country versus just hurting other countries almost gratuitously. For example, you brought up currency depreciation. When the United States was running expansionary monetary policies in the wake of the financial crisis, the Brazilian finance minister said there was a currency war. Ben Bernanke countered by saying, “no, we're doing what we have to do for the United States.” And in fact, sometime after, the real appreciated against the dollar, it then depreciated. But turning to more current things, we've been talking about the shortcomings of the postwar rules-based system, and alternatives to the system. So President-elect Trump has criticized that system, and his alternative seems to be using American economic and even military power. It strikes me that, in the characterization you're saying, Dani, that this is a sort of strictly beggar-thy-neighbor set of policies. Would you agree with that?

Dani Rodrik

I think no. I mean, I think the Trump tariffs would be strictly beggar-thyself policies. So, I think this will be largely a policy that's going to hurt the United States, and other countries might be hurt as a byproduct, but it's not like the traditional optimum tariff where you're trying to extract monopoly profits from other countries by just calibrating your tariffs just so that you're extracting monopoly rents from the rest of the world. So, I think with beggar-thyself policies, there's really very little that other nations can do. If countries want to shoot themselves in the foot, they will shoot themselves in the foot. If you get hurt in the process, you might complain, but you're not going to have much impact. That's why I think the worst thing that the rest of the world can do if Trump does go ahead with his across-the-board tariffs is simply make things worse by retaliating and doing the same themselves. I think they ought to stay calm and let most of the damage fall on the U.S.

Michael Klein

But in fact, in the previous Trump term, the steel tariffs and the tariffs on China, there was retaliation against U.S. agricultural exporters, and it ended up being very expensive for the

United States because then the agricultural exporters were bailed out by the government. So, it seems like there's a real incentive for retaliation, even if it's everybody shooting themselves in the foot.

Dani Rodrik

I mean, I think the incentives are political, but that just means that maybe economists aren't doing their job sufficiently well to convince the public that the political gain is actually by being able to stand tall and say, "hmm..they're just hurting themselves. We don't need to do the same." So, I think how you package this politically is important. Just to say that you would lose political prestige if you didn't retaliate is not a good answer.

Michael Klein

Right. Well, I'd like to have people listen to economists more, especially those who are on EconoFact Chats. The title of one of your books is *Economics Rules: The Rights and Wrongs of the Dismal Science*. What does economics, in fact, get right, and what does it get wrong in the context that we're talking about?

Dani Rodrik

The examples I gave in the book of the kinds of things that economics or economists got right are both very small, micro schemes, like congestion pricing of course, what we're now seeing in New York, which I think is an ingenious idea, and also big systemic changes, like the ideas Keynes brought to the design of the postwar international economic architecture with the Bretton Woods system. I think those are sterling examples of when economists do their job right, how they can contribute to the public welfare. I think when they get it wrong, is I think they became fixated on a particular...what I would say in terms of the book itself...it's one model. Economics is really many models. There are many models that respond to many different kinds of circumstances. I think what happened after the 1990s was excessive fixation on a free-market model, whether it was in trade or finance, that led governments to push a particular view of the world where, under free trade and financial globalization, pretty much everybody and every country would be better off. Whereas there are tons of other models in economics that would suggest caution, and I think in a lot of the policy designs after the 1990s, I think economists went wrong.

Michael Klein

So, Dani, my last question: Do politicians listen to economists? And should they?

Dani Rodrik

I think politicians do listen to economists, and I think economists have a very significant role in legitimizing certain kinds of policies. And I think they should listen to economists. But I would turn your question the other way around: should economists talk with a single, uniform voice? I get very worried when there is consensus among economists, especially when there's so little consensus in the science itself and in professional seminar room discussions in economics. So when economists start talking with a unified voice on policy matters, I tend to get nervous.

Michael Klein

Okay, well, I hope by posting your interview on our website, on EconoFact Chats, it makes you a

little less nervous, because you do have counter views to many people, and they're very well founded in careful thinking and empirics. So Dani, thank you very much for joining me today. As always, I really enjoyed our conversation.

Dani Rodrik

Thank you, Michael. Thanks for having me.

Michael Klein

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