Dani Rodrik. Has Globalization Gone Too Far? (Washington, D.C.: Institute for International Economics, March 1997).
Reviewed by Martin Dimitrov

Puzzle: *Globalization has pitted losers (low-skill workers, countries with norms deemed incompatible with the market, and former domestic beneficiaries of the welfare state) against the winners (the educated and the footloose holders of capital). Governments seem to be stuck in between the market and the losers. Can they do anything to alleviate the stresses of globalization?*

Answer: *The solutions are not easy. One of them is a knee-jerk backlash against trade. A more reasoned approach is to entrust governments with devising policies that maintain a balance between globalization and domestic cohesion, by redirecting social insurance, carrying out much needed domestic reforms, and discouraging militancy against widespread domestic practices as incompatible with free trade when practiced by foreign countries.*

Debates: *Free trade v. protectionism, role of domestic politics in an era of globalization*.

Chapter I: Introduction, p. 1-10
Rodrik outlines three consequences of globalization that can lead to domestic disintegration: (1) the sharp division between the highly-mobile workers with specialized technical skills (the winners) and the immobile low-skill workers who see their standard of living decline (the losers), (2) free trade principles clash with domestic norms and practices, and (3) free trade forces governments to give up on the post-war embedded liberalism compromise epitomized by the welfare state.

Chapter II: Consequences of Trade for Labor Markets and the Employment Relationship, p. 11-27
Globalization has had two effects on labor markets (p. 12-13): (1) an inward shift in the demand curve for low-skilled labor in advanced industrial societies and (2) a flattening of the demand curve for low-skilled labor at home --demand elasticity goes up; employers will look for cheaper labor abroad either by outsourcing production or by foreign direct investment. As a result, 3 changes take place in the relationship between employers and workers (p. 17-25): (1) the *incidence* of nonwage costs declines --*race-to-the-bottom argument:* workers in the North will have to accept lower labor standards and benefits to preclude capitalists from relocating, (2) greater openness to trade combined with short-term fluctuations of the labor market result in a more *volatile* labor market, which exacerbates the wage inequalities within groups and leads to increased insecurity of workers, and (3) given that workers are substitutable, the *bargaining* power of the labor unions has declined greatly.

Chapter III: Tensions Between Trade and Domestic Social Arrangements, p. 29-48
Globalization creates the potential for *arbitrage* in domestic norms and social arrangements. Although each country has sovereignty to determine its own norms, free trade requires *convergence* among countries with widely divergent historical and institutional experiences. Developed countries in the North will all have some *"blocked exchanges"* (a la Walzer) --arrangements they will not accept (such as prison or child labor). Developing countries have to

abide by these rules if they want to export to the North. Yet, there is a threshold here --while a country may impose restrictions on imports from another country to *protect* its own norms and institutional arrangements, it may not attempt to *impose* its own norms in a foreign country (p. 38). Thus, while there are benefits to be reaped from convergence, governments have to respect the implicit social contracts they have signed with domestic audiences to provide them with social arrangements. As the case of European integration shows, even countries with similar norms and social practices will face significant domestic opposition as they try to move to harmonization and eliminate certain *acquis sociaux* (acquired social rights) that people have come to take for granted.

Chapter IV: Trade and the Demand for Social Insurance, p. 49-67.
Free trade means that governments have to provide increased amounts of social insurance to groups of "losers" in order to maintain social consensus on the need for globalization. Yet, as globalization proceeds, the ability of governments to provide social insurance declines, which can easily result in a move towards protectionism (p. 53). In order to generate revenue that could then be spent on social insurance, governments need to raise taxes. However, higher taxes will chase away highly mobile capital. Thus, governments have tended to tax capital less and labor more (p. 55). While some countries with high exposure to external risk (a high degree of openness of trade and high volatility in the terms of trade) government spending is high, in OECD countries exposure to external risk is lower due to the low volatility of the prices of their traded goods. This effectively has led to the end of the postwar "compromise of embedded liberalism" (Ruggie) in advanced industrial societies, according to which labor would get periodic increases in wages and benefits in exchange for domestic peace and compliance with government policies.

Chapter V: Implications, p. 69-85.
Globalization can lead to social disintegration if unchecked. Yet, it is necessary and impossibel to avoid. What is to be done? Governments have several options: (1) governments need to strike a balance between free trade and protectionism --they could use the "dirty little secret" of free trade, according to which a little protection does not cost so much, (2) governments could redirect social insurance spending from costly pension schemes to labor markets (unemployment compensation) to alleviate the insecurities connected with globalization, (3) undertake needed fiscal and structural domestic reforms, and overhaul productivity without presenting them as a consequence of the need for greater "competitiveness", which often serves to present governments with tied hands, and (4) when governments condemn other countries for unfair labor practices they should be sure that the same practices are not widespread in their own countries.