

Dani Rodrik

“Western political elites have forgotten the average people”

The election of Donald Trump as president of the United States is the latest indication that populism is on the rise across the Western world, following upon the British vote to exit the European Union and the Dutch vote against a free-trade agreement with Ukraine. What these populists have in common is that, with a marked distrust of expert judgement, they are pleading against free trade and in favour of a strong nation state. How has it come to this?

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No one seems to be in a better position to answer that question than Dani Rodrik, Professor of International Political Economy at Harvard University. Rodrik has been a long-standing critic of the idea that openness has predictable and positive effects on growth (e.g. Rodrik, 1997), and argues in his latest book for a more humble (but more effective) approach of economics (Rodrik, 2015). *ESB* was able to interview him when he was in the Netherlands for the *Cobbenhagen lecture* at Tilburg University.

How would you explain the rise of populism across the Western world?

“We have created a gap between society and the elite. Essentially, people feel that policymakers and intellectual

elites have been pursuing an agenda that hasn't taken their interests at heart. The elites' agenda seems to be guided by the objective of furthering globalisation. Yet, globalisation is not an end in itself – it is a means of achieving human satisfaction and a better economic progress. We were wrong to reverse our priorities, often treating economic globalisation as an objective in itself, even if it didn't address the concerns of average people.

Globalisation tends to increase inequality as to income and wealth within countries and, more importantly, drives a gap between the middle classes and the elites with respect to both their cognitive maps – your understanding how the world works – and their social worlds – who do you associate with, where do you get ideas, what do you think you are doing, what do you think your objectives are in the world. This gap is the most prominent factor driving this populist backlash around the world. It has led to a decline in the legitimacy of existing parties and has opened up room for populists – particularly on the right, though occasionally on the left – who are able to unsettle centrist political forces.”

Is it justified that globalisation is widely seen as the culprit? Scooco (2016) shows that there is no significant relationship between a country's openness to trade and its income distribution and unemployment. He argues that the domestic labour-market reforms since the 1980s seem to have played a part in increasing the inequality. “Well, I think different countries are different. Certainly in the case of the United States, we know that the shock of



Dani Rodrik is professor of international political economy at Harvard University. He is of Turkish origin, wrote his dissertation at Princeton and publishes in international economics, economic development and political economy. He is known with a wider audience for introducing the globalisation trilemma: a country cannot, at the same time, integrate in global markets and be democratic and sovereign (Rodrik, 2012).

the trade with China hit the bottom of the labour market very hard, leading to a loss of employment and pressure on wages, especially in the communities most directly affected. We also know that technological change, particularly skills upgrading, has been a long-term trend in the United States. This has reduced the demand for low-skilled labour, driving up the *skill premium* and creating labour-market inequality. As a high-school dropout in the United States, you have done very badly over the last thirty-five years.

Of course, in Europe, it is less about trade as such. Here, issues like European integration, the euro, the austerity policies and the rapid influx of immigrants are the more important causes seem to have contributed to the rise of populism. Also, changing standards in terms of wage-setting and acceptable payment caps in corporations may have played a part in some countries. In Germany, for instance, the deinstitutionalisation of labour markets has been important in increasing labour-market inequality. But such factors are not at all as important in the United States, which has never had strong labour unions.

So, when you look at the individual countries, you will find rather different economic problems. And some aspects are more important in some countries than in others. However, what connects these aspects is that, rather than addressing these domestic problems in a direct way, politi-

cal elites have pursued a globalist agenda, focusing on economic output. In Europe, this is for instance illustrated by the European integrationists based in Brussels, or by Frankfurt's common monetary policy. And in the United States, it has resulted in a series of trade agreements, opening up its markets to the world without taking care of domestic problems.

All these things have not just come out of the blue. They are all things that individual countries had under control, and countries often followed this agenda because political elites and mainstream political groups submitted to it wholeheartedly."

Are the politicians to blame? Was there room to act differently in a globalising world? Differences in labour rights or environmental protection regulations, for instance, do provide incentives for firms to move towards jurisdictions with less regulations. Does strict regulation not come at the costs of competitiveness?

"No, I don't think that rule holds in general. Competitiveness is determined by a very broad range of factors, and the world is very far from being totally flat. A country can become more competitive by providing its labour force with greater skills, better education, a more productive working environment or by creating a better ecosystem, in terms of



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a productive clustering of small and medium-sized firms, supported by local amenities. There are lots of things you can do to enhance your productivity, besides cutting wages or relaxing regulations. Those are measures that defeat their purpose.

Many progressives had the hope that the European Union would become an example to the rest of the world by generating its own social model, a model in which countries competed within the world economy on the basis of a ‘high road’, including labour market and environmental regulation, rather than a ‘low road’ of deregulation. From that perspective the big disappointment with the European Union has been that from the 1980s onwards, the process of integration in Europe took an explicitly economic path, directed towards creating a single market and taking that single market to its logical extreme. At the same time, the political elites spent considerably less time trying to create a common social model.”

What is the reason that European integration focused on economic integration?

“There were two contrasting stories that policymakers and technocrats told each other. One – from the side of

conservative economists – was the story that limited political integration was a good thing. They thought the state had become far too intrusive and that it therefore was not so bad that we were moving back to a nineteenth-century gold standard-model in which a common monetary policy and monetary union would essentially reduce the ability of governments to intervene too much.

On the other side, people who understood the need for political integration alongside market integration, hoped that eventually Europe would develop a kind of quasi-federal system. They realised that they currently could not push this agenda as it was not going to be politically popular, but they hoped that this was how eventually the dilemma would be overcome.

The fact that neither of these two stories – neither the federal story, nor the conservative-economist one – could be told to the public, suggests that there was something wrong with them: neither would have been popular. Yet, the existence of these stories essentially led both the right and the left to coalesce around the pattern of an economic integration, without any political integration. The dilemma, however, was that deep economic integration could not take place without significant social and political integration and institutional harmonisation at the same time. Europe tried to evade this dilemma by progressing on the economic integration side, but moving very slowly on the political integration side. This brought Europe to its current impasse.”

One of the main opponents to further integration has always been Great Britain. Might the Brexit open up opportunities for reform?

“Now the dilemma has become so open and so pervasive that you cannot avoid it. The choice faced by Europe is that either it will take the leap into political integration, or that its economic integration will be made looser. Great-Britain is very self-consciously taking the second path. Maybe the core of European countries will take the first path sometime in the future. But clearly the European Union is stuck at a very unstable intermediate point, which is certainly not an equilibrium.”

Do you think European politicians will be able to overcome this crisis?

“The field has been left open for populist groups and new parties of the extreme right, because mainstream political groups appear to be paralysed by this choice. Unfortunately, I don’t see many centrist parties in Europe taking up the challenge in a frontal, head-on kind of way. That is really unfortunate, because given the current path’s unsustainability, this is simply going to strengthen the extremes. I really hope that this is not where we will end up. As a Turk, I have always looked to Europe as an anchor for Turkey’s own democracy. And as a progressive economist, I have always regarded Europe as a progressive model of how you could combine a well-functioning market economy with both social protection and a humane social model. So, I hope very much that I’m wrong in my pessimism. I say what I say with a lot of sadness.”

What has been the role of economists in this?

Are we to blame?

"I'm usually viewed as a critic of the economics profession, but, for me, personally, thinking like an economist has been indispensable for my intellectual development and for my own writings. My recent book is actually pretty upbeat about the discipline (Rodrik, 2015). My critique mainly targets the behavior of economists – the discipline's sociology, which I think has a lot of problematic elements – and not so much the economic discipline itself.

There are a lot of problems in the way economists approach societal issues and the way they position themselves in public debates. One of the causes of the current populist backlash against experts may be that economists have taken some key models and have applied them much more broadly than they should have been applied. And this is particularly the case since the emergence of the neoliberal consensus in the 1990s. Examples are the efficient markets' model in finance as well as the model of privatisation and trade liberalisation and how that would spur growth in developing countries. I think such models have a grain of truth in them, but when they are applied beyond where they ought to be applied, they are just as likely to go wrong as to be constructive for society."

Does this mean that economists should limit themselves to developing models, while being reluctant to intervene in public debates?

"Not necessarily. I portray the science of economics not just as one that develops models, but also as a way of navigating among models. In order to be an effective and successful economist, particularly in public debates, you do not only have to know your models, but you should also know how to pick the right models for the right context. I would not trivialise the relevance of doing the latter well. I think that where we have often gone wrong as a discipline is precisely in taking a particular model and treating it as *the* model.

Keynes said that, at the best, economists could be something like plumbers or dentists, solving local problems. Well, I think if that's what we are able to do, it is not a minor achievement. So, if we stick to our models, this is not necessarily bad and in that way we can make significant contributions as well.

At the same time, this does not preclude economists from being public intellectuals and having broader views as to where society ought to be going. I think we have a lot of influence upon the world and we can especially have a positive impact on it if we use our models smartly and responsibly and in a context-relevant way. In fact, we might have a small advantage in so far as we've got these libraries of models that help us think conceptually."

But the boundary between science and ideology is quite a narrow one, isn't it?

"It is – and I think that is particularly true in economics, where we are necessarily dealing with issues that affect society. As such, it is often very difficult for economists to separate their own opinions from their analyses.

Our models, however, provide a way of disciplining

our ideological disagreements. They help us to precisely understand the critical features of the world upon which our ideological differences are based. Among macroeconomists, for example, there is a big debate going on between supply- and demand-side economists. Here, our models help us to understand that the critical feature upon which both analyses diverge is just one parameter of the model, the magnitude of the labour supply's elasticity. If you are a 'supply-sider' you think that labour elasticities are very great, so that if you were to cut labour taxes a little bit, people would all of a sudden begin to work much harder, increasing macroeconomic productivity and output. However, if you are a 'demand-sider', you don't necessarily think that cutting taxes is going to have such a big effect. In that respect, our models discipline the discussions we have among ourselves.

The nice thing is, moreover, that this one parameter – labour-supply elasticity – is in principal something that can be estimated empirically. Of course, a problem in this respect is that economists often assume that if they soundly estimate a parameter in one place, it will be the same everywhere. That is not quite right. Nevertheless, we have the hope of actually knowing within certain limits what that figure is. This is how our models help to keep us honest – and even if we cannot completely keep ideology out, it disciplines the amount of influence ideology is going to have on our discussions."

One last question: in order to come back to globalisation, what do you think is the future of globalisation, given the populist backlash?

"I don't think there will be a significant reversal from globalisation, but clearly the era of trade agreements is over. We are likely to see stagnation in the overall level of globalisation. This is partly due to countries pursuing their own interests, but this does not have to be problematic. The interests they are pursuing are collective interests, defined by political deliberation. Such deliberation cannot take place at the global level because we do not have a global government or global democracy. As such, it's natural that it takes place at the nation state. I don't think there is a lot of incompatibility between countries pursuing their own interest on the one hand and globalisation on the other. After all, globalisation is supposed to be good for the economy as a whole."

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