UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS

RODRIK'S TRILEMMA: THE POLITICAL CHOICES OF THE WORLD ECONOMY

Ljubljana, May 2019 MARK HAFNER

AUTHORSHIP STATEMENT

The undersigned Mark Hafner, a student at the University of Ljubljana, School of Economics and Business, (hereafter: SEB LU), author of this written final work of studies with the title Rodrik's Trilemma: The Political Choices of the World Economy, prepared under supervision of prof. dr. Bogomir Kovač.

D E C L A R E

1. this written final work of studies to be based on the results of my own research;
2. the printed form of this written final work of studies to be identical to its electronic form;
3. the text of this written final work of studies to be language-edited and technically in adherence with the SEB LU's Technical Guidelines for Written Works, which means that I cited and / or quoted works and opinions of other authors in this written final work of studies in accordance with the SEB LU's Technical Guidelines for Written Works;
4. to be aware of the fact that plagiarism (in written or graphical form) is a criminal offence and can be prosecuted in accordance with the Criminal Code of the Republic of Slovenia;
5. to be aware of the consequences a proven plagiarism charge based on the this written final work could have for my status at the SEB LU in accordance with the relevant SEB LU Rules;
6. to have obtained all the necessary permits to use the data and works of other authors which are (in written or graphical form) referred to in this written final work of studies and to have clearly marked them;
7. to have acted in accordance with ethical principles during the preparation of this written final work of studies and to have, where necessary, obtained permission of the Ethics Committee;
8. my consent to use the electronic form of this written final work of studies for the detection of content similarity with other written works, using similarity detection software that is connected with the SEB LU Study Information System;
9. to transfer to the University of Ljubljana free of charge, non-exclusively, geographically and time-wise unlimited the right of saving this written final work of studies in the electronic form, the right of its reproduction, as well as the right of making this written final work of studies available to the public on the World Wide Web via the Repository of the University of Ljubljana;
10. my consent to publication of my personal data that are included in this written final work of studies and in this declaration, when this written final work of studies is published.

Ljubljana, ________________________ Author's signature: ________________________

TABLE OF CONTENTS

LIST OF APPENDICES

LIST OF ABBREVIATIONS

sl. – Slovene

EMS – (sl. Evropski monetarni sistem) European Monetary System

EMU – (sl. Ekonomska in monetarna unija) Economic and Monetary Union of the European Union

EU – (sl. Evropska unija); European Union

GATT – (sl. Splošni sporazum o trgovini in carinah); General Agreement on Tariffs and Trade

IMF – (Mednarodni denarni sklad); International Monetary Fund

NAFTA – (sl. Severnoameriški prostotrgovinski sporazum); North American Free Trade Agreement

OECD – (sl. Organizacija za gospodarsko sodelovanje in razvoj); Organisation for Economic Co-operation and Development

TRIPS – (sl. Sporazum o trgovinskih vidikih pravic intelektualne lastnine); Agreement on Trade-Related Aspects of Intellectual Property Rights

UK – (sl. Združeno kraljestvo Velike Britanije in Severne Irske); United Kingdom of Great Britain and Northern Ireland

U.S. – (sl. Združeve države Amerike); United States of America

WB – (sl. Svetovna banka); World Bank

WTO – (sl. Svetovna trgovinska organizacija); World Trade Organization

WW1 – (sl. Prva svetovna vojna); World War 1

WW2 – (sl. Druga svetovna vojna); World War 2

INTRODUCTION

A recurring theme in a number of recent democratic ballots—in the 2016 UK referendum on EU membership; the 2016 U.S. and 2017 French presidential elections; the 2018 Italian general elections—has been a surging populist[1] and nationalist rhetoric positioning itself against liberal globalization as the inescapable conflict between national democracies and deep international economic integration (or globalization for short) crystalizes to the voting public. The essential elements of this “populist-nationalist zeitgeist” (Higgott, 2018) emerging worldwide—nationalism, nativism, identity politics and protectionism—run counter to the core components of liberal globalization, shattering the “end of history” illusions of a permanent triumph of liberal democracy on a global scale as famously predicted by Fukuyama (1992) following the collapse of the Soviet bloc and the end of the Cold War.

The Leave argument of the 2016 UK referendum on its continued membership in the European Union put at its core the conflict between national sovereignty and international economic integration lacking in democratic legitimacy—seemingly convincing enough of the electorate to vote for Brexit, which the Governor of the Bank of England has called an act of “deglobalization” (Giles, 2017). In a Brexit referendum day exit poll (Lord Ashcroft Polls, 2016), almost half (49%) of Leave voters said the single biggest reason for wanting to leave the EU was “the principle that decisions about the UK should be taken in the UK,” while only a third (33%) said the main reason was control of immigration, even though “immigration was the most prominent referendum issue” in the media during the run-up to the referendum, coverage “tripling in the course of the campaign” according to a study by King’s College London (Moore & Ramsay, 2017). Only every twentieth respondent (6%) claimed economic reasons for voting Leave. On the other hand, economic reasons were the most important factor for voters who had voted to remain, cited by almost half the respondents (43%), while fewer than one in ten (9%) said their main reason for voting remain was “a strong attachment to the EU and its shared history, culture and traditions.” The Leave campaign had less support among elite opinion (the main left-of-center papers such as the Guardian and right-of-center publications such as The Economist and the Financial Times endorsed the vote for remaining in the EU), but a noted columnist for the Daily Telegraph (Evans-Pritchard, 2016) endorsed—“with sadness and tortured doubts”—leaving the European Union with this argument: “Stripped of distractions, it comes down to an elemental choice: whether to restore the full self-government of this nation, or to continue living under a higher supranational regime. . . that we do not elect in any meaningful sense, and that the British people can never remove, even when it persists in error.”

[1] A concise definition of populism for the purposes of this thesis would be that it is an ideology that considers society to be divided into antagonistic groups, the homogeneous “people” and the corrupt “elite,” with populists arguing that politics should be an expression of the general will of the people (Mudde, 2004).

Democracy can be reconciled with deep economic integration only if democratic politics is correspondingly transnationalized with markets. This will prove an insurmountable obstacle if the citizens of a nation feel little kinship with peoples of other polities with whom they are to practice democracy on equal terms. One could argue that the British rejected deep economic integration in favor of retaining national sovereignty, not convinced that the benefits of the former outweigh the drawbacks of forgoing the latter: The case of economic benefits accruing from further transnational integration was recognized, but it wasn't enough for voters to accept what they perceived as the diminishment of democratic accountability in the transfer of decision-making powers from national to international institutions. Another consequence may be that just as the Brexit vote was driven by English nationalism (O'Toole, 2016) the UK exit from the supranational EU may end up empowering Scottish and other nationalisms that often exist as identities alongside the British one, recalling Hobsbawm's (2000a, p. 97) paradox of nationalism—he had observed this dynamic during a previous liberal age when it ultimately unraveled most of the then-existing multinational polities—whereby the forming of a nation automatically creates the counter-nationalism of those whom it now forces into the choice between assimilation and inferiority.

Contemporaneously to the vote for Brexit, Donald Trump captured the U.S. Presidency with a remarkable shift in rhetoric from the standard Republican fare vaunting free markets, limited government and openness of its economy to the world, pointedly denouncing immigration and free trade. His strident rhetoric found a receptive audience in the segment of the electorate with grievances such as the multi-decade stagnant median real wages,[2] and an unprecedented increase in all-cause mortality among middle-aged white Americans without college degrees, beginning in 1999 and reversing decades of progress in mortality in the United States (Deaton & Case, 2015). The right-of-center political mainstream of the country under whose aegis post-war globalization materialized has been the traditional champion of liberalization of the domestic and world economy; now this juggernaut force—which has overwhelmed the right-wing of its political spectrum within a space of a few years— demands more state sovereignty, less multilateralism and a retreat from certain globalizing processes.

An even starker trade-off than the British choice between EU membership and their nation's sovereignty is the impossibility trinity the Eurozone countries face between the common currency, national sovereignty of its members and responsiveness of politics to democracy. Democracy in the EU can ultimately be maintained only if monetary, fiscal, social, development, labor law policy etc. is decided on the federal level with significant diminishment of national autonomies of its member states.

This brings me to the topic of this master's thesis: Democracy is simply not compatible for a country pursuing both unrestrained globalization and maintaining a fully sovereign state.

[2] For most U.S. workers, real wages have been flat or even falling for decades, despite economic growth, the productivity gains captured by the upper income brackets (DeSilver, 2014).

This discursive treatise navigates the many issues arising within the global economy under the broad framework of the titular trilemma, clarifying the trade-offs and probing the alternatives involved in the different types of international political settlements that can be pursued.

The purpose of this dissertation is to discuss Dani Rodrik's (2007) "inescapable trilemma of the world economy," which is the trade-off between state sovereignty, democracy and globalization (only 2 of the 3 can be simultaneously pursued) and examine it in a historical and global context. Sacrificing one of the terms against the full pairing of the others will result in a different set of institutional arrangements. I will ruminate on the trade-offs and iterations in which the trilemma has manifested itself since the mid-19th century when "industrial capitalism became a genuine world economy" and history "became world history" (Hobsbawm, 2000a, p. 47) by surveying a wide range of literature drawn from economic, political and historical sources, as well as comment on the ongoing political developments in support of the two overarching theses which together compose the present-day resolution of Rodrik's trinity and its rationalization: A retreat from deep integration and a reinvigoration of national democracies, which I justify by the harmful effects that the pursuit of hyper-globalization has had on democracy.

The first major thesis stems from the current global environment where global governance with genuine democratic legitimacy remains little more than a remote possible development, leading to the argument that the goal of deep integration must be abandoned and democracies within nation-states strengthened as states remain the only institutions where democracy can be meaningfully exercised. Rodrik asserts that re-empowering national democracies would put the world economy "on safer, healthier footing," as a superior form of globalization would pursue less ambitious and stringent rules that would leave abundant space for autonomous policy-making to national governments. "We need smart globalization," Rodrik says (2011, p. xix), "not maximum globalization."

The other major thesis is that a world of hyper-globalization—especially of liberalized capital flows—undermines democracy. Financial liberalization creates a "virtual senate" (Mahon, 1996) of lenders and investors who "conduct moment-by-moment referendums" (Canova, 1999) on government policies. If the virtual senate finds said policies lacking—generally meaning that they do not benefit them—it can exercise its "veto power" (Canova, 1995) by capital flight, attacks on currency and other means effectively precluding—or at a minimum severely hampering—elected governments from pursuing policies for which they have received democratic mandates. Governments of both developed and developing states are faced with this "dual constituency" (Canova, 1999) of the nation's voting public on the one hand and international economic actors—who conduct their own plebiscites on existing and prognosticated government policies—on the other. Or as the dynamic has been articulated by a supporter of this tendency rather than a critic: the "Electronic Herd" consists of all the millions of worldwide investors, from big multinationals to "faceless traders behind a screen," who want countries to don the "Golden Straitjacket" that constricts a government's policy choices to taut parameters of liberal, free-market rules, reinforcing the dynamic of ever-increasing reliance on the herd for growth capital as they run balanced budgets and similar policies; countries that refuse to adhere to the herd's rules are disciplined by the withdrawal of capital or by simply being collectively bypassed by the herd (Friedman, 2000, p. 110).

The two theses are connected: In a world of free capital flows the virtual senate of concentrated financial capital can effectively undermine democracy and with no countervailing global democracy we most forgo hyper-globalization if we want to live in genuine national democracies. The implied assumption is that democracy is an end in itself, an absolute value, unlike the nation-state and globalization whose respective merits and demerits depend on how well they allow for values to manifest themselves and hence can be abandoned if democracy can be practiced in a different institutional set-up.

Another argument I make is that independence of nation-states has played a central role in successful economic development by noting the calamitous effects forced liberalization of the economy—usually under pressure from other states for their own benefit—has had; in other words, I present the case that the loss of economic sovereignty to external forces has historically precluded economic development, augmenting the case for a more influential role of nation-states in the global economy as a means of economic development. Furthermore, this leads to the critique of marketization and corporatization of the world economy as decision-making migrates outside of direct political control—which I question not only for its dubious economic effects on the politically weak—but especially as this means less space for the possibility of democratic mass politics.

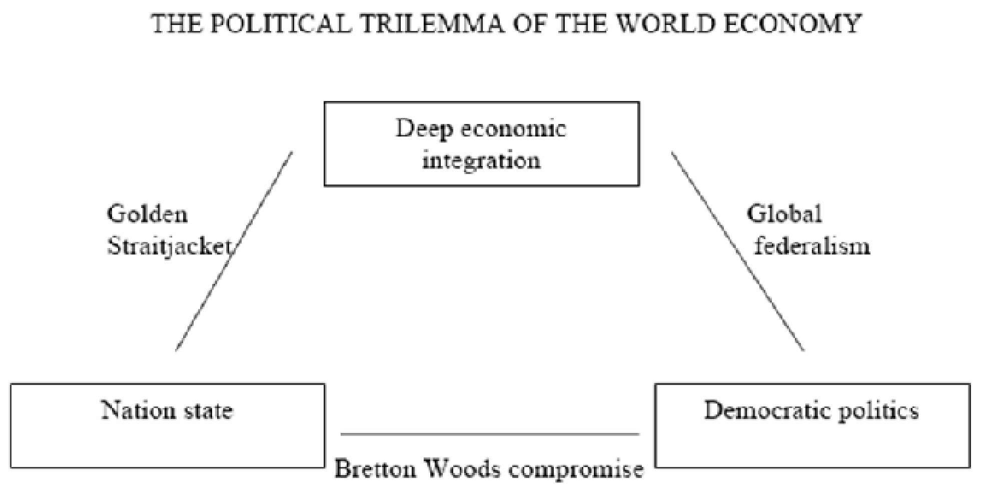
Each country pursues international economic integration, national autonomy and democracy to varying degrees and it would be difficult to find cases in practice where policy is positioned purely in the corners of the trilemma; policy stances tend to fall within the space between the corner positions. The discussion of the Rodrik trilemma is therefore not an exposition of the world as it actually is, but rather serves more as a debate on idealized types and as a conceptual argument.

1 THE TRILEMMA

1.1 Rodrik's trilemma

The Rodrik trilemma is a political trinity of the world economy between globalization, democratic politics and the state; an impossible trinity that has been articulated by Dani Rodrik (2007) thus: "[D]emocracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full."

Figure 1: Visual illustration of the Rodrik trilemma



Source: Rodrik (2007)

The three nodes of the trilemma are defined by Rodrik (2000) as follows: The nation-state is a territorial and jurisdictional entity with independent powers of creating and administering the law. Mass politics or democracy refers to political systems where the franchise isn’t restricted, a high degree of political mobilization exists and political institutions are responsive to mobilized groups. International economic integration’s apotheosis would be a perfectly integrated world economy in which national jurisdictions do not interfere with arbitrage in markets for goods, services or capital; transaction costs and tax differentials are negligible, convergence in commodity prices and factor returns almost complete. That is to say, the horns of the triangle are the state as a sovereign polity with a decisional monopoly on the affairs within it; democratic politics connotes the responsiveness of society to distributive issues; and globalization is about moving towards an asymptote that is the integration of national economies into a unified world market.

Both globalization and democratization are ongoing, manifold processes occurring in a system of sovereign states, with sovereignty itself a matter of degree. Movement along any two dimensions creates pressures to repress the third feature of governance: a preference for globalization necessitates either constraining democracy by insulating national policy-making from domestic political pressures or constraining sovereignty; an imperative for democratic governance gives the choice of either constraining globalization or national autonomy; a desire for national sovereignty limits either democratic accountability or globalization.

We can opt for a global agreement in which the current international order—where most conclusive political decision-making power resides within nation-states—is forgone in favor of a global federalism wherein democracy functions within global institutions, a supranational government overseeing supranational markets. A long-term aspiration perhaps, but an arrangement for which no meaningful political edifice is yet erected, nor do democratic national publics support it. The second possible resolution is maintaining the nation-state, but making it primarily responsive to the needs and demands the international economy makes; global economic integration is pursued as the principal goal, overriding any conflicting domestic objectives that may arise from the body politic as if the country is fitted into a straitjacket, a system similar to the gold standard regime that governed the international economy before the emergence of mass political participation. National governments' chief aim would be to make the country look attractive to investors; national jurisdictions would facilitate capital mobility and international commerce; domestic regulations and tax policies would be harmonized to international standards. The only local public goods furnished would be those compatible with internationally integrated markets. The final option is limiting the extent of international economic integration while bolstering democracy within the nation-state: a selective, slim version of globalization in the vein of the post-war Bretton Woods system.

1.2 Other trilemmas

Rodrik's trilemma is closely related to four other trinities (Bordo & James, 2015) that outline the policy constraints of a globalizing world and explain how the domestic and international economic, political, monetary and financial systems are disrupted by the one unifying node of all these trilemmas: capital mobility.

1.2.1 The classic trilemma

The first of the four trilemmas from which the others have been derived—and from whose institutional implications Rodrik's trilemma also stems—is the classic macroeconomic policy trilemma[3] that advances the necessity to forfeit one policy position of the following three: a fixed foreign exchange rate, free capital movement and an independent monetary policy. Developed from exchange rate problems by Mundell (1963), the policy constraint in a globalized world has been put in even starker terms by Rey (2015) who suggests monetary policy is limited by free capital movement even if exchange rates are floating and identifies an "irreconcilable duo": Independent monetary policies are possible only if the capital account is managed through macroprudential policies. Capital movements across borders fundamentally limit the scope for national monetary policy. This implies either a monetary union, or, if the aim is preserving national policy autonomy, the necessity of controlling capital movements (as was done under the Breton Woods regime). The logic of the original trilemma thus points either towards closer cooperation—including pursuing political arrangements that constrain domestic choices—or towards capital controls as a way of maintaining national policy autonomy.

The Mundell-Fleming trinity's visual representation in Figure 2 in Appendix 2 shows where certain arrangements fall within this trilemma: the Bretton Woods system limited capital mobility; the gold standard allowed for no monetary autonomy; modern China has pursued

[3] Originally articulated by Obstfeld and Taylor (1997) to describe the policy implications of the Mundell-Fleming model, later renamed the "impossible trinity" by Krugman (1999).

an independent monetary policy with significant capital controls; the EMS (1979-1998) and the EMU (the common currency euro as final stage) reflect their respective preparation periods for the economic convergence of EU member states that ultimately entails abandonment of national monetary autonomy.

1.2.2 The financial stability trilemma

Opening the capital account in a fixed exchange rate regime can't be reconciled with financial stability. The financial stability trilemma follows from the sequencing of policy measures—when crises related to capital inflows occur, the retrospective solution suggested is appropriate sequencing by developing a strong domestic financial system before opening the capital account and encouraging inflows, but the original reasoning is that the domestic system needs the resources from the outside to develop adequately. Financial instability is thus, Bordo and James (2015) argue, built into the development process. In theory, financial globalization should enable countries to consume intertemporally through international lending and borrowing, channel savings to countries where returns are higher and allow global portfolio diversification (Rodrik, 2018b), but in practice, high international capital mobility has also repeatedly produced international banking crises (Reinhart & Rogoff, 2008a). Financial globalization underscores the weakness of domestic institutions and capital flight can occur in countries that should normally be importing capital (Broner & Ventura, 2016). In emerging markets, the interaction of a weak domestic banking and financial system with a large inflow of international capital has consistently produced major international financial crises, such as the late 1990's East Asia crisis, the ongoing Eurozone debt crisis, and Central Europe in the 1920's. The financial stability trilemma depicted in Figure 3 in Appendix 2 shows the Bretton Woods' relative financial stability compared to the gold standard's; the gold standard's periphery which maintained fixed exchange rates to signal "a good housekeeping seal of approval" that facilitated access to foreign capital (Bordo & Rockoff, 1996); and the damaging effects capital inflows into the periphery of a monetary union (the euro's periphery countries like Greece) can have.

1.2.3 The political economy trilemma

The political economy trilemma Bordo and James outline is a variation of Rodrik's trilemma with monetary autonomy (national sovereignty) and capital mobility (hyper-globalization) simultaneously incompatible with democracy. The gold standard was an arrangement in which decision-makers were isolated from the pressures of public demands; post-war Europe had capital controls; said controls were progressively relaxed with the disintegration of Bretton Woods' restrictions with capital mobility ultimately becoming one of the "four freedoms" of the EU Single Market as illustrated in Figure 4 of Appendix 2.

Any sort of democratic politics within the confines of one state entails redistribution of resources and with large cross-border mobility of factors of production there is more outside pressure on the capacity for domestic redistributive politics. In a world of highly mobile capital—with no tax harmonization between jurisdictions—governments must compete for capital investment, creating a ratchet of downward pressure on corporate taxation rates, which in turn moves more of the tax burden from highly-reactive capital to internationally less mobile labor (although the argument is also made about high-income individuals leaving tax jurisdictions for more favorable ones, but there is little empirical evidence for this[4]). A New York Times investigation (Story, 2012) examined thousands of incentive programs granted nationwide in the United States and discovered that all levels of government from states to counties and cities give more than $80 billion each year to companies. An emblematic case is Amazon's competition in which municipalities across the U.S. competed to land the company's second headquarters, sparking a "subsidy war" (O'Connell, 2018). Owners of capital can effectively strike by refusing to allocate capital in a region whose policies they dislike; different regions can create different arrays of rules for capital to abide by, but investors can pit these regions against each other in order to extract more advantageous policies towards themselves. This means removal of various burdens on capital by dismantling protections and regulations, lowering taxes or providing benefits such as outright giveaways like free cash and land. An illustrative case is the debate on the political system of the federalized U.S. where there is a constant tug of war between states and the federal government: The corporate sector backs devolution of power to states from federal government as it is easier to gain concessions by pitting smaller states against each other than to extract privileges from a stronger system of power. The trade-off involved is that these public resources could otherwise be devoted to the welfare of the public rather than be spent trying to attract economic agents.

1.2.4 The international relations trilemma

The fourth trilemma Bordo and James identify (2015) pertains to the stability of international order. Not only capital mobility, but the limitations imposed by the international order also narrow the scope for democratic politics. Creditors often search for political assurances beyond monetary commitment mechanisms in the form of security arrangements and treaties that can conceivably run counter to democratic decision; this kind of argument about the security bulwark that locks in capital movements applies to both democratic and non-democratic regimes. A stable international order, free capital flows and democratic politics cannot be pursued simultaneously. For investors, empires were the paragons of stability due to the discipline enforced by imperial practices; the post-war Bretton Woods regime was specifically set up to curtail free finance and the neo-liberal era that followed was a decisive turn towards high capital mobility as visually represented in Figure 5 of Appendix 2.

[4] A research article (Young, Varner, Lurie, & Prisinzano, 2016) reviewed tax returns for all million-dollar earners across all the U.S. states (easiest country to move around with different tax rates in different states of the country) over 13 years whether to analyze whether top income-earners are "transitory millionaires" searching for lower-tax places or "embedded elites" reluctant to migrate from places where they are successful and found millionaire tax flight does occur, but only "at the margins of statistical and socioeconomic significance."

1.3 The trilemmas' quandaries and the unequal treatment of capital and labor mobility

There are intermediary solutions to all these trilemmas in the real world, with policy-makers always making practical trade-offs; Bordo and James (2015) themselves endorse "a larger security umbrella" that can provide for a stable scheme of rules about capital movement that would "limit or circumscribe the destructive capacity of capital mobility." As capital mobility is shared as a corner solution by all of the listed trilemmas, it is tempting to contemplate whether capital mobility is a worthwhile pursuit as it undermines so many other desiderata. The political concern with unimpeded capital mobility—as noted previously discussing the restrictions it places on democracy—is that when one jurisdiction declines to regulate something—all other things being equal—business moves there, creating a ratchet that always moves in the same direction.

1.3.1 Capital mobility as the commonality of the trilemmas

The two views on capital flows (Eichengreen, 2004) are that they are either an engine of growth as they loosen restrictions on resource mobilization, transfer organizational and technological knowledge and catalyze institutional change; or the counter-argument that they are a major source of instability as the information asymmetries lead to volatility that can collapse the entire financial system—thus the task of policy-makers should be to protect their economies from this risk by bolstering prudential supervision and limiting the most volatile forms of foreign funding like short-term portfolio capital flows. Capital may be more internationalized than ever, but quantity of flows does not imply a qualitative leap. The contrast between the era of liberalized capital flows in the pre-WW1 era with globalized capital markets today is instructive. In the post-Bretton Woods era capital mobility is much larger for short-term instruments than it was in the earlier periods and the stock of short-term assets—e.g. in the foreign exchange market—is vastly larger; in terms of the composition of long-term flows there was substantially more investment in tangible than intangible assets in the earlier period. The pre-WW1 period did a better job of transferring resources abroad with large capital outflows unmatched today in the rich countries, when much of the capital flow is two-way, and net positions are much smaller in relation to GDP. The high-income countries are now net importers of capital, not net exporters as they were in the previous era. A lot of capital transactions today resemble "diversification finance" rather than "development finance" (Wolf, 2005, p. 115).

1.3.2 The contrasting views on capital and labor mobility

Globalization's neo-liberal turn following the collapse of Bretton Woods (discussed in subchapter 3.2.) was the morphing of the post-war liberal order into a neo-liberal one with its ideological shift of a "a socio-politically contingent understanding" of freedom into a "Hayekian, essentially absolute, understanding of freedom" (Higgott, 2018) has placed capital in a privileged position—it has been extended protection against nationalization by international rules and enjoys extraterritoriality reminiscent of the first modern era globalization, the age of colonization of the latter part of the 19th century. Compared to that era, a different type of international flow is much more restricted: the movement of labor. There are gradations of freedom afforded to the movement of people, goods and capital; not all flows are made equal.

In the 1990's a leftist movement gathered under the tent of "alter-globalization," agitating for a globalization with more emphasis on labor and minority rights, economic justice and the environment. That movement withered but a different kind of alter-globalization has come to the fore from the right. The varieties of the ascendant "right-wing alter-globalization" (Slobodian, 2018b) don't share an outright rejection of the entire liberal "post-war international order" as sometimes argued by critics, but reserve their ire for the order of the 1990's and the "crown jewels of neo-liberal globalism": the World Trade Organization (WTO), the European Union (EU), and the North American Free Trade Agreement (NAFTA). The ongoing political strife is not captured by merely pitting globalists against nationalists: while socio-political globalization is under challenge, economic globalization is not strikingly being reversed. The proponents of Brexit consistently reiterate that they are not interested in withdrawing from the global economy and emphasize that the UK will pivot from the European to the global economy unburdened by onerous EU regulations, maintaining that they are pursuing a vision in which the free flow of goods and capital across Europe is preserved while only the free flow of labor is ended. Trump's administration, rather than being isolationist, is more aptly described as being unilateralist in its international actions, using aggressive tactics to penetrate foreign markets, especially China, with American products. These political forces are not seeking to abandon globalization altogether, but are embracing some aspects of it while rejecting others. They tend to want absolutely free financial flows, robust trade flows and severely restricted migration. In short, right-wing alter-globalization's politics are generally supportive of free finance and free trade; what they oppose is "free migration, democracy, multilateralism and human equality" (Slobodian, 2018b). For Hendrikse (2018), the global rise of authoritarian nationalism is a logical continuation of the neo-liberal project wherein right-wing populist forces promote an anti-cosmopolitan nationalist agenda, whilst continuing with the commitment to neo-liberal globalization and offshore corporate and financial globalization. He sees a nascent mixture of "neoliberalism and radical-right populism exercising government power, thereby sketching the contours of a mutating transatlantic neoliberalism—an emergent neo-illiberalism" (Hendrikse, 2018). Trump's administration, comprised of globalist (neo-liberal) and nationalist (illiberal) factions epitomizes this breakthrough.

1.3.3 The promised boons of global labor mobility

Inequality is often cited as nurturing the ongoing political strife with the World Economic Forum's 2017 annual global risks report ranking rising wealth and income disparity as the most important underlying trend that will determine the contours of the world in the next decade. If we are concerned about reducing global poverty and inequality—a noted precondition for any attempt at a minimally stable global federalism—facilitating labor mobility would do more towards that goal than increasing any other type of cross-border flows. The gains from eliminating migration barriers would amount to large fractions of world GDP measured in the tens of trillions of dollars and being one or two orders of magnitude larger than the gains from dropping all remaining restrictions on international flows of good and capital (Clemens, 2011).

The free movement of people within the EU is one of the core four freedoms—along with capital, goods and services—guaranteed by EU treaties. In 2015, 1.4 million people migrated from one EU state to another. In a 2017 survey (Pew Research Center, 2017), clear majorities in all the nine EU countries surveyed—which included nations with internally very different political dynamics, such as France and Sweden, as well as Poland and Hungary—wanted their own governments to make the rules about the migration of non-EU as well as EU citizens into their countries. A poll (Gallup World Poll, 2017) found 14% of the world's adults, or 710 million people, would move to another country if given the opportunity, while current UN estimates put global international migrant population at 244 million or 3.3% of world's adults (International Organization for Migration, 2017), a disparity in numbers that if reduced would create enormous political externalities in advanced countries.

A person's country and income ventile explains 90% of the variability of incomes globally. Incomes of two individuals identical in all relevant respects except in their nationality—different only in that one was born in a rich and the other in a poor country—can differ by a factor of 10 or 20 or even more, which means that citizens of rich countries are receiving a kind of citizenship premium (Milanović, 2015). With such significant global inequality, citizenship is the most valuable asset many in the rich countries own. This is the "disregarded cost" (Wolf, 2005, p. 123) of social security: it provides a strong incentive to countries with universal suffrage to vote for the exclusion of immigrants from the domestic labor market and makes it far less attractive to share the benefits of citizenship with outsiders. Milanović (2016) floats the idea of graduated categories of citizenship (that ranges from granting no benefits other than the right to work for a limited amount of time in the receiving country to automatically obtaining full rights of a citizen) which precludes migrants from laying claim to the entire premium, encouraging the re-examination of nation-state citizenship as a binary category in a globalized world, as "the more we insist on full rights for all residents, the less longstanding residents will be willing to accept more migrants." The Persian Gulf states, for example, have migrant stock as part of total populations reaching as high as 80% but provide little rights in their employer-sponsored migrant system (International Labour Organization, 2017). Similarly, Rodrik (2002) has proposed multilaterally-negotiated temporary visa schemes, forced-saving schemes until return takes place and other sophisticated mechanisms that would mitigate the adverse distributional implications from labor inflows for the host countries.

Right-wing populists, who mobilize along cultural cleavages, reserve their most fervent opposition to the mobility of labor aspect of globalization, which manifests itself in the form of immigrants and refugees; they claim migration undermines public goods such as the preservation of national culture and language. Their anti-establishment counterparts, Rodrik (2018b) posits, the left-wing populists—who emerge when globalization shocks are salient in the forms of finance, foreign investment and trade mobilize people along income and social class—are more prominent in southern Europe (e.g. Podemos in Spain and Syriza in Greece) and Latin America, regions that would not see immigration on the scale of northern Europe and North America. Free movement of labor is an issue easier to organize against not only as it has more immediate societal and cultural consequences, but also because it lacks proponents as powerful as those who advocate for free movement of capital. Imports from developing countries and immigration exert similar downward pressures on wages in rich countries, yet substantially more liberalization of trade and investment has taken place in contrast to the restrictions on labor flows that have remained in place. Multinationals and financial interests anticipated the connection between increased market access abroad and their own profits and have been powerful enough to advance these issues while advocates for loosening labor flows haven't had a politically strong constituency. Rodrik (2002) claims that economic experts have remained "excessively tolerant of the political realities" that have preserved the severe restrictions on labor mobility, especially since they loudly denounce any voices of protectionism that would prevent the further liberalization of international trade. To encapsulate this subchapter: capital mobility can have dubious economic effects, while increased labor mobility would indubitably have positive aggregate economic effects. From this precis we can surmise that the procession of globalization is not driven by objective considerations of disinterested experts, but by the political strength of various stakeholders pursuing their own interests.

2 THE HORNS OF THE TRILEMMA: DEMOCRACY, THE STATE AND GLOBALIZATION

The third chapter is devoted to examining the three vertices of the triangle and establishing democracy, the state and globalization in their respective contexts. First, I will delve into how consequential popular participation is actually supposed to be when democracy is spoken of; proceed by describing the distinctive globalization arrangements of the modern era and finish with going over the entwined historical relationships between the state, nationalist sentiments and the role state sovereignty has had in economic development.

2.1 Democracy and its two intellectual tendencies

One can enumerate certain world-historical events that notably advanced the cause of democratic politics from ancient democracy in Athens onwards: the Magna Carta of 1215 constraining the monarch's power; Britain's Glorious Revolution of 1688 which removed the divine rights of kings and political privileges of aristocrats by allowing political power to only be exercised according to rules prescribed by publicly known laws; the U.S. Constitution; the French Revolution; the emergence of the concept of human rights as a limit on Westphalian sovereignty, yet democracy has not followed a linear development everywhere, all the time. The contextual differences for different countries—the historical period, the type of regime democracy replaces—make for systematic differences in the process of democratization (Geddes, 2011). That is why I will eschew a historical overview in favor of counterposing two conceptions of democracy; an approach that, I believe, yields more insight into what kind of mass politics is in conflict within the trilemma and which vision of democracy can be accommodated in a globalizing world of sovereign states, effectively rendering the trilemma moot.

Stanford Encyclopedia of Philosophy's (Christiano, 2006) entry on democracy defines it as "a method of group decision making characterized by a kind of equality among the participants at an essential stage of the collective decision making." The author notes four aspects of this definition: (1) collective decision making within a group is binding on all members of the group; (2) democracy can be applied to all sorts of groups from families to corporations to states; (3) it carries no normative weight, i.e. can be good or bad; and (4) that equality may be more or less deep. The last characteristic connotes that the requisite equality may range from the mere formal equality of one-person one-vote in an election for representatives to deeper types of democracy with equality in the processes of deliberation and coalition building and direct participation in deciding laws and policies of a society. What concerns my exploration of democracy is precisely the attribute of depth which I identify as the defining characteristic of democracy. The shallower the equality the less of a Rodrik trilemma society is faced with since it has already effectively moved away from the democracy node of the triangle.

I will follow Chomsky's (2003; 2014) juxtaposition of two accounts of democracy to better illustrate the kind of democratic society that is confronted with a clear trade-off between the sovereignty of its state and international economic integration. In Chomsky's interpretation of Aristotle's and James Madison's work both recognized that democracy is incompatible with too much inequality but proffered different solutions: the former proposed reducing inequality and the latter advocated for limiting democracy. Chomsky's two types of democracies are related to the question Isaiah Berlin (1969) posed on whether freedom is a positive or negative concept. Liberty as a negative concept implies freedom from external constraints such as oppression and tyranny and as a positive concept it corresponds to giving people the conditions to realize their freedom, the possibility of acting in such a way to realize the individual's true self. Berlin traces positive liberty from Aristotle's definition of citizenship and negative liberty from figures that influenced James Madison, such as John Locke and David Hume. An Aristotelian democracy grants an individual not merely freedom from despotism but empowers her with the possibility of acting in such a way as to lead a virtuous political life.

2.1.1 Madison's constrained vision

James Madison played the central role in drafting and promoting the constitution of the United States which has remained in force for over two centuries (albeit through numerous democratizing amendments) and provides the framework for the still-existing political system of what is widely considered a foremost democracy. Madison believed (Notes on the Secret Debates of the Federal Convention of 1787) that the role of government is "to protect the minority of the opulent against the majority" since "if elections were open to all classes of people, the property of the landed proprietors would be insecure" and therefore a system must be designed to "secure the permanent interests of the country." These sentiments were even more candidly stated by his contemporary, the first Chief Justice of the U.S. Supreme Court John Jay, who said (Littell & Littell, p. 228) that "the people who own the country ought to govern it." Madison observed (Notes on the Debates in the Federal Convention: Tuesday August 7, 1787) that in an unequal society those "without property, or the hope of acquiring it, cannot be expected to sympathize sufficiently with its rights": the majority would "secretly sigh for a more equal distribution of [life's] blessings" (Notes on the Debates in the Federal Convention: Tuesday June 26, 1787), meaning that if democracy is functioning properly the worse-off many would end up taking from the well-off few by legitimate democratic means, serving their own interests rather than the common good.

These remarks—tellingly taken from the intra-elite debates at the Constitutional Convention rather than from the Federalist Papers which were intended as public promotion of the U.S. Constitution—give credence to the assessment by Gordon S. Wood that "the Constitution was intrinsically an aristocratic document designed to check the democratic tendencies of the period, and the democratic rhetoric used to bolster and justify the document emanated from the broad social egalitarianism following the Revolution" (Wood, 1998, p. 513). Madison put his faith in representative democracy and thus helped devise a system that constrained participation of the general population in the government: popular views would be put into public policy through the election of representatives "whose wisdom may best discern the true interest of their country" (The Federalist Papers: No.10). Power was placed in the hands of the "more capable set of men" (Notes on the Debates in the Federal Convention: Wednesday June 13, 1787), the "natural aristocracy" in Thomas Jefferson's words (1813) and the underlying strategy that has been pursued—tacitly acknowledging Hume's paradoxical observation that "force is always on the side of the governed" (Hume, 1987)—has been to factionalize and fragment the general population. We can infer the many forms this has taken over the last two centuries of American history: exploitation of ethnic and racial conflicts, fracturing of political constituencies, barriers against mass action and dismantlement of popular organizations, voter suppression, disenfranchisement and various other past and present political practices.

There is evidence that the United States today isn't even much of a democracy in terms of policy outcomes reflecting popular attitudes: A 2014 (Gilens & Page) study tracked how well the preferences of various groups predicted the way the legislative and executive branches would act on a large number of policy issues over a span of two decades and discovered that economic elites and organized groups representing business interests have "substantial independent impacts" on U.S. government policy and that the preferences of the average American have "only a minuscule, near-zero, statistically non-significant impact" on public policy. These results are described by the authors as "biased pluralism" wherein policy outcomes respond to the preferences of concentrated financial and business interests and "economic-elite domination" wherein policy-making is dominated by individuals who possess substantial economic wherewithal. The standard theory of the median voter theorem would predict—based on rational, self-interests individuals with clear preferences—that the outcome of democratic elections would reflect the views of the median voter (Stiglitz, 2013, p. 148), but the polls consistently show vast discrepancies between the preferences of voters and what the political system actually delivers. Other apt theories that describe the empirical findings abound: Conor Gearty's (2013) "neo-democracy," where, within a system of formal rights, liberty and security in their broadest meanings are available only to an elite; Thomas Ferguson's (1995) "investment theory of politics" that views U.S. elections as events in which coalitions of private investors coalesce to invest in the control of the state; Robert Dahl's (1971) "polyarchy" as a representative minority rule wherein elite groups alternate in power and are limited through institutions such as regular and free elections, a system where elites make the decisions and the public's role is to ratify them. A case can be made that every single listed political system falls within democracy's encompassing rubric, but a democracy in which multiple options are on offer, yet all stem from a privileged position doesn't need to interfere with sovereign states pursuing economic globalization, as this kind of system can seem quite indistinguishable from totalitarianism to those at society's bottom.

The exacerbation of the problem of government policy reflecting the interests of those higher on the income scale becomes even greater when it is formalized as it has been since the 2010 landmark decision in the case of Citizens United v Federal Election Commission, in which the Supreme Court held that the free speech clause also covers corporations and similar legal entities ruling that their expenditures on political campaigns can't be restricted by the government. If we compare the resources at the disposal of corporations to those of the vast majority of individual Americans, the decision has "the potential to create a class of super-wealthy political campaigners with a one-dimensional political interest: enhancing their profits" (Stiglitz, 2013, p. 165). Stiglitz (2007, p. 191) writes that political campaign contributions have replaced outright bribery in the United States (these contributions are implicit contracts that can be even better enforced through the design of repeated games where the actors learn of the consequences of failing to follow the tacit agreement), where the services rendered are policies whose cost on society can be much higher than a mere government contract purchased at above-market prices. A leaked internal party memo revealed elected representatives in the U.S. Congress are advised to spend around half of their working time seeking campaign contributions (Grim & Siddiqui, 2013). Madison himself warned of private interests supplanting public duty amidst the rising developmental state leading to a "real domination by the few under an apparent liberty of the many" (Rutland A. & Mason A., 1983, pp. 233-234) as concentrated economic private power becomes the "tools and tyrants of government, bribed by its largesses and overawing it," (Cullen T., 1986, pp. 17-18) the meshing of private and state power to such point as to become indistinguishable. Over a century later with the modern economic system already firmly established John Dewey warned that as long as institutions aren't under public control politics will merely remain “the shadow cast on society by big business” and that “the attenuation of the shadow will not change its substance” (Westbrook, 1991, p. 440). Keynes tentatively embraced democracy as early as 1904 but cautioned that democracy’s “full force won’t come into operation” as those with wealth will always play an outsized role (Hobsbawm, 2000b, p. 84).

Despite the limited vision, in Madison’s view the aforementioned “capable set of men” would still be “enlightened statesmen” (The Federalist Papers: No.10) rather than investors and corporate executives of organizations pursuing the impetus of maximizing profits and market shares, their institutional role designed to ignore anything outside their self-interest. Madison’s views were thus closer to David Ricardo’s who believed (Chomsky, 2011) that investors would “be satisfied with the low rate of profits in their own country” rather than seek more profitable returns abroad and Adam Smith’s (Smith, pp. 488, 489), whose famous phrase of how an invisible hand transforms pursuit of own gain into general benefit entails the assumption that those who invest capital naturally prefer their domestic industry, not yet anticipating a system where economic agents are not also moral agents.

The rubric of Madisonian democracy does not have to clash with an economically globalizing world of sovereign states as the Madisonian vision of democracy internationalized is conceptually similar to the virtual senate of privileged international investors with veto power whose interests tend to align (unless inter-elite conflict arises as was the case in the American Civil War) with those of domestic elites and can be accommodated in the golden straitjacket version of the resolution of the trilemma. It is a reconciliation of the trilemma as democracy and public policy is captured by the superior resources of those who have won from globalization’s processes. As Tooze (2017) has pointed out, when capital conspires against a democratically elected left-wing government—as it has during the Eurozone debt crisis in Portugal and Greece, or in France in the 1980s—it isn’t just foreign capital that moves. The first to mobilize tend to be disgruntled domestic elites as it is their portfolios that are most heavily tilted towards local assets and are now vulnerable to the incoming government’s policies: in 2015 domestic capital flight put at least as much pressure on Syriza as international speculation did. Domestic oligarchs function similarly as international investors in this dynamic.

Chomsky (1992) observes that “as the social world becomes more free and diverse, the task of inducing submission becomes more complex.” David Hume’s insight (Hume, 1987) about force—in any political system—paradoxically residing with the governed, “the governors” having nothing to support them “but opinion” helps explain why the elites always need to be cognizant of what the population believes. When governments lose the power to control and coerce their population the privileged sectors of society must develop other methods to preserve their authority, namely the “engineering of consent” (Bernays, 1947, p. 113); the creation of “necessary illusions” (Niebuhr, 1932, p. 221) and means of “controlling the public mind” (Bernays, 1928, pp. 37-38). In short, propaganda and its many outgrowths like marketing, advertising and public relations become essential to the ruling strata as societies get more democratic and are the one way these Madisonian elites can hope to limit public participation to merely ratifying decisions they themselves make. The theme of the sentiments expressed by, respectively, the pioneer of modern public relations—Edward Bernays—and of modern journalism—Walter Lippmann—is reminiscent of Madison's musings on how too much participation of the public may lead to a radical upending of the economic and social order and hence must be restrained. Bernays conveyed the basic point in book on public communication called Propaganda (p. 37)—before this descriptive term (much like autocracy and oligarchy) became identified solely as a negative term (and its practitioners starting using other words for it): "The conscious and intelligent manipulation of the organized habits and opinions of the masses is an important element in democratic society. Those who manipulate this unseen mechanism of society constitute an invisible government which is the true ruling power of our country." Lippmann (1993, p. 145) wrote the "the public must be put in its place," so that we may "live free of the trampling and the roar of a bewildered herd," and conceived of public opinion (1993, p. 187) not as the voice of active participants but of "interested spectators." That those who speak in favor of the Madisonian view of democracy also believe such efforts are needed in order to maintain it should give us pause as to what they think the public would spontaneously prefer. Notable contemporary political philosophers have converged around a definition of democracy that places public deliberation and reasoning at the center of the democratic state, a "deliberative democracy" (Bohman & Rehg, 1997) requiring certain discourse norms or ethics. The practices of the public relations profession are antithetical to these norms and thus functionally anti-democratic. The role of obfuscation in political struggles is clear to Wallerstein (2004, p. 89): "Opacity leads to confusion, and this favors the cause of those who wish to limit liberty." Hume's paradox of government supposes that a crucial part of human nature is an "instinct for freedom," with the paradox stemming from the failure to act upon this instinct. Whether we believe in it, Chomsky (1992) claims, is a choice: "Like other tenets of common sense, this belief remains a regulative principle that we adopt, or reject, on faith."

2.1.2 Aristotle's expansive vision

Two millennia before the U.S. Constitution was written, Aristotle contemplated similar problems in Politics, one of the foundational texts of political philosophy. He examined the various regimes of a political community and ultimately endorsed a system where the many (rather than the few or just one person) would rule in the interest of all citizens (rather than solely in their own interest). Just like Madison he cautioned that even the best functioning democracy would be flawed without equality as the poor majority would pursue their own interests and not the common good of all: a radically unequal distribution of wealth in a polity makes for "a city not of freemen, but of masters and slaves" (Aristotle's Politics, Book 4, part XI). Aristotle asserts that in democracies instability is caused by the "intemperance of demagogues" (Book 5, part V) who will agitate against the rich, stirring up the poor to remain in power, leading to civil strife as the rich in turn unify against democracy. He claims all states are composed of three elements: the rich, the poor and the mean and identifies the mean as most inclined "to follow rational principle" as the middle class is "most secure in a state, for they don't, like the poor, covet their neighbors' goods; nor do others covet theirs, as the poor covet the goods of the rich" therefore a polity should be composed "as far as possible, of equals and similars; and these are generally the middle classes"(Book 4, part XI).

Thus, the polity will be more stable, more "lasting" (Book 4, part XII) if the middle class predominates. This can be ensured only if the citizens have "moderate and sufficient property" (Book 4, part XI). To safeguard this, Aristotle argues, measures should be taken to give the less well-off "lasting prosperity; and as this is equally the interest of all classes, the proceeds of the public revenues should be accumulated and distributed among its poor" (Book 6, part V) a line of thought that can be transplanted into modern times as an argument for a comprehensive welfare state. In effect, he argued that material equality is requisite for a political democracy to function.[5] Only a well-off society with few citizens living in poverty creates political conditions auspicious for the mass of the population to avoid succumbing to demagogues; a higher standard of living promotes democracy (Lipset, 1959). Empirical research confirms Aristotle's intuition that widespread prosperity, captured in the robustness of the middle, stimulates democracy: a positive relationship between the income share of the middle class and democracy has been established in empirical studies (Barro, 1999); the preponderance of evidence from quantitative analyses in favor of the Lipset/Aristotle hypothesis has elevated it into a stylized fact of political science.

In the political science literature where democratization is seen as a strategic interaction between the elites and citizens (Boix, 2003; Acemoglu & Robinson, 2001) a similar argument is made that democratization occurs when income distribution is more equal. The societal cleavage between the rich and the poor dominates in this non-democratic regime, the rich maintaining dictatorships in order to protect their assets and the key measure that determines redistribution is the level of taxation on capital. The more unequal the society the poorer the median voter, who then demands a confiscatory tax rate—income equality reduces elite fears of democracy, who eventually cede power (in the narrow confines of this model capital mobility is also conducive to democracy as it gives capital holders an exit). Historically, this model of democratization could be applied to the democratizations in Western Europe and Latin America, while more recent democratization struggles in Eastern Europe, Africa, the Middle East, and a number of countries in Asia are more plausibly described by the conception that assumes the main societal division to be between the revenue-maximizing rulers and the politically powerless ruled, wherein rulers offer incremental concessions of democratic advancement when doing so can increase the credibility of promises to promulgate policies that increase economic growth and provide public goods (Geddes, 2011).

[5] According to a nationwide survey (Columbia Law School, 2002) two-thirds of Americans believe Marx's maxim "from each according to his ability to each according to his needs" was or could have been written and included in the U.S. Constitution, either a testament to the public's ignorance or to the spontaneous appeal of such ideas.

It must be noted that Aristotle's conceptions of the political community and citizens' participation in government are much more expansive than what we allow for today with the nation-state and public participation in representative democracy. Aristotle claims that the main preoccupation of politics should be to engender "a certain character" in citizens and make them "good and capable of noble acts" (Aristotle's Nicomachean Ethics, Book 1, chapter 9). The "end of the city-state is the good life" (Aristotle's Politics, Book 3, part IX) with "a life of virtue [being] best for individuals and states" (Book 7, part I). For Aristotle a political community is not merely a state controlling a territory but a partnership of equals who pursue the common good of all and the central concern of studying politics is discovering and putting into practice political institutions most conducing to developing virtue in the citizens, a "view that would not be found in political textbooks today" (Clayton, 2005). Citizens would be directly involved in governing as all would "take part in the deliberative or judicial administration" (Book 3, part I) even if Aristotle—in accordance with the spirit of the times—held that slaves have "no deliberative faculty at all" and women are "without authority" (Book 1, part XIII) therefore not fully-fledged citizens (conceptions of citizenship hadn't much progressed in Madison's time as slaves and women were still not enfranchised).

For the purposes of the trilemma we should take the operational definition of democracy to simply be that the final arbiters of affairs in their own society (i.e. nation-states) should be the people of said society. Only those within a polity, which is one of many, have political rights, as investor rights are akin to rights of foreigners that can interfere with the democratic will of a polity. Globalization can undermine democracy as investor rights, rights of those outside polity, can trample on the common good of a "city-state" polity; globalization itself, in a world where the only meaningful expression of democracy is nation-states, undermines it, as supranational entities like the EU and international organizations lack the requisite institutional structure for meaningful expression of democratic majority-rule.

2.1.3 Illiberal democracy, undemocratic liberalism and the victory of domestic politics over globalization

The inescapable problem of democracy is majority rule. Wallerstein defines (2004, pp. 88, 89) democracy as "liberty of the majority," found in the degree to which collective political decisions reflect the preferences of the majority, as opposed to those of smaller groups who may in practice control the decision-making processes. Active political participation of the majority with their having full access to information and a means of translating majority views into government bodies is required for the liberty of the majority; Wallerstein is doubtful any existing state is completely democratic in this sense. On the other hand, liberty of the minority implies that the minority is free to pursue their choices in all those domains in which there is no justification for the majority to impose its preferences on the minority. The fundamental cleavage in the democratic struggle, according to Wallerstein, is emerging between those who wish to expand both the liberty of the majority as well as that of the minority and those who seek to create a non-libertarian political system under the pretenses of adopting either the liberty of the majority or the liberty of the minority.

It would be unrealistic to expect the masses of people who have entered the arena of political participation over the last few generations to willingly acquiesce to being forced out of the societal decision-making system. However, there has been widespread alarm about the future of democracy amidst the recent rise of popular authoritarian leaders such as Trump, Putin, Xi, Bolsonaro, Modi, Erdoğan, Duterte, Orbán and others. Freedom House's 2018 annual survey (Freedom House, 2018) on the state of worldwide democracy notes a trend of "democratic backsliding" and reports that "over the period since the 12-year slide began in 2006, 113 countries have seen a net decline, and only 62 have experienced a net improvement" in their ratings on civil liberties and political rights.

The political theorist Yascha Mounk has documented the emergence of "illiberal democracies" (Mounk, 2018) where governments are elected but their leaders dispense with constitutional and liberal norms in the name of the "people" if need be. Many recently elected governments are following in this ongoing trend and can be, as of 2019, found worldwide from Poland and Hungary to the Philippines, India and Brazil. A liberal democracy wherein tyranny of the majority is mitigated by checks and balances and enumerated rights is the illiberal democracy's obverse and is arguably the modern system closest to Aristotle's proposal of a constitutional government that pursues the common good rather than to have the ruling part of the community pursue its own welfare to the detriment of other parts. Mounk also posits the existence of an "undemocratic liberalism" that emphasizes liberalism at the expense of democracy, a style of technocratic governance where individual rights remain protected, liberalization is the lodestar, but elected governments regularly ignore majority political preferences by insulating themselves from democratic pressure; the proverbial elites having little faith in ordinary people. The apogee of this tendency is represented by the European Union (Rodrik, 2018c). The single currency and market without a corresponding political integration has seen delegation of policy to technocratic bodies such as the European Commission and the European Central Bank; the institutional version of Madison's more "capable set of men" in which decision-making is considerably removed from the public sphere. The rise of illiberal democracies is in part a reaction to this tendency of undemocratic liberalism; the failure of mainstream governments to provide a more equitable distribution of the benefits of globalization while outsourcing large swaths of policy from the arena of democratic contestation to institutions who then effectively limit the range of policies that can be delivered. So, a system of "rights without democracy" being challenged by populists who offer "democracy without rights," and "the views of the people tending illiberal and the preferences of the elites turning undemocratic" as Mounk (p. 14) summarizes the predicament.

The remedies Mounk presents that would retrench both of these tendencies in favor of bolstering liberal democracy are close to Aristotle's ways of safeguarding democracy and Rodrik's solutions for resolving the trilemma: alleviating economic inequality, tapering the liberalizing drive of the elites, advancing an agenda of "civic faith" with a renewed emphasis on “domesticating inclusive nationalism,” not trying to muffle nationalist sentiments and replacing them with cosmopolitanism but conceptualizing patriotism as a positive, inclusive force. Similarly, Larry Summers (2016) has advocated for a “responsible nationalism,” in which politicians recognize that “the basic responsibility of government is to maximize the welfare of citizens, not to pursue some abstract concept of the global good.” These commentators intuitively understand Madisonian democracy is the domestic system that can be in harmony with both state sovereignty and further international integration, but also acknowledge that the masses in this type of system—given wide latitude to voice their discontent but only narrow openings for participation—can be mobilized into highly destructive political movements, thus making gestures to what they implicitly recognize would be the preferences of an Aristotelian democracy with more equality and participation of the public.

Rodrik believes that when globalization comes into conflict with domestic politics, “the smart money bets on politics” (2011, p. 188), hinting at why illiberal democracy has spread as a response to undemocratic liberalism. In democracies, when the demands of foreign creditors collide with the needs of domestic constituencies, the former eventually yield to the latter, which Rodrik exemplifies with the case of Argentina (2011, pp. 184-190). By 1990 Argentina had been in almost perpetual crisis since the 1970’s, suffering from hyperinflation, crushing debt and decreasing incomes. The main cause was identified as too much capricious governmental discretion and consequently too loose a fiscal policy that undermined confidence in the government with the private sector withholding investment and fleeing domestic currency. The remedy implemented was the Convertibility Law that legally anchored the local currency to the dollar and prohibited restrictions on foreign payments, effectively making the central bank operate by gold standard rules. Additionally, the government accelerated deregulation, privatization and the opening up of the economy. The policies worked: they eliminated hyperinflation, restored price stability, generated confidence leading to large capital inflows while investments, exports and incomes all rose. But it did not work in the long-term: by the late 1990’s the Asian financial crisis reduced the appetite for emerging markets and the devaluation of Brazil’s currency made the Argentinian currency—Brazil being their main competitor for global markets—look overvalued and its ability to repay external debt questionable leading to a collapse in the confidence and creditworthiness of Argentina, which in turn triggered a sudden stop of capital inflows. The Argentinean government had removed the binding constraint of poor monetary management, but ultimately ran into another—an uncompetitive currency. A noted economist commended all the wide-ranging liberalizing reforms Argentina had embraced, putting in place “one of the most innovative bank regulation and supervisory regimes” (Mishkin, 2006, p. 109) in the preceding decade, but added, “unfortunately, these efforts were not enough to ensure success” (p. 106). Other concerns must be completely subordinated to ensure the requisite reforms are undertaken, yet this may still not be enough. The government was forced to resort to austerity politics of cutting pensions and government salaries; it restricted bank withdrawals as fear of devaluation spread, which sparked nationwide protests and violence. It eventually had to freeze domestic bank accounts, default on foreign debt; reimpose capital controls and devalue the peso. Argentina suffered the worst economic crisis in its history during the 4-year depression. Its "experiment with hyper-globalization ended in colossal failure" (Rodrik, 2011, p. 187). The financial markets had grown skeptical that Argentina's domestic constituencies would tolerate the policies imposed on them in order to fulfill obligations to foreign creditors for much longer. According to Rodrik, in democracies the needs of domestic politics will emerge victorious even when the country's elites fully internalize the goals of deep integration.

2.2 The history of globalization in the modern era

Eichengreen (2004) divides the 20th century into four parts corresponding to four distinct capital market regimes: the pre-WW1 free capital movements with massive net flows across borders under the gold standard; the unstable inter-war years and the calamities of the period that lead to WW2; the third quarter of the century under the Bretton Woods regime, a time of tight restrictions on international financial transactions that were progressively relaxed and lifted starting in the 1970's ushering in the new period of growing capital flows. In this subchapter I will give an outline of the history of globalization and how certain arrangements fall within Rodrik's triangle, profiling the features of three distinct eras of the world economy: the pre-WW1 gold standard era and how its system of states pursuing globalization and responding to international needs over domestic ones collapsed under democratic pressures; the post-war Bretton Woods system with its clear limits on globalization; and the hyper-globalization pursued since its collapse, often at the expense of democracy.

2.2.1 The first era of globalization under the gold standard

The first era of globalization was the period from 1870 to 1914 (coinciding with what Hobsbawm (2000b) has termed the Age of Empire) when the widespread adoption of the gold standard enabled capital to move internationally without the fear of arbitrary changes in currency values or other financial difficulties. The UK was the one country already on gold when the industrial revolution made it the world's pre-eminent economic power and the foremost source of foreign finance, setting off a chain reaction of other countries adopting their monetary standard.[6] Under the gold standard each national currency had its value pegged rigidly to gold and the exchange rates between currencies were fixed; money could flow freely across countries and be exchanged at fixed rates determined by the gold parities. If a country ran a balance of payments deficit it lost gold to its trade partners and experienced a reduction in the money supply and the tight monetary policy would force a combination of rising interest rates and falling domestic prices, which would in turn lead to reduced spending and improved trade competitiveness, restoring the equilibrium on external

[6] As predicted by network externalities—external effects in which the practices of an agent depend on the practices adopted by other agents with whom he interacts (Eichengreen, 2008, pp. 17, 238).

payments while the populations simply had to tolerate periods of mass unemployment and deflation.

The crucial part of maintaining a pegged exchange rate is protecting governments from pressure to prioritize other goals over exchange rate stability. In the nineteenth-century the source of such protection was isolation from domestic politics. Eichengreen (2008) notes that trade unions and parliamentary labor parties had not developed to the point where workers could insist that defense of the exchange rate be contested by the pursuit of other objectives. Furthermore, prices and wages were relatively flexible thus a shock to the balance of payments that required reduced domestic spending could be accommodated by a fall in costs and prices rather than a rise in unemployment, which further diminished the pressure on the authorities to respond to employment conditions. All these factors meant that the priority central banks attached to maintaining currency convertibility was not seriously challenged by the citizenry and governments were able to do whatever it took to defend their currency pegs. But burgeoning labor, suffrage and other democratizing movements lead to the politicization of monetary and fiscal policy-making which meant that when a democratically elected government was eventually made to choose between suffering the societal consequences of mass unemployment and abandoning the gold standard, it would invariably choose the second option.

Polanyi (2001) introduced the concept of the "double movement," a ubiquitous occurrence during which market mechanisms expand into new areas of social life and engender a countermovement to protect society against destruction wrought by unfettered market capitalism, ensuring the economic system remains subordinated to social order. Specifically, he suggested that the extension of market institutions over the course of the 19th century in the attempts to create a market society triggered a political reaction with the rise of social protections—the conservative Bismarck created the first welfare state (Wolf, 2005, p. 123), following "the strategy of the soft embrace" since "democracy would be the more easily tamable, the less acute its discontents" (Hobsbawm, 2000b, p. 102)—and associative democracy that ultimately undermined the stability of the market system. The consequent politicization of the policy environment, Polanyi claimed, had destroyed the viability of the gold standard itself (Eichengreen, 2008, p. 230). As Rodrik (2011, p. 43) puts it succinctly: "Democracy was incompatible with absolute priority for the gold standard."

The inter-war period—paralleling Hobsbawm's (1995) Age of Catastrophe which starts with WW1 through the Great Depression and the rise of Fascism, to the cataclysm of WW2 and its immediate consequences including the end of European empires—was unlike either the period of free capital mobility that preceded it or the period of controls that followed. As the center of the international system inexorably shifted from the UK to the United States attempts to rebuild the international financial markets along prewar lines failed as bureaucratized labor relations and politicized monetary policy-making meant the system was less accommodating to shocks. The single-minded pursuit of currency stability and gold convertibility was at odds with domestic demands on governments to stimulate growth and employment and pursue policies that would undermine their previously steadfast monetary policy credibility in the eyes of financial capital. In such a situation capital would take flight, aggravating the situation, rather than flow in stabilizing directions as it did when the authorities weren't faced with the conflict of internal and external objectives, thus often transforming a limited disturbance into an economic and political crisis (Eichengreen, 2008, pp. 43-44, 89).

The 1929 downturn reflected such a process when the world economy collapsed into the Great Depression and capital markets collapsed alongside, culminating in the most severe international financial crisis of the century, "destroying economic liberalism for half a century" (Hobsbawm, 1995, p. 94). Currencies were forced off the gold standard, countries defaulted on their debts and imposed controls on capital flows. The Great Depression further put the onus on governments to give social considerations priority over economic ones. "The dangers of failing to do so—radicalization of the Left and, as Germany and other countries now proved, of the Right—were too menacing" (Hobsbawm, 1995, p. 94). The expansion of the franchise, the rise of parliamentary labor parties and the growth of social spending were simply not compatible with the conditions that supported the first era of globalization. When the next effort was made to reconstruct the international monetary system, the new design included greater exchange rate flexibility to accommodate shocks and restrictions on international capital flows in order to contain destabilizing speculation.

2.2.2 The Bretton Woods system and its eventual demise

Hobsbawm (1995, p. 271) believes the four major lessons clear to decision-makers in the aftermath of the latest global war that would set the conditions for the Bretton Woods compromise were the following: first, the inter-war catastrophe had been a result of the breakdown of the international economic system and the consequent fragmentation of the world economy into autarchic national economies; second, the global system had been stabilized by the central role of the British economy and the hegemony of its currency (the U.S. dollar would take over this role now); third, the Great Depression had occurred because of free markets and henceforth the market would have to work within the framework of economic management and public planning; and finally, for political and social reasons, mass unemployment must be avoided. The three major innovations (Eichengreen, 2008, p. 91) introduced to address them were capital controls; a regime of fixed-but-adjustable exchange rates; and the creation of institutions that would facilitate international coordination of trade and investment.

J.M. Keynes—the more accomplished of the two main designers of the Bretton Woods system but whose many ideas, such as a supranational currency used as a unite of account within a multinational clearing union, were shelved as he was backed by the lesser power than H.D. White, the U.S. representative—believed the exigencies of international economic policy would have to be subordinated to domestic economic and social goals: full employment, economic growth, policy space to conduct fiscal and monetary policies and the development of the welfare state were to take precedence in this system that pursued moderate globalization rather than hyper-globalization. Domestically, the effective management of demand by injecting purchasing power into the economic system was by now the consensus as it had been used by pursuing proto-Keynesian budget deficits during the inter-war period and post-war foreign aid in the form of the Marshall Plan (Chang, 2003, p. 20). The state now actively assumed a new role of adjusting and stabilizing the economy through budgetary policies. The "embedded liberalism"[7] compromise that Keynes and White reached was based on the fundamental insight that the state owed its citizens basic economic security (Martin, 2013).

The gold standard rules of fixed exchange rates with capital mobility enforced identical monetary policies, but now the consensus on the resolution of this trilemma shifted away from the narrative of the benefits of free capital flows towards an independent monetary policy that gave states the sufficient space by limiting capital mobility in order to pursue the interventionist and welfarist approaches of national economic management. The recurring theme about financial liberalization is underlined by Rodrik (2011, p. 96) who points out that once market dynamics became entangled with domestic politics, a world of smoothly functioning self-equilibrating finance was not forthcoming. Capital controls relaxed the previously close relationship between domestic and foreign economic policies, giving governments the capacity to pursue objectives such as the maintenance of full employment. By limiting the resources that the markets could bring against an exchange rate peg, controls limited the steps that governments had to take in its defense. Eichengreen (2008, p. 3) notes that for a few post-war decades limits on capital mobility substituted for limits on democracy as a source of insulation from market pressures, the exact opposite of the gold standard era when limits on democracy were used rather than limits on the extent of capital.

The monetary order envisioned by Bretton Woods was to maintain fully convertible currencies at fixed exchange rates, with the linchpin currency, the dollar, pegged to gold. While governments were expected to maintain currencies at fixed parities, a system of "fixed but adjustable" exchange rates was initiated as the alternative to deflationary increases in central bank discount rates to combat balance-of-payments deficits; an instrument that would provide for stability in international commerce yet allow states to make domestic policy without being preoccupied with their international position. Another novelty of the system was rule-setting through international organizations. This reflected the United States' preference for legalism over ad hoc relationships, an externalization of the New Deal regulatory state and a policy to counter domestic isolationists by tying America and its interests to international organizations (Rodrik, 2011, p. 70). Multilateralism meant that enforcement of the rules and the propagation of belief systems would now operate through nominally independent international institutions—the International Monetary Fund (IMF) for the stability of the monetary system; World Bank (WB) for assisting developing countries in reducing poverty; and GATT for the promotion trade—rather than through crude power

[7] Ruggie (1982) calls the post-war system where the commitment to open international trade is tempered by the pursuit of domestic goals by governments the "embedded liberalism" compromise.

politics and unabashed imperialism as was the case in the Age of Empire. These institutions were never autonomous from the United States or other major economic powers, but they also weren't purely their extension; the multilateralism granted these institutions a certain degree of legitimacy that was independent of American power. They have played important rule-making, rule-enforcing and legitimating roles, providing an international infrastructure that may yet outlast the dominance of any one country. There was a clear implicit distinction between the world of employment and production and the world of finance. Trade needed promotion, and not short-term finance. Hence there was a paradox here (Rodrik, 2011, p. 97): "Reduced transaction costs in trade required higher transaction costs in international finance—in other words, capital controls." In sum, globalization was furthered in the Bretton Woods years as a "byproduct" of equitable growth, stability and security: the opening-up pursued selectively and not as the inevitable conclusion of the design of the system (Rodrik, 2011, p. 72).

The ineluctable problem of the Bretton Woods regime was the role of U.S. currency as the designated international money. The U.S. dollar became the global currency as it was the only one available widely enough to facilitate trade in 1944 and the confidence in it was derived from the dollar's peg to gold. The fixed exchange rate system with the dollar (the gold standard currency of central banks) as the reserve currency worked only as long as the United States saw it working in its interest. The U.S. had followed stable financial policies until the mid-l960s, and the rest of the world imported them as it was tied to the U.S. via the fixed exchange rate dollar standard (Bordo, 1993). But when it started running chronic balance-of-payments deficits during the Vietnam War and facing a run on its gold reserves it was confronted with the inevitable conflict between internal and external needs: it had to either raise interest rates to stanch the outflow of gold causing a possible economic downturn or unilaterally terminate convertibility of the dollar to gold, rendering the dollar a fiat currency. With an election on the horizon, President Nixon chose the second option in 1971. The U.S.'s unilateral refusal to underwrite the global monetary order thus dissolved the Bretton Woods system. In 1973 Japan and OECD countries followed suit and by a decade later all industrialized countries had floating currencies.

Paradoxically, the very successes the Bretton Woods regime sowed the seeds of its own destruction: as the globalization of capital and trade grew existing mechanisms of control proved inadequate and external constraints assumed a larger role. And as the long post-war boom was brought to an end by the era of oil shocks and stagflation of the 1970's the underpinning ideological system wobbled and shifted its focus from the demand side of the economy to the supply side with the help of theories such as monetarism, new contractarianism and the principal-agent models of bureaucracy that believed in a minimalist role of the state (Chang, 2003, pp. 25-27). The failings of state intervention were attributed either to an inherent lack of information (the Austrian School) or the self-seeking behaviors of the bureaucrats and or organized interest groups (rent-seeking institutional sclerosis). The intellectual supporters of free market economies, who had been an isolated minority for forty years after the early 1930's (Hobsbawm, 2000b, p. 334) were now gaining prominence. The existing political and theoretical consensus changed from Keynesian national macroeconomic management to the inevitability of liberalization and the benefits of capital mobility. An agenda of deep integration revolving around free capital mobility replaced the Bretton Woods compromise (Rodrik, 2011, p. 101).

Advances in technology and the development of competing financial centers hampered international efforts to contain financial flows and as capital controls waned the available adjustment mechanisms of the Bretton Woods proved inadequate. There have been attempts to recreate fixed but adjustable exchange rates but Eichengreen (2008, p. 183) notes that no limited measures can succeed in a world that allows unlimited capital mobility: increased capital mobility makes currency pegs difficult with massive capital outflows possible at the merest hint of changes; periodic adjustments are more difficult and demand single-minded coordinated action from both weak-currency countries to defend the peg and strong-currency countries to provide support and governments often doubt other governments' willingness and ability to eliminate the source of the payments imbalance. The great difficulty of operating a system of fixed exchange rates with highly mobile capital only worked because there was a high degree of international cooperation that functioned in its support (Eichengreen, 2008, pp. 132-135). The system took place in the context of a geopolitical alliance with continuous co-operation in support of a system of pegged currencies and Eichengreen (2008, p. 133) claims this shows such a system can only be at its most extensive when part of an "interlocking web of political and economic bargains." In this settlement during the dynamics of the Cold War the United States bore a disproportionate share of the defense burden and the other countries supported the dollar. But when propping up the dollar came to jeopardize price stability and other domestic economic objectives, the other countries evinced reservations; during the gold standard era the need for international cooperation was limited as there was no reason to question governments' overriding commitment to defending their gold parities, and while international cooperation was more extensive during the Bretton Woods era it ran up against "binding limits" that were inevitable "in a politicized environment" (2008, p. 133*)*. Eichengreen (2008, p. 3) ponders whether the international monetary history of the post-war era is a repeated unfolding of "Polanyian dynamics," wherein opening up of political space undermined the stability of the economic system, "democratization. . . [coming] into conflict with economic liberalization in the form of free capital mobility."

The neo-liberal era was thus born out of the disintegration of the Bretton Woods system, giving us the system of today: the world of fiat money, unfettered capital mobility and floating exchange rates. The measures limiting capital account transactions were progressively relaxed starting in the 1970's; the 1980's and 1990's saw an ambitious agenda of economic liberalization and ever-deepening integration superseding the post-war consensus as trade agreements extended increasingly beyond their traditional focus and started impinging on domestic policies. In effect, economic globalization became an end in itself– hyper-globalization had triumphed (Rodrik, 2011, p. xvii).

2.2.3 The neo-liberal triumph and hyper-globalization

Stiglitz (2002, p. 207) summarizes the change in mandate and objectives of the Bretton Woods institutions as going from "serving global economic interest to serving the interest of global finance." National economic interests had played a role in this, as the politically powerful financial centers in the U.S. and the UK were strong enough to override concerns about the dubious effects of capital market liberalization with arguments that supervision and regulation would hinder financial innovation and government agencies couldn't keep up with the technological changes anyway. In 1957 the UK authorities decided that foreign currency exchange between non-resident lenders and borrowers wasn't subject to its domestic regulations and supervision thereby creating—and enabling Wall Street to avoid the then-existing financial repression—the Eurodollar market (Hendrikse & Fernandez, 2019). This meant that when the U.S. government tried to defend the dollar/gold price, every restriction it put on dollar movements just made it more profitable to keep dollars in London; the growth of the Eurodollar market as a space of unrestricted capital flows outside of the jurisdiction of any national authority undermined and eventually broke post-war capital controls (Bullough, 2018). James Tobin has observed (Rodrik, 2011, p. 121) that private financial markets really did become internationalized much more quickly and fully than other economic and political institutions.

The theories that undergirded the emerging world of neo-liberalism represented a revival of the 19th century laissez-faire tradition, supplemented by Austrian emphasis on limited transferability of knowledge and stressed the efficacy of the free market, shared the principal-agent framework, mistrust of the state and belief in individual entrepreneurship (Chang, 2003, pp. 31-36); in terms of policy they generally advocated privatization, deregulation and liberalization, austerity-driven fiscal policy and a purist theoretical approach to free trade liberalization. The globalization narrative dominated by "liberalism in the sense of the classical political vision of Smith, Mill and Bentham" was usurped by the more "hardline libertarian ideology and practice of Hayekian neo-classical economics" (Higgott, 2018). The Washington Consensus (Williamson, 2004) became shorthand for many of the policies: the original list contained ten distinct reforms, with an emphasis on deregulation, privatization, financial and trade liberalization, avoidance of currency overvaluation and fiscal restraint. Over time, the Washington Consensus was transformed into a more hardline ideological approach, a mantra for arch-liberalizers (Williamson himself had been a skeptic of financial globalization). The politicization of the economy was to be avoided as it threatened a unitary globe of private property by overreaching state actors. The imperatives of the market were to be followed and state interventionism in the economy rescinded: "[P]olitics and discretionary action were the enemies of good governance" (Tooze, 2018, p. 8).

Under shallow international economic integration, the trade regime demands relatively little concessions from domestic policy, but under deep integration the distinction between domestic policy and trade policy disappears (Rodrik, 2011, p. 83). The GATT regime had been a shallow form of integration with plenty of exceptions where trade liberalization was never pursued (services, agriculture and textiles) and developing countries were effectively left outside the remit of disciplining measures. WTO's succession of GATT after a progressive evolution over a 50-year period in 1995 ushered in the final reversal of the Bretton Woods consensus. Domestic economic management was now subordinated to international finance and trade; international momentum was behind the integration of national markets for goods and capital (but not labor), the impetus of economic globalization had trumped domestic agendas (Rodrik, 2011, p. 76). Post-war prosperity was ascribed to multilateral trade liberalization during successive rounds of negotiations and the impetus was to do "even better"; GATT had in a way become "a victim of its own successes" (p. 76). Enforcement had changed from easy evasion of the trade regime's judicial verdicts to dispute settlements becoming compulsory and binding for member states to the point Rodrik (2011) wonders whether the WTO is "subverting democracy by allowing judges in Geneva to override domestic legislation" (p. 81). The IMF's original agenda had recognized a need for international pressure on countries to have more expansionary economic policies, but with the ideological turn in the 1980s and 1990s states in receipt of IMF assistance were pressured to follow a standard set of disciplinary and liberalizing policy prescriptions: cutting deficits, raising taxes, raising interest rates as well as removing capital controls and tariffs, privatization, deregulation, breaking-up of unions and reining in public debt (Stiglitz, 2002, p. 12). The IMF and the World Bank became increasingly intertwined in the 1980's during the era of the most dramatic changes (Stiglitz, 2002, pp. 13, 14). The IMF became the "handmaiden of the Washington Consensus," reshaping the world's diverse national economies according to its austere rules (Martin, 2013).

GATT had left considerable leeway to countries, but the WTO imposes significant restrictions on industrial policies utilized in the past by developing countries catching-up: the kind of export subsidies previously used by Mauritius, domestic content requirements by India and China, industrial imitation by South Korea and Taiwan are all examples of policies now ruled out. The WTO's TRIPS agreement on the protection of intellectual property significantly impairs the ability of developing nations to copy the advanced technology used in rich countries, which Nelson (2007) identifies—along with active government support—as the main historical driver of poorer countries catching-up with the technological and economic leaders of their era. Developing countries ended up launching dramatic liberalization programs along the lines demanded by the Bretton Woods institutions for fear of being passed over by foreign investors. The theme of developmentalism as a means of overcoming global economic divergence was replaced with the theme of globalization, which called for the opening of all frontiers to the free flow of capital and goods (but not of labor). Relatedly, the theories that attacked import substitute industrialization, rent-seeking, attack on public enterprises gained pre-eminence. Stiglitz (2002, p. 84) points out the myopia of following the Washington Consensus prescriptions in all circumstances: trade liberalization when accompanied by high interest rates created unemployment; financial market liberalization when unaccompanied by an appropriate regulatory structure created economic instability; privatization, when unaccompanied by competition policies and oversight to ensure that monopoly are not abused, lead to higher prices for consumers; fiscal austerity, when pursued indiscriminately, lead to unemployment and the shredding of the social contract. Liberalization in developing countries has, “too often,” not been followed by the promised economic development, “but by increased misery” (Stiglitz, 2002, p. 17).

The neo-liberal turn triumphed politically with the elections of Thatcher in the UK and Reagan in the United States but its ascendancy was obvious when the Socialist Mitterand—whose junior partners in government were the Communists—was forced to radically reverse his nationalization and reflation policies and embraced financial liberalization, unable to stem capital flight prompted by the financial markets’ adverse reactions to his government’s policies. Delors, a minister of finance under Mitterrand, became European Commission president in 1985 and advocated for capital liberalization as part of the drive towards a single market. By the late 1980’s capital controls had been removed in all of the major European countries and free capital flows were codified in the 1992 Maastricht treaty. Meanwhile, in 1978, France and Germany created the European Monetary System to counteract the destabilizing effects of the collapse of the Bretton Woods order as the first attempt to control the volatility of financial markets and prepare the ground for a single currency within the space of the founding members of what would become the EU (Anderson P. , 1996). The French conversion to free capital flows also enabled the new norm to migrate to the OECD (the rich countries’ club) and by the late 80’s the OECD dropped previous distinctions between short-term capital and long-term investments. Full capital mobility became a pre-condition to join: South Korea and Mexico underwent serious financial crises shortly after joining the club (Rodrik, 2011, p. 103).

The financial globalization era has simply not performed as well as the preceding gold-dollar Bretton Woods regime, which came closest to the mythical “golden era of globalization” if there ever was one (Rodrik, 2011, p. 71). The greatest growth success stories of the last decades have utilized mixed, pragmatic strategies using policy space for domestic economic management and eschewing deep integration; the policies of Bretton Woods rather than the Washington Consensus.

2.3 Nationalism, the state and economic development

In this subchapter I will attempt to convey the universality of nationalism and the nation, prerequisites for an abiding loyalty to a state, and then proceed to show the crucial role states have played in economic development by judiciously using their powers to protect and support its economies, whether the British and the American states in the 19th century or the post-war successes of the East Asian tigers.

2.3.1 The nation, sovereignty and the nation-state

Benedict Anderson famously argued (Imagined Communities, 2006 ed.) that the nation is a socially constructed imagined political community since even in the smallest nation most people will never meet each other yet feel deep, horizontal kinship with fellow-members. A nation’s two essential features are its limitedness since beyond its borders other nations exist and its sovereignty since no dynasty can claim ownership of it. It arose during modernity when the Industrial Revolution's "print capitalism" coupled with the erosion of traditional cultural conceptions (such as privileged languages like Latin or Arabic with a long-established monopoly on grasping higher truths giving way to vernaculars), the widespread rejection of monarchical rule by divine dispensation, and the origins of man and world not being pondered as identical.

A common belief is that nations first appeared in Europe and the concept was exported through imperialism to Asia, Africa and the Americas, often resulting in today's many intra-state conflicts as residue of arbitrary borders drawn by the imperial powers. But the nationalism that developed from the rise of great powers like France or England in the late 18th century and the ethno-linguistic nationalisms of Central and Eastern Europe in the 19th century was predated by the one pioneered by the Creole elites in the Americas, overseas settlers separated from their imperial homeland, whose nationalisms begat the United States in the 18th century and the Latin American republics in the early 19th century. Nationhood is a universal phenomenon and not merely a European invention imposed on others. Europe did invent the nation-state, but it did not invent nationalism (Anderson B. R., 2006, p. 191).

The principle of states having exclusive sovereignty over their territory can be traced to the Treaty of Westphalia in 1648 and the only state model existing today is that of the bounded territory with its own autonomous institutions—the nation-state model of Hobsbawm's Age of Revolution (1996), but its regimes have universally been committed to the principle of "national self-determination" defined in ethnic-linguistic terms only since 1918's fall of the last great multinational European states (Hobsbawm, 1995, p. 425). The prima facie meaning of sovereignty is totally autonomous state power (Wallerstein, 2004, p. 42), but states exist within a larger circle of states, requiring reciprocal recognition for their claims of legitimacy from other states, meaning there is a degree to this presumed autonomy. Given the focus of this thesis, the key aspect of sovereignty is the ability of states to autonomously control cross-border flows. With the demise of outright colonies, which were non-sovereign administrative units and fell under the jurisdiction of another state, all universally recognized states are today theoretically sovereign, but stronger states still have means of intervening in the internal affairs of weaker states, and everyone is cognizant of that fact. As sovereignty is a legal claim with major political consequences, issues involving sovereignty are central to political struggle, both internally within states and internationally between states (Wallerstein, 2004, pp. 44-45). Numerous ongoing secessionist movements indicate the continuing political desirability of sovereignty.

The nation-state is an asymptote towards which all states aspire (Wallerstein, 2004, p. 54). Even states that claim to be multinational try to create a pan-state identity. The nation-state had extended its range, powers and functions almost continuously since the eighteenth century up until the second half of the twentieth. This was, in fact, an essential aspect of modernization. Whether governments were liberal, conservative, social-democratic, fascist or communist, "the parameters of citizens' lives in modern states were almost exclusively determined by the activities or inactivities of that state" (Hobsbawm, 1995, p. 576). Global forces like the world's boom and bust cycles came to the individual filtered through her state's policies and institutions. The core countries of the world, especially after the revolutions of 1848 (up to WW1), sought to establish themselves as "liberal states" based on the concept of citizenship, a wide array of guarantees against arbitrary authority and a degree of liberality in public life (Wallerstein, 2004, p. 65). The gradual extension of the franchise concomitant with the expansion of education and the role of the state in protecting its citizens were the main elements of this liberal program and were also crucial to forging citizens of a state into a "nation." Parts of the world that were bypassed by the world economy didn't develop a sense of nationality, giving credence to the link between nationalism and economic development[8]. Gellner's industrial society argument is that nations are indispensable, a result of modernization, as an industrial country needs cultural standardization. It was not nationalism that imposed homogeneity, but rather "that a homogeneity imposed by objective, inescapable imperative" inevitably materializes "in the [apparent] form of nationalism" (Gellner, 1983, p. 39).

It is not possible to make an overwhelming case that the instilling of a sense of nationhood was primarily either an elite or a popular project. In the process of nation-building there was both "a genuine, popular nationalist enthusiasm," as well as a "systematic, even Machiavellian, instilling of nationalist ideology through the mass media, the educational system, administrative regulations" (Anderson B. R., 2006, p. 163). In the ethnically heterogonous pre-WW1 Central Europe workers felt themselves not just as workers, a transnational, universal social class, but as Czech, Polish and Hungarian workers. The rise of labor-based, working-class parties was one major consequence of the politics of democratization, the rise of nationalism as a political force was another (both ultimately playing a part in dooming the first age of globalization): people were ready to identify emotionally and be politically mobilized as members of a nation (Hobsbawm, 2000b, pp. 142, 143). With increasing democracy, as the ancient mechanisms of ensuring social subordination and loyalty were being eroded, new ways were needed to give the ruling regimes legitimacy in the eyes of the previously passive masses, now mobilized. "The nation," according to Hobsbawm (2000b, p. 149) became "the new civic religion of states."

Historically, states have both preceded nations[9] and followed nationalist struggle[10]. Language is at the core of national identity to many but nothing suggests that Ghanaian nationalism is any less real than Indonesian nationalism simply because its national language is English rather than Ashanti (Anderson B. R., 2006, p. 133). In 1789, the year of the French Revolution, only about half the population of France spoke any French. In 1871, the year of

[8] As late as 1931 the inhabitants of backwards agrarian Polesia, when asked by the Polish census officials about their nationality, failed to comprehend what they were being asked. They answered "We are from hereabouts" or "We are locals" (Hobsbawm, 2000a, p. 177).

[9] When Italy was unified in 1860 it has been estimated only 2.5% of its inhabitants spoke Italian, the rest talking languages so different that the school teachers sent by the Italian state into Sicily in the 1860s were mistaken for Englishmen and only a modest minority thought of themselves as Italians (Hobsbawm, 2000a, p. 89). Massimo d'Azeglio, an Italian statesman, exclaimed: "We have made Italy; now we must make the Italians" (Hobsbawm, 2000a, p. 89).

[10] Slovenia would be an obvious example.

the Paris Commune, only about a quarter of the population spoke French as a native language (Merriman, 2007). Neither is cultural homogeneity necessary for nationalism to develop and a political system to function, as the largest democracy in the world, India, proves. In short, there are almost as many definitions of nationalism as there are scholars in this field (Helbling, 2009), but its abiding appeal is undeniable.

2.3.2 Protectionism's central role in the economic divergence of the world

It can be argued that economic development is a good on its own merits, but even within the trilemma framework it has a positive effect on democracy as a wide survey of empirical research on democratization confirms a correlation between economic development and democracy (Geddes, 2011). I will try to illustrate the historical necessity of a self-standing state to spur economic development by noting the long-term effects of 19th century colonization by European powers, the role protectionism played in the development of the West and the interventionist policies successful Asian countries have pursued.

Of all the economic consequences of what Hobsbawm termed the Age of Revolution,[11] the divide that emerged between the "developed" and the "underdeveloped" countries (Pritchett, 1997) proved to be the most consequential. The global system came to be composed of two sectors, the dominant and the dependent: the first world, that of capitalist development, was much smaller but united by a common history while the much larger second sphere had nothing in common but its subordinate relation to the first world (Hobsbawm, 2000b, p. 16). Regions of this second sector were stagnating or turning into economic dependencies under the informal pressure of trade flows from the West or the military pressure of the colonial powers. "No fact has determined the history of the twentieth century more firmly than this" (Hobsbawm, 1996, p. 181). Before the onset of the Industrial Revolution the richest parts of the world were no more than twice richer than the very poorest parts of the world; a century and a half of the Industrial Revolution multiplied the standard of living by 5-to-10 times in the advanced countries, but for the average Third World countries the level in the 1950's was practically that of 1800 or, at best, only 10 – 20% above (Bairoch, 1993, p. 95). In short, "the basic fact of modern economic history" is that it has been an age of "divergence, big time" (Pritchett, 1997).

It is not a coincidence that the two major regions of the world that avoided being colonized by Western Europeans were also the regions that joined the advanced, dominant sector: Japan and the United States. Not only were they strong enough to fend off the European powers that would credibly threaten them into accepting free trade treaties but their governments also took a leading role in their internal economic development. The United States, contrary to popular belief, was "the mother country and bastion of modern

[11] The Age of Revolution is time period between 1789 and 1848 when the world was transformed by the "dual revolution" of the political and ideological changes of the French Revolution and the technological and economic changes of the Industrial Revolution (Hobsbawm, The Age of Revolution: 1789-1848, 1996).

protectionism" (Bairoch, 1993, p. 30). The federal government always played a central role[12] in promoting economic growth, and it specifically rejected free trade from the early 1800s until about 1932 (Prestowitz, 2016). After the Meiji Restoration of 1868 Japan's government single-mindedly focused on economic (and political) modernization spurning laissez-faire ideas then-prevalent in the West. Even if a country started at the wrong end of the international division of labor economic growth was achievable if the state was strong enough to be able to pursue its own development. As Rodrik (2011, p.143) interprets the history, Japan developed not by rejecting globalization, but pursuing the right kind of globalization.[13]

Rodrik (2011, p. 140) recounts how the European powers would—during the first era of globalization, the age of empires and major regional divergences—impose free trade treaties on peripheral regions freezing their initial comparative advantage in raw materials; combined with the decline in transportation costs their lack of protective tariffs exposed their nascent industries to competition from Britain and obliterated them. Once the lines were drawn between industrializing and commodity-producing countries, imperialism as the mode of globalization reinforced the industrial monopoly of the old core countries, the "international division of labor" (Hobsbawm, 1995, p. 205). The periphery thus not only failed to industrialize, they actually lost whatever industry they had through forced globalization. Bairoch (1982) claims that it is unquestionable "that the cause of de-industrialization" of the Third World "lay in the massive influx of European manufactured goods, especially textiles, on the markets of these countries".

The Third World's "compulsory economic liberalism" in the 19th century was also a major reason for the delay in its industrialization (Bairoch, 1993, p. 53). The deindustrialization of India by the British (Hobsbawm, 1996, p. 165) is instructive as to the results it produced. In 1600, when the East India Company was founded, Britain produced only 1.8% of the world's GDP, while India generated approximately 23% (27% by 1700), a whole quarter of the world's GDP. After nearly two centuries of the Raj, in 1940, Britain accounted for nearly 10% of world GDP and India for less than 6%. The British left India in 1947 with a 16% literacy, a life expectancy of 27, no domestic industry and with over 90% of the population living below the poverty line (Tharoor, 2017). Mohammed Ali of Egypt had methodically set out to turn his country into an industrial economy through a Hamiltonian developmental state[14] with the growing of cotton, the crucial resource of that period, for the world market. But the Anglo-Turkish Convention of 1838 imposed a typical free trade agreement the European colonial powers would impose on others (the Ottoman Empire had to abolish all

[12] Not just be promoting industry and regulating finance (Stiglitz, 2002, p. 21), but the most basic facts about America: displacement of the native population, the slave-labor system, and the conquest of half of Mexico in order to monopolize the cotton trade were state policies.
[13] Similarly, after WW2, the vital elements of the Japanese recovery included protection of domestic markets, compulsory savings deposited into government-ran banks that directed lending to target industries, industrial policies geared towards developing domestic production in strategic industries, currency devaluations against the dollar in order to pursue export-led growth, technology transfer from foreigners as a condition for entrance into the Japanese market etc. (Prestowitz, 2016).
[14] Alexander Hamilton argued in his Report on Manufactures that modern industries wouldn't develop on their own without support from government (not least due to competition from advanced nations) and the question if not whether the government should intervene, but how (Rodrik, 2011, p. 182).

monopolies, while the UK maintained protectionist policies where it needed them). "Not for the first or last time in the 19th century the gunboats of the West 'opened' a country to trade, i.e. to the superior competition of the industrialized sector of the world" (Hobsbawm, 1996, p. 180). The liberal trade experience in the colonized world was a failure and the opening up of their economies was one of the major reasons for their lack of development during the 19th century. Bairoch claims that the term non-development is an understatement since it led to a process of de-industrialization and to structural changes that made later development more difficult (1993, p. 170).

Conversely, the attempts to transform society by institutional modernization imposed through political power failed when they couldn't be backed by economic independence, as was the case with Latin America in the latter half of the 19th century (Hobsbawm, 2000a, p. 121). Countries have historically needed both political and economic independence to pursue policies with which they could join the advanced world. The proponents of world-systems analysis (Wallerstein, 2004) take as their unit of analysis world-systems (systems that are worlds unto themselves, like the "capitalist world-economy" that emerged in the 16th century and in which we still live today) and don't use Ricardian comparative advantage to explain international trade but rather "unequal exchange," an axial division of labor of the capitalist world-economy that divides production into core-like products and peripheral products with the core-periphery relational distinction connoting the degree of profitability of the production processes. The profitability is a function of the degree of monopolization with core-like production processes those that are controlled by monopolies (and quasi-monopolies) and peripheral processes those that are truly competitive, following Braudel's reasoning (Wallerstein, 2004, p. 18) that only monopolies are capitalism, and far from being the same thing as the free market, capitalism is in fact "anti-market." This type of analysis implies an obvious remedy to the stark inequalities: active policies by states in the periphery to institute policies that would equalize the exchange.

In the 19th century during industrialization that created the world of vast regional inequalities the developing world was mostly "awash with protectionism" and the future Third World was "an ocean of liberalism" (Bairoch, 1993, p. 41). Protectionism was the dominant commercial policy in what became the advanced sector while liberalism prevailed in the second sector: not by choice but enforced by the might of the first sector. Free trade has been equated with economic success mostly due to Britain, the leading economic power of the age. After the repeal of Corn Laws[15] in 1846, the United Kingdom pursued a liberal trade policy, becoming increasingly an open economy. But by 1846 it was already substantially more developed than the rest of the world as a result of being the "cradle of the Industrial Revolution." In the middle of the 19th century Britain had behind it at least a century and a half of protectionism. It is almost certain that during the 19th century free trade coincided with and was probably the principle cause of economic underdevelopment while

[15] Tariffs and trade restrictions imposed in 1815 to protect domestic agrarian interests and their repeal in 1846 marks the beginning of the free trade era in the United Kingdom (Bairoch, 1993, p. 21).

protectionism was the likely main cause of growth and development for most of today's rich countries. In fact, the only exception was the United Kingdom (Bairoch, 1993, pp. 21, 54, 164).

The American Civil War (1861-1865) is generally understood to have been fought over the continued existence of slavery in the United States of America between the free North and the slaveholding South with the victory of the former resulting in the abolition of slavery. But it was also a war over the future of American trade policy, the triumph of the protectionists from the industrializing North over the free-marketers of the export-driven agrarian South. The early industrial revolution relied crucially on cotton, which was "comparable in power to oil in today's global economy" (Dattel, 2010) and the American South was an economy based on exporting tobacco and cotton, produced in the system of slave labor; the South was effectively a dependent economy of the British to whom it supplied the bulk of their raw cotton and this very success perpetuated its dependence on Britain (Hobsbawm, 1996, p. 179). The South found free trade beneficial since it enabled it to sell to Britain and in turn to buy cheap British goods. On the other hand, the North had a nascent manufacturing base that lagged behind Britain in productivity and struggled to compete with cheaper imports and was therefore from the beginning committed to protective tariffs. The first tariff with the explicit function of protecting domestic manufacturing against foreign competition, passed by Congress in 1816, was the only tariff ever supported by the ante-bellum South with the justification that it was a national defense measure, an ongoing pretext in American political justifications for state intervention in the economy. From then on the North and the South were at loggerheads over the issue of tariffs until the Civil War, the North unable to impose them efficiently due to the political leverage of the South, which only had 30% of the total population but half the number of states—such peculiarities of the U.S. political system persist, as seen in the 2016 presidential election when the candidate who received almost 3 million fewer votes won the election.

While the competition of the North and South for the territories of the West—"the one for slave plantations and backward self-sufficient hill squatters, the other for mechanical reapers and mass slaughterhouses" (Hobsbawm, 1996, p. 179)—and the fight over the morality of slave labor was a factor—an argument by Southern plantation owners was that owning their laborers impelled them to look after their well-being, while Northern industrialists merely rented their laborers and hence slaves in the South were better off than free urban laborers; an apologist of slavery castigated wage laborers as "free but in name—the slaves of endless toil" (Grayson, 1856)—northern industry was more concerned about a country half-free trading and half-protectionist than about one half-slave and half-free (Hobsbawm, 2000a, p. 141). As soon as the war started Lincoln's administration raised U.S. tariffs, and trade protection further increased following Northern victory. After 1866 import tariffs on manufactured goods averaged 45% up to WW1; the U.S. was a highly protectionist country by any standard (Rodrik, 2011, p. 29). This protectionist period was the time during which the U.S caught up with and ultimately surpassed Britain's industrial prowess. Thus, the American Civil War—whatever its long-debated political origins—was the victory of the protectionist North over the free-market South, or, as Hobsbawm puts it (2000a, p. 78), "the transfer of the South from the informal empire of Britain (to whose cotton industry it was the economic pendant) into the new major industrial economy of the United States." The South depended on international trade for prosperity and thus argued for globalization; the North wanted protection from imports to catch up industrially with Britain and hence a strong nation-state; the North's triumph was that of "American capitalism and the modern United States" (2000a, p. 143). From this example we can also clearly see that free trade is inherently neither a force for moral justice nor for democratic policies and its political consequences depend on a country's position in the world economy and how trade policies align with its political and social divides: Liberal trade policies in the United States of the 1860's would have benefited slave-owning agrarian interests.

19th century history thus reveals that liberalism in international trade had more negative than positive consequences and that protectionist measures had predominantly positive outcomes (Bairoch, 1993, p. 170). That is the standard account of the incongruity between the historical facts and the narratives the powerful often deploy: they had built up their economies by prudently and selectively protecting their industries until they were strong enough to compete with foreign competition but once domestic producers become leaders and no longer need protection they demand an open economy and access to foreign markets, touting free trade as a two-pronged strategy of ascribing its past successes to free trade policies and concurrently putting pressure on less developed countries to drop their protections and open their markets to penetration. Bairoch (1993, p. 54) summarizes that it would be hard to find a better example of where "the facts so contradict a dominant theory" than the one relating to the supposed negative impacts of protectionism, "at least as far as 19th century world economic history is concerned." All the cases of protectionism he examined "led to, or [were] at least concomitant with, industrialization and economic development."

2.3.3 State interventionism's 20th century success stories

Chang (2003, p. 4) points out that most developing countries embraced state interventionism as a reaction to the free-market policies imposed by colonialism as they gained independence post-WW2. During the "Golden Age" of the post-war era from approximately 1950 to 1973 newly independent nations put both economic and political independence from former colonial masters at the top of their agenda. State-led industrialization and interventionist policies were the universal template; the belief was that the less developed countries should move away from their traditional roles in the international division of labor as the suppliers of primary products and move towards developing domestic manufacturing industries. Primary commodity exports to finance manufactured imports was thought to ensure stasis (Chang, 2003, p. 21), given the volatile and falling terms of trade for primary commodity exports and their low-income elasticities, as well as the fragility of the international economy as evidenced by the collapse brought on by the Great Depression.

South Korea and Taiwan weren't much more developed than countries of sub-Saharan Africa in the 1950's. Spurred by geopolitical threats, the predominant objective of both governments' policies became developing industrial capabilities with a strong manufactured exports base. They invested in public enterprises, pursued interventionist policies, set industrial policy, had priority sectors and infant industry protection, gave maximum space to domestic firms to engage in technological learning; export-led growth was the focal point of their industrial policy which they abetted with subsidies and pressure from the government by setting export targets. Import substitution industrialization's overall record was impressive with many developing countries experiencing rapid productivity growth as their economies diversified away from traditional agriculture into manufacturing activities (Rodrik, 2011, p. 169). These are the successful alternatives to the Washington Consensus-type of globalization: import-substitution policies of the East Asia model (Japan, South Korea and Taiwan before the 1980's) or the idiosyncratic mix of socialism and capitalism that China pursues (Chang, 2003, p. 3).

Between 1750 and 1800 the standard of living in China (where about a third of the world's population lived) was possibly superior to that of the Europeans (Hobsbawm, 2000a, p. 15). By 1950 the absolute standard of living was lower than that of 1800 (Bairoch, 1993, p. 95). In Rodrik's account (2011, chapter 7), China's ability to protect itself from the vicissitudes of the global economy since the reforms and the opening-up of 1978 has proved crucial to its efforts in building a modern industrial base. China overlooked all the recommendations and pursued advanced, high-productivity products that no one would expect an underdeveloped, labor-abundant country like China to produce, much less export. China maintained its maneuvering space and exploited it skillfully; markets and private incentives were granted a larger role, but in ways that were fitted to the domestic economic and political realities. When the prescriptions by the international institutions and the advanced countries didn't fit China, it tailored them to their own needs. "China (like South Korea and Taiwan before it) played the globalization game by Bretton Woods rules rather than the post-1990 rules of deep integration" (Rodrik, 2011, p. 156). The contrast between China and what happened in countries like Russia, "which bowed to IMF ideology,"[16] could not be blunter.

Globalization does not generate capabilities that lead to economic growth on its own; it simply allows nations to leverage better those that they already possess. That is why, Rodrik (2011, p. 182) believes, the world's successful globalizers—such as the East Asian nations today—enhance their domestic productive capacities before they open themselves up to international competition. The economic fortunes of individual nations, he claims, are determined largely by what happens at home rather than abroad. What qualitatively distinguishes the developmental states of East Asia and the countries of Latin American is that the latter have been traditionally ruled by small Europeanized elites that were closely tied to overseas imperial societies through export of capital, education, import of luxury

[16] China recognized the dangers of full capital market liberalization, but opened itself up to foreign direct investment, while Russia pursued the radical "shock therapy" on the recommendations of the IMF (Stiglitz, 2002, p. 184).

goods and other dimensions which translated into them assuming less responsibility for the fate of their own countries. The historical record is unambiguous: the entities that managed to bring control of their economics and politics within their own purview, developed.

3 THE THREE POSSIBLE RESOLUTIONS OF THE TRILEMMA

In this chapter I will enumerate the edges of Rodrik's triangle, which join two vertices, exclude one, and make for one of the three possible regimes.

3.1 The Golden Straitjacket and its legitimacy crisis

The option that Rodrik refers to as the "Golden Straitjacket" using Thomas Friedman's (2000) term can be encapsulated by its originator's hopeful dictum that "your economy grows and your politics shrinks" once a country dons the straitjacket: Individual countries need to sacrifice a degree of economic sovereignty to global institutions (such as capital markets and multinational corporations rather to any democratic bodies) in order to establish the markets' confidence in the national economy. To fit into the straitjacket a country must move towards the "golden rules" (pp. 105, 106) that include maintaining balanced budgets and pursing low inflation and moderate taxes; shrinking the state bureaucracy; privatization and deregulation; eliminating tariffs, quotas and monopolies; opening its industries and the stock and bond markets to foreign ownership; opening banking and telecommunications systems to private ownership; offering private pension schemes, deregulating capital markets and so forth (it is not difficult to envision how these goals may conflict with the demands of democratic publics). These are the policies of the Washington Consensus: the rigorous enforcement of property rights, the steadfast maintenance of macroeconomic stability, the integration of the world economy and the creation of a sound business environment. The straitjacket narrows the political and economic choices available to those in elected positions of power and if governments deviate too far from the rules they will see capital flee, interest rates rise and stock market valuations fall, precipitating an economic downturn that would soon sweep into power political forces more amenable to the demands of international capital movements. There is no alternative to this type globalization to whose exigencies all governments must submit, a sentiment captured tersely in Margaret Thatcher's slogan: TINA (There Is No Alternative). In the golden straitjacket arrangement of free capital flows the whole world is turned into a parliamentary system, in which every government exists in trepidation of a no-confidence vote from the "Electronic Herd" (p. 138) and the only way governments can enlarge their maneuvering space is by following the core rules assiduously, Friedman claims. Global rules become domestic rules.

Friedman sees the straitjacket as a means to combat "crony capitalism" and deems countermeasures like the re-imposition of capital controls as futile and whose effects would only deprive a country of resources and technology (2000, p. 475). Martin Wolf (2005, pp.

275–277) also sees the constraints emanating from international economic integration as desirable even if he disputes that they wither the state's capacity to tax, regulate and intervene but rather that they increase the "range of alternative options available to those affected" by "accelerating the market's response to policy." He claims that the two main reasons for their desirability are their function of increasing credibility in its commitments by binding itself to other governments, intergovernmental organizations or powerful outside private parties and that their role of increasing competition among governments decreases the ability of governments to act in a predatory manner. Globalization makes governments—who mustn't be understood as being benevolent and welfare-maximizing by default—more predictable and transparent which makes them better able to serve the "long-run interest" of their citizens. The state is thus not rendered either impotent or unnecessary in Wolf's telling since a country can take advantage of globalization's opportunities only through exercising its monopoly on furnishing public goods. The basis of international governance remains (and should remain) the territorial state with a monopoly on coercive power within its jurisdiction. The WTO is not a "body of self-executing rules"; these rules can ultimately only be exercised by sovereign states.

This type of globalization—neo-liberal globalization—with its loss of political sovereignty and democratic legitimacy is the international order to which the world has veered since the collapse of the Bretton Woods system. Perry Anderson (2017a) notes that the "movements of revolt" today no longer rebel against "capitalism, but neo-liberalism"— against deregulated financial flows, privatized services and escalating social inequality, that specific strain of the rule of capital that has dominated Europe and America since the 1980's. The globalization of financial and product markets has not only weakened the nation-state as the central institution of political action but has made the world economy increasingly uncontrollable by any public authority. Perry Anderson (2002b) believes that an impasse has developed between the inability of peoples to "in any realistic sense govern themselves" as democracies become systems in which governments exercise less and less power, but they could also not be ignored by said governments that can themselves no longer fully govern, resulting in "a politics of official evasion, obfuscation or plebiscitary manipulation," where contemporary elections have become little more than "contests in fiscal perjury" (Hobsbawm, 1995, p. 578). The result has been a withdrawal from politics of a large numbers of citizens and a decline of mass parties, both class and ideological-based, which have previously been the major social engines for turning people into politically active citizen (Hobsbawm, 1995, p. 581). Thus, as decision-making migrates from each country's political sphere into the global transnational and especially market spheres voters increasingly see little difference between ruling and opposition parties, between the main center-left and center-right parties across Europe and North America and one of the consequences of this shrinking of space for meaningful democratic participation is the current political moment as anti-establishment rhetoric is utilized by many recent world political figures of note, as of now articulated mostly from a nationalist and anti-immigration vantage point. Markets and the rollback of the state as its tenets, neo-liberalism's ostensible core is anti-political, but how has it operated in reality? Adam Tooze writes that a basic duality defines neo-liberalism in that it has both an ordering and ad hoc interventionist side wherein the former couldn't exist without the latter. According to Tooze (2018, pp. 8-9), the 2008 crisis confirmed that in the event of a major financial crisis that threated "systemic" interests, it turned out that we lived in an age not of limited but of big government, of massive executive action, of interventionism. . . "And this revealed an essential but disconcerting truth, the repression of which had shaped the entire development of economic policy since the 1970s. The foundations of the modern monetary system are irreducibly political."

3.2 Global federalism and the EU as its most advanced example

The ultimate globalized world is one of "free movement of goods, services, labor and capital, thereby creating a single market in inputs and outputs," where foreign investors are treated as full nationals so that, "economically speaking, there are no foreigners" (Wolf, 2005, p. 14). Such economic integration would entail that all transaction costs economic agents face in cross-border dealings would be eliminated, rendering the state moot. Global federalism doesn't require the disappearance of national governments, but it would circumscribe their legislative, executive and judicial powers to the level of a municipality or a similarly subordinate administrative division. For a genuine global democracy to emerge, Westphalian state sovereignty would have to be phased out in parallel with a cultivation of a transnational political community. Sovereignty would be constrained to facilitate globalization, but states would retain their democratic character because particular instruments of state policy would have been elevated to the supranational level.

The European Union is a good approximation of deep integration and hyper-globalization on a regional level as an enormous institutional structure devoted to removing transaction costs and harmonizing regulations is erected, but the democratic institutions are undeveloped and its quandary is the one the entire world economy faces in that deep economic integration requires an extensive transnational governance structure in its support. The commercial arrangements introduced in 1957 with the Treaty of Rome did not impinge much on the sovereignty of the nation-states that composed it; budgets and exchange rates were settled on domestically by parliaments accountable to national electorates. But progressively with the monetary union (1990), the Stability Pact (1997), and the Single Market Act (2011), the "powers of national parliaments were voided in a supranational structure of bureaucratic authority shielded from popular will" (Anderson P. , 2017a).

In effect, the euro (partly developed as a response to the lack of post-Bretton Woods monetary stability) works like the gold standard in that those countries with balance of trade deficits and general economic stagnation cannot reduce the value of their currencies to stimulate their economies. Consequently, they are forced to deflate their already poorly performing economies. This means higher unemployment and reduced safety net spending. Latvia, Hungary and Greece were obliged to turn to IMF for financial assistance as a condition for getting loans from the richer EU governments. Many argue (Worstall, 2016) that this half-way arrangement is the worst of both worlds as the economic union prevents resort to currency devaluation for a speedy boost in competitiveness, while the lack of political union precludes their receiving much consequential support from the rest of the European Union.

Applying Rodrik's trilemma to the EU predicament, the Eurozone today is the golden straitjacket solution of pairing the European Single Market with national sovereignty but forgoing democratic participation; its potential break-up and the successful process of Brexit would find themselves on the national sovereignty–mass politics axis; a Eurozone fiscal and political union would do away with national sovereignty of its members. Member states are significant stakeholders in the formation of EU policies, but within them the decisive voice is that of the often-unelected executive bodies that enforce the rules set out in the various treaties. Intergovernmental agreement is more important in the constellation of power than supranational bureaucracy and a plausible explanation for European national elites' support for the EU's current iteration is that they conceive of it not as a post-national construct but as a power-multiplier for member states. It is democracy that is lapsed, not national sovereignty. The UK process of exiting the EU will ultimately result in one of three clear options: (1) continued membership with significant sharing of sovereignty where laws are also made by the Councils of Ministers and the European Parliament with EU law prevailing over UK law when they conflict and the EU holding exclusive power in some areas of law like negotiation of trade agreements; (2) becoming a member like Norway or Liechtenstein with access to the Single Market but having no formal role in deciding its rules; (3) opting out of the Single Market fully, and transferring all legal powers back to the UK government. And as long as the EU remains on its current trajectory with no different tiers of membership for non-euro members that do not wish to pursue ever-closer union, the dilemma of whether it is better for the UK to be outside—with more sovereignty at the cost of weaker economic relations—or inside the EU—with opt-outs and weak political influence—will not go away (Thompson, 2019). It is noteworthy that across Europe the ascendant populists who put themselves clearly on the side of coupling mass politics with national sovereignty are the political actors probably most lucid and open about the trade-offs involved.

Ultimately, the choice for the European Union (unless weaker countries resign to forgoing democracy), has to be resolved by either moving to a unified polity or reverse to a more limited economic union if it is to be a democratic polity. The second alternative might be for countries to leave the euro, sacrificing greater economic and financial integration to regain sovereignty and national democracy. The political realities may work against deeper political integration as there is little public and political appetite for the pooling of risk, a fiscal union and the necessary step of a capital markets union with the creation of European government bonds. Where the EU has failed it has done so because it has not established a genuine transnational democratic ethos. The issue of erecting and maintaining democratic legitimacy and accountability will remain at the forefront of the European project: EU's institutions must work in a way that doesn't constrain any democratic radical political project (for which effective central bank policy, willingness to depreciate currency and to cushion the fallout may all be necessary). The optimistic view is that mass political struggle can fundamentally change the EU as anything created out of collective action can be transformed through open contestation; the contrasting, pessimistic view from a left-wing viewpoint is representatively made by a group of pro-Brexit academics (Bickerton, Glasman, & Tuck, 2018) who argue that economic activity of the EU is mostly decided on the basis of judicial interpretation of the founding treaties; they argue that the EU is already so path-dependent as a neo-liberal construction that reform of it is no longer conceivable as the treaties would require comprehensive renegotiation during which each country would have a veto. The neo-liberal view of the EU has also not been unambiguous: some have construed it as a project of penetrating national sovereignty and enforcing the four freedoms, while others have decried it as a project of agricultural protectionism and scaling up of a bureaucratic super-state. This was the divergence of the "universalist" and "constitutionalist" schools of neo-liberal thought (Slobodian, 2018a) with the former fearing a European federation would "turn national autarky into a continental one" (p. 186) and threatening the system—under GATT as the supranational global authority—as a whole, while adherents of the latter saw European federalism as a means of limiting sovereign power of nation-states and as such a limit on mass democracy, enforcing flow of capital and freedom of enterprise in a way a global authority wasn't yet able to.

When the 2015 Greek general election brought the anti-austerity Syriza to power in a coalition government, its finance minister Varoufakis was quoted as saying that, "The notion that previous Greek governments signed on the dotted line on programs that haven't worked, and that we should be obliged to just follow that line unswervingly, is a challenge to democracy" (Barber, 2015). A Financial Times columnist echoed these sentiments: "The biggest question raised by Syriza's election victory last January was not about Greece. It was whether any national population that has adopted the euro can meaningfully express a democratic choice" (Sandbu, 2015). Syriza did not manage to end austerity policies despite a series of dramatic confrontations in 2015. This demonstrates, according to an observer (Müller, 2018), "that a renewal of national democracies ultimately has to be complemented with a new architecture for the EU, so that a crisis of representation is not simply reproduced at the European level." Müller admonishes that exactly because there are no meaningful channels within the EU to voice opposition to ongoing policy that dissent so often becomes opposition to the EU as a polity. This may also indicate that the European integration process is evolving into a new form of statehood with the future political struggles shifting from conflict over the continued existence of European institutions towards battles over who has control over them, especially now that two failed attempts to challenge the EU system—by the Greek and British governments—have made the EU's hegemonic dominance over Europe impossible to ignore (Clarkson, 2019).

In the fall of 2011, the European Central Bank wrote to the Italian Prime Minster Berlusconi that its purchase of Italian bonds was conditional on legislative reforms. When the Italian government refused to cut pensions, the German Chancellor encouraged the Italian president to end Berlusconi's premiership. Germany strong-armed the Italian president into appointing a cabinet of technocrats led by Monti, a former European commissioner (Thompson, 2018).

Until 2018, Italy had not had an elected politician as minister of economy and finances for more than half a decade. These actions involved “the surgical removal” of elected governments in Italy and Greece and their substitution with technocrats, “trusted. . .to pass economic reforms deemed appropriate by policymakers in Berlin . . . and the EU headquarters in Brussels” (Barber, 2011). Barber refers to this “sidelining of elected politicians” as a “momentous development,” as it involves eurozone policymakers suspending democratic politics in two EU member states since they deem them to be “a mortal threat to Europe’s monetary union.” These policymakers have effectively decided that “European unity, a project [of] more than 50 years in the making, is of such overriding importance that [democratic] politicians must give way to unelected experts.” These dynamics were played out again in the aftermath of the Italian general elections of 2018 when the President initially deprived the electoral winners of the possibility to form a government, citing international markets as the prime reason for his veto (Mattarella, 2018), as the proposed finance minister’s monetary politics weren’t in line with those of the EU, relenting only once a different person was proposed for the position by the incoming government. In the words of one commentator, “This implies,” in the words of an observer (Zielonka, 2018), that “the markets, and not voters, are in a position to determine the future of [Italy].” In other words, elections are acknowledged as legitimate only “if they lead to outcomes welcomed by the markets.” The markets reacted negatively to the possibility of organizing electoral politics this way as short-term Italian bond yields had the highest one-day jump since the creation of the euro (Ranasinghe & Ramnarayan, 2018). Political pressure intersects with financial pressure: the EU Commission relies on financial markets to punish wayward governments. President Mattarella’s decision implies that nominating a Eurosceptic is incompatible with EU laws and treaties, the euro effectively turning macroeconomic questions into constitutional ones. Under the terms of EU membership this may portend a future in which anti-immigrant rhetoric and policies that violate human rights are tacitly tolerated as an escape valve for the tensions as long as the populists understand macroeconomic policy is off-limits. This augurs a neo-illiberal future: the rise of illiberal forces “might not prove a rupture to the established order, but rather anchor its global dominance” (Hendrikse & Fernandez, 2019) as “political illiberalization” may operate as protection from popular resistance of “the economic core of the neo-liberal project. . .effectively functioning as its toxic protective coating” (Hendrikse, 2018).

3.3 Bretton Woods and its emphasis on circumscribing capital

The post-war Bretton Woods compromise was a success (in both the rich and the developing world in comparison with the ensuing period) during which the industrial countries recovered from the war and achieved widespread prosperity, while most developing countries underwent unprecedented levels of economic growth. Development was ubiquitous: “For 80% of humanity the Middle Ages ended suddenly in the 1950’s; or perhaps, better still, they were felt to end in the 1960’s” as Hobsbawm put it (1995, p. 288). It was a shallow multilateralism that permitted countries a significant degree of independence (for example in restricting currency transactions and financial flows) to focus on domestic social and employment issues and imposed few burdensome rules as longer as a number of border restrictions on trade were abandoned and countries treated all their trade partners equitably. The imperatives of international economic integration were subjugated to domestic democratic politics and national economic management. This model eventually broke down under the pressures of deep trade integration and financial globalization. Two significant problems have transpired since during the succeeding hyper-globalization era: the beliefs that deep integration would be inevitably followed by appropriate institutional development and that hyper-globalization would have no significant effects on domestic institutional arrangements were both proven wrong. Rodrik (2011, p. 280) suggests it would be more prudent to view globalization not as a system that requires "a single set of institutions or one principal economic superpower," but rather "as a collection of diverse nations whose interactions are regulated by a thin layer of simple, transparent, and commonsense traffic rules."

Bordo (1993) sees the three major reasons for the collapse of Bretton Woods as being the gold exchange standard, U.S.'s failure to maintain price stability and the unwillingness of other countries to follow U.S. leadership when it conflicted with their national interests. The gold exchange standard and the adjustable peg were the fatal design flaws of the system that presented a fundamental choice between two problems: there was either not enough dollars or not enough gold. The dollar alone was convertible to gold at a fixed rate and when trade expanded—most of it financed by the international currency—there was less gold to back the dollar; fearing a confidence crisis, the gold convertibility requirement made the U.S. reluctant to act as the center country and readily supply the reserves demanded by other countries in the system. There was no explicit enforcement mechanism in the system other than reputation and the commitment to gold convertibility. To finance the Great Society programs and its wars in Southeast Asia U.S. leaders didn't want to raise taxes and the gold convertibility requirement—on which the credibility of the dollar theoretically rested—didn't prevent the U.S. monetary authorities from pursuing an inflationary policy from the 1960's onwards. Bordo summarizes that "[u]ltimately, the United States attached greater importance to domestic economic concerns than to its role as the center of the international monetary system." He argues a superior fixed exchange rate system can be designed, based on enforceable rules where governments are constrained by a commitment technology preventing them from altering planned policy in the future; such an arrangement would include transparent rules and allow for contingencies when rules can be suspended for a finite amount of time as well as allow for feedback to accommodate random shocks; countries would follow similar domestic economic goals (underlying inflation rates) and a central monetary authority would exist to enforce them. These proposals—which bind policy actions over time and thus significantly limit a government's maneuvering space—indicate that the core problem of inhibiting either capital mobility or democracy in order to insulate a monetary order from market pressures can't be obviated. Rising international capital mobility leads to greater exchange rate flexibility and the one reason the period prior to WW1 was able to maintain both high international capital mobility and stable rates was because priority attached to the gold standard peg was indisputable as all stakeholders that would later rise to challenge it—trade unions, labor parties, enfranchised voters—were still quiescent.

The post-war international order was a geopolitical order underwritten by U.S. hegemony and its singular position allowed the dollar to anchor the international system. During the tumultuous inter-war years, the U.S. took over the UK's role as the dominant player in the financial and commercial spheres but its foreign relations were not yet attuned to this new reflection of power that could produce a congruous and serviceable international system. Construction of a framework capable of accommodating the changed conditions was much easier achieved in the wake of post-war destruction. In essence, the Bretton Woods settlement was reached after a globally cataclysmic event during a major shift in relative power of states with the rising (U.S.) and waning (UK) global superpower the primary architects of the compromise, and the other potential economic centers of the world (Western Europe, East Asia, Russia) devastated. Not even an extremely precarious international situation, but the aftermath of catastrophe, appears to be the dynamic that provides the sufficient impetus for the world's states to pursue drastic political reform. For all the current anxieties policy-makers appear to be overly equanimous about the permanence of the ongoing globalization, especially if we consider that globalization has already collapsed historically. There is no historical imperative for globalization: liberalism had seemed triumphant and on the road to political hegemony before, with liberal elites holding an exaggerated view about the resilience of the globalization phenomenon that they were administering while underestimating the extant of the anti-liberal challenge from different sides, and overestimating the degree of popular that existed (Kallis, 2018). A historical liberal era had ended before, "undermined not only by the defeat of their ideology [of minimal government and free trade] but by the democratization of electoral politics which destroyed the illusion that their policy represented the masses" (Hobsbawm, 2000a, p. 305).

Bretton Woods was a meeting of wartime allies who were engaged in the efforts of total war and the massive mobilization of national resources that entailed resulted in the construction of the national economy as the basic unit of modern governance; the system was designed by governments with business interests notably absent as an effect of the massive extension of state power during WWII. But soon there would be a heavy backlash led by the financial sector and its political allies; Tooze (2019b) claims that a crucial part of the disintegration of Bretton Woods was the "gradual decay of the wartime regime of national economic regulation and the re-emergence of private finance as a force of creative destruction after 1945." Trade imbalances and fiscal deficits may have destabilized the Bretton Woods system, but it was private speculation assaulting foreign exchange controls that ultimately dismantled the system. Today's world economy is no longer divided into national economic zones and driven exclusively by the relationship between states but resembles an "amorphous global conglomerate" (Tooze, 2019b) driven by multinationals coordinating far-reaching value chains; as such, it is less easily tractable by state actors. The question of whether the Bretton Woods system would have worked were it a straightforward dollar system is now moot: no country is powerful enough relative to others to anchor the system the way the U.S could in 1944 when the implicit enforcement mechanism was the dominant power of the United States (Bordo, 1993). The Bretton Woods system arose at a moment in time when there was one dominant economy that could shape the rules for others—a multilateral agreement governing international monetary affairs today would need to be much more than just something designed by the U.S. with Western Europe in tow.

It is important to acknowledge that the Bretton Woods system decidedly rejected anything akin to pure sovereigntism—the idea in the unassailable primacy of politics on the national level and the rally to recover, territorially and institutionally, at this precise level, all political power—in favor of more "deliberate diffuse models of political power," with broader notions of community membership giving a stronger role to international and transnational institutions "in an attempt to counterpoise the power of the old Westphalian state" (Kallis, 2018). The emerging multipolar world will demand even more international cooperation and multilateralism, even if national democracies are consolidated as the centers of political activity. A mere renewal of state-centered multilateralism will not be enough for a world in which the proliferation of transnational networks has undermined the traditional model of governance based on the nation-state. Mass migration movements, security threats, legal and judicial pluralism, economic flows, environmental threats, plural citizenship and other challenges will all find a territorially-bounded exercise of sovereignty inadequate. The sovereigntist perspective may be the primary beneficiary of the ongoing populist critique of globalization as it lies at the crossing between "rival populist projects" that are seeking to re-define and purportedly re-empower "the people against distant, detached or unaccountable elites" (Kallis, 2018); yet Bretton Woods was emphatically not a project of state sovereignty but one of recognizing the tensions between the interests of capital and democracy and restricting the former in favor of the latter, allowing states to maintain the tools to not be overwhelmed by outside forces and remain beholden to its publics.

4 THE ARGUMENTS FOR THE PROPOSED SOLUTION

The three possible resolutions are thus to either (1) constrain democracy for reasons of minimizing international transactions costs and disregard the domestic societal problems the global economy generates; (2) globalize democracy, but abandon Westphalian state sovereignty; or (3) diminish the scope of globalization processes with the goal of ensconcing democratic legitimacy in existing states. In the penultimate chapter I will present the case for the (3) resolution by asserting that democracy is a non-negotiable part of any legitimate solution for a sustainable world order and showcase both the neo-liberal straitjacket's detrimental effects on democracy and the misguidedness of overly-optimistic attempts at global uniformity and neutralization of nationalist sentiments.

4.1 Democracy's inherent merit with broad support and universal appeal

The most lasting singular event for modern democracy was perhaps the French Revolution and its two revolutionary ideas: that political change was normal, expected and constant and that sovereignty resided in the people rather than the monarch or the legislature and that the people alone could legitimate a regime. And once the idea that popular sovereignty was promulgated its trajectory was irreversible, becoming "the common wisdom of the entire world-system" (Wallerstein, 2004, p. 52). If we survey the world's states today, we can see that even the most internally repressive and autocratic regimes (e.g. the Democratic People's Republic of Korea) align themselves with the moral appeal of democracy. No political regime today would willingly identify with descriptive terms such as autocracy or oligarchy but would sooner understand them as words of obloquy. In worldwide polls support for democracy and the values associated with it is consistently high. While publics in more democratic, wealthier countries are more committed to representative democracy, there is deep and wide support for both direct and representative democracy, yet the same (Pew Research Center, October 2017) survey shows people are generally unhappy with the functioning of their own nation's political system, lending credibility to the proposition that democracy is a genuine value but people will not be satisfied with inadequate, dysfunctional and constrained versions of it and will continue to aspire to an ever-expanding understanding of democracy.

The general robustness of public support for democracy can be illustrated with Russia's example. Its political transformation to democracy in the 1990's was undergone in parallel with reforms turning it into to a market-based economy that resulted in societally calamitous economic and demographic consequences: the GDP fell by 54%, industrial production diminished by 60% and overall life expectancy was reduced by 4 years by the end of that decade (Stiglitz, 2002, pp. 143–145, 153). A global research project carried out during 1999-2001—the fourth wave of the World Values Survey—examined the favorability of democracy in countries that together cover over 80% of the world population. In the median country, an imposing 92% of those queried gave a positive account of democracy. The Russian public ranked lowest of all country's surveyed, yet a clear majority of 62% expressed a favorable opinion of democracy (Inglehart, 2003). Even today, when the Russian political system is euphemistically referred to as a managed democracy[17] and Putin's personal approval rating reaches as high as 82% (Levada Center, 2017) the government feels the need to expend enormous resources on keeping up appearances of democratic elections despite their forgone conclusions. Hobsbawm (1995, p. 582) has noted that in the 20th century — "for better or for worse"— "the common people entered history as actors in their own collective right."

[17] Russia is a "managed democracy" in that national elections are held, even though their results are understood in advance; the public has recourse through the judiciary, but rulings invariably correspond to the interests of the authorities; there is a plurality of the press, yet the media is overwhelmingly dependent on the government (Anderson P. , 2007).

If we acquiesce to confining democracy to the definition of a political process rather than taking a more expansive view, Thomas Palley's (2017) contention that the Rodrik trilemma is actually a dilemma between globalization and the state as globalization shrinks and "twists" (shrinks it along some dimensions and expands it along others) national policy space is a pertinent insight. But I would claim that is an impoverished view of democracy. A society can have procedural fairness but if it does not have relative equality of endowments it cannot have meaningful democracy as Aristotle intuited and the political system of the United States today shows. The rule of law is not an unqualified human good (Horwitz, 1977) because while it unquestionably "restrains power. . .it also prevents [its] benevolent exercise." Through elevating procedural justice, appealing to the rule of law enables the powerful to "manipulate its forms to their own advantage"; while it creates "formal equality—a not inconsiderable virtue" it "promotes substantive inequality by creating a consciousness that radically separates law from politics, means from ends, processes from outcome." The recent populist insurgencies can just as well be interpreted as disappointments with political systems that offer only constrained participation in vital areas of human life and as manifestations of an appetite for a more comprehensive democracy rather than as electoral expressions of a preference for the decisiveness of an authoritarian system. Democracy is a multi-dimensional phenomenon and we should insist that it is not viewed simply as a timeless static collection of procedures and structures, but as a dynamic and evolving historical process capable of spawning genuine innovation in which the population has a way of developing and articulating its own ideas and advancing them in the political arena by controlling societal decisions. This type of democracy will invariably clash with hyper-globalization if state structures continue to exist.

Chomsky (2014) stakes out the claim that since humans are social beings shaped by institutional circumstances we should explore social arrangements that are promotive of "human development in its richest diversity" (von Humboldt, 1854). Adam Smith (p. 448) observed that "All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind." If society's predominant institutions are based on control of private wealth and utilitarian concerns for maximizing personal gain, the values encouraged will be those that are reflective of such institutional set-ups, while others not reflective of the workings of such institutions will be suppressed. Chomsky sees democracy as the mode of social organization that would reflect values more favorable to the flourishing of the individual. That is why he advocates for the libertarian strain of democracy that seeks to expand the franchise (as has been done since Aristotle's and Madison's time) and free society from any sort of guardianship that limits inquiry and participation; to recognize structures of authority, hierarchy and domination that fetter human development and demand they justify their continued existence. In short, there can't really ever be an "excess of democracy," as was argued in the report for the Trilateral Commission on the problems of governance in the United States during the tumult of the 1970's (Crozier, Huntington, & Watanuki, 1975). The democratization of societies across the world should be where we place our hopes: During the mass demonstrations against the United States-lead invasion of Iraq—perhaps a first in modern history when anti-war protests occurred before the actual war—a New York Times article (Tyler, 2003) claimed that two planetary superpowers may exist: "[T]he United States and world public opinion." That second superpower—a global civil society—is indeed an ever-emerging force that can constrain what those who run states are allowed to do and through which we can hope other humanist values may come to the fore. There have been notable historical incidents of regression from democracy and of reaction towards increasing the scope of individual freedoms and participation of the masses in societal decision-making, but generally the trend has followed the famous Martin Luther King's paraphrased dictum of an abolitionist pastor's words from a century before that "the arc of the moral universe is long, but it bends towards justice."

4.2 The evisceration of democracy under historical straitjacket arrangements

In many ways the global economic system operated along golden straitjacket lines during the ages of mercantilism and imperialism under the gold standard. Niall Ferguson (2003) has argued that no other organization in human history has done more for the promotion of free movement of goods, capital and labor than the British Empire in the 19th and 20th centuries. Imperialism can be understood as a variety of third-party enforcement with the discipline enforced through its practices crucial to upholding free capital flows. European imperial powers guaranteed protection of foreigners' rights, the enforcement of contracts, the adjudication of disputes under European countries' rules, the undertaking of infrastructure investments, the pacification of locals, the suppression of nascent nationalist ambitions of the subordinate peoples, the promotion of the movement of people, and so on (Rodrik, 2011, pp. 32, 202). The empires were promoting trade by lowering transactions impeding international commerce, but the many subjugated peoples who played essential roles in these economic systems were politically paralyzed. Globalization was indissolubly linked with imperialism. In fact, Kenneth Pomeranz (2000) ascribes the origins of the Great Divergence (Western Europe overcoming pre-modern growth constraints and advancing ahead of the rest of the world) not to endogenous European factors, but to its colonization of the Americas.

Under the gold standard states had few other means of responding to an economic slump beyond raising interest rates and cutting government spending with the aim of lowering prices and wages to the point where the economy would correct itself, as pursuing expansionary fiscal or monetary measures would jeopardize the convertibility of the state's currency into gold. These are the reasons why, Martin (2013) asserts, the gold standard was a felicitous choice by national elites in a 19th century world of few organized workers' parties and labor unions, but not appropriate "to [the] messy world of mass democracy." As noted before, the demands of hyper-globalization require insulation of economic policy-making bodies (of fiscal authorities, regulators, central banks etc.) that invariably entails a crowding out of democratic politics. Many of hyper-globalization's proponents comment nostalgically on the discipline the gold standard era imposed on governments as submitting to its rules rendered inflation and public debt unproblematic. This was achieved at the cost of not attenuating the population’s plight during world economic downturns, but the curtailment of responsiveness to mass political participation is also its precise appeal to hyper-globalizers.

4.2.1 The dubious economic effects of liberalized capital and financial markets

Rodrik states that the hyper-globalization agenda with its focus on minimizing transaction costs in the international economy conflicts with democracy for the very reason that it does not seek to improve the functioning of democratic politics, but is pursued to facilitate multinational and financial interests seeking expanded market access at lower cost, requiring us to “buy into a narrative” that grants supremacy to the needs of concentrated financial and business interests over other economic and social goals (2011, p. 206). When the regulations and rules designed to stabilize the flows of volatile money into and out of the country are eliminated, many weaker, developing countries find themselves at the “mercy of vast, multiplying floods of unattached capital that wash round the globe from currency to currency, looking for quick profits” (Friedman, 2000, p. 278). Financial markets function as a “fickle disciplinarian” (Stiglitz, 2013, p. 175), threatening to withdraw money out of a country overnight because no barriers are erected, especially to short-term capital flow. Advocates of liberalized financial markets claim that one of the virtues of open capital markets is precisely the discipline they enforce. But it is obvious that the interests of stakeholders of financial markets and the stakeholders of a country will often not coincide. The political forces attached to financial markets are ideologically committed to capital market liberalization, which is consistent with the markets’ self-interest; but as with any business interest their own self-seeking viewpoint often makes it difficult to identify “the best interests of the system as a whole” (Hobsbawm, 2000b, p.334).

The argument (Camdessus, 1998) from the institutions (IMF) providing the impetus for liberalizing capital markets went that capital mobility would allow for global savings to be allocated more efficiently and channel resources to their most productive uses thereby raising economic growth and that the diversification of sources of funding would improve economic stability. Capital controls should be done away with since—the argument goes—if financial globalization enhances efficiency, imposing controls reduces the supply of capital and raises the cost of borrowing, decreases competition and saps market discipline. But capital market liberalization makes countries subject to both the rational considerations as well as the irrational whims—to Alan Greenspan’s “irrational exuberance” and Keynes’ “animal spirits”—of the investor community. Slightly before the 1997 East Asian crisis and the collapse of the Thai currency, Thai bonds paid only 0.85 percent higher interest than the safest bonds in the world; a short while later, the risk premium on Thai bonds had soared. Stiglitz notes (2002, pp. 100-101) that in this specific case the IMF had played the decisive role in the liberalization that allowed for the boom in speculative real estate lending that created the bubble which inevitably burst. The financial and capital market liberalization policies that the IMF (backed by the U.S. Treasury) had guided in East Asia, Russia and elsewhere led to destabilizing speculation and to bad lending practices (Stiglitz, 2002, p. 212). Financial globalization aggravates economic cycles in emerging market economies and leads to increased instability and inequality (Ostry, et al., 2010). The pursuit of hyper-globalization and its attendant deregulation have allowed a "huge chasm to develop between the reach of financial markets and the scope of their governance" (Rodrik, 2011, p. 129). There is systemic risk not under the purview of existing supervision and regulation: international capital flows are crisis-prone as evidenced by many recent crises. Rodrik (2011, pp. 149-150) also argues that international finance enables fiscally reckless governments to operate on soft-budget constraints for protracted periods, running larger deficits for longer than they could were they relying on domestic creditors alone. Greece, which for years flouted the EU's rules on government deficits, had an accomplice in Goldman Sachs in manipulating its budget statistics (Story, Thomas, & Schwart, 2010). Greater exchange rate flexibility is an unavoidable consequence of rising international capital mobility (Eichengreen, 2008, p. 230) but speculative short-term capital flows also make it difficult for developing economies to maintain a competitive currency, depriving them of a potent form of industrial policy (Rodrik, 2011, p. 265). There is a meaningful difference between foreign and domestic finance: improvements in the latter depreciate the real exchange rate, while improvements in the former appreciate it, reducing the relative profitability of industry and its rate of growth. In other words, low profitability but large capital inflows make dollars plentiful, reducing competitiveness of domestic industries on global markets as its currency is overvalued (Rodrik & Subramanian, 2009).

As observed before, once capital is freed it makes little difference whether currencies are pegged or allowed to float. Tobin (1978) has asserted that the debates on the exchange rate regime "evade and obscure the essential problem." The core of the problem, he claims, is "excessive mobility of private financial capital. . . National economies and national governments are not capable of adjusting to massive movements of funds across foreign exchanges, without real hardships and without significant sacrifice of the objectives of national economic policy with respect to employment, output and inflation." Capital mobility prevents nations from pursing fiscal and monetary policies that do not follow policies in other economies and therefore undermines policies that may be appropriate for the situation in the domestic economy. Tobin claims the world economy can go two ways: either it adopts a "world currency, a common currency, common monetary and fiscal policy, and economic integration," or it implements a worldwide tax on international currency spot conversions—now widely known as the Tobin tax and sometimes extended to mean all short-term transactions, currency-related or not—in order to "throw sand in the wheels of international finance."

Even noted defenders of globalization are often critical of globalized capital markets. The Financial Times' Martin Wolf (2005, p. 280) acknowledges that "the age of financial liberalization, has, in short, been an age of financial crises," noting that during the "age of financial repression" between the end of WW2 and the Nixon shock there had been only 38 crises in all, with just 7 twin (currency and banking) crises. Emerging market economies experienced no banking crises at all, 16 currency crises and just 1 twin crisis in this period. Between 1973—when Western Europe and Japan floated their currencies—and 1997 there were 139 crises. Jagdish Bhagwati (1998) is one of the most prominent proponents of free trade, yet a skeptic of financial liberalization, claiming that the preponderance of evidence and the coherence of argument points "towards restraints on capital flows" and that the onus of proof must shift "from those who oppose to those who favor liberated capital." China, Japan and Western Europe all achieved remarkable growth rates without full capital account convertibility and even if one believes that capital flows are significant engines of growth, Bhagwati contends, there is still a crucial difference between embracing free portfolio capital mobility and pursuing a policy of attracting direct equity investment as there is little evidence for the assertion that not embracing the former would reduce the latter.

4.2.2 Restrictions on democratic choice imposed by free movement of capital

The globalization that has been pursued often replaces "the old dictatorship of national elites" with a "dictatorship of international finance" (Stiglitz, 2002, p. 247). IMF's access to capital markets is conditioned in a way that forces countries to give up a degree of their autonomy and allows capricious capital markets to "discipline" them. Stiglitz (2013, p. 174) writes that the "surrender to financial markets' dictates" happens universally from both countries with fiscal problems to those merely seeking to raise funds in capital markets; in such situations free elections may be held, but," as presented to the voters," there are no real alternatives offered on offer pertaining to "the matters that they care most about- the issues of economics." The financial markets are often the ultimate arbiters of a country's economic policy rather than the voters and when they threaten to downgrade ratings of a country, withdraw money out of it and raise interest rates these threats are effective in cowing governments. Developed countries are accustomed to the kind of alteration between center-left and center-right, "differing on details but agreed on essentials" typical of developed liberal democracies, the radicals long neutered the way French communists were discredited as junior accomplices to Mitterrand's U-turn of 1983 under market pressures, never to recover electorally (Anderson P. , 2017b). Once the pressures to abolish all controls on short-term portfolio capital flows overwhelm, a country can't ignore the threat of speculative capital flows which have the capacity to develop into the dangers of capital flight and a sharply falling currency. This dilemma of the "dual constituency conundrum" (Rothkopf, 1999) reigns, juxtaposing two group: pitting voters against foreign currency traders, hedge fund managers and the like "who conduct moment-to-moment referendums" on the policies of developed and developing nations alike. With no capital controls restrictive monetary policy with higher interest rates remains the only remaining solution to the threat of capital flight, even though such policies often only compound a country's problems.

The chain of events that follow the liberalization of capital accounts of a developing country has a familiar pattern: a dependence on a specific type of foreign investment, the short-term "hot money" portfolio investments that require a high real interest rate and an overvalued exchange rate to invite and maintain the sufficient levels of inflows; the adverse impact of a country's burgeoning budget and trade deficits lead to the panic that triggers the sudden outflow of capital, made inevitable by the unsustainable dependence on hot money to finance swelling deficits (Canova, 1999). The logic of adopting the model of no capital controls puts any country on the periphery of the world economy at the mercy of unpredictable movements of the financial markets at the center (Anderson P. , 2002a). It is a prominent recurring theme faced by governments of developing countries: in the words of one commentator, the President of Haiti had the “arduous task of balancing two constituencies,” the first being his domestic supporters “who oppose free-market reforms,” and the other “the international [donors] seeking market reforms” (Stotzky, 1997, p. 185).

Another illustrative example is Brazil. Twice in the 1990’s Lula came close to being elected President of Brazil and twice Wall Street objected, “exercising to what amounted to a veto” (Stiglitz, 2013, p. 174). It clearly signaled that if this insurgent were elected it would pull money out of the country, the interest rates would soar, investors would shun the country, and its growth rates would subside. The third time, for the 2002 elections, Goldman Sachs created a “Lulameter” (Goldman Sachs, 2002) to measure risks associated with Lula’s chances of becoming president, with the implicit notion that his election put at risk investments in Brazil. The currency and the stock market slumped while the country’s credit rating was downgraded with no change in government policy, investors reacting to the prospect of Lula’s victory; the IMF had to point out that Brazil’s economic policies were “by and large appropriate” and gave the incumbent Brazilian government high marks for its handling of the economy, but acknowledged the markets were concerned with Lula even though he had “toned down his anti-market rhetoric in recent years” (Tran, 2002). International investors and lenders, the financial institutions, domestic wealth and the IMF all wanted assurances that Lula wouldn’t fundamentally depart from existing policies; Lula had internalized his lesson by now. Once his campaign had established an unassailable lead in the opinion polls and he had made overtures to the virtual senate the money poured into his campaign from banks and corporations, making him, paradoxically, the best-financed of the candidates. “Such support is not given free” (Anderson P. , 2002a).

With free movement of capital, the whole world is under the purview of the virtual senate of the investor community which can effectively decide social and economic policy by capital flight and attacks on currency; every government lives in fear of a no-confidence vote from the “electronic herd.” This means that the policy space of governments to pursue programs for which they were elected is significantly diminished. In effect, free movement of capital entails radical restrictions on democracy. This is the globalist vision of a borderless world for property and enterprise, a global jurisdiction for capital; of capital as a domain separate from governments and democracy that transcends control of national sovereignty in order to limit what neo-liberal proponents would call the “degeneration of economic policy produced by mass democracy” (Slobodian, 2018a, p. 116).

Slobodian (2018a) refers to a crucial distinction in the intellectual history of neo-liberal thought, a “global imaginary” that consists of a “double world,” one called “imperium”—the world of politically bounded nation-states—the other of “dominium”—the economic world of property, assets, money and resources scattered across the globe. In other words, there is both a space-of-places tied to particular states, and the space-of-flows encompassing networks above the control of any state (Hendrikse & Fernandez, 2019). A "double government" would disconnect the rule of nation-states from the rule of capital and private property by institutionalizing the ultimate aim that is the separation of politics and economics: the economy would be depoliticized, freeing it from interference, with all nation-states tied into a supranational rule-making apolitical authority. Hayek likened the right of capital mobility to the "xenos", or guest-friend, in Greek history "who was assured individual admission and protection within an alien territory" (Slobodian, 2018a, p. 123). According to Slobodian, "[t]he category of xenos rights helps us think about individuals having protected rights to safe passage and unmolested ownership of their property and capital, regardless of the territory. It is a right that inheres to the unitary economic space of dominium rather than the fragmented state space of imperium—yet it requires the political institutions of imperium to ensure it." The point here is not to reduce the autonomy of institutions over the global marketplace but to "encase them, to inoculate capitalism against the threat of democracy" (p. 2), to seek an "institutional encasement for the world of nations that would prevent. . .breaches of the boundaries between imperium and dominium" (p. 13), of protecting the global economy against the destabilizing nature of intemperate democracy and national sovereignty.

4.2.3 Corporatization of the world economy as a means of insulating decision-making from democracy

Privatized corporate power has significantly expanded and globalized in the post-Bretton Woods era; Arrighi (1994, p. 74) has claimed that the explosive growth of transnational corporations "may well have initiated the withering away of the modern inter-state system as the primary locus of world power." The transnational corporation is a significant agent of the erosion of national governments' autonomy and their macroeconomic policy though globalization and international financial flows (Chang, 2003, p. 260). The rise of the internationally-integrated transnational company reduces the stake of corporations in the quality of the national workforce and infrastructure; these firms can extract concessions with regards to taxes, subsidies and regulations in an open economy and the costs of these concessions are borne by labor. Larry Summers speaks of "stateless elites" (2008a) whose superior allegiance is to global economic success rather than to the interests of the nation where they are headquartered.

The main function of corporations is to "internalize markets across national frontiers," (Hobsbawm, 1995, p. 279) making themselves independent of the state and its territory. The firm has a lot of "hierarchical" and "relational" elements and is not a purely individualistic organization made up only of arms-length contracts (Chang, 2003, p. 38); internally corporations are rigid hierarchical organization with the decision-making of the whole system in the hands of a sliver of the workforce. Much of what statistics show as international trade flows is in fact internal trade within transnational entities. Adam Smith wrote that when those who work in the same trade meet, “the conversation ends in a conspiracy against the public, or in some contrivance to raise prices” (Smith, p. 152), pointing out that private and social returns differ. Corporations transfer policy decisions into spheres where public oversight is limited. The extensive financial resources of corporations dedicated to influence political campaigns in the United States is a way of undermining democratic institutions in a society. Decision-making migrating towards private corporations is much like moving it to supranational authorities or non-democratic regimes in that it is a way to escape democratic politics. Within democratic systems it is not easy to shelter decision-making from the public: Many of the elites in the former Communist bloc welcomed free markets overnight as the transition of the state to a democracy and the inevitable increased participation of the population in the decision-making processes would severely limit their power; the transfer of power into the private sphere of the market economy would least threaten their power and wealth as it would naturally be they who would make up the new ownership and managerial classes of the market economy. State power had come under democratic oversight, so decision-making was pushed into private power under no public supervision. Still, Tooze (2018, p. 17) warns that opting out of the “global battle for corporate domination”—even if done in the hope of achieving greater freedom for democratic politics in a world economy run by corporations—runs the risk of “rendering pretensions to autonomy quite empty” if those countries increasingly rely on foreign technology and have a growth model based on exports to other people’s markets. Power may have migrated from states to transnational corporations, but decision-making in the world economy isn’t reduced just because the levers of power are in private hands.

Many corporations are increasingly organized in such a way as to elude national taxation by tax arbitrage with profit shifting within these large structures, diminishing all nation-states materially and symbolically. A study (Zucman, Wier, & Tørsløv, 2018) found that in 2015 40% of multinational profits were shifted to tax havens; this was not due to tax competition for productive capital but as a result of profit shifting where corporations use transfer pricing, allocation of rents on intangible assets and other methods to make profits appear in countries with lower tax rates. A parallel legal regime comprising “a set of juridical realms marked by more or less withdrawal of regulation and taxation” (Palan, 2002) has emerged. This is a world of secretive extraterritorial offshore finance, a “globally integrated space” that is not solely about capital moving beyond the reach of states, but involves the “unbundling and commercialization” of state sovereignty itself; financialized and hypermobile global capital effectively is the state in this offshore world as it creates a “stateless” space for cross-border capital markets (Hendrikse & Fernandez, 2019). The offshore world of property is built through national politics: “[O]ffshore finance is woven from the sovereign fabric of states, anchoring the . . . world of property (dominium) through the rampant commercialization of state sovereignty (imperium)” (Hendrikse & Fernandez, 2019). Just as capital mobility encourages states to deploy unilateral strategies to attract capital, no single state can meaningfully exercise control on contemporary offshore finance since the introduction of regulation in one place simply results in capital moving elsewhere. The investor-state dispute settlement (ISDS) mechanism inserted into many agreements enables foreign investors to sue governments in special arbitration tribunals if regulatory, tax, and other policy changes produce adverse effects on their profits. The ISDS is to serve as protection against expropriation, but in practice international courts interpret these protections more broadly when they run against the governments pursuing the public good in comparison with domestic law (Johnson, Sachs & Sachs, 2015). As the ISDS exists exclusively for the benefit of foreign investors they may ultimately receive superior rights to domestic investors. After all, this legal innovation was first introduced during the decolonization era by the Netherlands as a clause in its bilateral investment treaty with Indonesia, explicitly devised for Dutch corporations to protect their assets (Hendrikse & Fernandez, 2019). Offshore finance and ISDS arbitration function as the kind of supranational mechanisms that protect capital and prevent the politicization of economy. All this extension of corporate power, its organization complex and obscured, diminishes national democracy. With the progression of globalization organizations whose field of action is not effectively bounded by the frontiers of their territory such as transnational firms and international currency markets gain in power, while those organizations dependent on their countries—such as trade unions and parliaments—lose in influence and power (Hobsbawm, 1995, p. 424).

4.3 The futility and folly of global federalism

In 2000, Rodrik placed his bet—"as unlikely as that may seem at the moment"—on global federalism happening within a century, as "an alliance of convenience" transpires between the "losers" of globalization, like groups representing labor and the environment; and the "winners" of globalization, like exporters, multinationals, and financial interests, both groups realizing that their interests are best served by the supranational promulgation of regulations, rules and standards: international labor and environmental rules; global accounting standards; common financial regulations; a global fiscal authority and a lender-of-last-resort; and even global democratic elections. National politicians and bureaucrats, "the only remaining beneficiaries of the nation-state," would recast themselves as global officials or disappear. But he did mention two other possible scenarios: a "backlash" scenario, in which governments widely revert to protectionism; or an alternative where ongoing financial crises "leave national electorates sufficiently shell-shocked" that they acquiesce to donning "the Golden Straitjacket for the long run" (Rodrik, 2000). He has become much less sanguine in the ensuing years about the possibility of global federalism, even on a time-scale Keynes wouldn't care to think about.

4.3.1 The conspicuous lack of existing democratic international institutions

The history of the nation-state is one of interaction and co-evolution of the nation—the demos—and the state. In a world without an actually-existing global demos, the main problem of democratic global governance is a lack of clear accountability relationships, the kind of process norms that have arisen from the organization of interdependence and cooperation in nation-states. Cohen and Sabel (2006) note that with an emerging global administration something beyond conventional international interstate relations is developing and that new accountability-enhancing measures must be devised, not least in order to form the people and the public sphere—the demos—of global politics.

The supranational union that has gone furthest at supplanting some of the power of nation-states by integrating its members, the European Union, is facing significant internal problems and the future integration and federalization of this political project are far from certain. When even the seemingly most cohesive region of the world under relatively auspicious circumstances has trouble creating functioning supranational institutions it would be fantastical to believe democratic global institutions could replace nation-states as primary sources of decision-making power in a world as economically, politically and culturally disparate as ours in the foreseeable future, barring global catastrophe. The essence of economic globalization is its transnational nature, but democratic governance remains confined to its national characters in which it first appeared. The substitution of nation-states with international democratic institutions is not only unrealistic; it is also—as Rodrik argues—undesirable, as the democratic legitimacy constraint would ensure a system of the lowest common denominator, a regime of feeble and feckless rules.

A commentator contrasting the American and European reactions to the 2008 crisis (Judah, 2018) likened both the energetic American and the lethargic German response as having the same underlying rationale of protecting their respective state's power: "[A]s America acted to preserve its global prerogative, we see Germans refusing to act, also to preserve their own power." The "liberal world order" was designed to empower America while the eurozone was built to constrain Germany through federalizing it enough so as it would not become an imposing continental hegemon following its reunification; the German refusal to be the lender of last resort should be seen as Germany not wanting to have its sovereignty diminished. Tooze (2019b) contends that where the political and economic elites were more closely intertwined the more rapid and effective the response was in the form of ad hoc intervention; while where the elites were more dissonant, as was the case with the eurozone, there was an effort to employ a rule-bound approach with disastrous results. States will not give up their prerogatives if left to their own devices. Looking at the events of 2007-08 it was national governments that provided bank bailouts and liquidity, pursued fiscal expansion and offered unemployment compensation (and bore the brunt of public ire), not international institutions. The EU's "governance gaps" (Rodrik, 2011, p. 218) became obvious during the crisis: there was no co-ordination between the individual governments carrying out bail-outs; no co-ordination in the design the fiscal stimulus and recovery programs, despite the clear spillovers of the intertwined European economies. National markets are supported by an extensive apparatus of regulatory and political institutions but global markets are only weakly embedded.[18] Institutions such as an antitrust authority, a lender of last resort, a safety net and various regulatory bodies do not exist on a global level,

---

[18] Embeddedness (Polanyi) refers to how constrained economic activity is by non-economic institutions.

making global markets more susceptible to instability, inefficiency, and weak popular legitimacy as they suffer from weak governance. The reach of global markets must be limited by the scope of their governance and following from the idea that markets and governments are complements rather than substitutes (2011, p. xviii). Rodrik believes the choice presented is either globalization of democratic governance alongside the globalization markets or a recalibration of investment and trade agreements towards expanding space for democratic decision-making at the national level. Democratic decision-making—where it exists—remains embedded within nation-states (where multigenerational and often ongoing struggles were needed to achieve progress in the franchise) and only a thin veneer of nominal global governance exists in a world where the stronger states do what they can and the weaker suffer what they must to paraphrase Thucydides' dictum.

4.3.2 The institutions of globalization are designed by the powerful

The liberalization of financial services; increased protection for intellectual property; prevention of import protection and subsidy in poor countries as a means of catching-up and other policies that eliminate any threat of national economic planning and independent development have become the norm of the WB and the IMF since the 1970's with the pollical backing of the United States. A cursory glance at the historical record reveals economic policy is a major tool of geopolitics. This helps explain why these institutions have become enforcers of the rules of a liberalized international economy that suit the late 20th century US economy as well as they had the mid-19th century British one, "but not necessarily the world" (Hobsbawm, 1995, p. 576). It is no great insight that the actors who design institutions will be their primary beneficiaries, harkening back to Adam Smith's (p.721) admonishment that the "principal architects" of policy will have "their interests peculiarly attended to." The governing institutions of any international agreement will always reflect the interests of those who propel it whether they are authoritarian states, private transnational economic power or the democratic publics; the outcomes of international cooperation invariably end up reflecting underlying power dynamics. Wealth and the capacity to exert force are unequally distributed among states. International "order" exists when there is stability, this stability is upheld by rules, and these rules, whether formal or informal, are defined by the most powerful actors in the system. This "power" is defined simply as the ability to influence others and is identified by Knutsen (1999) as a composite of economic wealth, military force and command over public opinion; this combination of factors is then a decisive background determinant of "order." Indeed, "so tautological is the relationship [between international order and power] that one is tempted to say that order is a particularly addictive euphemism for power" (Tooze, 2019b). As I've tried to demonstrate, strong states try to pressure weak states to keep their borders open to those flows that are useful and profitable to the strong states and the powerful actors within them, while at the same time resisting any reciprocal openness that does not benefit them. And while strong states may co-opt the elites and the individual leaders of weak states, weak states as entities obtain the protection of strong states by arranging appropriate flows of capital (Wallerstein, 2004, p. 54).

In the present-day these dynamics unfold in the international arena through treaties and international organizations without much need for overt gunboat diplomacy. Regional or bilateral trade agreements initiated by the EU and United States—"the two regulators of the world"—serve as a means for them "to export their own regulatory approaches" to developing countries; incidentally often achieving what they failed in getting the WTO to adopt (Horn, Mavroidis, & Sapir, 2009). The agreements touted as free trade tend to impose a mixture of liberalization and protection, reflecting the political power of different constituencies. For example, the North American Free Trade Agreement (NAFTA) was adopted in 1994, eliminating tariffs between the three big North American countries, but allowed a whole set of non-tariff barriers to remain: Mexican corn farmers had to compete with highly subsidized American corn, forcing agricultural workers to either migrate north (often illegally) or to the cities into industrial work, exerting downward pressure on industrial wages in the United States (Scott & Ratner, 2005). NAFTA's main purpose was to further secure a set of neo-liberal economic policies, most of which were already under way in the decades prior; these policies included the liberalization of manufacturing, foreign investment and privatization. From Mexico's perspective the idea was that the continuation and expansion of these policies would allow it to achieve economic progress and efficiencies that were not possible under the developmentalist, protectionist economic model that had been pursued in the decades prior to the world's shift in reigning ideology. The end result for Mexico has been decades of economic failure by almost any economic or social indicator (Weisbrot, Merling, Mello, Lefebvre, & Sammut, March 2017). Among the results, Mexico's poverty rate in 2014 was higher than the poverty rate in 1994 and inflation-adjusted wages were almost the same 20 years after 1994. If NAFTA had only been successful in restoring Mexico's pre-1980 growth rates—when developmentalist economic policies were the norm—it would be a high-income country today. As far as political consequences go, had it not been for Mexico's long-term economic failure, including the 24 years since NAFTA, it is unlikely that immigration from Mexico would have become a major political issue in the United States since relatively few Mexicans would seek to cross the border (Weisbrot, et al., 2017). NAFTA produced modest effects for most U.S. workers, but an "important minority" of the population suffered substantial income losses and the distributional effects were larger than aggregate welfare effects (Hakobyan & McLaren, 2016). Migration and the decline of the domestic industrial sector were two of the main rallying cries in the populist insurgency of Donald Trump during the 2016 election campaign.

Some proponents of global governance would like to see delegation of national powers to international technocrats "operating without layers of political hacks" (Reinhart & Rogoff, 2008b) in a system of independent autonomous regulatory agencies solving what they see as mostly technical problems arising from uncoordinated decision-making in the global economy. Insulating policy-making in the similar vein to central bank-led monetary policy, a depoliticization of various spheres of policy by placing them in the hands of experts and managers rather than voters and politicians; in effect, a depoliticization of the world economy. The enthusiasm is mustered for a technocracy in the hands of the rarified meritocratic elites, the “more capable set of men,” rather than for the uncertainties of democracy. This type of instinct among globalization’s apostles seeks to constrain national economic policy-making by imposing rules-based discipline: its central hostility is not reserved for the state, but for politics, and by extension for democracy and the national form in which it is exercised. Alas, much like expending political capital on trade liberalization—which can produce meager results when average tariffs are already small and redistribution of income effects can swamp the net gain from trade (Rodrik, 2011, p. 57)—this carries the risk of causing widespread disillusionment and loss of public support for any kind of globalization. Unelected international institutional authority can undermine accountable national authority. The ongoing Greek crisis is primarily “about a colossal failure of accountability in international governance” as Ashoka Mody (2018) argues. International governance’s mechanisms are “presumed to rely on benign, technically sound decision-making bodies,” but this presumption is “far removed from reality” and “[p]olitics operates unchecked in the rarified technocratic realm within which international actors operate.” Failures of technocracy—which is of course not free of ideology—make for populist insurgencies. Furthermore, as Müller (2018) argues, technocracy and populism are not complete opposites—as they are often presented in public discourse—but are both anti-pluralist and anti-political ideologies that wish to circumvent the democratic process as they propose the one right answer: The technocrat seeks the one rational solution to any policy problem and the populist asserts to speak on behalf of the one authentic will of the people.

Establishing any scheme of democratic global governance requires significant political commitment, effort and experimentation with institutional arrangements, while a return into the nation-state framework is intuited—because of deep-seated socio-cultural support born out of long historical struggles—as the default that requires little engagement. While a resurgent nationalism may be leading the backlash, skepticism of moving towards global federalism is especially warranted by the neo-liberal era’s major cultural effect of disenchantment with mass politics as less of the world is governed by direct political rule. If the rarified elites driving internationalized political projects are not even Madisonian benevolent statesmen of Keynes’ pedigree, but just generalized amoral corporate interests it is reasonable to expect market integration will be the overriding goal on the agenda. Such projects consequently have dubious public support and are perforce constructed in a clandestine and obscure fashion, further undermining trust in politics. If a quest for market integration is at the core of international institutions, the roots of individual states lie in the historical processes of nationalism, democratization and the continuity of civic institutions engaged in the governance of the economy, which makes them a much superior venue for changing society through political participation of the masses. In the age of democracy, polities are not sustainable without widespread and deep-rooted support which takes expansive campaigns (or major calamities) to establish.

4.3.3 The pitfalls of harmonization and convergence

During UK's protracted exit out of the EU the UK's senior central banker acknowledged that globalization leads to imbalances of democracy and sovereignty that lead many people to lament "a loss of control" and identified the crux of the matter: "[C]ommon rules and standards are required for trade in goods, services and capital, but those rules cede—or at best pool—sovereignty. To maintain legitimacy, the process of agreeing those standards needs to be rooted in democratic accountability" (Carney, 2019). Despite the advancement of worldwide economic integration, diversity persists. National borders, even in the absence of direct protectionism impose significant transaction costs that derive from differences in standards, currencies, jurisdictions, social networks, and so on (Rodrik, 2000). Rodrik stresses the abundance of implicit contracts in the real world that require repeated interaction to become sustainable and are often embedded in social networks; group ties like ethnic networks have historically played an outsized role in facilitating economic exchange. National borders also demarcate institutional boundaries and their variety is a significant impediment to full economic integration. American, Scandinavian and Japanese institutions in labor markets, social protection, regulation, corporate governance, banking and finance are vastly different; there are sizable differences in labor-market and welfare-state institutions even within the European Union. Rodrik (2002) argues that this great diversity in institutional arrangements—which also renders hyper-globalization incompatible with democracy—serves a "real and useful" purpose as it sustains social contracts and allows low-income countries to embark on development that often requires heterodox, individual institutions. Development, he claims, happens though a sequence of relatively small-scale reforms and changes that address the most binding constraints to growth over time (Rodrik, 2005). There is also no reason to believe in the convergence of institutional arrangements. Historical institutionalists have argued that institutions are path-dependent (Mahoney, 2000); while others have posited that the world's institutional diversity may be the result of a mutually self-reinforcing equilibrium where the existence of an arrangement of institutions in one part of the world may need the existence of a different arrangement of institutions elsewhere (Acemoglu, Robinson, & Verdier, 2012).

If China had simply attempted institutional convergence with the rich world after 1978 it would have established private property rights, corporatized state enterprises, reduced import tariffs, eliminated quantitative restrictions on imports, etc. but it undertook few of these Washington Consensus-type reforms, and those it did eventually adopt it did so only after the era of high growth had already begun. The Chinese experience is not the exception but the standard way countries have transitioned to high growth: a narrow range of reforms that combine orthodoxy with domestic institutional innovations rather than comprehensive transformations that mimic best practice institutions of the rich countries (Rodrik, 2002). Some examples of the successful adopters of this strategy include South Korea and Taiwan in the 1960's, Mauritius in the 1970's, India in the 1980's, Chile in the 1980's. The instructive contrast is between Russia's transition, "engineered by the international economic institutions" (Stiglitz, 2002, p. 6), and the self-designed transition of China. The more successful alternative to categorical advocacy is focusing on country-specific bottlenecks, so for example the "growth diagnostics" framework (Hausmann, Rodrik, & Velasco, 2008) outlines a systematic process of identifying the most binding constraints on an economy; for example, countries that are too inward-oriented can use diverse ways of lifting that constraint as was done with export subsidies in South Korea and Taiwan, an export-processing zone in Mauritius and reduction of import barriers in Chile.

Common global standards are costly and may converge on the wrong set of regulations.[19] Even where standards are easiest to harmonize, as in products, there are myriad difficulties in practice. The dual quality food controversy in the EU along East-West lines is an example of how producers sell lower-quality product under the same brand and packaging within the same system of standards (European Commission, 2017). Labor standards differ vastly across the world. Organized labor's exercise of political can move wage levels up or down in any country by 40% or more (Rodrik, 1999). Unlike companies with increasingly global interests, trade unions are much more limited by national boundaries which diminishes their bargaining power and dilutes labor rights in developed countries; regulations that enforce societal norms on work exist everywhere and an individual in a uniform world labor market may end up accepting conditions that violate national norms (Rodrik, 2011, p. 190). Regulatory standards are public goods and specific nations inhabit different historical circumstances; different consumer preferences and divergent regulatory styles reflect dissimilar national assessments of risk and varying conceptions of the relationship between business to its stakeholders. These factors generate different standards, "none obviously superior to others" (Rodrik, 2018a). Regulatory convergence would basically forbid effective state engagement of the economy.

4.3.4 The enduring appeal of nationalism and its relationship with democracy

Based respectively on the doctrines of exclusivity and inclusivity, nationalism and democracy appear to be following competing logics; yet nationalism also gives humans a sense of belonging and fosters solidarity, trust, and participation, which are essential and conducive to democracy, leading to the opposite argument that they can also constitute complementary logics. Helbling (2009) argues that rather than following either of the logics fully their relation is a matter of degree and that nationalism and democracy should be understood as "mutually dependent logics" because "nationalism [defines] who is allowed to participate in a democratic system, and democracy constitutes a process during which the cultural boundaries of a nation are defined." In democracy political sovereignty is retained

[19] As was the case with the banking supervision accords Basel I (which encouraged short-term borrowing and are now viewed as having played a pivotal role in creating the Asian financial crisis) and Basel II (which relied on credit rating agencies and banks' own models to generate risk weights for capital requirements—eschewing inspections and external audits by placing emphasis on self-regulation, disclosure and transparency—is now viewed as having magnified systemic risk). Incidentally, the draft text of what would later become the Basel II regulations was written by the chief lobby group of the global banking industry (Tooze, 2018, p. 87). Different national preferences exist even for financial regulations (Rodrik, 2011, pp. 223, 224).

by "the people," and an argument can be made that a version of nationalism is hardwired into democratic politics as it addresses the question "who the people are" in democracies.

Appealing to national sentiment was critically important as a way of mobilizing society against communist regimes (Krastev, 2018) and with the ascension of figures like Orbán in Hungary and Kaczyński in Poland—who had played important roles in the events that fell the communist regimes but have now taken distinctively anti-liberal and anti-globalization positions—it is often argued that the 89' revolutions in eastern and central Europe were more nationalist than liberal in character (Kuper, 2016). Nationalists and liberals in Central and Eastern Europe had not only shared a common platform during the 1970's and 1980's but during the 19th century as well: The revolutions of 1848 were the first "social revolutions" of the modern era as well as being the "springtime of nations." This combination of social and national movements together has been termed "anti-systemic movements" by Wallerstein (2004, pp. 63-64) to highlight their shared features. Krastev (2018) argues that liberals may now dream of defeating nationalism just as nationalism had helped defeat communism, but while communism was "a radical political experiment," nationalism is "an organic part of any democratic political scene."

The Germans are unwilling to mutualize debt of the Eurozone; liberal Californians and New Yorkers chafe that their tax revenues are transferred to finance the conservative agendas of Alabama and Mississippi within the United States fiscal union. Such problems arise even in polities with strong collective identities, so we can envision the political difficulties of asking Danes, Argentinians and Malaysians to directly finance expenditures of Armenians, Moroccans and Cameroonians. Shared nationality not only promotes political participation, but it also provides the underpinning for an individual's commitment to their country and especially "an individual's willingness to support the welfare state" (Helbling, 2009). The basis for solidarity is trust. Miller (1995, pp. 90-91) maintains that for a democracy to function well, its citizens must trust each other: "[S]tate activity involves the furthering of goals which cannot be achieved without the voluntary co-operation of citizens." In order for these activities to succeed, "the citizens must trust the state, and they must trust one another to comply with what the state demands of them."

A stronger sense of global citizenship and cosmopolitan sentiments is unsurprisingly more pronounced among richer, more educated people who benefit from the increased opportunities for freedom of movement and investment. Conversely, attachment to the nation-state is generally much stronger (and global identities commensurately weaker) among individuals from lower social classes (Rodrik, 2011, p. 231). Modern companies have global interests, it is not surprising that their top employees hold cosmopolitan views. Piketty has documented (2018) that the voting patterns in post-war UK, France and the United States have shifted—partly explained by new dimensions of societal conflict and inequality that are globalization-induced—from class cleavage (low-income and low-education voters supporting left-wing internationalist socialist–labor–democratic parties and higher income-and-education voters supporting right-wing parties) to the current "multiple-elite" system (high-education voters support the left; high-income/wealth voters support the right) of mainstream competition between the intellectual elites (the Brahmin left) and the business elites (the merchant right) with the low education-and-income voters (with the left no longer offering a strong redistributive corporatist coalition[20]) turning to “populism”; the current trajectory of a decreasing vote of the high-income voters going to the right (foreshadowed in the 2016 U.S. and 2017 French presidential elections) may lead into an actual realignment between “globalist” (high-education, high-income) and “nativist” (low-education, low-income) political coalitions. Highly-skilled professionals and well-heeled investors can benefit from global opportunities but unskilled workers, especially in the richer West, see increased competition in a globalized world as to their detriment. Therefore, the construction of transnational political communities is often seen as a project of globalized elites designed to meet their needs, which helps explain the recent rise of anti-globalist right-wing populism in Europe and North America.

Political identities and attachments still strongly revolve around nations and states even though national identities are a fairly recent invention (Anderson B. R., 2006) and have emerged even in post-colonial states where there are other, competing identities. “Nationalism was the form in which democracy appeared in the world, contained in the idea of the nation as a butterfly in a cocoon” (Greenfeld, 1992, p. 10). And yet, if a democratic polity is “in principle unbounded” (Abizadeh, 2012), this implies that the boundaries are legitimized in the course of democratic contestation. Nations are products of politics and as such nations can always be the objects of new political projects. If democracy is a system in which people struggle over the question of how to organize themselves, the question of how cultural boundaries should be drawn and what constitutes the nation is also subsumed within these struggles. Human associations have tended towards ever-wider groupings from local and tribal to allegiance to city states and then nation-states, so it is likely a global consciousness is emerging, especially as global issues like climate change and inter-state nuclear war threaten everyone’s survival; but for immediate practical purposes in a world in which global norms have transpired only on a very narrow range of issues and considerable differences exist on the preferred institutional arrangements, it is sensible to conclude policies administered by the state with clear accountability delimitations may produce more results than global rule-making.

4.4 Re-empowering democracies within countries

Rodrik himself is in favor of sacrificing hyper-globalization. He deems the golden straitjacket solution feasible, but not desirable and the global federalism desirable, but not feasible. The seven recommendations by Rodrik (2011) that would alleviate the ongoing

[20] As they had after WWI, labor groupings pushed for higher wages, higher taxes on wealth and expanded social programs. Demands to control interest rates, prices, rents and capital flows, along with the call to expand the range of government activities were all added to this list after WW2 (Eichengreen, 2008, p. 107). Catastrophe generally curbs inequality and both world wars produced political coalitions with a strong representation of organized labor- often described as “corporatist” coalitions. (Chang, 2003, p. 19).

tensions and place globalization on safer foundations are (1) firmly embedding markets in systems of governance which support, stabilize, regulate and furnish them with legitimacy; (2) pursuing an agenda of moderate globalization: not obstinately harmonizing rules and wasting international cooperation on overly ambitious goals ending up with weak results of the lowest common denominator type and narrowing the maneuvering room of national governance into a reality of a "race to the bottom" in labor standards and corporate taxes to attract capital; (3) embracing a wide variety of national institutional arrangements and allowing for experimentation and evolution; (4) accepting the right of countries to protect their own social arrangements, regulations and institutions; the consanguine proposal (5) of preventing any one country or countries having a right to impose their institutions on others; (6) establishing clear rules of the multilaterally negotiated international economic arrangements, but also recognizing they must be limited in scope and depth; the goals of attaining the maximum globalization remaining consistent with maintaining space for diversity in national institutional arrangements which would invariably result in a moderate globalization; and finally (7) devising a system in which non-democratic countries are not accorded the same rights and privileges as democracies. Rodrik places primacy of national democratic decision-making as the basis of the international economic architecture.

Wolf (2005) similarly argues that states should remain the loci of political legitimacy and that supranational institutions should derive their authority from the states that belong to them. He concedes the WTO has already strayed from its primary function of promoting trade liberalization (Wolf, p.318) and favors creating regimes that include fewer countries, but contain higher standards; notes the risks of mismanaged liberalization of capital controls; and makes a case for permitting infant industry promotion in developing countries. Stiglitz (2002, p. 236) focuses on the dangers of capital market liberalization and the externalities short-term capital flows impose, and that is why he endorses interventions like the Tobin tax. Putting sand in the wheels of financial globalization would enhance the fiscal capacity of the state and regulating private finance can prevent crises. Increased global cooperation is needed even if a less comprehensive globalization is pursued: not least to avoid tax and regulatory competition (Summers, 2008b). Even campaigners for national democracies like Yanis Varoufakis who are trying to offer a political alternative to the predicament between the "globalist establishment" and "isolationist nationalism" contend the alternative must be an "authentic internationalism" (2017), which would include grand international projects like an "international New Deal" administered not through national economies but through partnerships of central and public investment banks that would pool idle global savings towards major investments and would require establishing a new international clearing union. Tooze (2019b) warns that counterposing a new vision of order on the anarchy of capital when faced with the "concentration of power, its constant shifting and the sheer volatility of oligopolistic capitalism" is unrealistic and progressive politics should rather "seek to gain influence over the lower levels and mechanisms of power where what passes for the regulation and governance of global capitalism actually takes place."

Removing transaction costs in the international economy necessitates removing national differences in social and economic arrangements, as well as minimizing the space for democratic decision-making at the national level. The clash between globalization and domestic social arrangements is a core feature of the global economy and were mass democracy empowered, it is quite likely national publics would demand more state sovereignty and a rejection or severe restrictions of many types of economic globalization. Even with restrictions, winners and losers invariably emerge in the distributional consequences of globalization as openness increases the returns to certain factors of production and reduces those of others and the mechanisms through which the latter can be compensated must exist; the most accountable way all stakeholders participate in designing these mechanisms is through mass democracy. The backlash to hyper-globalization is underway in many parts of the world as people's loyalties to their nation-states abide yet feel decision-making increasingly eluding not just themselves, but their countries as well; many consequently turn to populist authoritarian figures who often decry globalization only in its most visible manifestations like migration and culture. Only the pursuit of a thinner version of economic globalization can ensure the nation-state remains the most realistic and feasible platform for democratic politics that can offer more imaginative politics. Institutions must function not as facilitators of trade and movement of capital, but as ways to offset market pressures so as to enable reasonably free democratic choice, their goal to neutralize effects of market fluctuations ahead of democratic decisions. Neo-liberalism includes a critique of national sovereignty as the national projects of self-determination have the potential to destabilize the world economy by unrestrained state actors, but a totally borderless world is not the final aim as capital would still want an exit; the conspicuously divergent fates of labor and capital mobility, despite the promised benefits of the former and the dubious effects of the latter also indicate different flows are treated differently under neo-liberal globalization. Neo-liberalism's core is anti-political and it dislikes the nation-state especially as it is a mechanism for democratic power's excesses that threaten the totality of the system. I have claimed that the ultimate merit of the nation-state is that it is the best existing working vehicle for democratic politics: without it, democratic publics have no way of exercising control over the unfolding of globalization.

Opposition to globalization is often not to globalization per se—to other external sources of funds for financing own growth or to expansion into new markets—but to the particular set of doctrines that the international financial institutions have imposed, the Washington Consensus policies of deregulated financial flows, privatized services and escalating social inequality. And it's not just opposition to the policies themselves, but to the notion that there is one single set of policies that is the correct set for all societies under all circumstances (Stiglitz, 2002, p. 221). Governmental and international efforts to spur development have failed more often than they have succeeded, so it is improbable that there are policies that would succeed everywhere. Bairoch (1993, p. 164) believes that economic history shows that "there is no law or rule in economics that is valid for every period of history or for every economic structure." On the historical record alone, we should reject a one-size-fits-all hyper-globalization. There is a multiplicity of feasible, successful globalizations a country can pursue but all need a government committed primarily to the welfare of its state's populace. Globalization is not an inescapable force of nature, the mundane truth is that it is "an institution, an artefact of deliberate political and legal construction" (Tooze, 2018, p. 575). After all, the Bretton Woods institutions were world-scale projects of planning whose creators subjugated international economic integration to national economic management and democratic politics. Yet the Bretton Woods compromise was also not a result of all relevant world powers coming together to reconcile their interests, but a gathering of wartime allies and its success was a function of unparalleled American power. The question then arises whether hegemonic power is necessary for a stable system. Ominously, Wallerstein (2004, p. 58) notes that hegemony has historically occurred in the aftermath of a long period of relative breakdown of world order in the form of conflicts that implicated all the major economic centers of the world economy. History suggests a new order will not come from enlightened co-operation by the world powers, but from crude calculations of power, material constraints and an emerging stakeholder's power grab during a period of extended crisis.

CONCLUSION

This master's thesis analyzed a political trilemma of the world economy which claims that international economic integration, the sovereignty of states and democracy can't be pursued simultaneously and one of the three must be forfeited. The three possible solutions to the predicament are the golden straitjacket solution of limiting what the state can pursue by making it responsive exclusively to the needs of the world economy (rather than the democratic public within it) with the world tending towards this arrangement since the neo-liberal turn; a global federalism wherein nation-state sovereignty disappears into a unitary planet-encompassing polity, and a Bretton Woods-like system with judicious limits on globalization. The three major globalization arrangements of the modern era dealt with the conflict differently: the age of the gold standard proved to be incompatible with emerging democracy; Bretton Woods' limited globalization era ultimately buckled under hyper-globalization pressures and shifted the global order away from the democracy vertex into the neo-liberal era.

I argued for the need to forswear hyper-globalization and reinforce national democracies by reasoning that liberalized capital flows impose undue restrictions on democracy. Global federalism is not yet feasible: the convergence of institutions and standards would result in a regime of ineffective and weak rules due to the democracy constraint. International integration is driven by various stakeholders and institutional outcomes reflect their respective power which is invariably going to lead to unjust arrangements in a world with no global demos and institutions able to rectify these power imbalances. During various eras of globalization, developing states having self-government has generally led to their economic convergence with the richest parts of the world while societies ruled by outside forced were led to economic divergence; in other words, a state's ability to retain enough sovereignty to fend off imposition of economic policy from without has been crucial to economic development. Long historical struggles have resulted in the ideas of nationalism and the institutions of the state possessing a degree of popular legitimacy and the nation remains a convenient boundary for economic policy as such political legitimacy is necessary for effective redistribution and planning. Nevertheless, robust international cooperation and strong institutions need not undermine state sovereignty but can reinvigorate national democracies, while at the same time aiding in constructing a global public.

Inequality is primarily a function of political power and as such it is unlikely that great inequality would ever be tolerated in a truly democratic society if we are to believe Aristotle and Madison. Madison's version of democracy has the forms but eviscerates the content by elevating procedural justice while obscuring the real levers of societal power, it can even co-exist with sovereign states and economic globalization. Not all power asymmetries that shape the economy are market imbalances resulting from informational asymmetries or barriers to entry, many are due to political imbalances and policies that counter them should be pursued not just if they improve aggregate economic performance, but for egalitarian distributional reasons. If we accept the view that humans are rational, self-interested, utility-maximizing actors we should seek to create political arrangements in such way as to extend substantive equality to all individuals in a society without radical power asymmetries; that is the democracy of Aristotle's vision that can be pursued in sovereign states.

REFERENCE LIST

1. Abizadeh, A. (2012). On the Demos and Its Kin: Nationalism, Democracy, and the Boundary Problem. *American Political Science Review 106*(4), 867-882.
2. Acemoglu, D., & Robinson, J. (2001). A Theory of Political Transitions. *American Economic Review, 91*, 938-63.
3. Acemoglu, D., Robinson, J. A., & Verdier, T. (2012). Can't We All Be More Like Scandinavians? Asymmetric Growth and Institutions in an Interdependent World. *CEPR Discussion Paper No. DP9113*.
4. Anderson, B. R. (2006). *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (Revised Edition). London, United Kingdom: Verso.
5. Anderson, P. (1996, January 4). Under the Sign of the Interim. *London Review of Books, 18*(1), pp. 13-17.
6. Anderson, P. (2002a, December 12). The Cardoso Legacy. *London Review of Books, 24*(24), pp. 18-22.
7. Anderson, P. (2002b, October 17). Confronting Defeat. *London Review of Books, 24*(20), pp. 10-17.
8. Anderson, P. (2007, January 25). Russia's Managed Democracy. *London Review of Books, 29*(2), pp. 3-12.
9. Anderson, P. (2011, March 31). Lula's Brazil. *London Review of Books 33*(7), pp. 3-12.

10. Anderson, P. (2017a, March). Why the system will still win. *Le monde diplomatique.* Retrieved 14th May 2019 from https://mondediplo.com/2017/03/02brexit
11. Anderson, P. (2017b, May-June). The Center Can Hold. *New Left Review.* Retrieved 14th May 2019 from https://newleftreview.org/II/105/perry-anderson-the-centre-can-hold
12. Aristotle. (1928). *Aristotle's Nicomachean Ethics (translated by W.D.Ross).* Retrieved 14th May 2019 from http://classics.mit.edu/Aristotle/nicomachaen.html
13. Aristotle. (1885). *Aristotle's Politics (translated by Benjamin Jowett).* Retrieved 14th May 2019 from http://classics.mit.edu/Aristotle/politics.html
14. Arrighi, G. (1994). *The Long Twentieth Century: Money, Power, and the Origins of Our Times.* London: Verso.
15. Bairoch, P. (1982). International Industrialization Levels from 1750 to 1980. *Journal of European Economic History 11*(2), 269-325.
16. Bairoch, P. (1993). *Economics and World History: Myths and Paradoxes.* Chicago: University of Chicago Press.
17. Barber, T. (2011, November 11). Eurozone turmoil: Enter the technocrats. *Financial Times*. Retrieved 14th May 2019 from https://www.ft.com/content/93c5cb36-0c92-11e1-a45b-00144feabdc0
18. Barber, T. (2015, February 2). Greece finance minister reveals plan to end debt stand-off. *Financial Times.* Retrieved 14th May 2019 from https://www.ft.com/content/7af4252c-ab03-11e4-91d2-00144feab7de
19. Barro, R. J. (1999). Determinants of democracy. *Journal of Political Economy 107*(S6), 158-183.
20. Berlin, I. (1969). Two Concepts of Liberty. In I. Berlin, *Four Essays on Liberty.* London: Oxford University Press.
21. Bernays, E. L. (1928). *Propaganda.* New York: Horace Liverlight.
22. Bernays, E. L. (1947, March). The Engineering of Consent. *Annals of the American Academy of Political and Social Science No. 250*, p. 113.
23. Bhagwati, J. N. (1998, May 1). The Capital Myth: The Difference between Trade in Widgets and Dollars. *Foreign Affairs*, *77*(3).
24. Bickerton, C., Glasman, M., & Tuck, R. (2018, June 4). Brexit is essential for the UK to free itself from market rule. *New Statesman.* Retrieved 14th May 2019 from https://www.newstatesman.com/politics/uk/2018/06/brexit-essential-uk-free-itself-market-rule
25. Bohman, J., & Rehg, W. (Eds.). (1997). *Deliberative Democracy: Essays on Reason and Politics.* Cambridge, Massachusetts: The MIT Press.
26. Boix, C. (2003). *Democracy and Redistribution.* Cambridge: Cambridge University Press.
27. Bordo, M. (1993). The Bretton Woods International Monetary System: An Historical Overview. In M. D. Bordo, & B. Eichengreen (Eds.), *A Retrospective on the Bretton Woods System: Lessons for Monetary Reform* (pp. 3-98). Chicago: Chicago University Press.

28. Bordo, M., & James, H. (2015, March). Capital Flows and Domestic and International Order: Trilemmas from Macroeconomics to Political Economy and International Relations. *NBER Working Paper No. 21017*.
29. Bordo, M., & Rockoff, H. (1996, June). The Gold Standard as a "Good Housekeeping Seal of Approval". *The Journal of Economic History, 56*(2), pp. 389-428.
30. Broner, F., & Ventura, J. (2016). Rethinking the Effects of Financial Globalization. *Quarterly Journal of Economics*, 1497-1542.
31. Bullough, O. (2018, September 7). The real Goldfinger: the London banker who broke the world (Adapted from Moneyland: Why Thieves & Crooks Now Rule The World & How to Take It Back). *The Guardian.* Retrieved 14th May 2019 from https://www.theguardian.com/news/2018/sep/07/the-real-goldfinger-the-london-banker-who-broke-the-world
32. Camdessus, M. (1998, March 9). *Capital Account Liberalization and the Role of the Fund, remarks at the IMF Seminar on Capital Account Liberalization*. Retrieved 14th May 2019 from http://www.imf.org/en/news/articles/2015/09/28/04/53/sp030998
33. Canova, T. A. (1995). The Transformation of U.S. Banking and Finance: From Regulated Competition to Free-Market Receivership. *Brooklyn Law Review, 60*(4), 1295-1354.
34. Canova, T. A. (1999). Banking and Financial Reform at the Crossroads of the Neoliberal Contagion. *American University International Law Review 14*(6), 1571-1645.
35. Carney, M. (2019, February 19). *The Global Outlook.* Retrieved 14th May 2019 from Financial Times event in Frobisher Hall: https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/the-global-outlook-speech-by-mark-carney.pdf?la=en&hash=6725EA590D46F11FBFDFF4744E4E90158D4BCECE
36. Chang, H.-J. (2003). *Globalization, Economic Development and the Role of the State.* London, United Kingdom: Zed Books Ltd.
37. Chomsky, N. (1992). Force and Opinion. In *Deterring Democracy.* London: Vintage.
38. Chomsky, N. (2003). That Dangerous Radical Aristotle. In N. Chomsky, D. Barsamian, & A. Naiman (Eds.), *The Common Good.* Tuscon, Arizonia: Odonian Press.
39. Chomsky, N. (2011). Democracy and Development: Their Enemies, Their Hopes. In *Hopes and Prospects.* London, United Kingdom: Penguin Books.
40. Chomsky, N. (2014, January 7). *What is the Common Good?* Retrieved 14th May 2019 from chomsky.info, adapted from a lecture by Noam Chomsky at Columbia University on December 6, 2013: https://chomsky.info/20140107/
41. Christiano, T. (2006). *Democracy.* Retrieved 14th May 2019 from Stanford Encyclopedia of Philosophy: https://plato.stanford.edu/entries/democracy/
42. Clarkson, A. (2019, March 19). Enough With the Kitsch. *Die Zeit.* Retrieved 14th May 2019 from https://www.zeit.de/politik/ausland/2019-03/europaean-union-social-order-brexit-migration-english

43. Clayton, E. (2005). *Aristotle: Politics.* Retrieved 14th May 2019 from Internet Encyclopedia of Philosophy: https://www.iep.utm.edu/aris-pol/
44. Clemens, M. A. (2011). Economics and Emigration: Trillion-Dollar Bills on the Sidewalk? *Journal of Economic Perspectives, 25*(3), 83-106.
45. Cohen, J., & Sabel, C. (2006). Global Democracy? *New York University Journal of International Law and Politics 37*(4), 763-797.
46. Columbia Law School. (2002, May 29). *America's Knowledge of the U.S. Constitution.* Retrieved 14th May 2019 from A Columbia Law Survey: http://www2.law.columbia.edu/news/surveys/survey_constitution/
47. Crozier, M. J., Huntington, S. P., & Watanuki, J. (1975). *The Crisis of Democracy.* New York University Press.
48. Cullen T., C. (Ed.). (1986). *The Papers of Thomas Jefferson* (Vols. 22, 6. August 1791 - 31. December 1791). Princeton: Princeton University Press.
49. Dahl, R. A. (1971). *Polyarchy: Participation and Opposition.* New Haven, CT: Yale University Press.
50. Dattel, G. (2010). Cotton, the Oil of the Nineteenth Century. *The International Economy*, 60-63.
51. Deaton, A., & Case, A. (2015, September). *Rising morbidity and mortality in midlife among white non-Hispanic Americans in the 21st century.* Princeton University, Princeton, NJ: Woodrow Wilson School of Public and International Affairs and Department of Economics.
52. Demetriades, P. O. (2018, May 30). Italy and the euro: Sergio Mattarella has opened a window of opportunity to save the single currency. *The Conversation.* Retrieved 14th May 2019 from https://theconversation.com/italy-and-the-euro-sergio-mattarella-has-opened-a-window-of-opportunity-to-save-the-single-currency-97428
53. DeSilver, D. (2014, October 9). *For most workers, real wages have barely budged for decades*. Retrieved 14th May 2019 from Pew Research Center: http://www.pewresearch.org/fact-tank/2014/10/09/for-most-workers-real-wages-have-barely-budged-for-decades/
54. Eichengreen, B. J. (2004). *Capital Flows and Crises.* Cambridge, MA: The MIT Press.
55. Eichengreen, B. J. (2008). *Globalizing Capital: A History of the International Monetary System (2nd ed.).* Princeton, NJ: Princeton University Press.
56. European Commission. (2017, September 26). *Dual quality food products: Tackling unfair practices*. Brussels, Belgium.
57. Evans-Pritchard, A. (2016, June 13th). Brexit vote is about the supremacy of Parliament and nothing else: Why I am voting to leave the EU. *The Daily Telegraph* Retrieved 14th May 2019 http://www.telegraph.co.uk/business/2016/06/12/brexit-vote-is-about-the-supremacy-of-parliament-and-nothing-els/
58. Ferguson, N. (2003). *Empire: The Rise and Demise of the British World Order and the Lessons for Global Power*. New York: Basic Books.
59. Ferguson, T. (1995). *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-driven Political Systems.* Chicago: University of Chicago Press.

60. Freedom House. (2018). *Freedom in the World 2018: Democracy in Crisis.* Freedom House.
61. Friedman, T. L. (2000). *The Lexus and the Olive Tree.* New York: Anchor Books.
62. Fukuyama, F. (1992). *The End of History and the Last Man.* New York: Free Press.
63. Gallup World Poll. (2017, June 8). *Number of Potential Migrants Worldwide Tops 700 Million*. Retrieved 14th May 2019 from Gallup World Poll: http://news.gallup.com/poll/211883/number-potential-migrants-worldwide-tops-700-million.aspx
64. Gearty, C. (2013). *Liberty and Security.* Malden, Massachusetts: Polity Press.
65. Geddes, B. (2011, July 7). *What Causes Democratization*. (Oxford University Press) Retrieved 14th May 2019 from The Oxford Handbook of Political Science: http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199604456.001.0001/oxfordhb-9780199604456-e-029
66. Gellner, E. (1983). *Nation and Nationalism.* Ithaca, NY: Cornell University Press.
67. Gilens, M., & Page, B. (2014). Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens. *Perspectives on Politics, 12*(3), 564-581.
68. Giles, C. (2017, September 18). Brexit is an example of deglobalisation, says Carney. *Financial Times.* Retrieved 14th May 2019 from https://www.ft.com/content/9b37cf6e-9c82-11e7-9a86-4d5a475ba4c5
69. Goldman Sachs. (2002). *Goldman Sachs Financial Workbench Emerging Market Strategy: The Lulameter.* Retrieved 14th May 2019 from University of Miami Business School: http://moya.bus.miami.edu/~sandrade/Lulameter_GS.pdf
70. Grayson, W. J. (1856). *The Hireling and the Slave.* Retrieved 14th May 2019 from https://antislavery.eserver.org/proslavery/graysonhireling/graysonhireling
71. Greenfeld, L. (1992). *Nationalism: Five Roads to Modernity.* Cambridge, MA: Harvard University Press.
72. Grim, R., & Siddiqui, S. (2013, January 8). Call Time For Congress Shows How Fundraising Dominates Bleak Work Life. *HuffPost.* Retrieved 14th May 2019 from https://www.huffingtonpost.com/2013/01/08/call-time-congressional-fundraising_n_2427291.html
73. Hakobyan, S., & McLaren, J. (2016). Looking for Local Labor Market Effects of NAFTA. *Review of Economics and Statistics, 98*(4), 728-741.
74. Hausmann, R., Rodrik, D., & Velasco, A. (2008). Growth Diagnostics. In J. Stiglitz, & N. Serra, *The Washington Consensus Reconsidered: Towards a New Global Governance* (p. Chapter 15). New York: Ofxord University Press.
75. Helbling, M. (2009). Nationalism and Democracy: Competing or Complementary Logics? *Living Reviews in Democracy 1*, 1-14.
76. Hendrikse, R. (2018). Neo-illiberalism. *Geoforum, 95*, 169-172.
77. Hendrikse, R., & Fernandez, R. (2019, January). Offshore Finance How Capital Rules the World. In *State of Power 2019.* TNI. Retrieved 14th May 2019 from State of Power 2019: http://longreads.tni.org/state-of-power-2019/offshore-finance/

78. Higgott, R. (2018). Globalism, Populism and the Limits of Global Economic Governance. *Journal of Inter-Regional Studies: Regional and Global Perspectives 1*, 2-23.
79. Hobsbawm, E. J. (1995). *The Age of Extremes: The Short Twentieth Century*. London, United Kingdom: Abacus.
80. Hobsbawm, E. J. (1996). *The Age of Revolution: 1789-1848*. New York: Vintage Books.
81. Hobsbawm, E. J. (2000a). *The Age of Capital: 1848-1875*. London, UK: Phoenix Press.
82. Hobsbawm, E. J. (2000b). *The Age of Empire: 1875-1914*. London, United Kingdom: Phoenix Press.
83. Horn, H., Mavroidis, P. C., & Sapir, A. (2009). Beyond the WTO? An anatomy of EU and US preferential trade agreements. *Bruegel Blueprint Series : Bruegel Institute*.
84. Horwitz, M. J. (1977). The Rule of Law: An Unqualified Human Good? *Yale Law Journal, vol. 86*, 561-566.
85. Hume, D. (1987). Part I, Essay 4: On The First Principles of Government. In D. Hume, *Essays Moral, Political, Literary, edited and with a Foreword, Notes, and Glossary by Eugene F. Miller, with an appendix of variant readings from the 1889 edition by T.H. Green and T.H. Grose, revised edition.* Indianapolis: Liberty Fund.
86. Inglehart, R. (2003). How Solid is Mass Support for Democracy—And How Can We Measure It? *PS: Political Science & Politics, 36*(1), 51-57.
87. International Labour Organization, Regional Office for Arab States. (2017). *Employer-migrant worker relationships in the Middle East: exploring scope for internal labour market mobility and fair migration (White paper; Feb. 2017).* Beirut: ILO.
88. International Organization for Migration. (2017). *World Migration Report 2018*. Geneva, Switzerland: IOM Publications.
89. Jefferson, T. (1813, October 28). *Letter to John Adams. Library of Congress.* Retrieved 14th May 2019 from https://www.loc.gov/item/mtjbib021548/
90. Johnson, L., Sachs, L., & Sachs, J. (2015). *Invest-State Dispute Settlement, Public Interest and U.S. Domestic Law*. Columbia Center for Sustainable Development, Columbia University.
91. Judah, B. (2018, October 8). Crashed and Burning. *The American Interest.* Retrieved 14th May 2019 from https://www.the-american-interest.com/2018/10/08/crashed-and-burning/
92. Kallis, A. (2018). Populism, Sovereigntism, and the Unlikely Re-Emeregence of the Territorial Nation-State. *Fudan Journal of the Humanities and Social Sciences 11*(3), 285-302.
93. Knutsen, T. L. (1999). *The Rise and Fall of World Orders*. Manchester: Manchester University Press.
94. Krastev, I. (2018, July 11). Central Europe is a lesson to liberals: don't be anti-nationalist. *The Guardian.* Retrieved 14th May 2019 from

https://www.theguardian.com/commentisfree/2018/jul/11/central-europe-lesson-liberals-anti-nationalist-yugoslavia-poland-hungary

95. Krugman, P. (1999, October 10). O Canada – A Neglected Nation Gets its Nobel. *Slate Magazine.* Retrieved 14th May 2019 from http://www.slate.com/articles/business/the_dismal_science/1999/10/o_canada.html
96. Kuper, S. (2016, November 3). The long shadow of 1989. *Financial Times*. Retrieved 14th May 2019 from https://www.ft.com/content/fb29e2da-a085-11e6-891e-abe238dee8e2
97. Levada Center. (2017, October). *Approval rating for V.V. Putin.* Retrieved 14th May 2019 from Levada Center: https://www.levada.ru/en/ratings/
98. Lippmann, W. (1922). *Public Opinion.* New York: Harcourt, Brace and Co.
99. Lippmann, W. (1993). *The Phantom Public*. New Brunswick, NJ: Transaction Publishers.
100. Lipset, S. M. (1959). Some Social Requisites of Democracy: Economic Development and Political Legitimacy. *American Political Science Review, 53,* 69-105.
101. Littell, E., & Littell, R. S. (Eds.). (1846). *Littell's Living Age, Volume 8.* T.H. Carter & Company.
102. Lord Ashcroft Polls. (2016, June 24). *How the United Kingdom Voted... and why*. Retrieved 14th May 2019 from http://lordashcroftpolls.com/2016/06/how-the-united-kingdom-voted-and-why/
103. Madison, J. (1787, November 22). The Federalist Papers No. 10: "The Same Subject Continued: The Union as a Safeguard Against Domestic Faction and Insurrection.". *New York Daily Advertiser*. Retrieved 14th May 2019 from http://avalon.law.yale.edu/18th_century/fed10.asp
104. Mahon, J. E. (1996). *Mobile Capital and Latin American Development.* University Park, Pa.: Pennsylvania State University Press.
105. Mahoney, J. (2000). Path Dependence in Historical Sociology. *Theory and Society 29*(4), 507-548.
106. Martin, J. (2013, November 21). Were we bullied? *London Review of Books, 35*(22), pp. 16-18.
107. Mattarella, S. (2018, May 27). *Declaration by the President of the Republic Sergio Mattarella at the end of consultations with Professor Giuseppe Conte.* Retrieved 14th May 2019 from Speeches and documents of the Presidency of Sergio Matarella: http://www.quirinale.it/elementi/Continua.aspx?tipo=Discorso&key=835
108. Merriman, J. M. (2007). A Nation? Peasants, Language and French Identity. *France Since 1871*. Open Yale Courses.
109. Milanović, B. (2015). Global Inequality of Opportunity: How Much of Our Income Is Determined by Where We Live? *The Review of Economics and Statistics, 97*(2), 452-460.
110. Milanović, B. (2016, April 20). There is a trade-off between citizenship and migration. *Financial Times*. Retrieved 14th May 2019 from https://www.ft.com/content/2e3c93fa-06d2-11e6-9b51-0fb5e65703ce

111. Miller, D. (1995). *On Nationality*. Oxford: Oxford University Press.
112. Mishkin, F. S. (2006). *The Next Great Globalization: How Disadvanataged Nations can Harness their Financial Systems to Get Rich.* Princeton, NJ: Princeton University Press.
113. Mody, A. (2018, September 1). *The IMF abetted the European Union's subversion of Greek democracy*. Retrieved 14th May 2019 from Open Democracy: https://www.opendemocracy.net/can-europe-make-it/ashoka-mody/imf-abetted-european-union-s-subversion-of-greek-democracy
114. Moore, M., & Ramsay, G. (2017). *UK media coverage of the 2016 EU referendum campaign.* The Policy Institute at King's College London.
115. Mounk, Y. (2018). *The People vs. Democracy: Why Our Freedom Is in Danger and How to Save It.* Cambridge, Massachusetts: Harvard University Press.
116. Mudde, C. (2004). The Populist Zeitgeist. *Government and Opposition 39*, 542-563.
117. Müller, J.-W. (2018, June 8). Italy: The Bright Side of Populism? The New York Review of Books. Retrieved 14th May 2019 from https://www.nybooks.com/daily/2018/06/08/italy-the-bright-side-of-populism/
118. Mundell, R. A. (1963). Capital mobility and stabilization policy under fixed and flexible exchange rates. *Canadian Journal of Economic and Political Science 29*(4), pp. 475–485.
119. Nelson, R. R. (2007). The Changing Institutional Requirements for Technological and Economic Catch-up. *International Journal of Technological Learning, Innovation and Development 1*(1), 4-12.
120. Niebuhr, R. (1932). *Moral Man and Immoral Society: A Study in Ethics and Politics.* New York: C. Scribner's.
121. Obstfeld, M., & Taylor, A. (1997). The Great Depression as a Watershed: International Capital Mobility over the Long Run. *NBER Working Paper N. 5960, NBER, Cambridge: MA.*
122. O'Connell, J. (2018, January 31). *As Amazon headquarters race heats up, concerns about a subsidy war grow*. *The Washington Post.* Retrieved 14th May 2019 from https://www.washingtonpost.com/news/business/wp/2018/01/31/as-amazon-headquarters-race-heats-up-concerns-about-a-subsidy-war-grow/?utm_term=.28389dd737a8
123. Ostry, J., Ghosh, A., Habermeier, K., Chamon, M., Qureshi, M., & Reinhart, D. (2010, February 19). *Capital Inflow: The Role of Controls.* Retrieved 14th May 2019 from International Monetary Fund Staff Position Note 10/04: http://www.imf.org/external/pubs/ft/spn/2010/spn1004.pdf
124. O'Toole, F. (2016, June 19). Brexit is being driven by English nationalism. And it will end in self-rule. *The Guardian*. Retrieved 14th May 2019 from https://www.theguardian.com/commentisfree/2016/jun/18/england-eu-referendum-brexit
125. Palan, R. (2002). Tax Havens and the Commercialization of State Sovereignty. *International Organization, 56*(1), 151-176.

126. Palley, T. (2017). The fallacy of the globalization trilemma: reframing the political economy of globalization and implications for democracy. *FMM Working Paper from IMK at the Hans Boeckler Foundation, Macroeconomic Policy Institute*.
127. Pew Research Center. (June 2017). *Post-Brexit, Europeans More Favorable Toward EU.*
128. Pew Research Center. (October 2017). *Globally, Broad Support for Representative and Direct Democracy.*
129. Piketty, T. (2018, March (revised version)). Brahmin Left vs Merchant Right: Rising Inequality and the Changing Structure of Political Conflict (Evidence from France, Britain and the US, 1948-2017). *WID.world working paper N° 2018/7*.
130. Polanyi, K. (2001). *The Great Transformation: The Political and Economic Origins of Our Time* (2nd ed.). Boston, MA: Beacon Press.
131. Pomeranz, K. (2000). *The Great Divergence: China, Europe, and the Making of the Modern World Economy.* Princeton, NJ: Princeton University Press.
132. Prestowitz, C. V. (2016, June/July/August). Free Trade is Dead. *Washington Monthly*.
133. Pritchett, L. (1997). Divergence, Big Time. *The Journal of Economic Perspectives, 11*(3) , 3-17.
134. Ranasinghe, D., & Ramnarayan, A. (2018, May 29). Italian bonds suffer worst day in more than 25 years. *Reuters*. Retrieved 14th May 2019 from https://www.reuters.com/article/us-eurozone-bonds/italian-bonds-suffer-worst-day-in-more-than-25-years-idUSKCN1IU16G
135. Reinhart, C. M., & Rogoff, K. S. (2008a, March). This Time is Different: A Panoramic View of Eight Centuries of Financial Crises. *NBER Working Paper No. 13882*.
136. Reinhart, C. M., & Rogoff, K. S. (2008b, November 18). Regulation should be international. *Financial Times*. Retrieved 14th May 2019 from https://www.ft.com/content/983724fc-b589-11dd-ab71-0000779fd18c
137. Rey, H. (2015, May). Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence. *NBER Working Paper No. 21162*.
138. Rodrik, D. (1999). Democracies Pay Higher Wages. *Quarterly Journal of Economic, 114*(3), 707-738.
139. Rodrik, D. (2000). How Far Will International Economic Integration Go? *Journal of Economic Perspectives 14*, 177–86.
140. Rodrik, D. (2002, August). Feasible Globalizations. *NBER Working Paper No. 9129*.
141. Rodrik, D. (2005). Growth Strategies. In P. Aghion, & S. Durlauf, *Handbook of Economic Growth* (p. vol. 1A). North-Holland.
142. Rodrik, D. (2007, June 27). *The inescapable trilemma of the world economy*. Retrieved 14th May 2019 from Dani Rodrik's Blog: http://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html
143. Rodrik, D. (2011). *The Globalization Paradox: Democracy and the Future of the World Economy.* New York, NY: W.W. Norton & Company.
144. Rodrik, D. (2018a). What Do Trade Agreements Really Do? *Journal of Economic Perspectives, 32*(2), 73-90.

145. Rodrik, D. (2018b). Populism and the Economics of Globalization. *Journal of International Business Policy*.
146. Rodrik, D. (2018c, February 13). The Double Threat to Liberal Democracy. *Project Syndicate.* Retrieved 14th May 2019 from https://www.project-syndicate.org/commentary/double-threat-to-liberal-democracy-by-dani-rodrik-2018-02
147. Rodrik, D., & Subramanian, A. (2009, March). Why Did Financial Globalization Disappoint? *IMF Staff Papers, 56*(1), pp. 112-138.
148. Romero, S. (2002, October 12). Wall Street and Brazil Are Far Apart on Outlook. *The New York Times.* Retrieved 14th May 2019 from https://www.nytimes.com/2002/10/12/business/wall-street-and-brazil-are-far-apart-on-outlook.html
149. Rothkopf, D. J. (1999, March 8). Whistle-Stops on Wall Street. *The New York Times* Retrieved 14th May 2019 from https://www.globalpolicy.org/component/content/article/172/30359.html
150. Ruggie, J. G. (1982). International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order International Organization. *International Organization*, *36*(2), 379-415.
151. Rutland A., R., & Mason A., T. (Eds.). (1983). *The Papers of James Madison* (Vols. 14; 6. April 1791- 16. March 1793). Charlottesville: University Press of Virginia.
152. Sandbu, M. (2015, August 9). Democracy at the heart of fight for Greece. *Financial Times.* Retrieved 14th May 2019 from https://www.ft.com/content/d64ba252-3d2e-11e5-bbd1-b37bc06f590c
153. Scott, R. E., & Ratner, D. (2005). *NAFTA's Cautionary Tale.* Washington D.C.: Economic Policy Institute.
154. Slobodian, Q. (2018a). *Globalists: The End of Empire and the Birth of Neoliberalism.* Cambridge, MA: Harvard University Press.
155. Slobodian, Q. (2018b, October 22). Trump, Populists and the Rise of Right-Wing Globalization. *The New York Times*. Retrieved 14th May 2019 from https://www.nytimes.com/2018/10/22/opinion/trump-far-right-populists-globalization.html
156. Smith, A. (1976). *An Inquiry into the Nature and Causes of the Wealth of Nations* (Glasgow Edition of the Works and Correspondence of Adam Smith ed.). (R. Campbell, & A. Skinner, Eds.) Oxford University Press.
157. Stiglitz, J. E. (2002). *Globalization and Its Discontents.* London, United Kingdom: Penguin Books.
158. Stiglitz, J. E. (2007). *Making Globalization Work.* London, United Kingdom: Penguin Books.
159. Stiglitz, J. E. (2013). *The Price of Inequality.* London, United Kingdom: Penguin Books.
160. Story, L. (2012, December 1). As Companies Seek Tax Deals, Governments Pay High Price. *The New York Times*. Retrieved 14th May 2019 from

http://www.nytimes.com/2012/12/02/us/how-local-taxpayers-bankroll-corporations.html

161. Story, L., Thomas, L. J., & Schwart, N. D. (2010, February 13). Wall St. Helped to Mask Debt Fueling Europe's Crisis. *The New York Times.* Retrieved 14th May 2019 from https://www.nytimes.com/2010/02/14/business/global/14debt.html
162. Stotzky, I. P. (1997). *Silencing the Guns in Haiti: The Promise of Deliberative Democracy*. Chicago: University of Chicago Press.
163. Summers, L. H. (2008a, April 27). America needs to make a new case for trade. *Financial Times.* Retrieved 14th May 2019 from https://www.ft.com/content/0c185e3a-1478-11dd-a741-0000779fd2ac
164. Summers, L. H. (2008b, May 4). A strategy to promote healthy globalisation. *Financial Times.* Retrieved 14th May 2019 from https://www.ft.com/content/999160e6-1a03-11dd-ba02-0000779fd2ac
165. Summers, L. H. (2016, July 10). Voters deserve responsible nationalism not reflex globalism. *Financial Times.* Retrieved 14th May 2019 from https://www.ft.com/content/15598db8-4456-11e6-9b66-0712b3873ae1
166. Tharoor, S. (2017). *Inglorious Empire*. London, UK: Penguin.
167. The Avalon Project at the Yale Law School. (1996). *Notes on the Debates in the Federal Convention: Tuesday June 26, 1787*. Retrieved 14th May 2019 from Documents in Law, History and Diplomacy: http://avalon.law.yale.edu/18th_century/debates_626.asp
168. The Avalon Project at the Yale Law School. (1996). *Notes on the Debates in the Federal Convention: Tuesday August 7, 1787*. Retrieved 14th May 2019 from Documents in Law, History and Diplomacy: http://avalon.law.yale.edu/18th_century/debates_807.asp
169. The Avalon Project at the Yale Law School. (1996). *Notes on the Debates in the Federal Convention: Wednesday June 13, 1787*. Retrieved 14th May 2019 from Documents in Law, History and Diplomacy: http://avalon.law.yale.edu/18th_century/debates_613.asp
170. The Avalon Project at the Yale Law School. (1996). *Notes on the Secret Debates of the Federal Convention of 1787*. Retrieved 14th May 2019 from Documents in Law, History and Diplomacy: http://avalon.law.yale.edu/18th_century/yates.asp
171. Thompson, H. (2018, March 8). Want to Understand What Is Wrong With Europe? Look at Italy. *The New York Times.* Retrieved 14th May 2019 from https://www.nytimes.com/2018/03/08/opinion/italy-europe-election.html
172. Thompson, H. (2019, March). Brexit Forever. *History Today, 69*(3). Retrieved 14th May 2019 from https://www.historytoday.com/archive/behind-times/brexit-forever
173. Tobin, J. (1978, June/July). A Proposal for Monetary Reform. *Eastern Economic Journal Vol. IV No. 3-4,* 153-159.
174. Tooze, A. (2017, January 5). A General Logic of Crisis. [Review of the book How Will Capitalism End?]. *London Review of Books, 39*(1), pp. 3-8.

175. Tooze, A. (2018). *Crashed: How a Decade of Financial Crises Changed the World.* New York: Viking.
176. Tooze, A. (2019a, January 30). Everything You Know About Global Order Is Wrong. *Foreign Policy*. Retrieved 14th May 2019 from https://foreignpolicy.com/2019/01/30/everything-you-know-about-global-order-is-wrong/
177. Tooze, A. (2019b, February 9). *Framing Crashed (10): "A New Bretton Woods" and the problem of "economic order"- also a reply to Adler and Varoufakis [Blog post]*. Retrieved 14th May 2019 from https://adamtooze.com/2019/02/09/framing-crashed-10-a-new-bretton-woods-and-the-problem-of-economic-order-also-a-reply-to-adler-and-varoufakis/
178. Tran, M. (2002, June 24). Election fears harm Brazilian economy. *The Guardian.* Retrieved 14th May 2019 from https://www.theguardian.com/business/2002/jun/24/globalrecession.brazil
179. Tyler, P. E. (2003, February 13). Threats and Responses: News Analysis. *The New York Times*. Retrieved 14th May 2019 from http://www.nytimes.com/2003/02/17/world/threats-and-responses-news-analysis-a-new-power-in-the-streets.html
180. Varoufakis, Y. (2017, July 6). A New Deal for the 21st Century. *The New York Times.* Retrieved 14th May 2019 from https://www.nytimes.com/2017/07/06/opinion/yanis-varoufakis-a-new-deal-for-the-21st-century.html
181. von Humboldt, W. (1854 ed.). *The Sphere and Duties of Government.* (J. Coulthard, Trans.) Retrieved from http://oll.libertyfund.org/titles/589
182. Wallerstein, I. (2004). *World-Systems Analysis: An Introduction.* Durham and London: Durham University Press.
183. Weisbrot, M., Merling, L., Mello, V., Lefebvre, S., & Sammut, J. (March 2017). *Did NAFTA Help Mexico? An Update After 23 Years.* Washington D.C.: The Center for Economic and Policy Research (CEPR).
184. Westbrook, R. (1991). *John Dewey and American Democracy*. Ithaca: Cornell University Press.
185. Williamson, J. (2004, September). *A Short History of the Washington Consensus*. Retrieved 14th May 2019 from Peterson Institute for International Economics: http://www.iie.com/publications/papers/williamson0904-2.pdf
186. Wolf, M. (2005). *Why Globalization Works.* New Haven, CT; London, UK: Yale Nota Bene.
187. Wood, G. S. (1998). *The Creation of the American Republic, 1776-1787.* Chapel Hill, NC: University of North Carolina Press.
188. World Economic Forum. (2017). *The Global Risks Report 2017, 12th Edition.* Geneva.
189. Worstall, T. (2016, September 11). The Euro Is A Disaster - Stiglitz, Krugman, Milton Friedman And James Tobin Agree. *Forbes*. Retrieved 14th May 2019 from https://www.forbes.com/sites/timworstall/2016/09/11/the-euro-is-a-disaster-stiglitz-krugman-milton-friedman-and-james-tobin-agree/#693b0a986063

190. Young, C., Varner, C., Lurie, I. Z. & Prisinzano, R. (2016). Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data. *American Sociological Review 81* (3), 421-46.
191. Zielonka, J. (2018, May 30). Harakiri, Italian Style. *Social Europe*. Retrieved 14th May 2019 from https://www.socialeurope.eu/harakiri-italian-style
192. Zucman, G., Wier, L. S. & Tørsløv, T. R. (2018, June). The Missing Profits of Nations. *NBER Working Paper No. 24701*.

APPENDICES

Appendix 1: Povzetek (Summary in Slovene language)

Rodrikova trilema je politična izbira svetovnega gospodarstva med globalizacijo, suverenostjo držav in demokratično politiko, kjer se lahko sestavi kombinacijo katerihkoli dveh od treh oglišč trikotnika, ampak nikoli vseh treh naenkrat in v popolnosti.

Lahko se odpovemo suverenosti držav v prid globalnega federalizma, kjer demokratično odločanje migrira iz nacionalnih v svetovne ustanove—nadnacionalna vlada bedi nad nadnacionalnimi trgi. To je dogovor za katerega še ni dovoljšne politične in institucionalne podpore in je zato trenutno neizvedljiv: mednarodna integracija je vodena s strani različnih deležnikov in institucionalni izidi odražajo njihovo politično moč, kar vodi v neuravnotežene institucije v svetu brez globalnega demosa, ki bi lahko popravil ta neravnotežja; ker je vodilo tega federalizma demokracija, bi konvergenca institucij in standardov dala režim šibkih in neučinkovitih pravil.

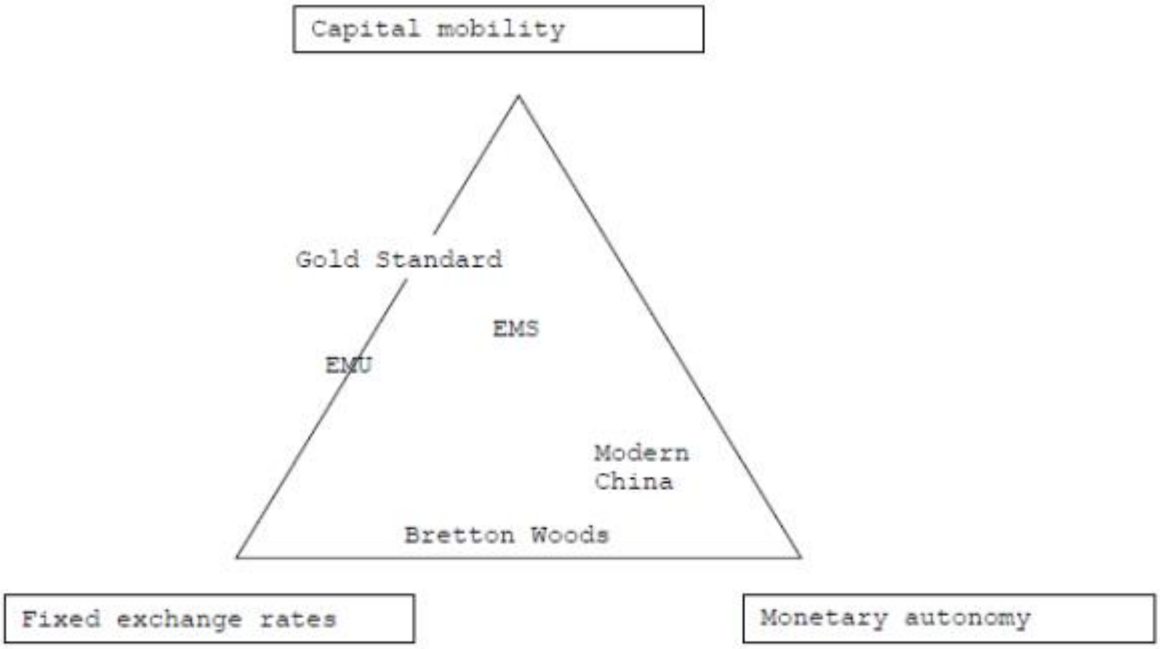
Druga možnost je ohranitev nacionalnih držav, ampak jih narediti odzivne le na potrebe svetovnega gospodarstava: globalna ekonomska integracija je poglaviten cilj, pomembnejši od vseh zahtev, ki se pojavijo iz domače politike. Država je stisnjena kot v prisilnem jopiču, tak sistem je bil zlati standard, ki je urejal mednarodno gospodarstvo pred razvojem masovne demokratične politične participacije. Nacionalne vlade bi poskušale narediti državo čim bolj privlačno investitorjem in bile usmerjene k lajšanju mednarodne trgovine ter mobilnosti kapitala, domača regulacija in davčna politika bi bili harmonizirani po mednarodnih standardih, edine lokalne javne dobrine bi bile tiste združljive z integriranimi trgi.

Zadnja opcija je omejitev obsega mednarodne ekonomske integracije skupaj z utrjevanjem demokracij znotraj nacionalnih držav: selektivna, tanjša verzija globalizacije v smislu povojnega Bretton Woods sistema, ki je z uvedbo kapitalskih kontrol in omejitvami v zunanji trgovini na glavno mesto postavil domačo politiko nad popolno mednarodno integracijo nacionalnih gospodarstev.

Ta diskurzivna razprava krmari med različnimi vprašanji in analizira kompromise, ki se pojavljajo znotraj okvirja naslovne trileme in s pregledom širokega nabora ekonomskih, političnih in zgodovinskih virov, kot tudi komentarjem sedanjih političnih dogajanj, zagovarja dve tezi, ki skupaj sestavljata sedanjo resolucijo trileme in njeno racionalizacijo: krepitev nacionalnih demokracij in potreba po odstopu od sledenja ciljem globoke mednarodne ekonomske integracije, upravičeno s škodljivimi učinki na demokracijo, ki jih povroča hiper-globalizacija.

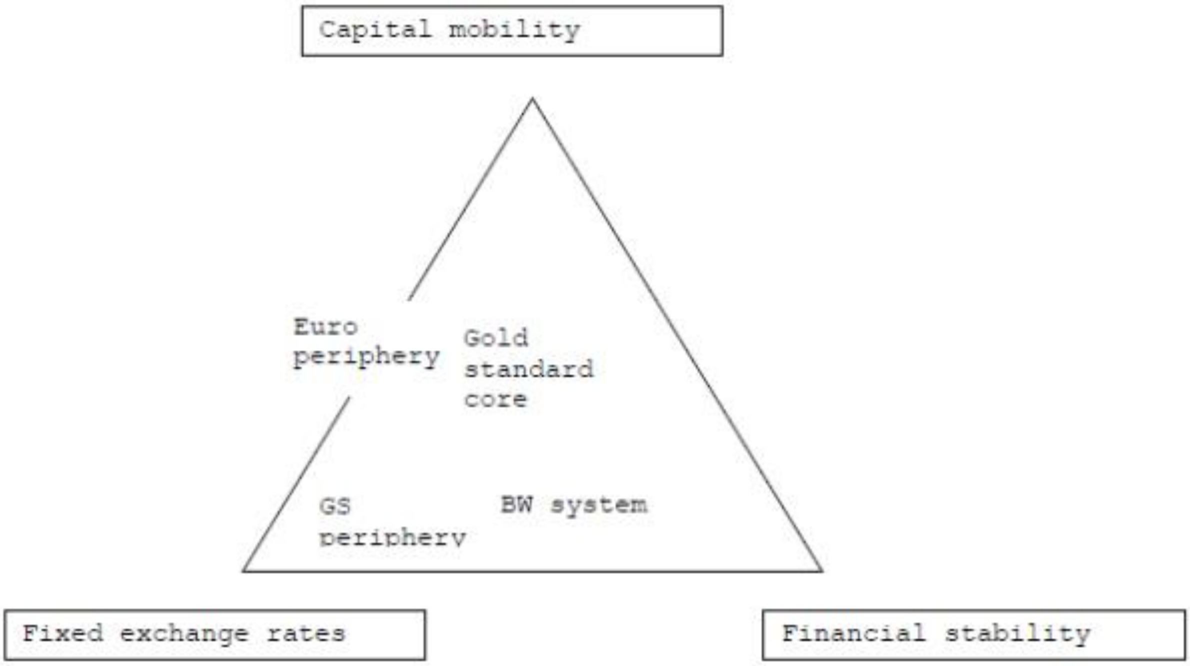
Appendix 2: The visual representation of other trilemmas

Figure 2: The classic macroeconomic trilemma



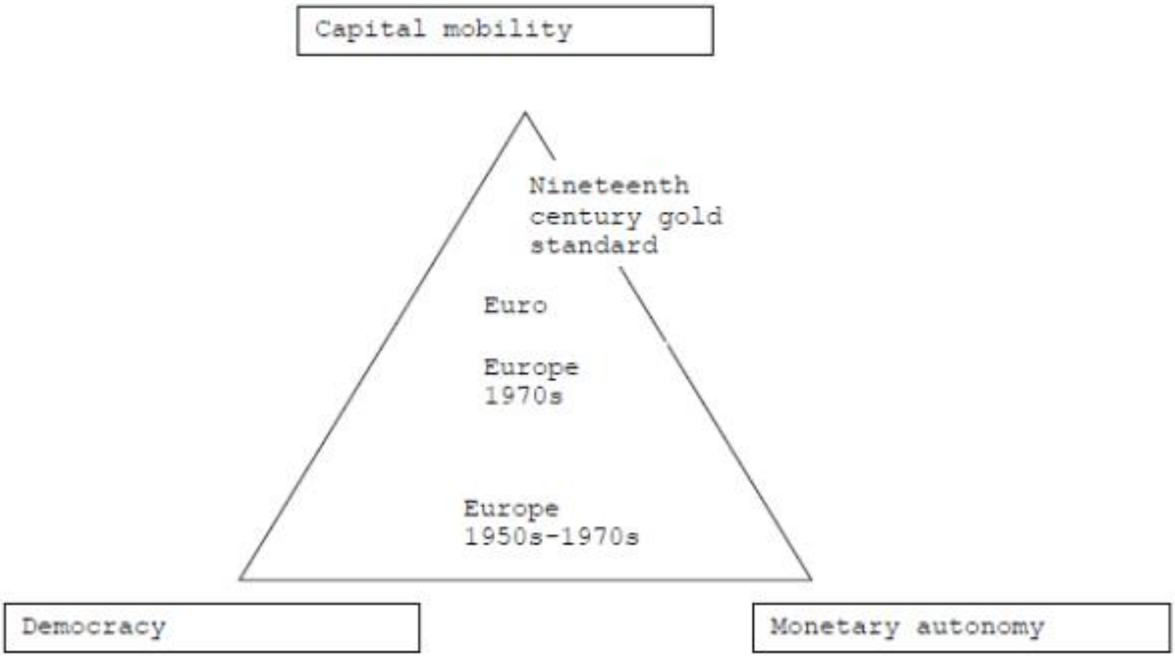
Source: Bordo & James (2015)

Figure 3: The financial stability trilemma



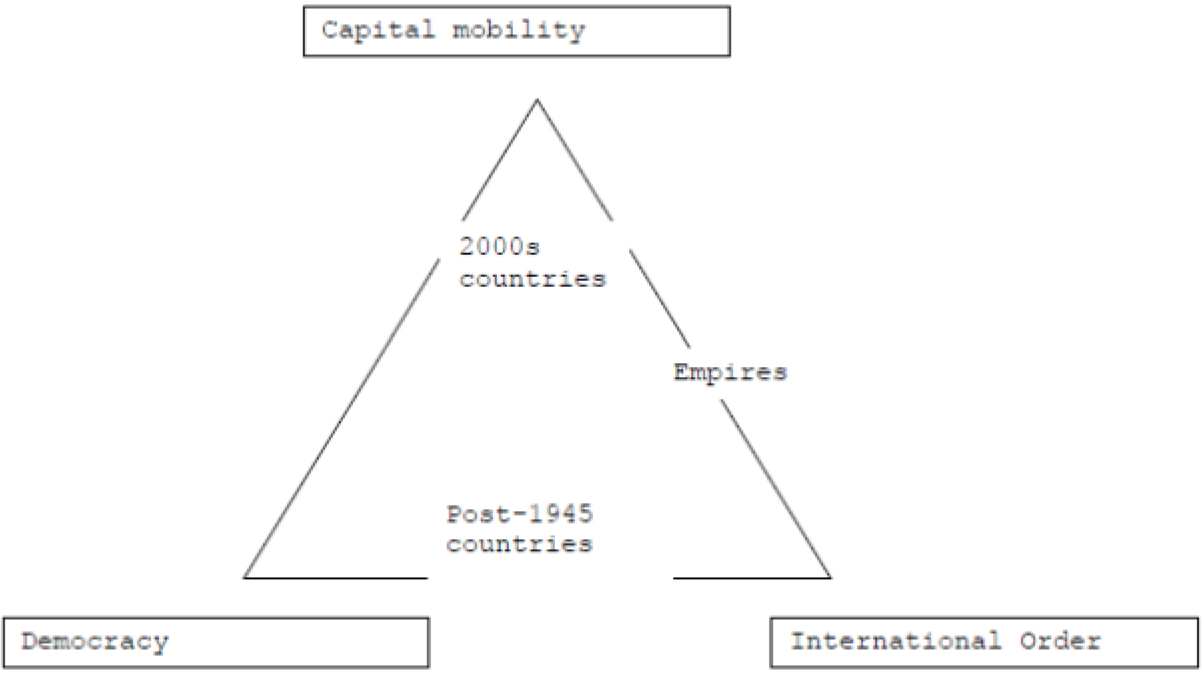
Source: Bordo & James (2015)

Figure 4: The political economy trilemma



Source: Bordo & James (2015)

Figure 5: The international relations trilemma



Source: Bordo & James (2015)