

IF SCHOLARS' intellectual interests emerge from their underlying worries, then economist Dani Rodrik's lifelong preoccupation with the fate of developing countries grew out of his early life in Istanbul. Turkish government trade protections enabled his father, a ballpoint-pen manufacturer who never finished middle school, to build a prosperous business.

Yet the received theory in economics at the time, and when Rodrik began his training in the discipline, assumed that developing countries needed to do the opposite: open themselves up to trade and stop providing protection to ineffective domestic businesses.

"When I was in my intellectually formative period in the '70s and '80s," Rodrik says, free-market fundamentalism prevailed in his field. Scholars and practitioners believed that "government intervention was bad and trade protection had spawned all these inefficient firms. And yet I knew from my own experience that without a certain amount of trade protection in Turkey, a lot of the middle class, or the upper-middle class to which I belonged,

Washington Consensus policies produced dismal results in much of the developing world; economic output in many countries collapsed.

Throughout his career, Rodrik has cut against the grain of economics orthodoxy, combining his careful mastery of the field's tools with an instinct for its limitations and a sympathy for a wide range of economic arrangements all over the world. When free-market doctrine prevailed, especially with respect to trade, he "attacked the central tenets of international economics," says MIT economist Daron Acemoglu, co-author of *Why Nations Fail* (2012), the influential book that argued for the importance of inclusive, democratic institutions for economic growth. "And that sort of made him, at the time, quite a bit of an outcast."

Now, the consensus has moved much closer to Rodrik's perspective—and his research has become important not just for poor countries, but for rich societies, too. In the aftermath of the Great Recession, the election of authoritarian protectionists in the United States, eastern Europe, and elsewhere, and the public's repudiation of the

old consensus about economic growth and fairness, his voice has increasingly resonated in public conversation about both trade and domestic policy. Rodrik has long argued that what he calls "hyperglobalization"—eliminating essentially *all* barriers to the movement of goods and money around the world—has succeeded in undermining the ability of countries to govern themselves, and allowed multinational corporations to set the rules for the economy. Post-2016 became his moment.

His work has been motivated as well by a deeper preoccupation with the role of economists in the world. For the better part of a century, economics has shaped the course of U.S. policy, and the ideas through which it is discussed and understood. Perhaps for that same reason, the field has also invited scorn from people far outside it—for being hyper-formal and unem-

pirical, for trying to explain too much, or for providing a cover for the status quo: telling a story about the world that makes existing economic relationships appear inevitable. All of these critiques were on Rodrik's mind when he conceived the idea for *Economics Rules: The Rights and Wrongs of the Dismal Science* (2015). As a professor at the Institute for Advanced Study (IAS) in Princeton, New Jersey, he was unburdened by teaching or administrative requirements, and free to pursue research interests and to engage productively with other scholars across disciplines. "What struck me at the IAS," he remembers, "is how low the reputation of economics was among certain circles of humanists and other social scientists."

He wrote *Economics Rules* to rescue his field from what he viewed as widespread misconceptions—explaining to lay readers what economic models, with their radically simplified assumptions about how people behave, are and are not good for, and why they're necessary at all. But the book was also Rodrik's effort to address other economists about where their profession has failed to apply its knowledge appropriately to the world's problems.

# The Trilemma

*Dani Rodrik's views on trade, development, and democracy enter the mainstream.*

by Marina N. Bolotnikova

wouldn't have existed....That was, in many ways, the beginning of my unorthodox views on economic development."

Rodrik, now Ford Foundation professor of international political economy at the Harvard Kennedy School (HKS), has spent much of his career trying to understand why conventional economic advice has failed poor countries so badly. In the 1980s and 1990s, the field coalesced around the "Washington Consensus," a set of ideas shaped by neoclassical economics that eventually transformed policy around the world. It held that poor countries in Latin America and sub-Saharan Africa should embrace a free-market program: free trade, privatization of state enterprises, deregulation, and openness to foreign investment. Rodrik had reason to be skeptical: he worked on trade and the economics of developing countries, and his early research showed how East Asian "miracle" societies (South Korea and Taiwan) transformed their economies extraordinarily quickly not in spite of government protection of domestic industries, but *because* of it. He worried then about prescribing uniform policies that ignored local context. The intervening years have vindicated him.

## Against “Market Fundamentalism”

IN FEBRUARY, with Columbia’s Suresh Nadu and Berkeley’s Gabriel Zucman, Rodrik launched Economists for Inclusive Prosperity, a network of economists working on policy ideas to change the structures that make U.S. economic and political life radically unequal. “Conservative foundations and think tanks have monopolized the banner of economics in policy circles, pushing the view that there is a steep efficiency-equality trade-off and assigning priority to economic growth,” they wrote in their manifesto in *Boston Review*. The group’s vision “is not simply to offer a list of prescriptions for different domains of policy, but to provide an overall vision for economic policy that stands as a genuine alternative to the market fundamentalism that is often—and wrongly—identified with economics.”

should not be treated any differently than those that lose out for some other reason. Rodrik disagrees. When asked why policy should care whether a factory has to close because cheaper labor is available in a poor country, or because its product (a typewriter or DVD player or landline telephone) has become obsolete, he replies that there is good reason to consider trade special. It has the ability to undermine social bargains about wages and work hours and environmental protections that have been made across decades, he points out—and the public has deeply felt intuitions about the legitimacy of such shifts.

Rodrik’s writing often reminds readers that trade policy and domestic social welfare are two sides of a larger issue. Because trade almost inevitably makes some people better off and some much worse off, states need to maintain robust safety nets, providing for



**Dani Rodrik**

In a policy brief written for the project, titled “Toward a More Inclusive Globalization,” Rodrik proposes a framework for limiting trade with foreign industries that engage in unfair practices, like forced labor or depriving workers of collective-bargaining rights. “If you want to maintain market exchanges,” he says during an interview at his HKS office, in his characteristically steady, very quiet voice, “you can’t de-link it from people’s perceptions of what a fair exchange is. It has to be in the foreground.” Many economists, he argues, think American industries that are harmed by global trade

the public’s health care, unemployment, and other needs to protect against hardships resulting from exposure to the global market. “If you want markets to expand, you need governments to do the same,” he wrote in *The Globalization Paradox* (2011).

But much as he welcomes current debate on the left about more progressive taxation, universal social-welfare programs, and limits on the influence of the wealthy in politics, Rodrik worries that focusing on tax-and-transfer misses the deeper structures that have made the American economy so stratified. “The fundamental issue



is how to change the rules of the market economy so that everybody is included in the system of production and innovation, and everybody has access to meaningful, productive, high-wage jobs,” he says. “Simply redistributing the proceeds of the market economy after the fact is both ineffective and ultimately counterproductive, because it won’t yield change of the desired magnitude.”

Solutions to these challenges are still unknown to economists. They require a range of reforms that reorient the way resources, opportunities, and technology are distributed through the economy—for example, by promoting unionization and incorporating corporate investment in local communities “not as philanthropy,” he insists, “but as a mainline business activity.” (One example of the latter is Massachusetts Democratic senator Elizabeth Warren’s proposal for worker participation on corporate boards.)

Technological automation is often treated as though it’s inevitable, with workers being told as a matter of routine that they’ll be replaced by machines. But Rodrik says business does not have

cal economy since the global financial crisis. “Dani’s temperament is more accretive,” Unger continues. “To go step by step, part by part, to branch out from the existing world into the adjacent possible. He doesn’t believe in leaps beyond the historical circumstance, and he sees their susceptibility to illusion, to perversion, to disorientation.”

As a result, Rodrik thinks about problems in terms of “second-best” solutions. He doesn’t reason merely from first principles, and he has criticized the concept of “best practices” in the world of international development because that approach ignores the unintended consequences that can ripple through a real economy. For instance, developing countries often have ineffective courts and contract enforcement, he argued in his paper “Second-Best Institutions”—but that doesn’t mean judicial reform is always urgently necessary or even beneficial. Societies often develop ways of working around broken institutions (through informal, relationship-based contracts, for example), and poorly planned interventions can unravel these delicate arrangements. Rodrik’s caution arises from accepting that the world will always be second best—or fiftieth.

Unger, despite his rejection of some of the premises of modern economics, has shared a productive partnership with Rodrik that has influenced both men’s thought. In the classroom, students frequently break into laughter at their dynamic. Unger is fiery, reciting in a booming voice all of the problems he has with the social sciences, while Rodrik leans back and takes careful notes before responding gingerly. In their first year of teaching together, Rodrik says, “I had no clue what he was saying. The second year I started to get it a little bit, and by the third I started to benefit from his ideas, and I’ve been influenced quite a bit.”

“Dani always brings me back to the immediate reality,” Unger says, “to the constraints, to the trade-offs, to the lessons of experience, to the dangers of some of my more radical proposals. It’s not as if he were simply sounding a cautionary note—he has a vision. And it’s a vision which is in broad sympathy with my vision, but as conceived by a very different mind. Often people who have [his] concerns with context and practice and who are respectful of the standard intellectual apparatus are conservative. But he’s not conservative. He is a progressive, he is committed to the development of transformative alternatives...and that’s something very special not found so often in

economics. I think this marriage of qualities helps account for his increasing influence throughout the world.”

Rodrik’s ideas emerge from his humility about our ability to know; he stresses how little is still understood about the world’s institutions, and how much can be learned from applying the tools of economics to them. He is “one of those people who, when he encounters facts that are at odds with the expectations of his conventions, he doesn’t hesitate” to face them, says Charles Sabel, a professor at Columbia Law School who has worked with Rodrik on industrial-policy research. This is an uncommon trait for theoretically sophisticated people, he adds, “because they’re



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**A closed factory in a working-class neighborhood in northwest Connecticut—a region that has been hit hard by the decline of American manufacturing**

to work that way: policy can prioritize innovation that augments rather than replaces labor, and increases demand for human workers. “There are all kinds of subtle and not-so-subtle ways in which our policies and practices encourage a particular kind of automation—automation and new technologies that displace labor. But that historically hasn’t been the case,” he says. “During the first phase of the Industrial Revolution, the factory system benefited unskilled labor because it enabled [them] to produce what, previously, only highly skilled craftsmen could produce....Similarly, I think when we think about the benefits of artificial intelligence or new digital technologies to supplement the capacities of low-skilled workers...we can get very different kinds of outcomes.”

### “From the Existing World into the Adjacent Possible”

RODRIK’S ABIDING SYMPATHY for the interests and desires of ordinary people, and his attentiveness to misuses of economics, can create the appearance that he is rebellious. In reality, he tends to avoid the zealous or polemical. “He doesn’t flaunt a subversive attitude,” says Pound professor of law Roberto Unger, a radical political philosopher with whom Rodrik regularly teaches a course covering politi-

very well trained at reconstruing facts so that they fit theories.”

Economists have often erred, Rodrik argued in *Economics Rules*, by mistaking their models for *the* model. And even though the field has a core repertoire of building blocks considered indispensable to economic growth (property rights, enforceable contracts, private incentives: the “crown jewels” of economics, he calls them), these fundamentals can accommodate a surprising diversity of practices and contexts in the real world. China’s “Township and Village Enterprises” structure, he wrote in an essay titled “Rescuing Economics from Neoliberalism,” drove the country’s economic growth in the 1980s and ’90s: the collectives were owned by local governments, yet they provided some kind of property rights, and the returns that those rights produced, to private entrepreneurs. “China’s phenomenal economic success,” he argued, “is largely due to its orthodox-defying institutional tinkering.”

During the course of Rodrik’s career, economics has undergone its own revolution, becoming much more empirical. When he was a Ph.D. student at Princeton in the 1980s, he says, it would have been impossible to find a job by writing a primarily empirical (as opposed to theoretical) dissertation. Today, in the subfield of trade economics, “It’s become almost completely the opposite: you cannot get a job if you *don’t* do serious empirical work.” And this matters, he explains, because when “doing empirical work, you often get results that don’t square up with the theoretical expectations.” This shift toward empiricism is also connected to the rise of behavioral economics, the subfield (separate from Rodrik’s work) that seeks to better center human psychology within the discipline.

That doesn’t mean the theory is useless. It provides the frame through which evidence is interpreted; all evidence, Rodrik says, relies on theory. “I view economics as a very useful, very disciplined way of thinking about institutional alternatives and policy alternatives. I don’t know how to think about policy alternatives outside of this framework. And yet many critics of market fundamentalism or hyperglobalization think that we can get rid of the main methods of economics, and that’s where I part ways with them.”

### The Path to Economics

RODRIK IS DESCENDED from Sephardic Jews who were expelled from Spain under the Inquisition. His last name is a Turkification of *Rodríguez*, changed after a 1934 “surname law” required citizens to register with a Turkish family name. He attended Robert College, a preeminent American private school in Istanbul that sends many of its graduates abroad.

Getting into Harvard, he says, changed the course of his life. He would otherwise have studied engineering in England, where students have far less freedom to explore different disciplines. At Harvard, his plans to study engineering changed almost immediately. He spent hours in the Widener stacks: the library “had this amazing collection of books from the 1930s, ’40s, and ’50s about the formative years of the Turkish republic that there’s no way you would find in Turkey.” His image of history and the social sciences had been shaped by his schooling in Istanbul, where, he recalls, “We’d memorize: ‘Here are the five reasons why the Ottoman empire collapsed, here are the three reasons why the Turkish republic was so successful.’” Reading those books from Widener, he says, “was absolutely mind-opening for me.” He studied government

and economics, and graduated in 1979 with the only *summa cum laude* awarded by the government department that year.

His thesis, which became one of his first published papers, explained why the political mobilization of two peasant populations in the 1950s, in Turkey and in Egypt, resulted in two very different outcomes: entrenched conservatism in Turkey, and a radical revolution in Egypt. His answer hinged on the different ways that agriculture had been commercialized. In Egypt, the commodification of land resulted in a proliferation of absentee landlords and widespread landlessness among peasants—conditions that impelled them to align against the landowners. In Turkey, this process was not nearly as intense, and peasants maintained ties to, and derived a measure of security from, their landlords. That argument reflects important tendencies that continue to distinguish Rodrik’s thought. In any problem in political economy, he foregrounds local and institutional context. He is suspicious of arguments that explain a nation’s political or economic fortune in terms of “culture,” recognizing the susceptibility of this idea to fallacy, clichés, or just-so stories.

After Harvard, Rodrik earned a master’s from Princeton’s Woodrow Wilson School of Public and International Affairs, and worked for a year at the UN Conference on Trade and Development in Geneva because, he says, it was one of the few international organiza-

“Dani’s temperament is accretive—to go step by step, part by part, to branch out from the existing world into the adjacent possible.”

tions where the voices of developing countries prevailed. He was torn between becoming a political scientist or an economist, until the answer came to him when one day as he held the top journals of the two fields side by side: “It became obvious to me that with a Ph.D. in economics I would be able to read both journals, but that the reverse wasn’t necessarily true.” He realized he wanted to be trained in the mathematical and statistical methods that he still views as essential to understanding society.

He returned to Princeton for his doctorate—and was often critical of the economic theory he learned. His academic heroes were Latin America economist Carlos Díaz-Alejandro and development economist Albert Hirschman, LL.D. ’02: people who “were familiar with and could criticize the mainstream not from the perspective of someone who doesn’t appreciate the value of mainstream tools,” he says, “but from the perspective of those fully cognizant of those tools who take the discussion and debate to the next level.” He sensed that developing countries needed to do more than simply open their economies to competition and trade—and he believed the discipline would allow him to make that case. Rodrik’s graduate-school peers remember him as being uncommonly (perhaps annoyingly) calm and clear-eyed. Lots of students had ups and downs, and became anxious about their work, recalls his friend Kala Krishna, now an economist at Penn State. “But Dani was *remarkably* stable.” He finished his doctorate in three years.



## The Globalization Paradox: Why Markets Need Government

AFTER HE JOINED the HKS faculty in 1985, Rodrik's research focused on how to devise effective trade policies for the developing world, focusing on tariffs, export subsidies, and the requirements such countries imposed on foreign multinational companies. By the early 1990s, he was traveling globally to advise these nations on how they ought to design trade and growth policies. The experiences of South Korea and Taiwan, his research showed, reflected the importance of well-coordinated markets and central governments. For example, during the 1960s, the Korean government subsidized industries by giving them access to extremely cheap credit, and socialized businesses' risk by guaranteeing them bailouts. This agenda fueled the rise of Korean conglomerates like Hyundai. More dramatically, the Korean and Taiwanese governments actively created and developed new core industries like plastic, textiles, and electronics, linked with needs in the rest of the economy. These findings provided a foundation for his skeptical view of the Washington Consensus.

Rodrik served as a professor at Columbia between 1992 and 1996 (before returning to Harvard for his current position). While there, he came across surprising research by Yale political scientist David

this problem. Finally, although trade makes the public more vulnerable and reliant on social welfare, it also undermines governments' ability to provide that welfare, by setting the wealthy footloose to shield their money from taxation around the world.

Rodrik took these ideas further in *The Globalization Paradox*, published three years after the global financial crisis. That book aired more far-reaching doubts about the viability of globalization as currently practiced, beginning again with the premise that markets require government. He sketched a history of globalization as it developed through nineteenth-century colonialism, showing how trading corporations like the British East India Company themselves served as governments to provide the security, regulation, and conditions needed to conduct their activities.

In the middle of the twentieth century, his book noted, economists believed that government needed to play a central role in supporting industries in developing countries. But "[b]y the 1980s, the dominant view among North American development experts and their followers had changed dramatically," he wrote. Free-market fundamentalism had replaced any considerations about the importance of governance, and had driven rich and poor countries alike (though for poor countries the process was especially coercive) to lift restrictions on the flow of goods and money. "In my own travels

in developing countries during the 1990s, I was struck by the ideological fervor with which policy makers, especially those in Latin America, had embraced this agenda," Rodrik wrote. "The new consensus turned foreign trade and investment into the ultimate yardsticks for judging the adequacy of domestic economic and social policies—a key deformation produced by the quest for hyperglobalization." The economies that did best during this period, he argued, are those that never adopted the Washington Consensus, like China, Taiwan, and India.

Rodrik argued that the rewards of globalization can be realized only if it is not taken to an

extreme. What he calls "maximum globalization" or "hyperglobalization" can work only if all countries adopt the same set of rules that are overseen by an accountable global government. But this degree of integration is impossible and undesirable, he maintains: nations have different preferences about the types of institutions and regulations they want, as his life's work has shown. And they should be entitled to those preferences, he insists—in order to make democratically accountable decisions within their borders.

Hence his "trilemma":

- A nation can be democratic and sovereign, but then it cannot be hyperglobalized.
- It can be hyperglobalized and democratic, but then it would have to give up its national sovereignty to a global government.
- Or it can be sovereign and hyperglobalized, but it would have to abandon democratic accountability.

His preference is to abandon hyperglobalization. "I do think there is something special about the nation-state," he says. "It creates reciprocal obligations that don't exist across national borders."

In seminar rooms and arcane journals, Rodrik writes, economists freely discuss the complicated reality of trade. But in public discourse, they have been reluctant. Why? One reason, he suggests, is that many in the profession believe that if they don't stand up for free trade, no-

"Many critics of market fundamentalism or hyperglobalization think that we can get rid of the main methods of economics, and that's where I part ways with them."

Cameron, who argued that the more exposed a nation was to international trade, the larger its government. Rodrik then conducted his own research on that topic and kept finding the same result, no matter how he looked at the data. Sweden, Denmark, and the Netherlands—small economies that engage in a lot of trade by necessity—all have very large safety nets. This might sound counterintuitive if one views government as the enemy of markets, but it stirred an instinct about globalization that Rodrik had long held. Economies need governments not only for markets to work well, but also to provide security to the vast majority of people whose lives have been made precarious by the world market. And he was concerned that economists too easily sneered at the public's concerns about globalization.

His resulting book, *Has Globalization Gone Too Far?* (1997), is a short monograph that remains Rodrik's most cited work to date. It develops three interconnected ideas about the tension between globalization and the stability and sovereignty of nations. Trade undermines the bargaining power of workers, who can more easily be substituted for one another across national borders. It also creates conflicts between, and within, nations over their most fundamental values—like labor laws and environmental regulations—when negotiating trade agreements. Prevailing international treaties on trade, Rodrik writes, ignore

body will. This is because of economists' devotion to the idea of comparative advantage, the concept underlying free trade that was posed by David Ricardo in 1817. Mathematically simple but unintuitive and difficult to grasp, it explains why trade does not need to be zero-sum: by freeing a country to focus on producing the goods that it makes better than others do, and trading the results, *both* economies can be better off. Before the neoclassical revolution in economics, European countries held to the principles of mercantilism, believing that they should export as much as possible—and that imports inherently made them worse off. Comparative advantage was one of the most important breakthroughs of modern economics, a fundamental premise of the field that its practitioners don't want to muddle in the minds of the public. But for the concept to work in practice, *many* conditions need to be met, and many moral and social problems need to be answered. Ignoring these, Rodrik argues, is unviable.

## Interests and Ideas

RODRIK IS A CITIZEN of the United States and Turkey, and frequently contributes to political discourse about both countries. In 2010, he and his wife, Pinar Doğan, an HKS public-policy lecturer, were suddenly thrust into a Turkish political drama that he describes as one of the most surreal experiences of his life. Rodrik's father-in-law, Çetin Doğan, a retired Turkish general, was at the center of a trial that preoccupied that nation, as he and his alleged collaborators were accused of plotting a military coup, known as the Sledgehammer plan, that would involve bombing a mosque, shooting down a jet, and arresting journalists and politicians.

Throughout that year, the couple spent their nights investigating the coup-related documents that had allegedly been uncovered. We “discovered this huge conspiracy of fabricated evidence,” Rodrik says. The documents, supposedly from 2002 and 2003, contained anachronistic names and facts. “Our favorite example,” he later wrote in his own version of the story, “was the pharmaceutical company *Yeni Ilac* that had been taken over by the Italian firm Recordati in 2008 and renamed *Yeni Recordati* subsequently. The coup documents, supposedly last saved and burned onto a CD in 2003, listed the company with its new name.” They maintained a blog about the case in Turkish and English, and informed the media about their findings. To Rodrik and Doğan, it was obvious that the coup was a fabrication, but the country's intellectual elite, which was skeptical of the military, shunned and condemned them: “We often felt like Don Quixote tilting against windmills.”

A decisive piece of evidence in the case came when digital forensics analysts showed that the coup documents had been created using the 2007 version of Microsoft Word. But this made no difference to the court: in 2012, the defendants were convicted and sentenced to prison. It was not until 2014, after the convictions were overturned and a retrial ordered, that all the defendants were acquitted. Sledgehammer is now widely regarded as a sham,

intended to enable then prime minister, and soon to be president, Recep Tayyip Erdoğan to suppress dissent.

Doğan and Rodrik were ultimately vindicated. But Rodrik was shaken by how institutions could be used, in an ostensibly democratic country with a free press, for anti-democratic ends. How could the liberal elite have been so credulous? It prompted him to think more deeply about ideas and narratives, topics not usually considered in economics. Economists think about people's actions in terms of “interests,” but not about the assumptions about the world underlying those interests, or how people come to know what their interests are. Rodrik and those members of the Turkish intelligentsia who opposed him appeared to share an interest in preserving Turkish institutions. But their stories about the trial were dramatically different; though they were hardly friendly to Erdoğan's conservative religious regime, liberals already had reason to be resentful of the military's grip over society, and they read Sledgehammer through that lens.



**One reflection of the vast scale of globalization and trade central to Rodrik's analysis: container ships off the coast of China**

“What the economist typically treats as immutable self-interest is too often an artifact of ideas—about who we are, how the world works, and what actions are available,” Rodrik wrote in a paper on the topic in 2013. In it, he calls for a better integration of interests and ideas in economics. When can a story change the way people understand what is in their interest? Is there such a thing as an “interest,” or is everything an idea, a story people tell themselves about their lives? These questions are at the outer edge of economics, but they seem to have taken on renewed importance especially in the last few years, as some of the field's central doctrines have been unsettled—often in ways Rodrik had anticipated long before.

Rodrik has an “imagination that is chastened—disciplined—by training in a rigorous discipline, but he hasn't allowed his training and that rigorous discipline to dampen his sympathies or to quiet his imaginative fire,” Roberto Unger enthuses. “What more could one ask for?”

Associate editor Marina N. Bolotnikova '14 previously profiled professor of history Philip J. Deloria in “Native Modern,” in the January-February issue.