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A New Trilemma Haunts the World Economy

Sep 9, 2024 | **DANI RODRIK**

CAMBRIDGE – I wrote a speculative article in 2000 on what I called “the political trilemma of the world economy.” My claim was that advanced forms of globalization, the nation-state, and mass politics could not coexist. Societies would eventually settle on (at most) two out of three. I suggested that it would be the nation-state that would give way in the long run. But not without a struggle. In the short term, the more likely consequence was that governments would seek to reassert national sovereignty, to address the distributive and governance challenges posed by globalization.

To my surprise, the trilemma proved to have long legs. My book *The Globalization Paradox*, published a decade later, developed the idea further. The concept of the trilemma has become a handy way to understand the backlash against hyper-globalization, Britain’s exit from the European Union, the rise of the far right, and the future of democracy in the EU, among other issues.

Lately, another trilemma has preoccupied me. This one is the disturbing possibility that it may be impossible simultaneously to combat climate change, boost the middle class in advanced economies, and reduce global poverty. Under current policy trajectories, any combination of two goals appears to come at the expense of the third.

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During the early postwar decades, policies in the developed and developing world alike emphasized economic growth and domestic social stability. The advanced economies built extensive welfare states but also progressively opened their markets to poorer countries’ exports, so long as the distributional and social consequences were manageable. The result was inclusive growth in the rich countries, as well as significant poverty reduction in those developing countries that were pursuing the right policies.

Successful as this strategy was, it sidestepped the risks of climate change. Over time, the consequences of economic growth powered by fossil fuels have become increasingly difficult to ignore.

The postwar Keynesian-social democratic bargain in the advanced economies was further undone by the internal contradictions generated by my original trilemma. As hyper-globalization replaced the earlier Bretton Woods model, labor markets in the advanced economies experienced greater disruption, undermining the middle class and democracy itself. Both of these developments required new strategies.

In the United States, President Joe Biden’s administration has tackled these new realities head-on. It has broken new ground by promoting substantial investment in renewables and green industries

to combat climate change. And it deliberately aims to restore the middle class by promoting labor's bargaining power, reshoring manufacturing, and creating jobs in regions that were badly hit by imports from China.

This new focus on climate and the middle class is long overdue. But what US and European policymakers see as a necessary response to neoliberalism's failures looks, to poor countries, like an assault on their development prospects. The recent crop of industrial policies and other regulations are often discriminatory and threaten to keep out manufactured goods from developing countries.

Green subsidies in the US incentivize the use of domestic over imported inputs. The EU's carbon-pricing mechanism will soon require "dirty" exporters from developing countries to pay additional tariffs. Governments in poor countries believe that such measures will sabotage their efforts to replicate East Asian nations' export-oriented industrialization.

We can imagine an alternative combination of policies that focus on poor countries and the climate. This would entail a large transfer of resources – financial and technological – from the North to the South, to ensure the requisite investments in climate adaptation and mitigation in the latter.

It would also require significantly greater access in the North's markets to goods, services, and workers from the poor countries of the South, to enhance these workers' economic opportunities. This policy configuration is morally appealing; it would effectively apply the philosopher John Rawls' principles of justice on a global scale.

But here, too, the trilemma rears its ugly head. Such an approach would work at cross purposes with the imperative of rebuilding the middle class in advanced economies. It would create much greater competition for workers without college or professional degrees, driving down their wages. It would also reduce the fiscal resources available for investment in their human capital and physical infrastructure.

Fortunately, some of these conflicts are more apparent than real. In particular, policymakers in advanced economies and poor countries alike need to understand that the vast majority of the good, middle-class jobs of the future will have to come from services, not manufacturing. And economic growth and poverty reduction in developing economies will be fueled mainly by the creation of more productive jobs in their service sectors.

Labor-absorbing sectors such as care, retail, education, and other personal services are non-traded for the most part. Promoting them does not create trade tensions in the same way as in manufacturing industries. This means that the conflict between the middle-class imperative in rich economies and poor countries' growth imperative is less severe than meets the eye.

Similarly, it will be virtually impossible to address climate change without significant cooperation from developing countries. While emissions from the US and Europe have been declining, developing-country emissions are still rising, in some cases rapidly, and their contribution to global emissions (excluding China) will soon exceed 50%. Hence it is in rich countries' self-interest to promote green-transition policies that poor countries regard as part of their own growth strategies, not just as pure cost.

Climate change is an existential threat. A large and stable middle class is the foundation of liberal democracies. And reducing global poverty is a moral imperative. It would be alarming if we had to abandon any of these three goals. Yet our current policy framework imposes, implicitly but forcefully, a trilemma that appears difficult to overcome. A successful post-neoliberal transition requires us to formulate new policies that put these trade-offs behind us.