Modern U.S. policy toward North Africa is some 70 years old by now. It got underway during World War II, when American troops found themselves occupying the region on their way to the invasion of Italy. The policy in those days, as the U.S. diplomatic cables of the time plainly show (see Jeffrey Herf’s Nazi Propaganda For the Arab World), was to maneuver for short-term advantage against the fascist axis and to avoid annoying anyone by insisting on a discussion of liberal and democratic principles.

It is true that, after the war, the United States stood in admirable opposition, by and large, to the continued existence of the French and British colonial empires. But U.S. policy never seems to have pressed in any sort of serious way for a liberal turn in the anti-colonial revolution, at least not until the days of the ill-fated Freedom Agenda and the welcome but last-minute democratic pressures of the Obama administration. Mostly, the United States has supported the Ben Ali dictatorship.

What might have happened if, over the course of these 70 years, the United States had followed a slightly different, more nuanced policy? What if, during World War II, the U.S. effort to secure Arab support against the European fascists had also included a campaign to promote liberal and democratic ideas among our Arab allies? What if, in supporting the dismantling of the French and British empires, the United States had made a sustained point, not just a desultory one, of continuing to promote a liberal outlook on world events? What if, in supporting the Tunisian government’s campaign against the Islamists these last 20 years, the United States had found a way, not just sotto voce, to advocate liberal ideas as well? To imagine sophisticated policies of this sort—to think in terms of long-term possibilities, and not just short-term goals—ought not to be so difficult.

In the language of foreign policy debate, “realism” is a synonym for making short-term calculations. “Idealism” is a synonym for the long term. “Idealism” tends to be derided as a dream of a vague and remote future. But here are the crowds in the streets. The remote future is suddenly at hand. Can anyone seriously dispute that, if the United States had spent the last 70 years earnestly promoting North African movements for liberal democracy, the odds would now be greater of seeing a Velvet-influenced revolution in Tunisia rather than something worse and all too easily imaginable? But America has done what it has done, and the outcome will be—well, we will find out.

**Hooray for Nation States**

_How they’re saving the global economy—and democracy._

**DANI RODRIK**

**How many times have we heard that the nation state is passe? That borders have disappeared, that distance is dead, that the Earth is flat, that our identities have become global, that politics transcends national boundaries, that the decisions shaping our economic lives are now made by multinational corporations and faceless international bureaucrats?**

And yet look at the way events have unfolded as the global financial crisis engulfed the world. Who bailed out the global banks to prevent the crisis from becoming even more cataclysmic? Who pumped in the liquidity needed to soothe international credit markets? Who stimulated the global economy through fiscal expansion? The answer to each of these questions is the same: national governments. We may think we live in a world whose governance has been radically transformed by globalization, but the buck still stops with domestic policymakers.

This has proved to be a necessary thing for our economy. Less well-understood, however, is that it is also a good thing for the health of our polity. For too long, we have overlooked the ways that globalization can damage democracy—and the ways that the nation state can help to save it.

**For three decades after the end of World War II, global economics was governed by the Bretton Woods compromise, named after the New Hampshire resort where policymakers from Allied nations gathered in 1944 to design a new economic system. The genius of the system was that it admirably served multiple objectives. Some of the most egregious restrictions on trade flows were removed, while governments were left free to run their own independent economic policies and to erect their preferred versions of the welfare state.**

For decades, Bretton Woods was a roaring success.

By the 1970s, as international capital became more mobile and oil shocks hit the advanced economies hard, the system had begun to fray. But, rather than adjust Bretton Woods around the margins, policymakers in the West threw it overboard. They began to pursue an ambitious agenda of economic liberalization and deep integration—an effort to establish a kind of hyperglobalization. The result was a series of disappointments; financial globalization ended up proliferating crises and instability. There were stupendous successes in this period—China and India in particular. But these were countries that chose to play the globalization game not by the new rules, but by the older, Bretton Woods rules. Instead of opening themselves unconditionally to international trade and finance, they pursued mixed strategies, with heavy doses of state intervention, to diversify their economies.

In pushing the postwar globalization model beyond its limits, economists and policymakers had overlooked a key factor: Capitalism relies on a delicate balance between markets and regulations. In the wake of the Asian financial crisis of 1997–1998, Lawrence Summers argued against national regulations to restrict hot money flows by famously comparing global financial markets to airplanes. They “let us go where we want more quickly, more comfortably and most of the time more safely than was possible before,” he wrote. Summers was arguing that it made as much sense to slow down global financial flows as it did to ban jets.

Yet safe air travel requires a hefty dose of regulation, most of it provided by national governments. Who would provide this regulation in a globalized economy? The problem is that institutions that can govern a truly integrated world economy do not exist—and are unlikely to come into existence anytime soon. Political communities are organized domestically rather than globally, truly global norms have emerged only in a narrow range of issues, and there are still substantial differences across the world on desirable institutional arrangements.

All of this has enormous implications not just for economics but also for politics. Once you understand that markets require public institutions of governance and regulation in order to function well and once you accept that nations may have different preferences over the shape that those institutions and regulations take, you have started to tell a story that has depressing implications.
for the compatibility of globalization and democracy.

To see how the tradeoff between globalization and democracy works in practice, consider the experience of the Eurozone—the 17-member grouping within the European Union that has a common currency and a single central bank. What was supposed to be the apotheosis of regional economic integration has now collapsed into economic distress and political recrimination.

Why has this happened? Because Europe tried to move toward economic union while its democracies remained national. The whole point of the Eurozone was that it would facilitate the creation of a single financial market not that different from the United States. But Europe’s misfortune was that it got caught in the worst financial crisis since the 1930s at a point when its economic union had vastly outrun its political union.

Consider why bank failures in Florida do not threaten the rest of the United States. The federal government has recourse to a large number of institutions that mitigate the effect of regional shocks. It acts variably as a lender of last resort, deposit insurer, bailer-out, prosecutor of financial wrongdoing, adjudicator of commercial disputes, administrator of bankruptcy proceedings, and funder of transfer payments and other automatic stabilizers. It enforces national regulations and has the ability to prevent states from defying them.

Eurozone arrangements. That the institutional plumbing of the European economic union has remained so incomplete reflects in turn an underlying political reality: Democratic politics are organized largely within nation states. It is impossible to erect, say, common fiscal institutions at the center without also creating common political institutions that can override national decision-makers.

Economic integration on a global scale has not gone nearly as far as it has in Europe. Still, we keep pushing for lower barriers to trade in goods and capital flows and for limits to what domestic policymakers can do, on the assumption that financial instability and the populist anger it has engendered can be addressed through more global cooperation and even more global rules. But this is a losing game. It overlooks the practical difficulties of getting sovereign states to surrender their prerogatives. More fundamentally, it neglects the fact that nation states may have different needs and preferences from each other.

Setting the ground rules for the world economy requires that we make some choices, so let me be clear about mine: Democracy and national self-determination should trump hyperglobalization. Democracies have the right to protect their social arrangements, and, when this right clashes with the requirements of the global economy, it is the latter that should give way.

This means we should accept nations’ rights to uphold their regulations in finance, taxation, health, safety, and labor markets—and to protect these regulations by raising barriers at the border, if necessary, when trade and capital flows demonstrably threaten domestic practices enjoying broad popular support. Countries should be able to prevent domestic financial regulations from being undermined by jurisdictions with weaker regulations, corporate tax policies from being eroded by competition with tax havens, or domestic labor standards from being undone by imports from countries with exploitative labor practices.

The important caveat is that action to protect domestic regulations cannot be arbitrary and must reflect democratic choices. This is where international rules enshrined in multilateral bodies, such as the World Trade Organization or the G-20, can make a useful contribution—not by imposing common regulations, but by laying down procedures that ensure transparency and accountability in domestic deliberations.

This approach rules out extremism on both sides. It prevents globalizers from gaining the upper hand in cases where international trade and finance constitute a back door for eroding widely accepted standards at home. Similarly, it prevents protectionists from obtaining benefits at the expense of the rest of society, when no significant public purpose is at stake. In less clear-cut cases, where different values have to be traded against each other, this approach forces internal deliberation and debate—the best way of handling difficult political questions.

To be sure, democratic politics is messy and does not always get these deliberations “right.” Democracies may err by providing protection to special interests. But special interests can capture international organizations, too—think of how pharmaceutical firms influenced the World Trade Organization’s patent rules, for example, or how global banks have influenced the Basel Committee’s capital-adequacy rules. The best antidote to political capture is not tighter global rules but enhanced democratic deliberation.

But what about non-democratic states?

When nation states are not democratic, we can no longer presume their institutional arrangements reflect the preferences of their citizenry. Nor can we presume that international rules could apply with sufficient force to transform essentially authoritarian regimes into functional democracies. The solution is that non-democracies need to play by different, less-permissive rules. This does not necessarily mean that there should be higher trade barriers against non-democratic countries. But it would be legitimate for democracies to apply more stringent rules to authoritarian regimes in certain instances. For example, there could be a lower hurdle for imposing restrictions on a non-democratic country’s trade in cases where that trade causes social problems in an importing country. Democracy is a global norm; it ought to be one of the cornerstone principles of the international economy.

The obvious objection to all of this is straightforward: Wouldn’t the world economy slide into rampant protectionism? But this objection wrongly assumes that the world economy is a global-commons problem. It isn’t. To understand why, consider something that is a global-commons problem: climate change. The globe has a single climate system, and it makes no difference where carbon is emitted. As a result, each nation prefers, left to its own devices, to free-ride on the carbon controls of other countries.

By contrast, if policies of openness in trade and finance are desirable, it’s because openness is in a nation’s own self-interest—not because it helps others. In the global economy, countries pursue “good” policies because it is in their interest to do so. The case for open trade, therefore, has to be made and won in the domestic political arena.

If we want to have democratic politics, then we cannot give too much power to transnational institutions. If we cannot have powerful transnational institutions, we cannot erect the regulations needed to support truly global markets. If we cannot have effective regulations, we can still have globalization—but it will be a globalization that yields disastrous results. Our troubles have their roots in our reluctance to face up to these ineluctable choices.

Dani Rodrik is a professor at Harvard and the author of The Globalization Paradox: Democracy and the Future of the World Economy, from which this article is adapted.
Copyright of New Republic is the property of TNR II, LLC and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder’s express written permission. However, users may print, download, or email articles for individual use.