

The great trilemma: are globalization, democracy, and sovereignty compatible?

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Current economic and political developments spotlight the relationship between domestic and global governance and the impact of globalization on both. A key question is whether a sovereign state system, democratic governments, and an integrated global marketplace can coexist. The paper assesses analytic materialist arguments for their incompatibility and the key assumptions on which they rest. The paper describes the extant pressures operating to limit each of the three: how sovereignty and democracy work to constrain globalization, how globalization and sovereignty generate a democratic deficit, and how globalization and democracy lead to limitations upon, and even the transcendence of, sovereignty. How to make the three compatible, and failing that, which facet to restrain, characterizes political contestation in a globalizing age. Global and domestic governance reflect the need to reconcile the combined implications of globalization, sovereignty, and democracy, and to do so by restraining, limiting, or transforming one or more of these features.

Keywords: globalization; democracy; sovereignty; economic integration; liberalism; openness; redistribution

Are democracy, sovereignty, and globalization compatible? Is it possible to have any combination or even all three simultaneously? In many ways, this is the most pressing political economy question of our times.

An accelerated pace of economic change increases the strains on political governance. Even as the world continues to consist of independent sovereign states, it is undergoing a massive integration of markets. Revolutions in transportation and communication combine with political and institutional changes to create unprecedented global flows of capital, goods, and even people.¹ At the same time, we have witnessed an enormous growth in the number of states with democratic institutions. Yet, the sovereign state system remains the dominant form of political organization.

¹ It can be debated whether migrant flows are historically unprecedented, but the levels of international travel and movement are at historic highs.

Each of these features – sovereignty, globalization, and democracy – remains an essential yet contested feature of world politics.² The world consists of sovereign states and numerous secessionist movements underline the continuing political desirability of sovereignty. Yet, even as we observe pressures for fragmenting existing states in order to accommodate the birth of new ones, there are dramatic efforts to achieve political integration, to transcend the state in some form of transnational organization. At the same time, movement toward greater economic integration has been met by sustained opposition. Finally, even as the number of democratic states grows, there is both a resurgence of autocracies and forces within democracies reducing the scope of accountability and citizen control.

In different quarters, the incompatibility, culmination, or demise of each of these features of governance is seen by some as a historical inevitability. As described more fully below, some see globalization as indicating the end of the sovereign state, whereas others see globalization as leading to the end of democracy, and finally, some argue that the combination of these three forces is problematic. The arguments are empirical as well as analytic, and they are muddled by competing and incommensurate characterizations of each of the three features of governance.

This paper explains the conflicting strands and frames the reasoning in precise materialist terms. It explicates the case for a trilemma – the argument that of globalization, democracy, and sovereignty, only two can coexist in their pure forms at the same time. It also delineates the critical assumptions underlying the trilemma.

The paper also develops the implications of the trilemma – pressures to constrain all three even as the sovereign state system witnesses the expansion of democracy and the growth of globalization. Many of the conflicting currents of world politics – concomitant pressures to strengthen and weaken the state, simultaneous efforts to press forward with economic integration and to restrain it, and the coexistence of new global institutions that are not democratic and the expansion of democratic rule – derive from the trilemma.

Movement along any two dimensions of global organization generates pressures to restrain the third. The combination of democratic rule and state sovereignty results in efforts to constrain globalization. Maintaining democratic rule and globalization leads to pressures to constrain sovereignty. Finally, furthering economic integration in a system of sovereign states is presumed to require limiting representative government.

² It is the existence of these features that makes their compatibility of interest, thus the analysis is one of the positive possibility rather than normative desirability.

The argument developed here is that, given the incompatibility of all three, the coexistence of any two generates pressures to constrain the third. Contemporary politics regarding globalization is driven by the conflict over which of the three to restrain.

The paper notes that this argument is rooted in narrow materialist terms and with key assumptions underlying the trilemma, and thus points to what can make them compatible. The substantial changes that would be required are some of the key contested features of global governance.

The paper delineates the trilemma, the two critical economic and political assumptions underlying it, and its political implications. The next section begins with globalization and how it interacts with democratic rule and a sovereign state system. This is followed by the development of the trilemma, which is followed by a discussion of assumptions and implications.

Globalization and admixtures

Globalization

Globalization is one of the widely used terms of the day and it has many meanings across the disparate disciplines and subfields in which it is used.³ Indeed, ‘globalization studies’ has emerged as a field (Turner 2011), but one that defies definition and classification:

Notoriously slippery and expansive, potentially encompassing almost everything under the sun, interrelating apparently disparate elements into wholes so complex, multi-dimensional, and open-ended as to defy presumptive encapsulation in terms of particular theories or perspectives, the study of globalisation is less a sub-field than an overdetermined meta-field (Rupert 2005, 457).

All the features of globalization that scholars discuss derive from its enormous force in economic life. Thus, globalization is used here in its economic sense and refers to the flows of the factors and output of production and the construction of a global marketplace.⁴

³ Keohane and Nye (2000) subdivide globalization into economic globalism, military globalism, environmental globalism, and social and cultural globalism. Others have different classification schemes (Held and McGrew 1998). Different conceptualizations result in different historical periodization (De Vries 2010). Multiple conceptualizations are possible of globalization even as an economic phenomenon (Kemp and Shimomura 1999).

⁴ Economic exchange has been ongoing within and between countries for centuries, but the pace and scope are unprecedented (Crafts and Venables 2003).

Used in this economic sense, globalization refers to the integration of national economies, a phenomenon which has come to include most of the advanced industrial countries of the world and, increasingly, growing numbers of developing nations. In recent years, the forces of economic integration have grown rapidly. Developments in communications and information storage have made possible larger scale enterprises. Capital now flows in vast amounts across borders. The volume of foreign exchange transactions grew from about \$600 billion a day in April 1989 to \$1.5 trillion a day in April 1998 and to \$5.3 trillion a day in April 2013 (U.S. President 2000, 205; Bank of International Settlements 2013, 9). The proportion of many countries' economies that move across borders has grown significantly. World trade in goods (exports and imports combined) totaled ~20% of world GDP in 1960, 32.5% in 1990, 41.5% in 2003, and 51.8% in 2013 (UNCTAD 2004, 50; World Bank 2005, 324; World Bank 2013, 100). The growth of economic interdependence, noted in the 1970s, remained a regional rather than global phenomenon (Rosecrance and Stein 1973; Stein 1984). The opening of China and the end of the Cold War ended two of the great economic barriers and expanded the domain of integrative forces (Yardeni 2000).⁵

A cottage industry devotes itself to assessing when globalization began, how far integration has proceeded, and whether it has yet had the impact that people have long touted.⁶ Some point out that the market integration evident today is not new – that trade, capital, and even labor flows were substantial in earlier eras – and that globalization can be said to have begun in earlier centuries.⁷ The evidence is clear that the levels of trade seen right before World War I were not reached again until the early 1970s. But they have grown, and in some cases quite dramatically, since. Still other scholars argue that globalization is more slogan than reality – that the majority of production remains domestic, that allegedly international firms retain a domestic orientation, that there is more regionalization than globalization,

⁵ Ironically the Cold War both prevented economic globalization yet simultaneously globalized regional conflicts. The end of the Cold War makes possible global economic integration even as it increases the regionalization of security issues (Stein and Lobell 1997).

⁶ See, among others, Bordo, Eichengreen and Irwin (1999), Bordo, Eichengreen and Kim (1998), and Frankel (2000).

⁷ Recent work suggests that globalization cannot be said to have begun as early as the 1490s, but that there is clear evidence of the impact of integrative forces beginning in the 19th century (O'Rourke and Williamson 1999a, 1999b, 2002). Indeed, borders were more open to migration flows (the cross-border flow of labor) in the 19th century than they are today. Although clearly more restricted than the movement of capital and goods, the movement of labor remains a substantial phenomenon. For a comparison of the 'two waves of globalisation', see Baldwin and Martin (1999), as well as items cited in the previous note.

and that globalization has not generated the convergence in various economic indicators that had been predicted.⁸

Some of the roots of these disagreements lie in the definition and measurement of integration. Economic integration is a process, one that begins with policies that permit cross-border flows, entails actual flows of both the mobile factors of production and the goods produced, and that creates pressures for further policy harmonization and eventual convergence in factors and goods prices.

Those who measure economic integration by the volume of cross-border flows and the relative size of domestic and foreign economic transactions find that international exchange is rising in importance.⁹ It is growing faster than domestic economies. International trade accounts for an increasing proportion of domestic product for most countries. Financial flows slosh across borders in increasing and dizzying amounts.

Others assess globalization by its putative economic effects, by whether the convergence that is expected is occurring. The evidence is mixed. In part, conflicting findings reflect the particular focus of individual studies. Some look narrowly at economic phenomena such as the expectation that prices will converge, whereas others focus on the convergence to be expected in regulatory regimes or in macroeconomic phenomena or welfare policies.¹⁰

That integration has not yet had certain consequences is subject to multiple interpretations. Some presume such a tight link between globalization and its consequences that the failure to observe those effects is evidence that globalization is not occurring. This is problematic and depends on the purported inexorability of the effects of globalization and their presumptive timing. Economic integration is a process and the harmonization and convergence to be expected from growing volumes of exchange occurs after some lag. More important, states may both foster exchange and pursue policies to ameliorate and attenuate the consequences of integration (discussed further below). The ability of states to grapple with the

⁸ On the domestic/international orientation of firms, see Doremus *et al.* (1998). On regionalization, see Mansfield and Milner (1997) and Solingen (1998). Other skeptics include Dunn (2001), Veseth (1998), Waltz (1999), and Zysman (1996). On convergence, see, among others, Barro and Sala-i-Martin (1991), Knetter and Slaughter (2001), Obstfeld (2000), Taylor (1996), Williamson (1996), and Dowrick and DeLong (2003).

⁹ The clear exception is labor mobility and migration.

¹⁰ Even a narrow focus on price convergence does not preclude looking at prices of different things and in different ways. Some focus on covariation in movements, such as stock markets (Maslov 2001); others are interested in the actual convergence of specific measures such as interest rates (Dunn 2001). On policy convergence generally, see Bennett (1991) and Drezner (2001).

consequences of globalization is at issue, as are the actual consequences themselves.¹¹

The focus here is narrowly material, defining globalization as economic integration consisting of growing volumes of exchange that generate pressures for policy harmonization. That such integrative forces are at work is clear. All agree that economic integration has been growing dramatically and has either reached unprecedented heights or is qualitatively different than the integration seen in the past (Bordo, Eichengreen and Kim 1998; Baldwin and Martin 1999; Bordo, Eichengreen and Irwin 1999; Garrett 2000; Frieden 2006). Also clearly evident are the pressures for policy harmonization, whether those involve the treatment of intellectual property, accounting standards, environment standards, and other practices. The question is how this growing integration and the concomitant pressures for convergence interact with other aspects of global governance.

Globalization and sovereignty

Globalization is proceeding apace in a world of sovereign states and the implications of one for the other have been debated. The debate is rooted in the reality that globalization entails cross-border flows and common policies whereas sovereignty implies independent autonomous states.¹²

A continuing essential element of international politics is that it consists of separate states exercising control within some territory. They are sovereign in that they are autonomous and make political choices reflecting some mechanism for arriving at public policies. Sovereign states make their own decisions that bind the citizenry within the territorial domains they control.¹³ Technological changes may increase or decrease their ability to

¹¹ This is why the literature testing the 'race to the bottom' hypothesis is problematic. First, harmonization and convergence can be at any level and need not constitute a race to the bottom. Second, globalization is a process, and the absence of such a race may only reflect that scholarly inquiry moved more rapidly than the forces of integration. Third, the search for the evidence itself implies either the sense that it is already occurring or the expectation that it will. Fourth, aggregate data would easily miss the phenomenon if such pressures indeed existed, but states retained some room to maneuver (Mosley 2000, 2005) or if states had already responded to them (much as the absence of inflation need not imply the absence of inflationary pressures but could reflect the measures taken by central bankers who had observed precursors and moved to head off rising prices).

¹² On alternative ways to conceptualize sovereignty and even dimensionalize it by degree, see Adler-Nissen and Gammeltoft-Hansen (2008), Agnew (2005), Bartelson (1995), Berg and Kuusk (2010), Biersteker and Weber (1996), Jackson (1999), Jacobsen, Sampford and Thakur (2008), Kalmo and Skinner (2010), Krasner (1999, 2001), Kurtulus (2005), and Walker (2003).

¹³ Constructivists have made much of sovereignty as a social construction and that therefore territoriality can be 'unbundled' (Ruggie 1993) and affect different policy domains. Nevertheless,

control various forms of cross-border movements, yet states retain the ability to control the movement of goods, people, and even capital.¹⁴

States may become interdependent, they may constrain one another, but they retain autonomous decision-making ability.¹⁵ Given the focus of this paper, the key aspect of sovereignty is the ability autonomously to control or shape cross-border exchanges. Given an ability to make independent decisions, the form of governance matters (democracy, discussed below); and an ability to control cross-border flows implicates the sovereign state in the prospect for, and development of, globalization.¹⁶

Despite the growth of transnational organizations and the impact of other forces, international relations remains the domain of interacting states. The presumption here is that territorial states remain the preeminent political actors setting public policy and controlling cross-border flows.¹⁷

Although the focus has changed over time, there have been arguments that globalization and sovereignty are inherently in tension with one another. In the past, the argument was that sovereignty precluded globalization. In the current age, it is commonly argued that globalization constitutes an assault on sovereignty.

Classical mercantilists felt that sovereignty implied policies of closure that precluded globalization. A concern with the national interest in a presumed constant-sum world implied foreign economic policies that precluded economic integration.

More broadly, mercantilism, and even more so realism, equated sovereignty with a search for self-sufficiency and a rejection of a division of labor that implied dependence on others. Sovereignty, especially for great

independent states making autonomous decisions regarding, among others, cross-border flows, differ in character from subnational units that have no such power. We may use the phrase, 'the sovereign Commonwealth of Pennsylvania', but Pennsylvania is incapable of making certain critical decisions that would characterize it as a member of the sovereign system of states. There is in politics something akin to the 'phase transition' in which a liquid becomes a gas, in which a territorial entity gains or loses sovereignty.

¹⁴ The communications revolution has made the control of cross-border communication virtually impossible to control, but it has also increased the power of the state in significant ways (Steele and Stein 2002).

¹⁵ On what autonomous decision making does and does not imply, see Stein (1990).

¹⁶ The state would still be able to exercise an indirect affect by virtue of its ability to affect the macroeconomy and impose regulations. Indeed, a reason for the demise of past eras of globalization is the backlash policies of states (O'Rourke and Williamson 1999a; James 2001; Horowitz 2014).

¹⁷ Discussions of global governance often finesse this issue by characterizing forms of rule that are neither supranational nor national (Kahler and Lake 2003).

powers, meant a search for independence and not the interdependence (or the dependence) that globalization entails (Waltz 1970, 1979).¹⁸

Yet, sovereignty did not preclude some degree of economic integration. During the 19th century, even great powers adopted policies that increased their openness, that led to some division of labor, and an interdependence that led to growing economic integration. The economic nationalism of the 19th century did not entail a reversion to mercantilism but maintained a recognition that the international economy was not a constant-sum game.¹⁹

Technological advances of the last two centuries were important spurs to globalization. Exchange over substantial distances depends on both an ability to transport over the distance and to do so without excessively degrading the product (food spoilage, for example) and without the transportation cost destroying the market. Revolutions in transportation, especially in the last two centuries, made possible exchange on an unprecedented scale (Cooper 1995, 363–64). Exchange also depends on an ability to communicate. Revolutions in communication made possible the development of multi-locational enterprises that make use of economies of scale and scope.²⁰

Although technology makes possible certain developments, it does not assure them. Globalization also depends on states pursuing policies of economic openness. Globalization is both a product of state policy and in turn affects policy. Both equations are essential to an understanding of the dynamics of globalization. States choose to open their borders to trade (and on what conditions and to trade with whom over what categories of goods) and capital flows and the movement of people (which states continue to control and direct). Globalization reflects the policies of states. Globalization is not yet a global phenomenon, in part, because not all states have made those choices.

One important lesson of the realization that there was extensive globalization in the era preceding World War I is the recognition that the policies of governments dramatically reduced, and, in periods, effectively

¹⁸ Waltz (1999) takes issue with globalization, pointing out how much remains local, that globalization is regionally concentrated, that it is not unprecedented, that there has been no convergence yet, that corporations remain national, that states pursue critical functions that markets do not, that national politics rather than international markets determine international economic developments, that the rules and institutions that govern the international economy are nationally constructed, that inequality among states is growing, and that military matters remain preeminent.

¹⁹ Economic nationalism, whether thought of as statist or nationalist in character, is not antithetical to economic liberalism (Helleiner 2002).

²⁰ For how the current communications revolution is and is not different, and how it affects international relations, see Steele and Stein (2002).

killed, economic integration (O'Rourke and Williamson 1999a; James 2001; Horowitz 2004). The post-World War II recovery and reconstruction took three decades to reach the levels of integration preceding World War I. There is then nothing that requires globalization to continue. There is no historical imperative of globalization.

Despite the reality that globalization is a product of state policies, most contemporary discussion focuses on the conflict between globalization and sovereignty (Berger 2000). It is often put in terms of the tension between states and markets. But markets both require states to enforce property rights and assure competition, yet also depend on some freedom from state control and interference. States depend on markets to obtain their resources. Yet, states and markets compete for they sometimes provide the same goods, and the result of their conflict determines the relative share of public and private goods available (states providing both and markets only the latter).

Further, the growth of markets poses problems for governments. In most societies, private markets dwarf the size of government and governments face some difficulty in affecting market processes. Governments thus find themselves in the unenviable position of being looked to increasingly for jobs and growth and price stability while their ability to shape such outcomes declines. The impact of globalization simply makes shaping domestic outcomes harder.

It is the reduced scope for government action that is sometimes characterized as globalization's assault on sovereignty.²¹ Globalization affects the ability of sovereign states to control internal policy outcomes and limits the policy instruments available to governments. The issue is how significant these constraints are and how important states remain in such a setting.

The constraints on governmental policy generate no inherent incompatibility between a global marketplace and a system of sovereign states. The compatibility of globalization and sovereignty has to do with the choices of states and whether the set of states in the sovereign system simultaneously adopt policies of openness. The theoretical presumptions of modern economics is that openness is Pareto improving for absolute material welfare of all states and on that basis there is no incompatibility of

²¹ See Strange (1996) and Van Creveld (1999). There are many adjectives used by those who both agree and disagree about the limits on state power. Is the state being eclipsed as in Evans (1997), is it diminished as in Cable (1995), is it in decline (Van Creveld 1999), is it in retreat (Strange 1996), is it powerless as questioned by Weiss (1998), is at an end as in Ohmae (1995), is it losing control (Sassen 1996), has its rise and rise been stopped (Mann 1997), or is it straitjacketed but with its power augmented as in Weiss (2005)?

sovereignty and globalization.²² There is also no basis for presuming that openness is a policy characterized by congestion, that is, that its simultaneous pursuit by all is not possible.²³

The tension between globalization and sovereignty and its resolvability has been formalized in the area of monetary policy. Robert Mundell and J. Marcus Fleming showed that fixed exchange rates, open capital markets, and national monetary autonomy were not all possible.²⁴ That countries could only have two of the three. Open capital markets reflect the dimension of globalization and national monetary autonomy reflects sovereignty. These are inconsistent only if there is a commitment to fixed exchange rates. Both sovereignty (monetary autonomy) and globalization (open capital markets) are possible in a world of freely floating exchange rates.²⁵

Still a different formalization of the relationship between a globally integrated economy and a sovereign state system is provided by Casella and Feinstein (2002). In their model, jurisdictions are endogenous to the choices of traders who are also voters. They decide on a jurisdiction to belong to, vote on the level of public goods the jurisdiction will provide and the taxes they will pay. They want public goods which affect their ability to trade but they also want to minimize taxes and they can shift jurisdictions. They conclude, 'A move to larger markets *per se* is neither necessary nor sufficient for unification of jurisdictions: there is no logical link between the two' (Casella and Feinstein 2002, 30). Further, they argue, 'The integration of

²² This leaves aside the question of whether the non-economic externalities of openness preclude it as a policy simultaneously optimal for all states. The links between trade and security are discussed by Gowa (1989) and Skålnes (2000). Other externalities may include cultural ones (Stein 1993; Berger 1995).

²³ Policies such as territorial expansion are ones that all states cannot simultaneously pursue successfully. On congestion and its importance for states' ability to emulate successful policies, see Rosecrance (2001).

²⁴ The Mundell–Fleming conditions are characterized as the unholy trinity (Cohen 1998), and are the basis for historical analysis (Eichengreen 1996; Obstfeld, Shambaugh and Taylor 2005) and political analysis (Frieden 1991a). The trilemma has come under criticism of late (Rey 2014). Also see the overviews by Frenkel and Razin (1987), Obstfeld (2001), and Obstfeld and Taylor (2004).

²⁵ The Mundell–Fleming argument becomes a specific instantiation of the argument made here if a demand for fixed exchange rates reflects democratic preferences in some states. Bernhard and Leblang (1999) link democratic politics and exchange rate preferences but they argue that it is relatively insulated politicians who opt for fixed exchange rates. Dunn (2001) points out that flexible exchange rates have provided the United States the opportunity to pursue more divergent macroeconomic policies, and that the United States would have been more globalized, and there would have been more convergence, had it remained with a fixed exchange rate regime.

markets and the integration of institutions devoted to public good provision are interdependent but different processes; they need not proceed together' (Casella and Feinstein 2002, 33).²⁶

More broadly, the presumption that globalization maximizes the material welfare of states combined with the presumption that states maximize their power and wealth result in a view that sovereignty and globalization are compatible. Moreover, history tells us both that states, even great powers, adopted policies of openness and allowed economic integration to grow. Yet, there was no technological imperative and states undid in the early part of the 20th century the very integration they had allowed to develop at the end of the 19th and beginning of the 20th centuries. In the last half century, and increasingly in the last two decades, states have again chosen openness and economic integration (though with constraints, as discussed below). But there is nothing either necessary or irreversible about it. No analytic relationship exists between sovereignty and globalization that precludes both simultaneously, nor one that necessarily conjoins them. In short, both a historical and analytic assessment suggest that there is no necessary link or incompatibility between sovereignty and globalization.

Globalization and democracy

The continuing course of globalization must contend not only with a sovereign state system but also with a growth in the number of democracies. Democratic governance has triumphed in recent decades and has been adopted around the world.²⁷ The percentage of the world's independent countries characterized as electoral democracies grew from 25% in 1974 to 41% in 1989, to 62% in 1996, and to 63% in 2015 (Karatnycky 2000; Puddington 2015; Freedom House 2016).

In addition, its practice has come closer to its spirit in nations long considered democracies. Japan and Mexico, for example, have had democratic governance for many years, but single party rule led to doubts about

²⁶ It should be noted, that the Casella and Feinstein (2002) model does not provide a completely adequate answer to the compatibility of sovereignty and globalization because in their model, the separate territorial units are endogenous to the choices of traders. In other work, Casella (1992) argues that multiple jurisdictions with different levels of public goods and taxation are viable to the extent that the members of the jurisdiction have higher productivity rates.

²⁷ Sen (1999) calls the 'rise of democracy' the preeminent development of the 20th century. Huntington (1991) first noted this third wave of democratization. For a dissenting note about the triumph of democracy, see Gat (2007, 2010).

democracy's actual impact. Both have now experienced the election of an opposition government and peaceful transitions of power.²⁸

Democracy comes in many forms and is defined in a variety of ways (Przeworski 2010). Among the forms of participation and involvement that have been analyzed are elections, interest groups, associations such as parties, civic engagement, and community involvement. Labels applied include electoral democracy, participatory democracy, deliberative democracy, and liberal democracy. To capture the range of features that constitute democratic governance, Dahl (1971) developed an alternative term, polyarchy, that has seven features: inclusive suffrage, free and fair balloting, elected officials, the right to run for office, freedom of expression, alternative information protected by law, and associational autonomy. Others add still other features, including respect for the rule of law and an independent judiciary. The most widely used metric of democraticness (Polity IV) consists of six component measures that are aggregated into a 21-point scale with a recommended truncation that generates five different levels of democracy.²⁹

Central to democratic rule is that it attaches equal weight to the preferences of all its citizens and that outcomes reflect the will of a majority. An electorate of all adults, rather than a select subset (i.e. a selectorate), either chooses policies directly in a referendum or selects representatives and rulers who exercise legislative and executive functions making and enforcing laws.³⁰ These choices are made in elections that permit electoral competition and allow access to information. Such direct or indirect control of public policy through periodic elections with majority rule should imply that the preferences of the median voter are pivotal.³¹

²⁸ The recent wave of democratization is not a *sui generis* process but is affected by international dynamics. The external pressures to democratize have in some cases led to an illusory democratization (Sweet 2001).

²⁹ Note that there has been debate about measurement (Elkins 2000; Munck 2009). Given the multi-dimensionality of what is meant by democracy, it is not surprising that democracies have diverged in their democraticness (Diamond and Plattner 2001), and that there are critics who denigrate the importance of elections in favor of another feature, such as the rule of law, that they find more important in achieving some objective (Zakaria 2003). Despite the number of electoral democracies being at an all time high, Freedom House finds 10 consecutive years of net declines in global freedom (Puddington and Roylance 2016).

³⁰ In short, the focus here is on electoral democracies, and the number of these has grown. Diamond (1996) argues that 'liberal democracies' are characterized by more than elections and the number of these has not grown.

³¹ Governments have a variety of functions, legislative, executive, and judicial, and democracy typically embodies electoral constraints in at least the first two of these. The preferences of the median voter are thus evident in the selection of a chief executive but also in the selection of legislative representatives, sometimes in more than one legislative branch. The various mechanisms for aggregating preferences are thus critically important (Rogowski 1999).

The core political economy feature of democracy is the presumption that it reflects the preferences of the median voter, or what is sometimes referred to as the referendum model (Mayer 1984). As elaborated below, this assumption is at the heart of work both about the requisites of democracy and of its implications, and a great deal of intellectual effort has been expended assessing this core assumption.

My focus here is on the material implications of democratic governance. Globalization is an economic phenomenon with economic consequences, but it is also the product of state policy to allow cross-border exchanges, and it affects state policy in generating pressures for policy harmonization. In assessing the compatibility of democracy and globalization, it is critical, therefore, to focus on the material impact of globalization in a democracy and the policy impact of democratic governance on globalization.

Just as some see an incompatibility of globalization and sovereignty, there are those who argue that globalization is antithetical to democracy.³² Much of this is a rather unfocused reaction to the presumed impersonal and large-scale forces at work in the process of globalization.³³

Globalization and democracy can readily coexist.³⁴ Historically, the world has witnessed economic integration conjoined with democratic political integration. The United States, for example, consisted of 13 autonomous colonies and independence generated a weak confederacy, in which 'there was no general executive and no general judiciary, no standing army, no power to control commerce' and in which the legislature had no power to tax. It was 'far from being a government', but was 'a mere diplomatic assembly of states' (Tomasi 2003, 225). The Constitution created a federal structure that conjoined economic integration with political integration consisting of democratic governance.³⁵

Similarly, one can imagine an integrated world economy and a democratic world government. Planetary governance would reflect the interests

³² In some cases (Cerny 1999), the incompatibility is not a dilemma but implicitly assumes the third component of sovereignty. For a sociological review of the relationships between the two, see Schwartzman (1998). For an economic review and empirical assessment, see Eichengreen and Leblang (2008).

³³ Where an analytic logic is provided, the case made becomes even larger, that democracy is antithetical to markets. Bernholz (2000), for example, argues that capitalism (decentralized market economy) is a prerequisite for democracy but that democracy poses challenges to capitalism in the form of market regulations.

³⁴ For an early analytic and historical discussion, see Diaz Alejandro (1981).

³⁵ The particular process has been dubbed 'the Philadelphian system' (Deudney 1996).

of the median voter and there would be an integrated world economy.³⁶ Just as individual countries have integrated national economies and are governed democratically, so too, can the world have an integrated economy and be governed democratically.³⁷

The great trilemma

The problem that many feel with current globalization is that democratic governance is national in character and the forces of economic globalization are transnational in character. The combination is what is troubling – that democracy functions within units which are less relevant in world affairs and that the constraints on sovereignty have meant the growth of supranational institutions that are more removed from, and less accountable to, individual citizens and voters. The problem is that globalization is occurring within the context of a sovereign state system whose individual members are increasingly ruled democratically.³⁸

For democracy, sovereignty, and globalization to be compatible, the forces of economic integration that are the hallmark of globalization must be consistent with a world of independent states each governed democratically. As states still have the power to control cross-border flows (certainly

³⁶ This does not mean that there would not remain regional variations, even in economic matters. Even now, there are regional variations in prices within nations whose economies are quite integrated. The forces of propinquity and transportation costs would still matter.

³⁷ Although there have been discussions of the compatibility of globalization and democracy and of globalization and sovereignty, the coexistence of democracy and sovereignty is unquestioned; indeed in some quarters is presumed. A world of sovereign, democratically run governments is precisely the Kantian vision that has enjoyed renewed interest and popularity in the last three decades. Kant envisioned the spread of democratic governance and the emergence of a community of nations at peace with one another. Much scholarship has been devoted to explaining the seemingly peaceful relations between democratic states. The belief in this proposition has been elevated to public policy dogma and become a new basis for the exportation of US values. The desirability, indeed the preference that others have democratic governance, has become enshrined in US foreign policy. While remaining agnostic on the democratic peace, there is in principle no reason why a system of democratic states cannot exist. There is no reason to assume the absence of conflicts of interest or even an ability to negotiate differences. But there is no basis for supposing either that independent governing jurisdictions are inherently hostile to democracy, or that democracy is hostile to such territorial governance. A sovereign state system can consist of democratic regime types and democracy hardly precludes nationalism and a sovereign state system.

³⁸ The limitations of democratic rule within a globalizing system of sovereign states has led to attempts to reconceptualize the possibilities of democracy (Archibugi and Held 1995; Held 1995, 1997). Some argue that a democracy should empower everyone affected by a state. Given the externalities of state policy, this would include the preferences of those outside the boundaries of a state (Agné 2010).

of people and most classes of goods, though less so of capital), globalization depends on the policies adopted by sovereign states. And if each state is a democracy, then the policies that sustain globalization would have to reflect the preferences of a majority of the citizenry in each state.

The classical liberals presumed that the emergence of democracy within sovereign states would lead to policies of openness that would bring economic integration (Stein 1993). They opposed mercantilism as a system which reflected the interests of absolutist states rather than individual subjects. Economic reform that would allow competition domestically would also generate foreign economic policies of openness. Individuals interested in maximizing their wealth would embrace competition and accept a division of labor that would allow all to increase their absolute wealth.

But the classical liberal vision came a cropper by the end of the 19th century. Restraining monarchs and empowering individuals did not bring an end to protectionism. Newly enfranchised workers looking to government to protect them from the vagaries of the marketplace eagerly sought protection. It turned out that protection was not just a policy interest of rapacious monarchs. Protectionism, once seen as solely in the interest of autocrats and monarchs, came to be recognized also as a product of the pressures and preferences of a mass electorate. Mercantilism's top-down protectionism was replaced by bottom-up protectionism. Protectionism could reflect the preferences of rulers, capitalists, or workers. Political liberalization did not necessarily result in economic liberalization. Neither competition nor protection was inherently and unambiguously adopted by either capitalists or workers.³⁹ The endogenous theory of protection focuses precisely on domestic political pressures within representative political systems for protection (Trefler 1993). Representative political governments face pressures to deal with those suffering adverse consequences, especially in economic downturns.

The argument that there is a problem with globalization in a world of sovereign democratic states has recently been made by Rodrik (2011) but for different reasons than implied above and developed below.⁴⁰

³⁹ There is work that suggests that democratic politics makes for more trade protection, see Milner and Rosendorff (1997). But there is also work suggesting that democracies liberalize trade between one another, see Mansfield, Milner and Rosendorff (2000). And it may depend on other factors (Verdier 1998; also see Eichengreen and Leblang 2008). Historically, there have been conflicting views about the implications of democracy for a variety of policies.

⁴⁰ His book, *The Globalization Paradox* had a subtitle of *Democracy and the Future of the World Economy* in the US, but subtitled *Why Global Markets, States, and Democracy Can't Coexist* in the UK version.

His argument is that ‘hyperglobalization impinges on democratic choices’, and more precisely that ‘deep globalization’ implies a competition between governments that precludes their adoption of the regulations, standards, and other policies their citizens want (Rodrik 2011, Ch. 9). But this need not create an incompatibility of sovereignty, democracy, and globalization if the citizens in every democracy share regulatory preferences or if democratically elected governments can agree on a set of common standards supported by a majority of their citizens. For him, the incompatibility derives from the inability of the majority of citizens to have their preferred regulatory policies adopted and thus generates a reaction to hyperglobalization. The ability to thwart the preferences of the median voter is what makes sustained liberalization possible in a world of democratic sovereign states. For Rodrik, it is the problem of convergent regulatory policies and the thwarting of national regulatory preferences that is the problem. In short, for Rodrik, globalization has already defeated democracy in a way.⁴¹

The argument here is different and somewhat opposite, the incompatibility derives from the ability of citizens to get their way when the preferences of a majority of citizens are opposed to continued economic liberalization and integration. And the problem is that in some democratic states a majority of citizens will be directly opposed to liberalization, quite apart from pressures to converge regulatory regimes. This implies a trilemma that emerges from an analytic basis in which democratic preferences diverge in such a fashion as to preclude globalization in a state system consisting of all democratically elected governments, and this is developed below.

For globalization to encompass the entire world, were it composed only of democracies, it must be the case that the policies that sustain it are in the interests of the median voter within every sovereign state. Whereas globalization could succeed in a sovereign system by being Pareto improving for the states in the international system, globalization can only succeed in a sovereign system of democratic states if it is in the interest of the median voter in every individual democratic country.⁴²

This is problematic, if not an impossibility. Even if we assume the possibility that all countries increase their economic welfare through integration (that globalization is Pareto improving for countries), it cannot be the case that globalization *by itself* improves the welfare of the median voter in each country.

⁴¹ As discussed below, the workings of a federal system such as the United States implies an ability to sustain some degree of differential policies.

⁴² The median voter model is the workhorse model for assessing the workings of democracies (Meltzer and Richard 1981; Congleton 2004) and for their viability (Benhabib and Przeworski 2006; Przeworski 2006).

Globalization generates pressures for adjustment that have distributional consequences. It generates winners and losers within every country. Openness increases the returns to certain factors of production and reduces those of others.⁴³ These consequences are the basis for political alignments regarding both the desirability of greater openness and the maintenance of current exposure to the global marketplace.⁴⁴ Losers will oppose greater openness and support rolling it back. The winners will support greater openness and oppose any backtracking.

As globalization is a product of state policy and affects domestic economic conditions, its viability is dependent on supportive government policies. Even though globalization generates winners and losers, it is presumed to increase national welfare. An interest in maximizing national wealth and an ability to control domestic politics makes globalization and a world of states compatible. But democracies who are responsive to their constituencies face a greater challenge.

In a democracy, the issue will be decided by a majority and thus reflect the preferences of the median voter. The economic winners in many societies, though not in all, will be more numerous. As most voters are workers, 'Democratization will lead to more liberal trade policies in countries where workers stand to gain from free trade and to more protectionist policies in countries where workers will benefit from the imposition of tariffs and quotas' (O'Rourke and Taylor 2007, 195). The standard view is that labor in labor-abundant countries will gain disproportionately (Krueger 1983; Bhagwati and Srinivasan 2002), and such societies should be the ones in which democracy lends strong support for globalization (Milner and Kubota 2005; Milner and Mukherjee 2009). But at any point in time, there will always be some countries in which a majority of voters will favor constraining globalization. These are the countries in which the scarce factor which loses from openness is also numerically superior. Assuming that voters vote their economic interests, globalization will come under assault in these countries.⁴⁵ If globalization worsens the position of the median voter in a democratic polity, then policies that sustain globalization

⁴³ Economic theory can be used to ascertain which factors will be the winners and losers from increased openness. The political problem in democracies is that the abundant factor that would gain from openness is not necessarily numerically superior.

⁴⁴ See Baldwin (1982), Mayer (1984), and Rogowski (1989). An alternative sectoral approach is associated with Frieden (1991b). For discussions of which economic model is more appropriate for assessing the economic consequences of openness, whether political cleavages fall along factorial or sectoral lines, see Brawley (1997) and Hiscox (2001).

⁴⁵ Notice that this result assumes no differential turnout between winners and losers (Mayer 1984). On voting and economic interests, see the review by Lewis-Beck and Stegmaier (2000).

are in jeopardy if voters select among politicians on the basis of their material interests (assuming that politicians remain free to adopt policies that constrain globalization, on which see the discussion on constraining sovereignty below).

The analytic implications derived from economic theories of liberalization (the nature of the winners and losers) and from political theories of democracy (policy reflects the preferences of the median voter) have begun to be assessed empirically. One strand of research focuses on the distributional consequences of globalization within nations. The evidence for the 19th century fits the expectation that the impact of democracy on protection depends and demonstrates ‘the power of the Heckscher–Ohlin factor endowment theory in understanding late nineteenth-century trade and politics’ (O’Rourke and Taylor 2007, 213; also see Baldwin 2008). Similar results have been found for the late 20th century as well (Dutt and Mitra 2002).

Another path of empirical verification consists of studies of changes in inequality and their relationship to globalization. The record seems to be reasonably clear that globalization before World War I reduced inequality in ‘resource-poor, labor abundant, agrarian economies around the European periphery’, but rose ‘in resource-rich, labor scarce New World countries’ (Williamson 1998a, 170; also see Williamson 1997; O’Rourke 2001). Williamson (1998a, 1998b) is even prepared to argue that there was a policy backlash against globalization as a result.⁴⁶ The contemporary debate is about inequality and the relative importance of globalization in observed changes in wages. The empirical consensus is that trade is increasingly responsible for changes in US inequality.⁴⁷ The most recent scholarship develops a more differentiated view of the economy, focusing on firm and worker heterogeneity (Kanbur 2015).⁴⁸ The result is a more

⁴⁶ Williamson (1998a, 1998b) finds that migration was an important aspect of late 19th century globalization and characterizes the anti-immigrant policies of the early 20th century as reactions to globalization.

⁴⁷ Economists in the 1990s found contradictory results and argued about the analytic basis for assessment. During the 1990s, estimates of the proportion of US income inequality due to trade competition ranged from 5 to 100% (Cline 1997, 1999). Over time, a consensus emerged that trade is a portion of the explanation for wages and income inequality and that its impact has been growing. Indicative of the evolution of the debate is the shift by Krugman from his view in the early 1990s to the one he promulgated in 2008 (Krugman and Lawrence 1993; Krugman 2008). For a recent assessment, see Haskel *et al.* (2012).

⁴⁸ Similar arguments have been made as ways to explain why increased trade and investment might not reduce poverty and inequality in developing countries (Davis and Mishra 2007; Harrison, McLaren and McMillan 2011). Also see Goldberg and Pavcnik (2007) and Harrison (2007). On trade policy in new democracies, see Mukherjee (2015).

refined sense of the characteristics of the winners and losers from trade. But that there are many losers who in some societies constitute a numerical majority is not really questioned.

Another focus for empirical work is the basis for people's trade policy preferences and whether individuals' policy preferences reflect their jobs and skills, and the implication of liberalization for their income and wealth. Studies have looked at peoples' sense of economic insecurity (Scheve and Slaughter 2004), their support for particular trade agreements (Balistreri 1997), on their support for particular parties in which the elections were effectively referenda on free trade (Beaulieu 2002), on general attitudes toward free trade (Scheve and Slaughter 2001; O'Rourke and Sinnott 2002; Kaltenthaler, Gelleny and Ceccoli 2004; Baker 2005; Mayda and Rodrik 2005; Mayda, O'Rourke and Sinnott 2007; Hoffman 2009; Owen and Quinn 2016). In general, they find broad support for the expected link between labor market attributes and trade policy.⁴⁹

That there are winners and losers from globalization means that there are those pressing for it and those opposed to it.⁵⁰ The relative size of these factions within any country and the specific circumstances (the nature of the technology, the liberalization being contemplated, the state of the economy, and the institutional mechanisms for amelioration) determine the political balance.⁵¹

Historically, openness and liberalization have been neither self-reinforcing nor self-defeating. The world, and most of the nations in it, have typically been at neither extreme, of complete closure nor complete openness. Were self-sufficiency and closure optimal and viable, and were those hurt from openness always a clear majority, then, in a democracy, either openness would never be attempted or any attempts at openness would immediately be extinguished. Policies of openness would either not be attempted or would be self-defeating. Alternatively, at the other extreme,

⁴⁹ Others get at this question by looking at the policies of leftist parties and find that, as expected, they support protection in capital-rich countries and are more pro-trade in labor-rich countries (Dutt and Mitra 2005). There are dissenting notes about the evidence linking labor market attributes and trade policy preferences (Blonigen 2011). For a review, see Kuo and Naoi (2015).

⁵⁰ This emphasis on the material bases of preferences regarding economic liberalism does not preclude a role for ideas (whether thought of as science or ideology). Political contestation over economic policies and their distributive/redistributive consequences inherently depends on ideas about how the world works and is often framed in larger ideological and ethical terms. Winners and losers typically develop ideologies to justify their particularly favored distribution.

⁵¹ Note the subtitle of Garrett (1998). The answer provided here is that the answer depends on the nature of the political system, and then it depends on the preferences of the median voter if the system is democratic.

were openness always preferred by a majority because it benefitted a clear majority then openness would be self-reinforcing in a democracy. Openness would always be favored to closure and the results of liberalizing measures would be merely to enrich and further empower a majority who would press for more openness.⁵² Liberalization would then be self-reinforcing and states would move toward complete liberalization. Yet neither outcome has been the historical norm.⁵³ Few states have pursued either complete autarky or complete openness.

Assuming that states retain autonomous decision making, and that as democracies their policies reflect the will of the median voter, then globalization is incompatible with democracy in a world of sovereign states for those countries in which the losers constitute a numeric majority.⁵⁴ Ironically, the pursuit of globalization presumes a preeminent concern with material well-being, but the political consequences of globalization's material impact renders it self-defeating in some independent democratically governed states. A focus on the material bases and consequences of politics in a system of independent states leads to the conclusion that globalization, sovereignty, and democracy are not compatible. The implications of this are discussed next, and then followed by a discussion of assumptions and the requisites for alleviating the trilemma.

Contested domains

The full force of the trilemma becomes more and more apparent as the number of democracies grows and as globalization continues apace, all in a system of independent states. Then pressures arise to restrain each of the three. Sustaining two of the features comes with pressure to constrain the third. In some countries, those in which a majority of voters are losers, maintaining representative government and state autonomy generates public policy to constrain globalization. A preference for continued economic integration and state autonomy generates a demand for

⁵² Self-sustaining openness could also be achieved even if the winners did not constitute a majority but if the winners could compensate a sufficient number of losers by redistribution schemes so as to create a majority in favor of sustained openness. The failure for openness to be self-sustaining is evidence both that the winners do not constitute a majority and that they cannot systematically redistribute so as to coopt sufficient numbers of losers. More about this below.

⁵³ It is this mixed result that makes it very difficult to develop an argument about economic policy based on the political demand for particular trade policies based on the preferences of domestic coalitions. At any point in time there are internal demands for both liberalization and protection from those who would benefit by each respective policy (Frieden and Rogowski 1996).

⁵⁴ This does not mean that globalization will not be opposed on other grounds as well (Helleiner 2003).

constraining democracy. Finally, a preference for democracy and globalization becomes the basis for limiting sovereignty and political integration. These are core implications of the trilemma and become an additional way to assess the argument. As globalization has proceeded apace and as the number democracies has grown, the world has witnessed pressures to constrain each of the three.

Constrained democracy

The requisites of economic efficiency and integration in a system of sovereign states have generated pressures to limit the domain of democratic governance in societies in which the losers numerically exceed the winners. Democracy itself is under assault and being constrained. There have been and continue to be pressures to *dedemocratize* domains of economic policy, to remove them from popular control or at least to limit such control.⁵⁵

Although undertaken for reasons other than globalization, democratic limitations have long existed in the area of monetary policy in the form of independent central banks. It is now commonplace to argue that independent central banks generate more stable economic outcomes.⁵⁶ The *insulation* of monetary policy from politics is now widely accepted and championed.⁵⁷

Globalization has led to some insulation of trade policy from politics. Although not subject to the same depoliticization as monetary policy, trade policy has witnessed its share of constraints on democratic governance. Tariffs are typically set by legislatures but it is the executive branch that negotiates trade agreements, which have historically been the vehicle for trade liberalization. Negotiating trade treaties subject to legislative approval has long been a problem for the executive branch.

Movement toward trade liberalization in the United States, for example, has led to successive limitations on legislative control.⁵⁸ In the 19th century, Congress often rejected trade treaties negotiated by the president or so

⁵⁵ This is often characterized as *depoliticizing* domains of policy by placing them in the hands of managers and experts rather than self-interested voters and politicians.

⁵⁶ In some countries, in which central banks remained insufficiently independent, the need to prevent political tampering with the currency led to the institution of currency boards that anchor a country's currency and money supply to an external currency.

⁵⁷ The insulation of monetary policy from politics developed for reasons other than economic integration. In addition, although one can argue that these institutions are still subject, many layers removed, to democratic control, the very essence of their design and construction is to limit their responsiveness to the interests of a voting majority. Indeed, their bias is presumed to favor a society's minority of financial creditors in contrast to the larger majority of debtors.

⁵⁸ For a historical treatment of the institutional evolution of US trade policy as a search for mechanisms to provide both negotiating autonomy and liberalizing authority, see Hody (1996).

amended them as to nullify the treaty and any prospect of negotiating one. Trade liberalization required amending the political process for negotiating and ratifying agreements. First, Congress provided advance authorization to the president to negotiate lower tariffs. When even that procedure generated excessive protection, presidents asked for ‘fast track authority’, which provided both prior authority to negotiate percentage cuts in tariffs and committed Congress to vote on any agreements up or down in toto without amendment. The institutional history of the evolution of US trade policy involves repeated reform efforts in search of the institutional arrangement that will deliver liberalization with the least onerous protectionism (Destler 1986, 2005; Hody 1996).

Whether such limitations on the role of legislatures makes trade politics less democratic can be debated (Hudec 1993). After all, the executives that negotiate these agreements are also elected and the problem of constructing public policy is that of different sized constituencies with different median voters.⁵⁹ Nevertheless, it is clear that the particular character of governance in the United States has had to be modified to deal with the specific problem of negotiating trade agreements, in a way in which it has not in other policy domains.⁶⁰

Constrained sovereignty

Where it has proved difficult to constrain democracy, the alternative has been to constrain sovereignty. Concerned about the implications for economic integration of disparate sovereign jurisdictions whose democratic majority may shift, political and economic elites have gone about constructing supranational arrangements and transferring decision-making authority from the national level. Regional integration schemes such as the EU and NAFTA, along with global arrangements such as the WTO, are full of such arrangements. The ‘collusive delegation argument’ made by EU scholars holds that European policymakers ‘chose to centralize trade policymaking in order to insulate the process from protectionist pressures and, as a result, promote trade liberalization’ (Meunier 2005, 8).

Concern has been voiced both about the loss of sovereignty entailed and that these institutions are not democratically accountable.⁶¹ This has been

⁵⁹ Not surprisingly, therefore, the form of the political system, majoritarian or one of proportional representation, affects the nature of trade policy (Roelfsema 2004; Evans 2009). More broadly, a variety of features determine the extent to which the trade policies of governments are welfare-minded (Gawande, Krishna and Olarreaga 2009).

⁶⁰ Leading Boyers (1998) to ask how much globalization the Constitution can accommodate.

⁶¹ Most broadly is the argument that international organizations inherently cannot be democratic (Dahl 1999).

dubbed the democratic deficit in the EU case. But these issues are separable. Constraining sovereignty through political integration, of any kind, need not, and typically does not, come with any reduction in democratic accountability. First, it is possible to create supranational representative institutions, such as the European Parliament (and as the US Congress). Second, states themselves retain a vote, and thus for states which are democratically governed, all that has occurred is the creation of an additional layer of representation.⁶²

Note that the focus here is not on the ways in which sovereignty is reduced by the forces of globalization and the reduced ability to achieve specific outcomes. Rather, it is on the constraints on the decisional autonomy of sovereignty that states willingly agree to in order to further the forces of economic integration.⁶³ And they do so because of the concern about the implications of retaining such authority at the domestic level, especially when they are subject to democratic pressures.⁶⁴

The implications of constrained sovereignty are best understood by looking at domestic society as an analogy for international developments.⁶⁵ The United States is an integrated market containing multiple jurisdictions within it. Market integration within the United States applies not only to capital and goods but even to people who are free to migrate across borders within the country. Yet, there remain local jurisdictions who provide club goods to those living within their communities. These jurisdictions have different levels of taxation and provide different levels of public services.

⁶² Moravcsik (2004) develops criteria for ascertaining democratic legitimacy and finds the EU meets them. Also see Moravcsik (2002) and Meunier (2003). Held finesses the issue by noting the nature of modern interconnectedness and pointing to the emergence of new forms of political community and displacing notions of sovereignty 'as an illimitable, indivisible, and exclusive form of public power' (Held 1999, 103).

⁶³ Note that both the requisites of security as well as commerce have generated such constraints on sovereignty (Stein 2001).

⁶⁴ The assumption here is that democratic approval (or at least that of representative institutions) is possible on regimes or metapolicies, such as NAFTA, when specific policies would not obtain acquiescence, and certainly not under conditions that may arise in the future. Binding to metaprocedures by representative governments is easier than actual agreement on specific policies under an array of conditions. It should be noted that referenda on the EU have not done well. Voters in Denmark have voted on six referenda dealing with the EU and twice voted no – they rejected the Maastricht Treaty in 1992 and voted against joining the Euro in September 2000. Irish voters voted against The Treaty of Nice in 2001. 'When a top official at the European Commission casually suggested last year that German leaders might want to consult voters on the subject of enlargement, German government leaders were horrified at the thought of losing control over the process and vehemently denounced the idea' (Andrews 2001). The Swiss voted in 1992 and again in March 2000 not to join the EU. The United Kingdom holds a referendum on continued membership in 2016.

⁶⁵ This is called the domestic analogy to world order (Suganami 1989).

Despite free mobility, a multiplicity of jurisdictions thrive providing different levels of club goods. Each of these localities is democratically governed. In this case, market integration and democracy in subnational entities are compatible because these entities are not sovereign. State and localities retain decisional autonomy in some matters, but they are fundamentally constrained from imposing barriers to flows (a core feature of the Constitution). This case, too, illustrates the compatibility of democracy and globalization even with multiple jurisdictions, as long as their decisional autonomy (sovereignty) is constrained.⁶⁶

In short, sovereignty is constrained to facilitate globalization when the supranational arrangements are both binding and not democratic. In such cases, states can retain their democratic character and not restrain globalization because particular instruments of state policy have been shifted to a supranational level.

Constrained globalization

Despite the trumpeting of the process of globalization, it remains a dynamic simultaneously being pressed forward and restrained. As noted above, states have adopted policies of partial openness but have not moved either individually or collectively toward complete openness (with the possible exception of projects for complete economic integration such as the EU). As classical barriers to trade have dropped, they have adopted a variety of measures to manage their adjustment. Over time, even the domestic measures they used to cushion the shock of international competition came under assault as non-tariff barriers.⁶⁷ The pressures to harmonize are evident, as are the array of governmental policies used to deal with the pressures of economic integration. Much of the observed slowness to witness convergence has precisely to do with public policies used to forestall the consequences of globalization.⁶⁸

Concerns with the pace and scope of integration have been apparent all along as most international monetary and trade agreements typically include prolonged phase-in periods as well as escape clauses for exigent

⁶⁶ Note that the domestic analogy provides an interesting corrective to some of the arguments about convergence. There is substantial evidence of convergence within the United States (Barro and Sala-i-Martin 1991) and crippled sovereignty, yet there remains some ability to pursue autonomous fiscal policies.

⁶⁷ For my discussion of the evolving trade agenda, see Stein (1993).

⁶⁸ And it has to do with the increasing difficulty in obtaining domestic legislative support for additional trade agreements.

circumstances.⁶⁹ States negotiating these agreements recognize they will need a period in which to adjust to increased integration and that there will be situations in which they will simply not be able to sustain their liberalizing commitments. Long phase-in periods are intended to deal with immediate opposition whereas escape clauses are intended to deal with economic downturns and future crises. Yet, these have been insufficient to preclude continuing efforts to manage exchange and sustained and successful opposition to globalization.

When extended phase-in periods have proved insufficient to secure political support for further liberalization, the price of liberalization has entailed protectionist buyouts and side payments for firms and industries and workers who would be hurt. In the 1960s, textiles received special treatment, by the 1980s it was steel and autos. Movement toward liberalization, even after institutional reform, has still entailed protectionist buyouts as a price for further liberalization (Stein 1993).

The restraints on globalization are also evident in the area of international capital movements. On the one hand, there are steps states take autonomously, as evident in the continued use of capital controls and renewed discussion of their viability, and interest in capital controls reflects distributional considerations (Alesina and Tabellini 1989; Alfaro 2004). On the other hand, there are discussions about measures states can take together to manage global capital movements. The International Monetary Fund (IMF) has shifted its position on the acceptability of capital controls under certain conditions.⁷⁰ Economists are now suggesting the desirability of limiting capital movements. The implications of heightened sensitivity to capital movements has resurrected an idea associated with James Tobin of taxing international capital transactions.⁷¹

Despite heightened living standards and increased wealth generated by greater economic openness, attacks on globalization seem omnipresent. And they are driven by the reactions of economic losers. There is a great deal of evidence about the reactions of economic losers. As expected in an argument focused on the preferences of individual citizens that derive from their economic prospects, survey evidence suggests that views of protection flip between higher-income and lower-income countries: protectionism is

⁶⁹ On the role of escape clauses and flexibility provisions, see Stein (2000), Rosendorff and Milner (2001), Helfer (2005, 2013), Pelc (2009), and Koremenos and Nau (2010).

⁷⁰ A series of scholarly analyses and pronouncements have signaled this shift (among others, see Ostry *et al.* 2010; Strauss-Kahn 2011). For an introduction, see Neely (1999).

⁷¹ For a comparative discussion, see Edwards (2007). It is fascinating to note that there are a number of international economists who strongly support both free trade and restraining international capital movements (Bhagwati 1998, for example).

preferred by low-skill individuals in the former and high-skill individuals in the latter (Dutt and Mitra 2002; O'Rourke and Sinnott 2002; Baker 2005; Mayda and Rodrik 2005; Mayda, O'Rourke and Sinnott 2007; Dhingra 2014).

The globalization that has developed reflects technological change but also state policy. States have tried, with different degrees of success to channel and manage globalization. Significant restraints on economic integration remain and individual states continue to constrain the forces of globalization.⁷²

A sovereign state system and democratic rule have generated pressures to restrain globalization. Successive trade rounds have taken longer to negotiate, have faced greater hurdles in industrial democracies in which losers outnumber winners, and in some cases have failed. In effect, the pace of globalization has slowed sufficiently to reduce the number of losers sufficiently to sustain extant levels of integration and sustain small further increments.

Assumptions

The foregoing analysis depends critically on a set of assumptions, about the nature of citizen preferences, about the consequences of globalization, and about the workings of democracies. First and foremost, the preceding analysis has been relentlessly materialist. In part this reflects the central consequence of globalization as consisting of economic integration. Globalization is first and foremost an economic phenomenon and its economic consequences matter for governments and citizens. This assumption reflects the centrality for governments of assuring economic performance. In the modern world, even autocratic rulers are concerned with the state of the economy and its implications for their continued rule. It also assumes that people are most concerned with the economic rather than social and cultural implications of globalization. And it presumes that electoral choices are driven by material considerations (more on this below) and reflect the median voter or a national referendum. The presumed trilemma rests critically on these key economic and political assumptions. Absent these assumptions, democracy, sovereignty, and globalization would be compatible.

The analysis rests on a set of assumptions rooted in economic theory for which there is some empirical validation. International trade and finance are assumed to improve the material well-being of all states (even as it may

⁷² Certainly as regards migration, the world is less open than it was in the past. Here, too, pressures are evident to constrain the migration that is present. On the political economy of migration, see Kessler (1999), Money (1999), and Rudolph (2006).

increase the degree of inequality between them). Without this assumption, there would be states opposed to globalization even without their being democratic. An additional critical assumption is that there are economic losers as well as winners from increased openness and that these are by and large known.⁷³ That in some cases the state as a whole can benefit while a majority of its citizens do not is what underlies the trilemma.

The argument further assumes the centrality of material factors in the political process, that people vote their economic interests, that if the median voter is a loser to globalization then she votes for policies to contain it. It assumes that losers from economic integration will use the political process to redress their deteriorating economic fortunes and that political contestation will reflect such concerns.⁷⁴ As noted, there is ample evidence that individuals vote their economic interests and that their preferences regarding trade and economic integration reflect those interests.

The trilemma is obviated if economic losers do not vote their economic self-interest. For example, if people vote sociotropically, on the basis of what is best for the country even if it hurts them, then there would not be a problem given that we assume that globalization does benefit society as a whole.⁷⁵

Even if voters focus on their narrow material self-interest, it may still be that other concerns dominate economic ones both as issues in specific campaigns and as the basis for individual political choices. Policies that further economic integration will nevertheless be sustained by democracies in which a majority are hurt economically by globalization if non-material concerns dominate the political calculations of the economic losers.

⁷³ An additional assumption, and the critical one to Rodrik's (2011) particular formulation, is that the growth of markets leads to convergence and that this is the basis for citizen frustration in democracies.

⁷⁴ The median voter model of material interest is central to modern comparative and international political economy. That the bulk of citizens will vote for economic redistribution in many cases is the basis for a host of arguments: that enfranchisement and democratization depend on a degree of equality that precludes substantial redistribution, that inequality precludes democratization, that inequality explains democratic reversions, that democracy explains patterns of public spending and redistribution, and so on. For reviews and explication, see Acemoglu and Robinson (2000), Persson and Tabellini (2002), Boix (2003), Benhabib and Przeworski (2006), Londregan (2006), Przeworski (2006), Geddes (2009), and Acemoglu *et al.* (2015).

⁷⁵ For an assessment of sociotropic voting, see Edlin, Gelman and Kaplan (2007). Mansfield and Mutz (2009) find evidence of sociotropic support for free trade. It may also be that globalization either strengthens or weakens the link between economic performance and vote choice in national elections (Hellwig 2001; Fernandez-Albertos 2006; Hellwig and Samuels 2007). The trilemma would also be obviated if people accept current losses because of an expectation of larger future gains. The problem is that the losers from globalization see a bleak if not non-existent future for themselves.

The importance of such non-material considerations has been proffered as a more general explanation for the limited degree of redistribution in democracies and why a poor majority does not vote to redistribute wealth from a rich minority (Roemer 1998).⁷⁶ It should be noted that the role of non-economic factors is a dual-edged sword and may be the basis for opposition to globalization by others who would otherwise benefit by it materially. Cultural and ideological factors, such as patriotism and chauvinism, can affect individual trade preferences for protection (O'Rourke and Sinnott 2002). Opposition to globalization's social and cultural consequences is another manifestation (Margalit 2012).

Both formal models and empirical assessments provide support for an argument that there is less redistribution than would be expected on purely self-interest grounds.⁷⁷ Lindert (2004) describes a 'Robin Hood paradox' in which democracies with highly unequal income distributions redistribute less than would be expected from a median voter model. The reason typically proffered, in both formal models and empirical studies, is that parties mobilize voters on grounds other than income and that individuals make political choices based on these other factors.⁷⁸ The common argument for why they do so is religion, or moral values (Roemer 1998; Frank 2004; Scheve and Stasavage 2006; Huber and Stanig 2007; De La O and Rodden 2008; Lee and Roemer 2008; Finseraas 2010).⁷⁹

The existence of a trilemma is also critically based on an assumption of the political process. The focus here has been on electoral democracies because, contrary to autocracies, we have an expectation of policy as subject to the preference of the majority. No such expectation exists in autocracies. The relationship between autocracy and globalization depends on the societal groups to which autocrats are beholden. For example, autocrats beholden to the minority interests of capital in labor-abundant countries would oppose globalization. Similarly, populist autocrats in labor scarce countries would also oppose globalization. In short, the policies of autocracies regarding globalization is not derivable from the materialist

⁷⁶ For a review essay on the various explanations for why there are limits to redistribution in a democracy, see Harms and Zink (2003). Also see Bonica *et al.* (2013).

⁷⁷ For a review of individual preferences for redistribution, see Alesina and Giuliano (2011).

⁷⁸ It is also more problematic to mobilize low-income voters (Pontusson and Rueda 2010). Moreover, in the United States, even as individuals prefer political equality, there is some tolerance for economic inequality as providing necessary incentives for productivity (Schlozman, Verba and Brady 2012).

⁷⁹ Diversionary nationalism, typically argued to be a mechanism for distracting a populace from poor economic performance, can also be used to divert attention from economic inequality (Solt 2011).

implications of economic integration, but also depend on the particular coalitions sustaining any particular autocracy. There is no systematic relationship between the winners and losers from globalization and the policies regarding globalization of autocrats.

The case for a trilemma for democracies not only presumes the basis of the political behavior of losers from globalization, it also presumes that policy in democracies reflects a referendum or the interest of the median voter. Alternatively, scholars of the political economy of trade policy have developed models focusing on lobbying and campaign contributions rather than the median voter (Rodrik 1995). These models are typically used to explain how protection is for sale (Grossman and Helpman 1994), but they are inherently indeterminate in that there is no necessary analytic basis for the relative level of lobbying by protectionist and liberalizing interests nor for their relative political effectiveness.

Yet, even a characterization of democracies as reflecting the median voter should not result in a trilemma, absent certain assumptions about the resultant public policies. After all, in a material sense, democracy is a commitment device to accept the median voter's preferences on redistribution, and if the gains of the winners exceed the losses of the losers then redistribution should result in a democratic commitment to liberalization even if the presumptive losers are more numerous.

For globalization to be a Pareto choice, in such a setting, simply requires the losers to be compensated by the winner so as to make them barely prefer openness or at least be indifferent (Kemp 1962; Samuelson 1962). The winners' gains are reduced but the losers are compensated.⁸⁰

The problem is that redistribution and the compensation of losers is problematic. First, the optimal form of redistribution is through lump-sum transfers but these have insurmountable informational requirements and are not incentive compatible (Dixit and Norman 1986; Ichino 2012). That is, this form of redistribution requires precise information about the characteristics of individuals who have strong incentives to misrepresent the impact of globalization. Economists thus shifted their attention to non-lump-sum transfers but these have their own informational requirements and their own inefficiencies. The problem is that a Pareto distribution requires targeted transfers with precise knowledge of the winners and losers and the requisite level of compensation.

The compensation schemes adopted by governments are either inadequate or problematic in a globalizing world. The only compensatory policies

⁸⁰ Although all losers have to be compensated to meet the Pareto criterion, the political problem of obtaining the support of the median voter only requires compensating enough of the losers so as to make the total of winners and compensated losers constitute a bare majority.

that target those experiencing direct losses from globalization are unemployment benefits and trade adjustment assistance which typically consists of job training for those who have lost their jobs from imports.⁸¹ Unemployment benefits do not compensate completely for lost wages and often end after some period. Job training comes with no assurance of employment and comparable income. These programs do not typically compensate the losers sufficiently to make them indifferent between protection and liberalization.

The most commonly noted form of presumptive compensation comes in the form of a larger public sector. Political scientists and economists point to the correlation between trade exposure and public spending as compensation to the dislocations wrought by globalization.⁸² Such public spending depends on non-linear taxation (and transfers) which are applied on the basis of income and not on the basis of individual characteristics (such as skills).

Yet, the policies that cushion the consequences of economic competition themselves come under attack. A global marketplace creates pressures for the harmonization of economic policy and places redistributive mechanisms under immense strain.⁸³ Regulatory policies can be more easily harmonized than redistributive mechanisms because the needs for the latter differ across democracies with different constellations of winners and losers. As adjustment pressures grow so do the needs for redistribution, yet the integrating market that generates the adjustment pressures also makes redistribution more problematic as certain forms of redistribution are not possible (Spector 2001) or reduce domestic competitiveness and increase capital flight. Globalization makes redistribution more politically necessary but it is economically and politically problematic. The continued viability of disparate national compensatory policies is at question.⁸⁴

Given the minimal measures to compensate the median voter, and assuming a growing inability to do so, globalization requires either depoliticization or supranationalization, or both. It depends either on insulating state policy from democratic political pressures or taking certain

⁸¹ These do mitigate the anti-protectionist sentiment of the adversely affected (Hays, Ehrlich and Peinhardt 2005; Margalit 2011).

⁸² The literature on trade and public spending was spawned by Cameron (1978), for intellectual foundations and the causal argument, see Ruggie (1982) and Katzenstein (1985), for assessments, see Rodrik (1997, 1998), Garrett (1998), and Hays, Ehrlich and Peinhardt (2005), and for intellectual extensions, see Burgoon (2001) and Adserà and Boix (2002).

⁸³ As classical barriers to exchange have been reduced or done away with, the pressures have arisen for harmonizing incongruent domestic practices that affect cross-border transactions (Stein 1993). Some now bemoan this extension of the trade agenda, for example, into domestic areas (Brown and Stern 2009).

⁸⁴ Consensus on this question eludes the empirical work (Brune and Garrett 2005).

levers out of the domain of the sovereign state. Or at least it does so in some states, those in which the median voter is economically hurt.

If voters vote their pocketbooks in countries in which redistribution from an enriched minority is not possible, globalization will come under attack in democracies with a majority of economic losers. Critical to this conclusion are assumptions about what animates voters and what constrains redistributive policies of economic compensation.

Conclusion

Globalization is an ongoing process. So is democratization. Both are occurring in a system of sovereign states. Yet, globalization, democracy, and sovereignty are incompatible in material terms in their full blown form. The result of the expansion of democracy and continued globalization in a sovereign state system has placed strains and pressures upon all three. Contemporary politics simultaneously evinces forces aimed at constraining globalization, limiting democracy, and reducing sovereignty. This is the inherent result of their incompatibility.⁸⁵

The present, with its pressures on all three, provides a sense of prospective futures. One can imagine a continued backlash to globalization that only increases with continued democratization. In such a scenario, globalization would be the casualty of democracy and sovereignty. Alternatively, there is the vision of world government that has sometimes found adherents. Here, sovereignty becomes the casualty of democracy and globalization. Finally, democracy could be the casualty of continued globalization in a sovereign state system. Voters would still vote, but key aspects of policy necessary for sustained economic integration would be insulated from politics.

Can the three be reconciled? The key entails the political economy of globalization. One possibility is a political ability to change the distributional consequences of globalization, to make it Pareto improving for the median voter in every democracy. Yet, this can only be accomplished through internal economic transfers which themselves come under pressure in a fully integrated global economy.

A second path to reconciliation lies in the role of the non-material as the basis for political choice. The trilemma presumes a particular material basis for political preferences in a democracy. The trilemma is obviated if voters

⁸⁵ Domestic coalitional fissures also emerge from the incompatibility. Those who share a preference for globalization split over whether to constrain democracy by insulating policy or to constrain sovereignty. Those who prefer democratic governance split over whether to constrain globalization or national autonomy. Those who prefer sovereignty and national autonomy split over whether to constrain democratic accountability or globalization.

do not vote for redistribution, but also heightened if voters oppose globalization on cultural or social, rather than material, grounds.

A third path to reconciliation is policy in a democracy driven by the superior lobbying ability of the winners from globalization. Were the winners from globalization always more capable of solving the collective action problem and capable of using their resources to capture public policy, there would be no trilemma.

The most likely scenario is an extrapolation of the present. It is a world of contested domains, one in which efforts to constrain globalization, democracy, and sovereignty compete with efforts to expand and maintain them.⁸⁶

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⁸⁶ Recognizing that there will be circumstances in which there will be pressures to constrain ongoing cooperative arrangements with others makes it possible to design institutions that allow for periodic excused cheating which in turn actually improves the prospects for, and the performance of, such arrangements (Stein 2000).

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