<u>The Globalization Paradox – Dani Rodrik – chapter 1 notes</u>

- Starts by looking at some examples of globalization
- Beaver pelts were in huge demand in the 17th/18th century
- Two French brothers travelled to England to get monopoly rights to trading beaver pelts from the Hudson bay area in Canada – had been rejected by France – knew prince Rupert
- Came to be known as the Hudson Bay company
- Would trade weapons/alcohol with native American tribes for beaver pelts
- The charter that Charles II gave the HBC gave them a lot of power
- They could essentially operate as a nation state
- Made them the “lords and proprietors” of the Hudson bay area, which turned out to be over 6 times the size of France – to a private company!!!
- Had full power to rule over the local Indians
- Could fight wars, make laws, dispense justice
- Canada bought Rupert’s land for the equivalent of over 30 million dollars in today’s money
- This is essentially what mercantilism is
- The companies responsible for this early globalisation were monopolies similar to the HBC
- E.g. English East India Trading company
- Had a standing army, could declare war on people
- Ruled over India and essentially became a government – provided public goods and then collected taxes to fund this
- 1858-Indian mutiny-control passed to British crown
- Mercantilism again – close alliance between sovereign and commercial interests
- Wealth of Nations (1776) attacked mercantilism
- Argue that state interference in trade is bad for economics, i.e. tariffs, monopoly rights
- Rodrik then argues that markets do need some form of state intervention to set the “rules of the game”
- Rodrik argues that the HBC example shows that comparative advantage on its own is not enough to ensure trade – high costs in making trade outposts, contacting Indians, making dangerous journeys – needed to create infrastructure/rules in order to then trade
- Trade would have been impossible without these state-like functions
- For France and Spain, private companies had been granted monopoly rights in order to carry out public services in order to provide trade
- Rodrik argues that with Mercantilism, private companies often had to play the role of states
- When the East Indian trading company and HBC lost their monopoly rights, the state had to step in to take on control
- Many things are needed to overcome transaction costs of trade – 2 parties need to be brought together, needs to be peace/law and order, common language, medium of exchange (money), trust, clear property rights over the goods
- There must be strong institutions for companies like Apple to have the supply chains that they have and trade across the world
- Third party enforcers are needed to generate institutions, this has happened in all the worlds developed economies – e.g. tax collectors, central banks, police forces
- Markets and states are complements, not substitutes according to Rodrik
- Government expenditure has grown from around 11% to around 40% in the last 150 years in the worlds advanced economies – also countries with more international trade had larger