Trapped in the Trilemma When Security Trumps Economics

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This paper describes the challenges of globalization in terms of the logic underpinning four distinct policy constraints or “trilemmas” and their interrelationship; in particular the disturbances that arise from capital flows and the difficulties of adjusting monetary policies to a global monetary environment. These trilemmas intersect and interlock. The trilemmas are: 1. The traditional Macroeconomic trilemma between capital mobility, fixed exchange rates and monetary autonomy; 2. The International relations trilemma between capital mobility, sovereignty and international order; 3. The Political economy trilemma between capital mobility, democracy and sovereignty; 4. The Financial stability trilemma between capital mobility, financial stability and independent national policies. The four trilemmas offer a way to analyze how domestic monetary, financial, economic and political systems are interconnected within the international system that opens up vulnerabilities. They can be described as the impossible policy choices at the heart of globalization.

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