

THE WEAK CASE FOR GLOBAL ECONOMIC GOVERNANCE

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The vernacular case for GEG

“We have seen how weaknesses and failures in banks and capital markets can spread through the international financial system.... What happens anywhere affects everybody—and increasingly so. So it is pretty clear that the world needs more, not less, international coordination and cooperation.”

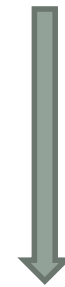
-- Nemat Shafik
December 5, 2013

- This is the “managing interdependence” case for GEG
- There is also a “maximizing interdependence” case, to which I will turn later
 - i.e., policy harmonization => reduce transaction costs => maximize gains from trade

Interdependence ↔ spillovers → GEG ?

Which of these should be regulated internationally?

1. highway speed limits
2. gasoline taxes
3. agricultural subsidies
4. import tariffs on cars



presumption of
global discipline

Principles not clear

- A. presence/magnitude of cross-border spillovers?
- B. existence of harm to other nations?
- C. objective of policy: domestic versus international?

Arguments

- Conceptual

- Distinguish between policy spillovers of various kinds, calling for different kinds of global cooperation
 - global commons, beggar-thy-neighbor, beggar-thyself
- Distinguish between “globalization-enhancing” versus “democracy-enhancing” global rules
- Make an economic case for nation states, on the basis of heterogeneity of institutional needs and preferences
 - limits to desirable scope of global rules

- Empirical

- With very few exceptions, the global economy does not have the features of a global commons
 - National economic interest by and large lines up well with global interest
- Most global economic failures arise from failures of national, not international governance (“beggar-thyself” policies)
- Many policy domains better left to national regulation, with global oversight limited to procedural safeguards

1. Policies towards the “global commons”

- An open, financially stable, prosperous global economy as a “global public good”?
 - not really: I benefit from others’ openness only if I open my economy too
 - policies that sustain a healthy global economy are in the national interests of each country
 - IOW, reaping the benefits of the global economy requires the pursuit of national policies that by and large benefit the world economy
 - free trade
 - financial stability
 - economic growth and development
- Compare canonical global commons problem: climate change
 - costs/benefits of climate change non-rivalrous and non-excludable
 - it’s in the interest of each nation to freely emit GHGs and free ride on the cuts of others
 - only solution is global coordination and harmonization
- Where there are differences between nationally and globally optimal policies, they occur under two guises considered next

} none requires cosmopolitanism

2. Beggar-thy-neighbor policies

- Policies that produce national benefit at the expense of other countries
 - these are policies that produce benefit at home only because they harm others
- Canonical examples
 - optimum tariff
 - global cartels
 - pure tax havens
 - mercantilism (perhaps)
- Easy to agree these require global rules/disciplines/restrictions
- Where it gets messy: what if policy is viewed as inherently desirable, even absent its cross-border effects?
 - low taxes, lax/strong regulation, industrial subsidies, ...
 - global regulation of “domestic component” of policies problematic, even in the presence of spillovers, since it entails difficult trade-offs between home and foreign welfare (see next)

A taxonomy of domestic policies with cross-border spillovers

		domestic economic effects	
		positive	negative
effect on others	positive	<i>positive-sum trade liberalization spatial externalities</i>	
	negative	<i>beggar-thy-neighbor; (optimum tariff) by-product spillovers (product safety rules)</i>	

A taxonomy of domestic policies with cross-border spillovers

most economic policies



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classic case for global rules

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typically outside global rules,
unless “protectionist intent”

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what about these? how appropriate to second-guess domestic outcomes in light of non-economic goals, uncertain impacts?

A taxonomy of domestic policies with cross-border spillovers

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	negative	<i>beggar-thy-neighbor;</i> (optimum tariff) <i>by-product spillovers</i> (product safety rules)	<i>beggar-thyself</i> (GMO ban; poor financial regulation)

even more problematic, though
routinely internationalized

3. Beggar-thyself policies

- Policies whose economic costs are borne primarily at home, even though they may have effects on others too
 - these are policies that would be pursued even in the absence of other countries
- Canonical examples
 - agricultural subsidies
 - poorly designed financial regulations
 - bans on GMOs
- May arise from
 - non-economic goals trumping economic goals; or
 - governance failures (“mistakes”)
- In democracies, presumption that electorates should have final say, regardless
 - case for global discipline weaker, and limited to procedural requirements that enhance democratic decision-making
 - accountability, transparency, representativeness, use of scientific/economic evidence

Bottom line

- Clear case in favor of global rules only for beggar-thy neighbor policies
- ... which are few, and do not represent majority of cases under discussion at present
- Global policy failures, when they are true failures, are the result of domestic governance failures
 - policy outcomes that are domestically harmful
- ...not failures of global governance and cooperation
- Role of learning:
 - national policy responses in 2008-9 versus 1930-31
 - the dog that didn't bark (Dan Drezner)
- Might global governance target improved domestic governance
 - instead of regulating policy outcomes?

Global rules can enhance democracy – or *not*

- **By offsetting factions**
 - E.g., prevent protectionist special interests from getting the upper hand (by strengthening the president over congress, international adjudication in WTO)
 - Providing credibility and commitment by tying a government's hands
 - [But not always: TRIPs, AD, KAL, ...]
- **By protecting minority rights**
 - E.g., human rights norms and conventions
 - [But now always: BITs and (foreign) investor protection rights...]
- **By enhancing the quality of democratic deliberation**
 - E.g., through more scientific assessment of policies in health and environmental areas
 - [But not always: int'l agreements with WTO, IMF are used to curtail debate in many cases]

(Keohane, Macedo, and Moravcsik, 2009)

“Democracy-enhancing globalization” would fall short of hyper-globalization

- “Globalization can enhance democracy” doesn’t imply it always does or will
 - Note exceptions in brackets
 - At home, democratic delegation remains in practice restricted to areas with few partisan differences
- Important difference in principle and substance between pursuit of
 - Hyper-globalization
 - Which justifies any and all external rules that restrict domestic policy space so as to minimize transactions costs associated with national borders; and
 - Democracy-enhancing globalization
 - Which imposes only those, mostly procedural, restrictions (such as transparency, accountability, representativeness, use of scientific evidence, etc.) that enhance deliberation, or are consistent with democratic delegation

But why not reconstitute democracy above the level of the nation-state?

- Amartya Sen:

“there is something of a tyranny of ideas in seeing the political divisions of states (primarily, national states) as being, in some way, fundamental, and in seeing them not only as practical constraints to be addressed, but as divisions of basic significance in ethics and political philosophy.”

- Truly democratic global governance could, in principle, render hyper-globalization and democratic deliberation compatible
 - maximizing interdependence argument for GEG
- This is one interpretation of where the EU is ultimately headed
 - though the difficulties of the Euro zone provide little room for optimism about the final outcome

A substantive argument in favor of the nation state

- Market-supporting institutions are not unique
- Regions/nations/communities differ in their needs and preferences with regard to institutional arrangements
 - geography and distance limit the convergence in those needs and preferences
- Co-existence of diverse institutional forms is desirable
 - competition, experimentation, and learning

Institutional multiplicity

- There is no unique set of market-supporting institutions
 - institutional *function* does not map into unique institutional *form*
 - each desired function (e.g., appropriate incentives) can be provided in a multiple ways
- Local preferences and needs may differ
 - e.g. finance: development banking; innovation vs. stability
- Hysteresis and “varieties of capitalism”
 - Liberal market economies vs. coordinated market economies
 - East Asian versus American versus European models
- Plus, there is no reason to believe that plausible institutional variation is limited by existing range of models (Roberto Unger)

Final words

- Heterogeneity in institutional preferences push governance down
- Scale/scope benefits of market integration push governance up
- This tension lies at the heart of globalization's unaddressed ills
- Since corner solution is not optimal...
- A divided world polity is the best we can do