



# PANDEMICS, CLIMATE CHANGE AND GLOBAL ECONOMICS: WHERE DID WE GO WRONG WITH GLOBALIZATION?

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# WHAT COMES TO MIND WHEN SOMEONE SAYS “GLOBALIZATION”?

- Supply chains, trade agreements, financial flows, int’l banks, MNCs, WTO, IMF? Container ships?
- That globalization is largely economic globalization is not a happenstance or necessity
- All globalizations run on rules and norms; policy decisions are key
  - Today’s economic globalization relies on a very large set of rules – some written into explicit agreements (as in trade agreements or the Acquis Communautaire; others internalized through norms of good behavior (as in financial globalization)
- Q is who writes those rules, whose preferences are privileged
- We might have had different globalizations. Consider health.

# FAILURES OF GLOBAL COOPERATION IN HEALTH

- “... the W.H.O. would serve as a central coordinating body. Countries would notify the agency about outbreaks and share information to help scientists address an epidemic at the global level. The W.H.O. would coordinate efforts on containment, declare emergencies and make recommendations.”
- “Fifteen years ago, the World Health Organization undertook a major revision of the International Health Regulations, the global framework for responding to outbreaks. The revision was intended to correct flaws in the global response to the 2003 SARS outbreak, which killed hundreds of people and pushed advanced health care systems to the breaking point. The revised regulation is legally binding and has been signed by 196 countries, including the United States.” (NYT, 3/12/20)
- But things have not gone according to plan
  - Countries have flouted all these regulations (e.g., not sharing data, and imposing unilateral export restrictions on medical equipment and supplies)
- WHO developed test kits, but US decided to develop its own

# ALTERNATIVE GLOBALIZATIONS

- A globalization targeted at preventing and mitigating pandemics, with WHO at the center
  - Advance warning system, common information base, large research budget on pandemics, common strategies, financing for poorer nations, prevention of export controls on medical equipment, and regulated border closures
- A globalization targeted at slowing down climate change, with international environmental agreements at the center
  - Globally binding GHG emission quotas and/or carbon taxes, large research budget on renewable energy, plenty of financing for transition to green energy in low-income countries
- A globalization targeting free trade in goods and capital, with IMF, WTO, OECD at the center
  - Binding rules and norms on maintaining open market access, free flows of finance, common IPR rules, rules that restrict subsidies and IPs, dispute resolution

# WHY DID WE GET ECONOMIC GLOBALIZATION, BUT NOT OTHER KINDS?

- Power of corporations and big banks, commercial and financial interests
  - To push for a certain type of globalization
  - And even within economic globalization, a particular version (that sought free trade in goods and capital, but not labor services, for example)
- Absence of politically powerful interests pushing for global cooperation over health or environment
- The type of globalization we ended up was a choice
  - It was not determined by technology or factors outside our control
- Supported by a certain set of ideas about policy priorities
  - Often sold as “mainstream economics,” though in reality a perversion thereof
- And our choice in favor of a particular economic globalization had opportunity costs in terms of
  - Widening income and opportunity gaps within countries
  - More uncertainty, fragility and insecurity, less resilience
  - Less political capital left to spend on other areas of beneficial global cooperation

# STEPPING BACK: WHY GLOBAL RULES?

- Every globalization regime relies on rules
  - Enforced formally (through dispute resolution) or informally (through norms internalized in state actions)
- Key design question: in which policy domains/for what types of policy should global rules restrain national action
- The central tradeoff of globalization:
  - Common rules
    - Have the advantage of maximizing efficiency, and predictability, reducing transaction costs, reaping the benefits of scale
    - Have the disadvantage of reducing policy autonomy, and hence inhibiting policy diversity and experimentation at the national level
- When policy diversity helps
  - Different preferences/needs in economic policy
  - Need to experiment when “correct” solutions are unknown (e.g. dealing with Coronavirus)

# ALMOST ALL POLICIES HAVE CROSS-BORDER SPILLOVERS

- But that does not imply that they should all be subject to global rules
- Examples:
  - educational policies
  - R&D policies
  - highway speed limits
  - gasoline taxes
- Presence (or magnitude) of cross-border spillovers are not a sufficient condition for global rules, even when they impose harm on (some) foreign countries
  - Since there are compelling reasons for national diversity
  - and political representation and accountability are still organized nationally

# TWO CANONICAL CASES THAT CALL FOR GLOBAL RULES

1. “Beggar-thy-neighbor” (BTN) policies
  - policies that provide benefits at home only to the extent they impose cost on foreign countries
    - exploiting national monopoly power through trade restrictions
    - exporting unemployment through currency manipulation
    - shifting tax base through bank secrecy and low corporate taxation
2. Global public goods (or “bads”) (GPGs)
  - policies where there is strong incentive to free ride on other nations’ policies
    - climate change and control of GHGs
    - Information exchange and research on health pandemics



# THE LIMITED CASE FOR GLOBAL RULES IN ECONOMICS (I)

- In international economics, virtue is its own reward
  - free trade expands national “welfare”
    - subject to considerations of market failures and redistribution
- Therefore, strong presumption that well governed countries will choose globally optimum policies
  - examples: import tariffs, financial regulation and stability
  - Exceptions: monopoly power, currency mercantilism, global tax havens
- This doesn't mean countries don't make mistakes
  - but when they do, they bear the bulk of the costs
    - examples: trade protectionism, subsidies, GMOs
- But there is no presumption that international rules can reliably prevent such mistakes
  - In practice international rules were designed to privilege one set of distributive interests over others, instead of targeting genuine areas of governance failure (eg., time inconsistency)

# THE KIND OF GLOBALIZATION WE SHOULD WANT:

1. produces benefits to all rather than to a few
    - the larger the efficiency gains the greater the possibilities of redistribution
  2. disciplines beggar-thy-neighbor policies and enforces rules for global public goods
  3. otherwise leaves space for policy autonomy and institutional diversity across nations
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- Looked at from this perspective, our priorities in recent decades were significantly distorted
  - In particular, we should have conserve global governance for BTNs and true GPGs
    - anti-competitive behavior, tax havens
    - climate change, health pandemics, ...
      - these areas deserve much stronger global governance regimes

# A THINNER BUT MORE SUSTAINABLE GLOBALIZATION

- New traffic rules for world economy: greater policy space
  - to address inequality at home, while providing room for poorer countries to devise their own growth strategies
    - developed countries (e.g. US): reconstitute domestic social contracts through appropriate tax, social, and labor-market policies
    - developing countries (e.g. China): economic restructuring policies to sustain and speed up growth
  - from “exchange of market access” to “exchange of policy space”
- Focus global governance where economic gains are large
  - climate change
  - health pandemics
  - cross-border labor mobility
  - international coordination on tax havens

# INTERESTS VERSUS IDEAS

- The kind of globalization we have is the product of who has power and what type of globalization they push for
- But vested interests are legitimized through ideas
  - No powerful interest says “you have to do this because I am powerful and you are not”
  - Instead, the narrative is always about “what is right for the nation/political community”
- Having the right ideas about priorities and how to implement them are key
- Ultimately, and in the long run, vested interests are congealed ideas