

PUTTING GLOBAL GOVERNANCE IN ITS PLACE

Dani Rodrik

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The vernacular case for global governance

“[V]irtually every problem destabilizing the world in this plastic moment is global in nature and can be confronted only with a coalition that is global....”

-- Thomas Friedman (2019)

“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 (2013)

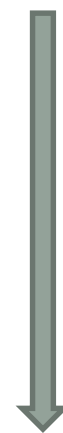
My topic today: the desirable scope of global economic governance

- Focus on economic policy
 - trade, taxation, money, finance, fiscal, regulation policy
 - not on environment, climate change, health pandemics, security, arms trade, ...
- What is the dividing line between economic policies that should be governed globally versus nationally?
- Will not discuss other (generally desirable) elements of “multilateralism”
 - esp. non-discrimination (e.g., MFN, aversion to bilateralism)

Economic interdependence ↔ spillovers → GEG ?

Which of these should be regulated internationally?

1. educational policies
2. highway speed limits
3. gasoline taxes
4. agricultural subsidies
5. import tariffs on cars
6. tax havens



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

- Distinguish between policy spillovers of various kinds
 - global public goods, beggar-thy-neighbor, beggar-thyself, enrich-thy-neighbors
- The global economy does not have the features of a “global commons”
- And there are very few genuine beggar-thy-neighbor policies
- Most global economic failures arise from failures of national, not international governance
- Many policy domains better left to national regulation, with global oversight limited to procedural safeguards
- Distinguish between “globalization-enhancing” versus “democracy-enhancing” global rules

Economic interdependence

- Countries: home (h) and foreign (i)
- Policies: a_h, a_j
- Payoffs: $u^h = u^h(a_h, \sum_{i \neq h} a_i)$
 $u^j = u^j(a_j, \sum_{i \neq j} a_i)$

- Spillovers:

$$\frac{\partial u^h(\cdot)}{\partial a_j} \neq 0$$

$$\frac{\partial u^j(\cdot)}{\partial a_h} \neq 0$$

- Decentralized equilibrium is inefficient
 - Pigovian subsidies (or cross-border transfers) unavailable/impractical

Generic case for GEG (1): global public goods

- Cross-border spillovers through contribution to GPG, G

$$u^h = u^h(a_h, G), \quad u^j = u^j(a_j, G)$$

$$G = \sum_i \gamma_i a_i, \quad \sum_i \gamma_i = 1$$

- Incentive to contribute to G is trivially low for small countries:

$$\frac{du^h(.)}{da_h} = \frac{\partial u^h(.)}{\partial a_h} + \frac{\partial u^h(.)}{\partial G} \frac{\partial G}{\partial a_h} = \frac{\partial u^h(.)}{\partial a_h} \text{ when } \gamma_h \approx 0$$

- G is under-provided
- Each country could be better off under GEG than in a regime where every country acts unilaterally

Are “good” economic policies a GPG?

- Canonical case of GPG: climate change and carbon controls

$$\frac{du^h(.)}{da_h} = \frac{\partial u^h(.)}{\partial a_h} < 0 \rightarrow a_h \text{ minimized}$$

- What about economic policies?

- free trade: $\frac{\partial u^h(.)}{\partial a_h} = 0$ when tariffs/NTBs are zero (for small country)
 - prudential financial policy
 - fiscal policy
 - tax policy
 - regulations
- } there is little difference between what is optimal domestically or globally, unless countries can shift burden of policies on others (BTNs).

- Standard economic policies are not GPGs

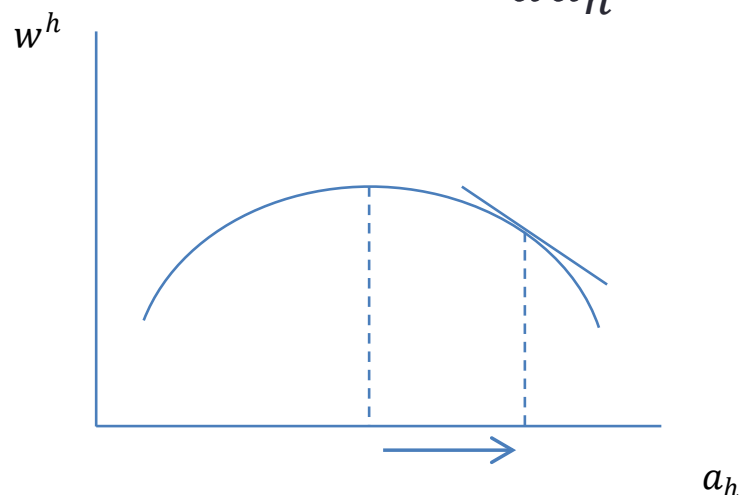
Generic case for GEG (2): beggar-thy-neighbor

- BTNs: policies that provide benefits at home only to the extent they impose cost on foreign countries
- A two-country example (h, f)

$$u^h = w^h(a_h) + T(a_h - a_f)$$

$$u^f = w^f(a_f) - T(a_h - a_f)$$

$$FOC: \frac{du^h(.)}{da_h} = \frac{\partial w^h(.)}{\partial a_h} + \frac{\partial T(.)}{\partial a_h} = 0$$



Examples:

Optimal tariff policies;

International cartels;

Currency undervaluation w/unemployment;

Pure tax havens;

...

GEG with BTNs

- BTNs are negative-sum policies: they create global inefficiency
- GEG can make all countries better off (compared to decentralized, Nash equilibrium)
 - but they need not do so, in the presence of size (or other) asymmetries
 - e.g., cartels, large country facing small countries
- There is a strong presumption for GEG in the presence of true BTNs
- And very weak argument for GEG in other cases

Non-BTN policies

- These are policies that create spillovers, but either
 1. do not create global inefficiency; or when they do
 2. the home economy bears the direct economic costs
- Example of (1): R&D subsidies in a country that imports knowledge-intensive goods
- Example (2): import ban on goods produced with slave labor
- In both cases, leaving countries free to pursue such policies is uncontroversial
- But many policies that currently do come under GEG are of similar nature to (1) or (2)

Three (not very good) arguments for global disciplines in subsidies (or similar BTS policies)

1. Some foreign countries lose
 - yes, but that is also true for, say, unilateral import liberalization
2. Subsidies are globally inefficient
 - not clear, as there may be both economic and non-economic reasons at home to justify them (below)
3. Subsidies are unfair; we need a level playing field
 - fairness is in the eye of the beholder (“subsidies offset our historical disadvantage in trade...”) and is at best an argument for domestic remedies (e.g. Rodrik 2019)

Non-BTN spillovers (2): policies with ambiguous domestic efficiency implications

- Policies that produce adverse spillovers to other countries, but are used not for BTN purposes but for domestic reasons
 - “weak” IP protections
 - industrial policies that do not involve subsidies (e.g., LCRs, TRIMs)
 - ban on GMOs
 - “excessive” fiscal austerity
 - “lax” financial regulation
 - trade protection as social policy
 - “very low” levels corporate taxation (Ireland, not Cayman Islands)
 - national internet walls (e.g., data localization)
- Typically, the domestic economic effects are either negative or ambiguous
- Is there a role for GEG here, on account of the spillovers?

GEG with non-BTN spillovers

- Pro: global rules can prevent countries from using “beggar thyself” policies
- Con: (a) global rules cannot reliably distinguish between “beggar thyself” and economically desirable policies (e.g., industrial policies)
(b) even in the presence of “beggar thyself” policies, democracies should be allowed to make their own “mistakes” (e.g., GMOs)
(c) political capture is as big a problem with GEG as it is domestically (e.g., trade agreements, TRIPs, ISDS, banking regulations)
(cf. Rodrik, “What Do Trade Agreements Really Do?” *JEP*, Spring 2018)

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: ISDS 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)

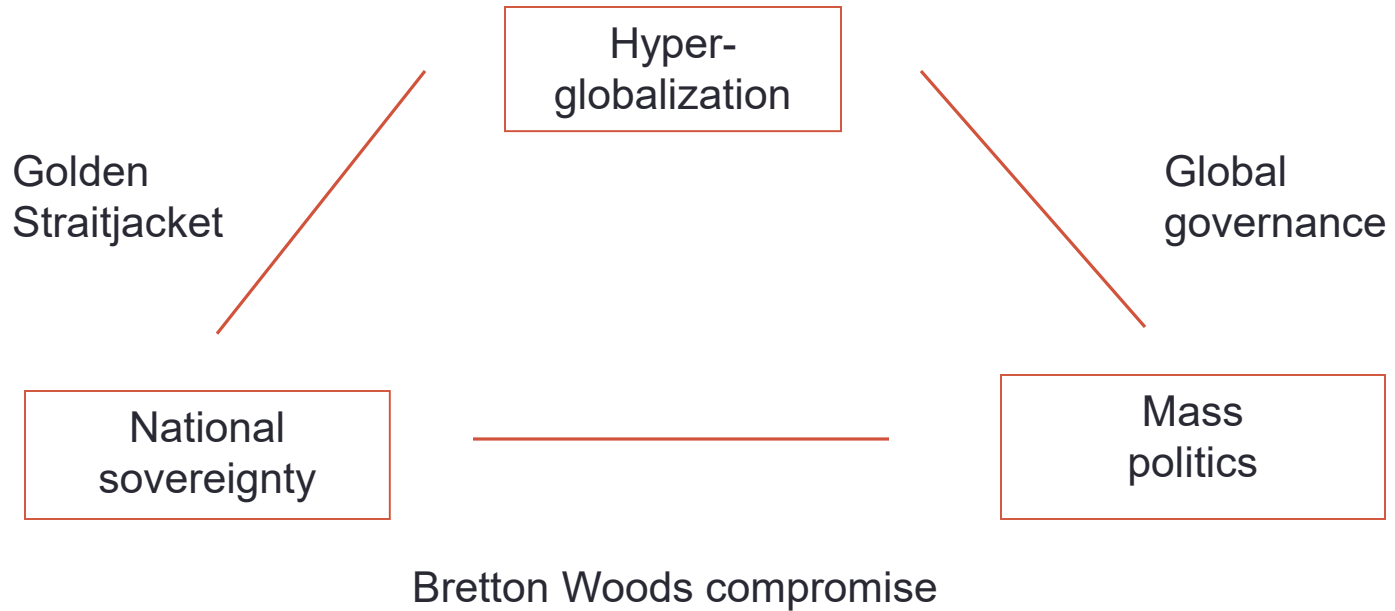
GEG as procedural safeguards reinforcing democratic norms

- Strongest argument in favor of GEG here is for procedural safeguards
- Enforce norms of democratic deliberation; do not prejudge the outcomes
 - transparency, accountability, participation, use of economic/scientific evidence in domestic proceedings
 - but not harmonization, common rules, ceilings
 - example: how would Trump's national security justification for tariffs fare under such norms?

Hyper-globalization versus democracy-enhancing GEG

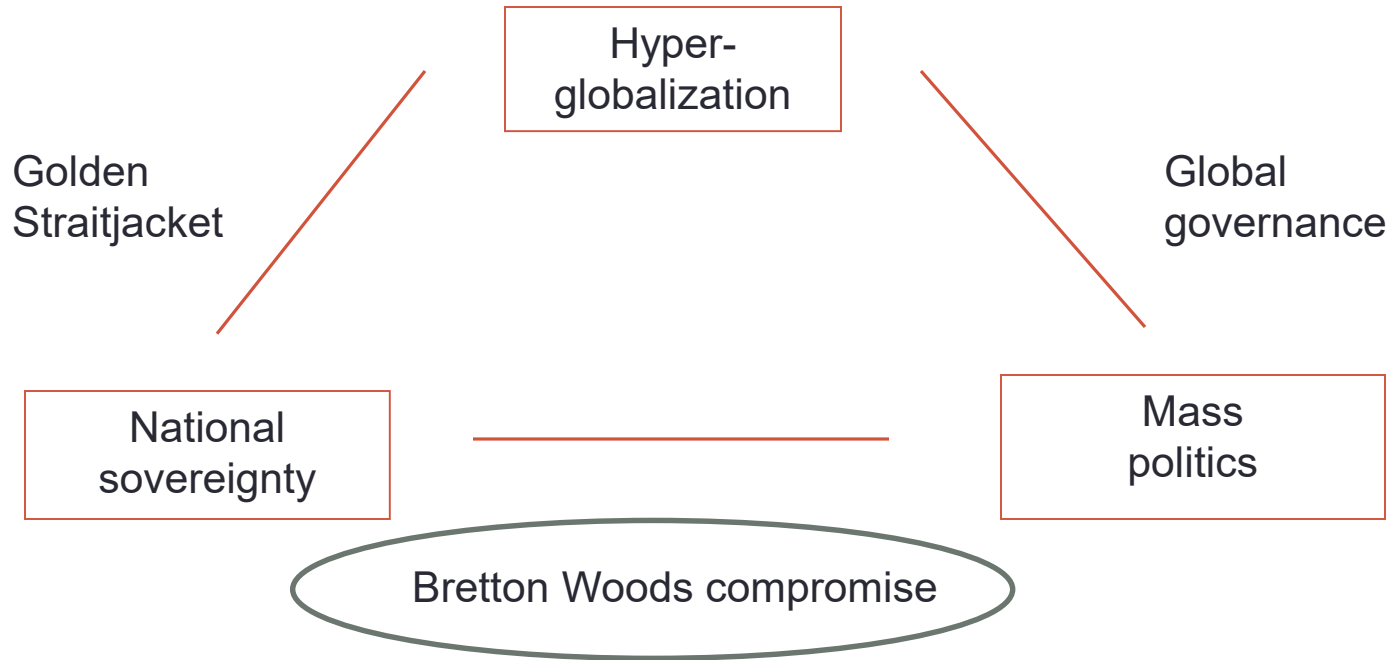
- Important difference in principle and substance between pursuit of
 - hyper-globalization
 - which justifies any and all external rules that restrict domestic policy space so as to minimize transactions costs associated with national borders; and
 - democracy-enhancing globalization
 - which imposes only those, mostly procedural, restrictions (such as transparency, accountability, representativeness, use of scientific evidence, etc.) that enhance deliberation, or are consistent with democratic delegation

The political trilemma of the world economy



Pick two, any two

The political trilemma of the world economy



Final quote

“Bretton Woods launched a new era of global economic cooperation, in which countries helped themselves by helping each other.”

-- Christine Lagarde (2019)

But the success of the Bretton Woods regime, and indeed of any future global regime, may rest on the opposite idea – that countries helped each other by helping themselves.