

Don't count on enhanced global governance

Jeffry A. Frieden, Michael Pettis, Dani Rodrik, Ernesto Zedillo, 26 July 2012

Global economic cooperation can help mitigate many economic problems. But it is often difficult to justify, and even more difficult to achieve. This column argues that simple appeals to greater global governance are not likely to have much effect. It suggests that the future of the international economy does depend on the success of international cooperation; but this success in turn requires that governments have realistic expectations about how much can be accomplished at the global level.

116

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The world economy faces its most serious test since the 1930s. The financial crisis that began in 2007 rolls onward.

- In most of the OECD, the recovery is at best halting, while much of the Eurozone has collapsed into a second recession.
- Economic stagnation, persistent unemployment, daunting debt burdens, and the threat of banking crises bedevil the immediate future of global economic activity.

And the seriousness of these immediate threats is compounded by the knowledge that many of the world's principal economies face longer-term challenges with macroeconomic balance, job creation, and productivity growth.

Is more global cooperation the solution?

The trials ahead have led many to emphasise the need for greater international economic cooperation, often categorised as a desire for more 'global governance' of economic affairs. The hope is that greater collaboration among national governments might help address some of the short- and long-term predicaments we face. For example, when VoxEU.org solicited advice from leading economists on how address the frailties of the global financial system in the wake of the 2008 crisis, the proposed solutions often took the form of tighter international rules administered by some kind of technocracy such as an international bankruptcy court, a world financial organisation, an international bank charter, an international lender of last resort, and so on (Eichengreen and Baldwin 2008).

We are sympathetic to the desire for substantially increased international cooperation, but profoundly sceptical that it will materialise. In the latest title in the Geneva Report on the World Economy series (Frieden et al. 2012), we present four sets of reasons for this scepticism. First, there is the unquestioned existence of...

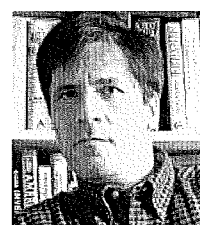
... a dismal track record

The recent experience of international economic cooperation is not very encouraging. As the crisis broke, to be sure, there was some effective coordination among major central banks, and it appeared for a time that a revitalised G20 might work together to confront common problems. But G20 summitry seems to have gone the way of most previous summitry, dissolving into vague promises about a proliferating array of feel-good topics. There is little reason to think that the obstacles to greater collaboration will diminish over time. And we are not surprised that, despite initial monetary-policy success, little else has moved forward, for there are major barriers to cooperation in other realms. One reason is that it is not as easy as many believe to provide international cooperation with a rigorous...

... normative justification



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The number of issue areas in which normative theory provides strong support for global governance is relatively limited. In many economic-policy realms, economic problems can be addressed quite effectively at the national level. International cooperation is only truly necessary where there are substantial externalities that are not internalised by national economic and political systems.

There are many economic policies, including some with international components, in which the normative case for cooperation is weak or non-existent. Simply because a government policy is undesirable, after all, does not mean that it is imposing substantial enough costs on other countries to warrant supranational management. National agricultural subsidies are largely transfers within the national population; so too are many national regulatory policies. There is a wide range of policies, some of which are commonly mentioned as candidates for global governance, for which normative theory provides little or no justification for anything but appropriate national initiatives.

There are, certainly, some areas in which only global solutions exist to truly global problems – such as the impact of greenhouse gases on the world's climate. And there are other areas in which cooperation can prevent mutually damaging outcomes, such as avoiding a currency war. However, even where the normative justification is strong, the practical ability of governments to engineer such cooperative endeavors can be limited, in particular due to...

... domestic political obstacles

International cooperation typically means that the nations in question make compromises, giving up something in order to pursue a common approach to the problem. Cooperation requires, in other words, some sacrifices at the domestic level – the willingness to forego national policies with domestic political support in favour of global collaboration. While the ultimate effect is presumably positive for the nation (as well as the world), the changes could well threaten powerful domestic interests. After all, if cooperation is meaningful it requires national governments to abandon policies that were adopted domestically, presumably for strong domestic political reasons.

The domestic impediments to global cooperation are particularly evident in difficult times such as these. Every major centre of economic activity is currently absorbed with its own overwhelming economic and political concerns. The US, the EU, Japan, and the major emerging markets face serious domestic dilemmas. Their national (and, in the case of the EU, regional) political systems are straining to address current economic problems, often without much success. This absorption with internal conflicts and disputes will make substantial progress on international matters extraordinarily difficult. And this difficulty will be heightened by...

... preference heterogeneity

Over the past decade, it has become increasingly obvious that meaningful international cooperation will have to involve some of the major emerging markets. This is especially clear with the case of China, but it applies also to India and Brazil, and perhaps to other countries as well. However, an expansion of the group of countries relevant to global collaboration also means incorporating countries with very different concerns and attitudes. There is plenty of disagreement among the G7, and within the OECD; adding such countries as China and Brazil vastly increases the range of views that need to be taken into account.

If not more cooperation across the board then what?

For all these reasons, it is likely to be extremely difficult to achieve further advances in international cooperation. This makes it particularly important to pick and choose the battles most likely to be won. If governments are to spend precious political capital to attempt to expand cooperative ventures, it makes sense to try to ensure that the attempt is made where it is most needed, and most likely to succeed.

Given the difficulties of enhanced collaboration, it may be misguided to attempt to expand cooperation in some of the areas commonly presented as important targets, in which cooperative outcomes are less valuable, or less likely.

- Whatever transformative capacity the G20 members have should be allocated first and foremost to improving macroeconomic policy coordination among themselves.

While forward movement to strengthen the multilateral trading system would be desirable, it is clear that it will not be easy. At the same time, progress on the trade front may not be urgent. The crisis

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has not given rise to substantial protectionist pressures. It would be desirable for collaboration on financial reform to reduce regulatory arbitrage or the prospect of a 'spaghetti bowl' of contradictory regulations. However, it seems to us that in the near future the international harmonisation of financial regulation is highly unlikely. There are very different views as to the most desirable form of financial regulation is weak – different countries may have different needs – and the political barriers to harmonisation seem extremely high.

We see one issue area in which there is both the need, and the possibility, of greater international cooperation, i.e. macroeconomic policy in general, and imbalances in particular. There is widespread recognition that uncoordinated macroeconomic policies among the major economic centers can be extraordinarily dangerous, and were at the root of much of the tension that erupted into the current crisis. For several years, indeed, the IMF has attempted to focus attention on the financial and other threats posed by large-scale global macroeconomic imbalances. This, then, is an area where there would appear to be substantial spillovers, and at least the beginning of some interest in addressing them.

Conclusion

Global economic cooperation can help mitigate, or avoid, many economic problems. But it is often difficult to justify, and even more difficult to achieve. Simple appeals to greater global governance, or higher levels of international cooperation, are not likely to have much effect. Even more, a scatter-shot approach to collaboration, suggesting it be attempted in a wide array of issue areas, is likely only to dissipate precious political energy. The future of the international economy depends to a large extent on the success of international economic cooperation; but this success in turn requires that governments have realistic expectations about how much can be accomplished at the global level.

References

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