Inclusive multilateralism: can economic sovereignism be defeated?

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Lunchtime talk
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Outline

I. Economic sovereignism on the rise
   • The populist attack: anti-establishment, anti-multilateralism
   • Globalisation and technological change as accelerant on both fronts
   • Increasing political, institutional, trade, financial, social fragmentation

II. Policy response: inclusive multilateralism
   • Take back multilateralism
   • A constructive role for the EU
   • Fixing our own house
I Economic sovereignism on the rise
No shortage of negative examples

US

• Pressure on trade deals, tariffs, WTO
• Withdrawal from Paris climate accord
• Withdrawal from several UN agencies
• Withdrawal from Iran nuclear deal and new sanctions
• IMF no longer at the centre of the global safety net?

EU

• Brexit
• Difficult handling of migration pressures
• Little appetite for EMU deepening
• Tensions in the Single Market arrangements
• Italy et alii.
A political theory of populism: some considerations

- Acemoglu et al. (QJE 2013); not 1:1 applicable to current developments, but serious food for thought.

- When politicians are seen as corrupted by the interests of the “establishment”, rigging the system - including multilateral arrangements - in their favour …

- …then, super-populist policies – beyond the political bliss point of the median voter – can serve as a signalling device not to be beholden by the “establishment”.

- In consequence, not only the domestic “establishment”, but also multilateral institutions and arrangements come under serious attack.
Superpopulist policies in the offing?

Exogenous preferences

\[ \hat{P}_G \quad \bar{P} \quad P' \quad \tilde{P}_G \]

- Exogenous shift

Mainstream \quad \text{Preference range} \quad \text{Populist}

\( P_G \): preference of Government

\( \bar{P} \): average preference of citizens

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European Commission
Superpopulist policies in the offing?

Endogenous preferences

\[ \hat{P}_G \rightarrow \bar{P} \rightarrow P' \rightarrow P'' \rightarrow \tilde{P}_G \]

- \( \hat{P}_G \): preference of Government
- \( \tilde{P} \): average preference of citizens
- \( P' \): chosen policies

Mainstream \arrow{left} Preference range \arrow{right} Populist

Exogenous shift

Endogenous shift
Two perspectives on the populist backlash

Economic insecurity

- Rising *income and wealth inequality* as well as *economic insecurity* among left-behinds fuels popular resentment of the political elites

Cultural-identitarian

- Reaction against *progressive cultural change* resulting from intergenerational shift toward values such as cosmopolitanism and multiculturalism

"Immigration fears" related to both facets
Rural/urban divide as a common thread

- *Youngsters* having lost hope, *low-waged unskilled workers*, *long-term unemployed*, households dependent on *shrinking social benefits* turn against neoliberal elites

- *Less educated, older generations and right-wing authoritarians* react to erosion of their privileges and societal status
First accelerant: globalisation and globalism

- **Globalisation: beneficial for the economy, but not Pareto-optimal**
  - Favours mobile factors; capital and high skilled
  - Enhances dynamic agglomeration effects **BUT** increasing regional disparities
  - Increases competitive pressures **BUT** may negatively affect fair working conditions/protection in the market
  - Limits the room for re-distributional manoeuvre at local level **AND** reduction of enforcement and discriminatory power

- **We have underestimated the related large "side effects"**
  - Distributional impact along the skills dimension and the spatial differentials underestimated, treated with benign neglect
  - A sympathetic/acritical view of downhill capital flows
  - Systemic risk from unbridled financial markets
  - Migration seen as "manageable" at national level
  - Winner-takes-it all dynamics, stagnation of median income
  - Real/perceived loss of control vis-à-vis big business, financial sector - “the establishment”
Second accelerant: "biased" technological change

- Advances in ICT biased against low-skill labour-intensive sectors
- Raising interconnectivity, coupled with a fall in transportation cost
- Push towards outsourcing, integrated value-added chains
- Again, focus on overall gains, reallocation needs acknowledged, but underestimation/benign neglect/too little support of adjustment
- Distribution of power and income change in favour of capital and high-skilled/digital-literate labour, "mobile urban elites"

And the next wave?

- Digitalisation, automatization, robotics, AI, 3-D printing, biotech ...
- Manual, cognitive-repetitive tasks at risk, job polarisation
- Digital goods; scalable, zero-marginal cost, monopolistic competition
- Potentially highly disruptive
Increasing fragmentation: political

Challenges to global governance
- as a structure
- as a procedure
- as a mechanism

Increasing difficulties to
- deliver global public goods
- manage the global power shift
- legitimise global governance

The graph shows the number of democratically elected governments in Europe year by year that includes at least one populist party.

Source: Timbro Authoritarian Populism Index 2017
Increasing fragmentation: political (cont.)

- **pro EU** + risk sharing
- **sovereignist** + risk sharing

- **North**
  - Nordics
  - Baltics
  - NL
  - SK
  - CZ
  - HU
  - PL

- **East**
  - AT
  - AT*
  - NL
  - DE
  - ES
  - ES*
  - FR
  - PT
  - EL

- **West**
  - ES
  - PT
  - FR
  - NL
  - DE

- **South**
  - IT
  - IT*
  - AT

Increasing fragmentation: political (cont.)
Increasing fragmentation: institutional

New Multilateral Development Banks:
- **BRICS**: New Development Bank
- **China**: Asia Infrastructure Investment Bank

New Bilateral Lenders (China)

Strengthened Regional Financing Arrangements:
- **Euro Area**: European Stability Mechanism
- **South East Asia**: Chiang Mai Initiative
- **South America**: Latin American Reserve Fund
- **Russia and Eurasia**: Eurasian Fund for Stabilization and Development
Increasing fragmentation: trade

Total Number of Trade Restrictive Measures in force

10 years before the crisis

10 years after the crisis

Source: WTO

European Commission
Increasing fragmentation: financial

1. Total foreign claims for all BIS reporting countries.

Note: Banks’ international claims are on an immediate counterparty basis excluding domestic positions. They are not adjusted for changes in exchange rates and breaks in the series.

Increasing fragmentation: social

The "Whale Graph" of global inequality
Cumulative total income growth by percentile across all world regions, 1980–2016

- Bottom 50% captured 12% of total growth
- Top 1% captured 27% of total growth
- Rise of Emerging Countries
- Squeezed median and low income in the US and Western Europe
- Prosperity of the top 1%
II Policy responses: inclusive multilateralism
Move towards inclusive multilateralism …

• **Strive for collective and concrete individual commitments to foster strong, sustainable, balanced and inclusive growth;**
• **Develop common global approach to tax policies;**
• **Strengthen digital economy rules;**
• **Promote new generation trade deals;**
• **Deliver new global public goods, financial stability, mastered migration, fight climate change…**

➢ **Equip G20 to win the peace, reform multilateral institutions**
... recomposing global governance

Carry forward the *Eminent persons group* report
... with a more consistent global policy mix

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<th>Country</th>
<th>From</th>
<th>To</th>
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<tr>
<td>US</td>
<td>Inward looking strategy and pro-cyclical</td>
<td>Continued contribution to multilateralism</td>
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<td></td>
<td>policy mix</td>
<td>and more prudent macroeconomic stance</td>
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<td>Euro Area</td>
<td>Excessive reliance on external surpluses</td>
<td>Stronger investment, structural reforms and</td>
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<td>deepening of EMU</td>
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<td>China</td>
<td>Unbalanced growth model and market-</td>
<td>More sustainable development model and</td>
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<td>distortive practices</td>
<td>greater adherence to global level-playing</td>
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What Europe can do making use of our existing strengths

- Serve as an example of effective cross-border cooperation and coordination
- Continue to lead the world in climate deals
- Promote high standards for social and environmental protection, gender equality, research and education, and data privacy
- Strive for fair and effective international taxation
What Europe *should* do

**Domestic tasks**

- *Boost structural growth*
- *Tackle more effectively inclusiveness challenges*
- *Complete EMU (BU, CMU, fiscal capacity, safe asset)*
- *Tackle the Brexit challenge*
- *Adopt a credible migration policy*

**External tasks**

- *Overcome the "small country syndrome"*
- *Deal with the "reverse creditor paradox"*
- *Foster a single/unified representation in international fora*
- *Bolster the international role of the euro*
Thank you very much for your attention