



Inclusive multilateralism: can economic sovereignty be defeated?

Marco Buti



*Lunchtime talk
October 31, 2018*

Outline

I. Economic sovereigntism 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 sovereignty 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

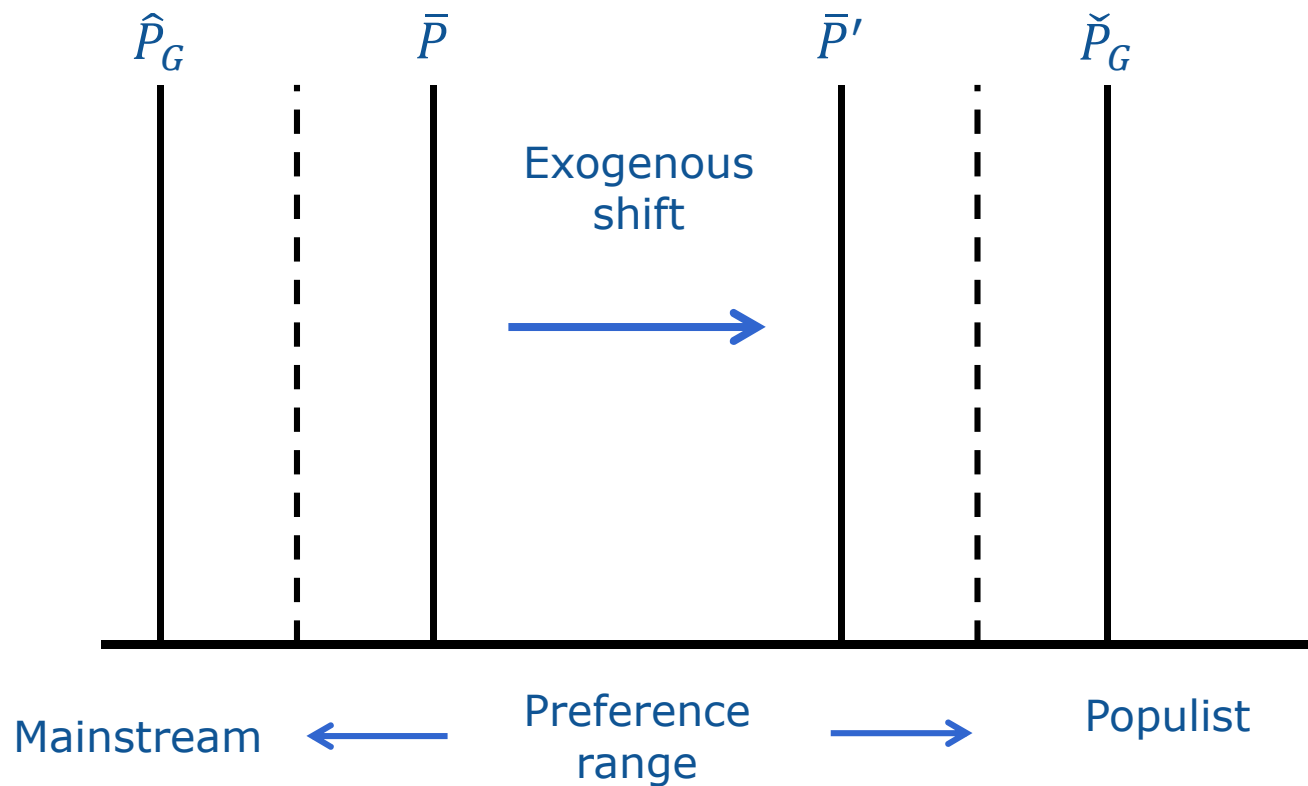
- Brexit
- Difficult handling of migration pressures
- Little appetite for EMU deepening
- Tensions in the Single Market arrangements
- Italy et alii.

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



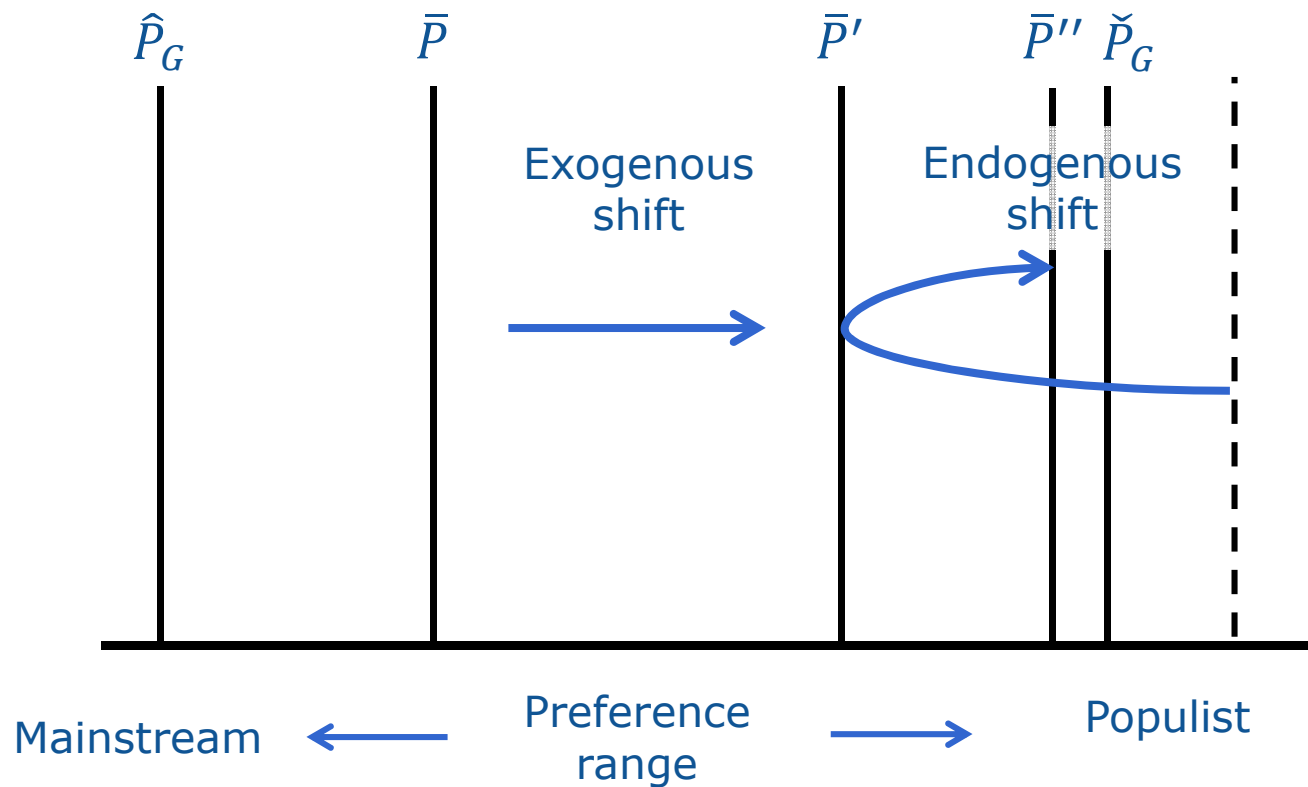
P_G : preference of Government

--- chosen policies

\bar{P} : average preference of citizens

Superpopulist policies in the offing?

Endogenous preferences



P_G : preference of Government

--- chosen policies

\bar{P} : average preference of citizens

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"*

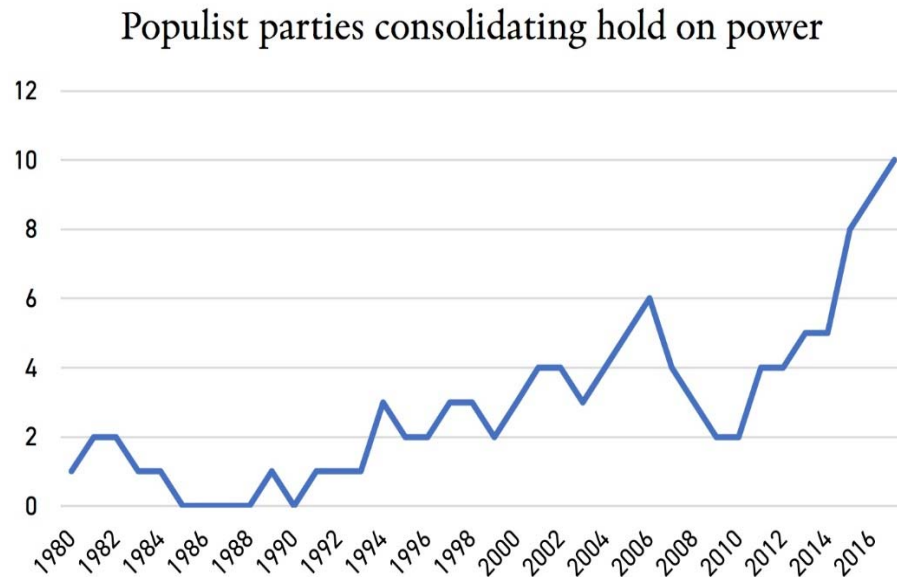
Second accelerant: "biased" technological change

- *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



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

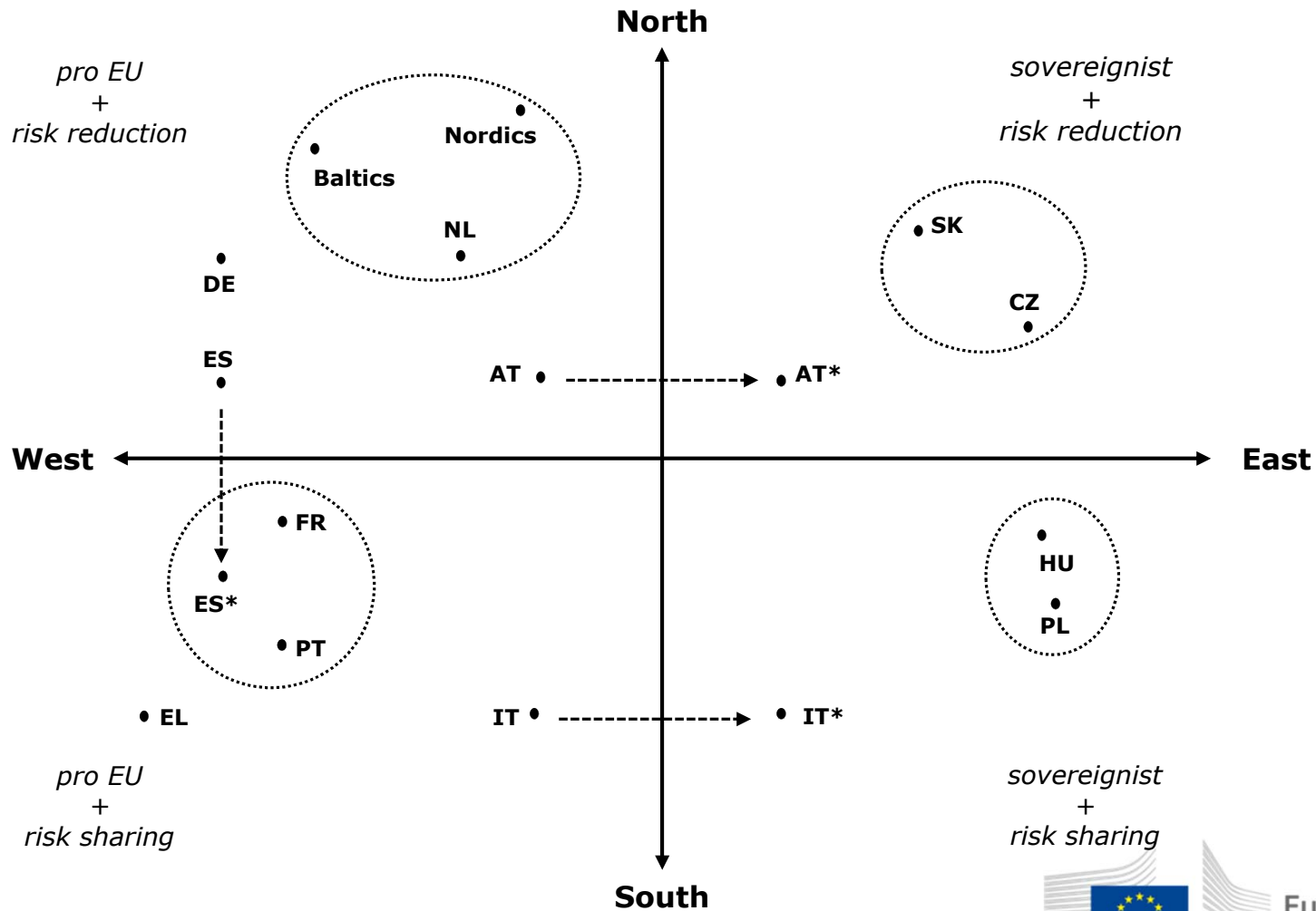
Increasing difficulties to

- deliver global public goods
- manage the global power shift
- legitimise global governance

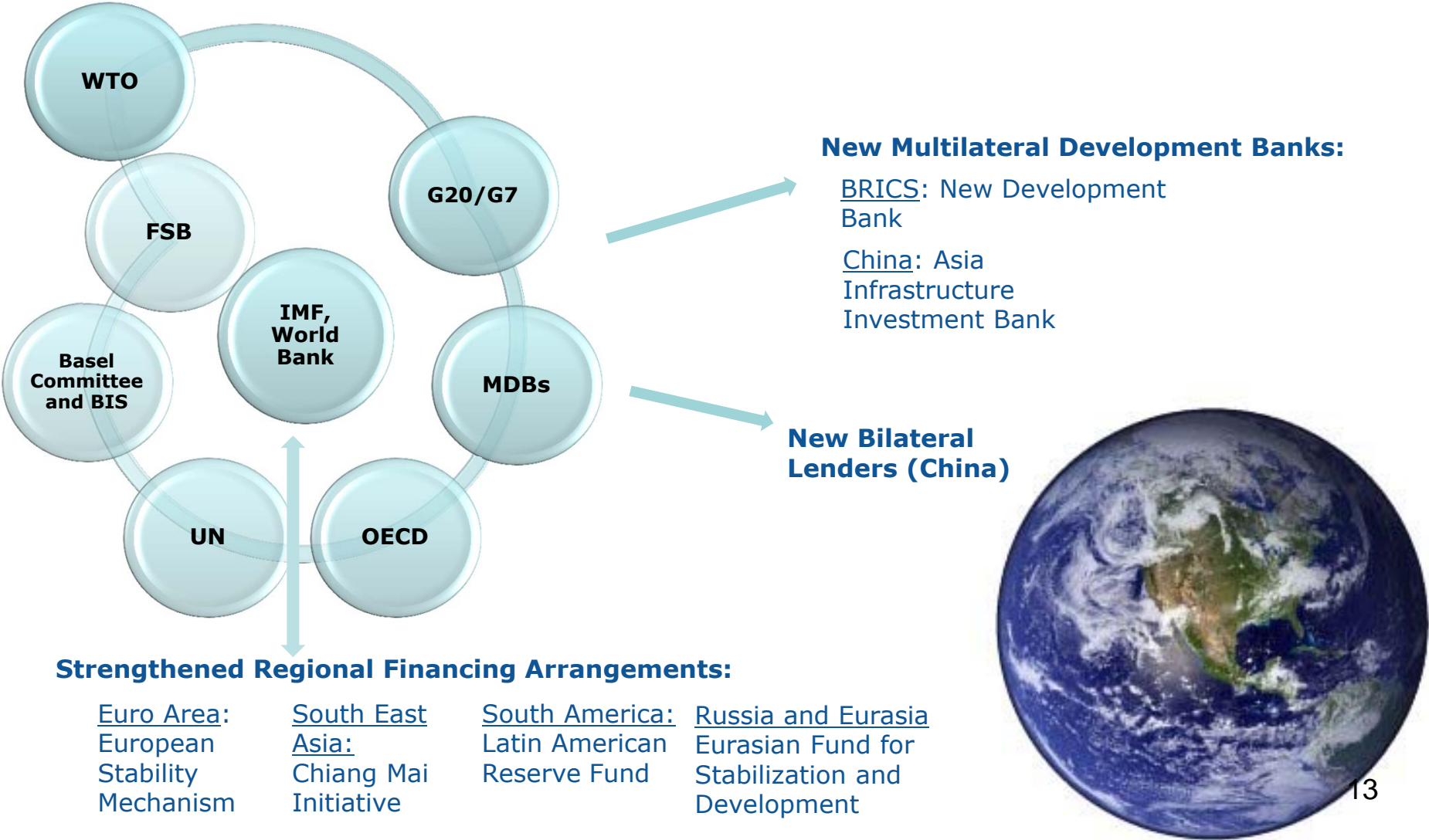
Challenges to global governance

- as a structure
- as a procedure
- as a mechanism

Increasing fragmentation: political (cont.)

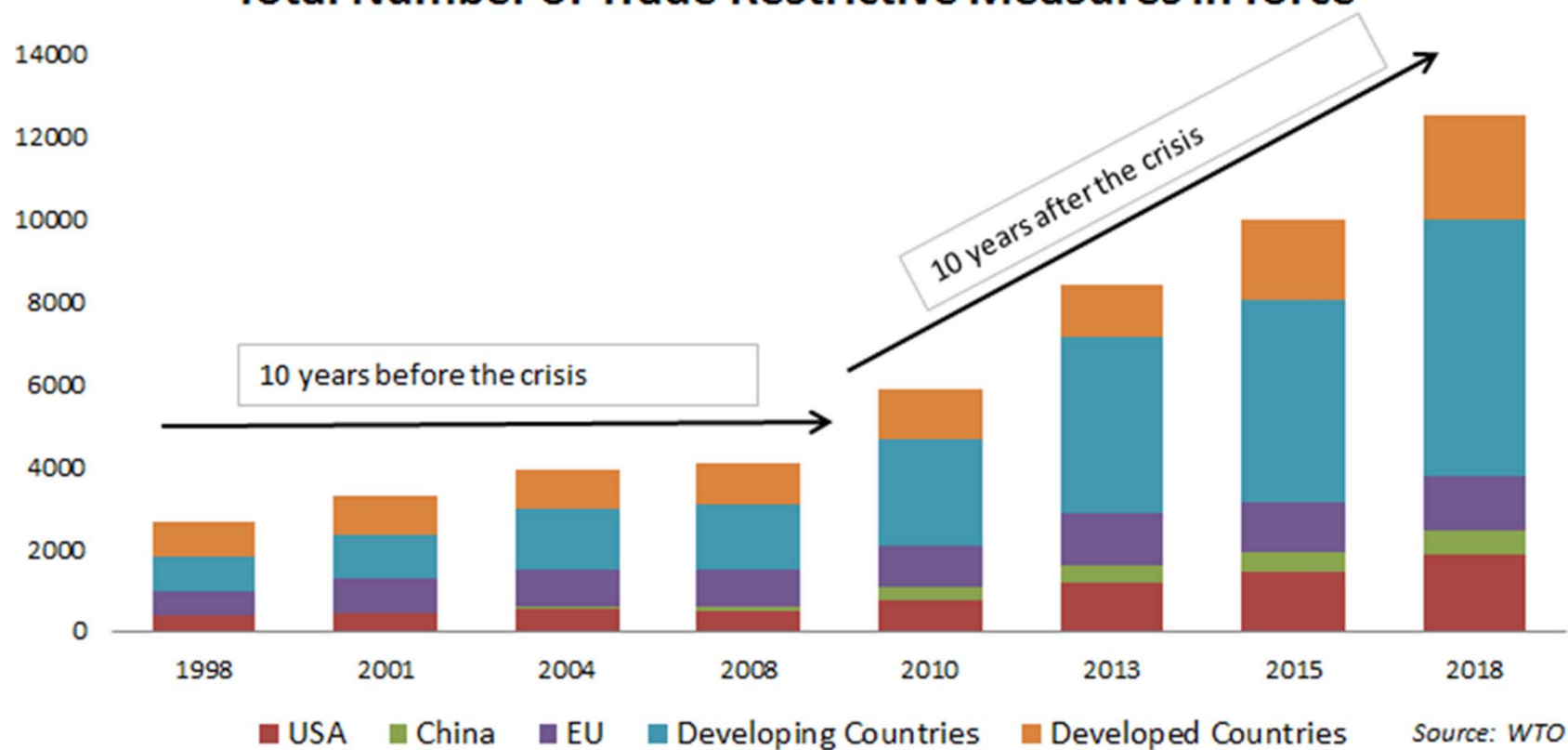


Increasing fragmentation: institutional

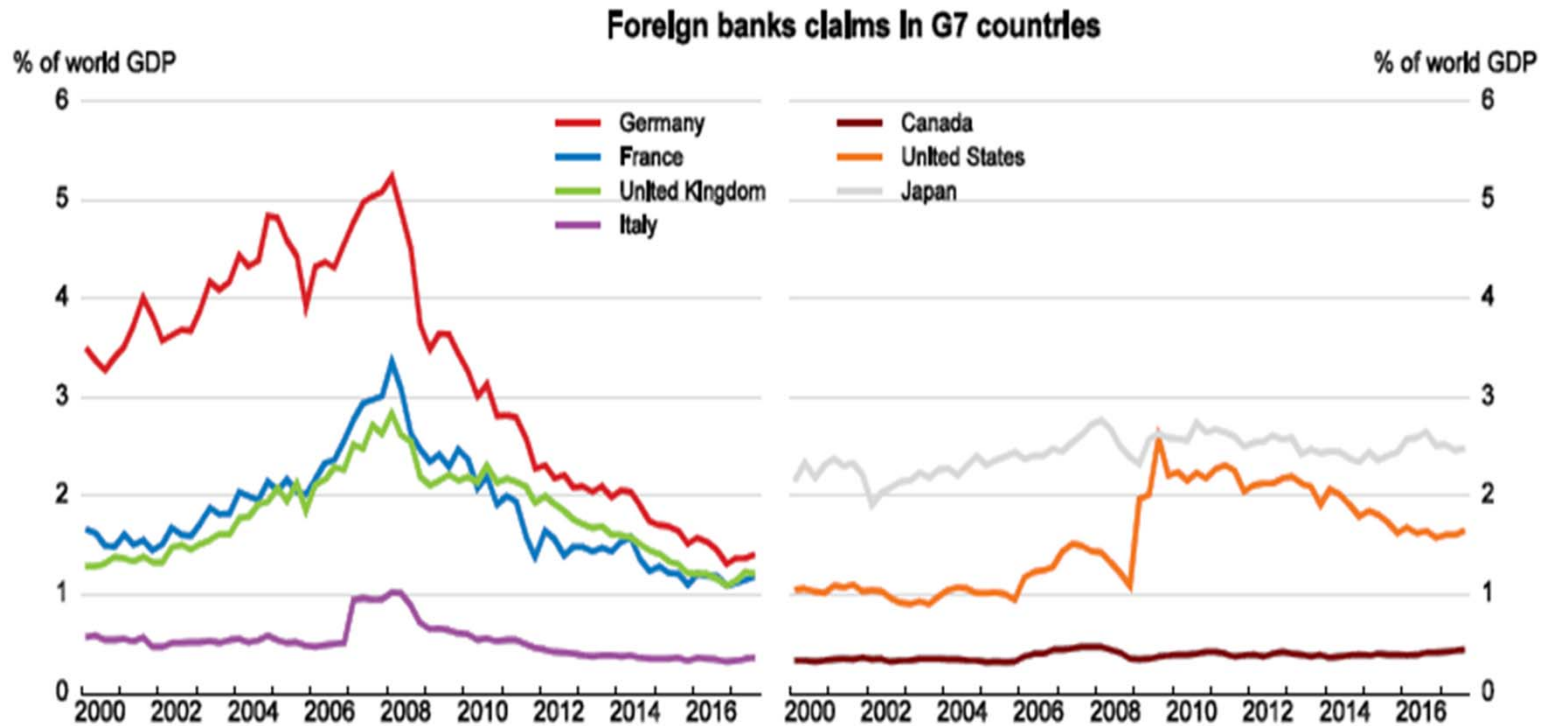


Increasing fragmentation: trade

Total Number of Trade Restrictive Measures in force



Increasing fragmentation: financial



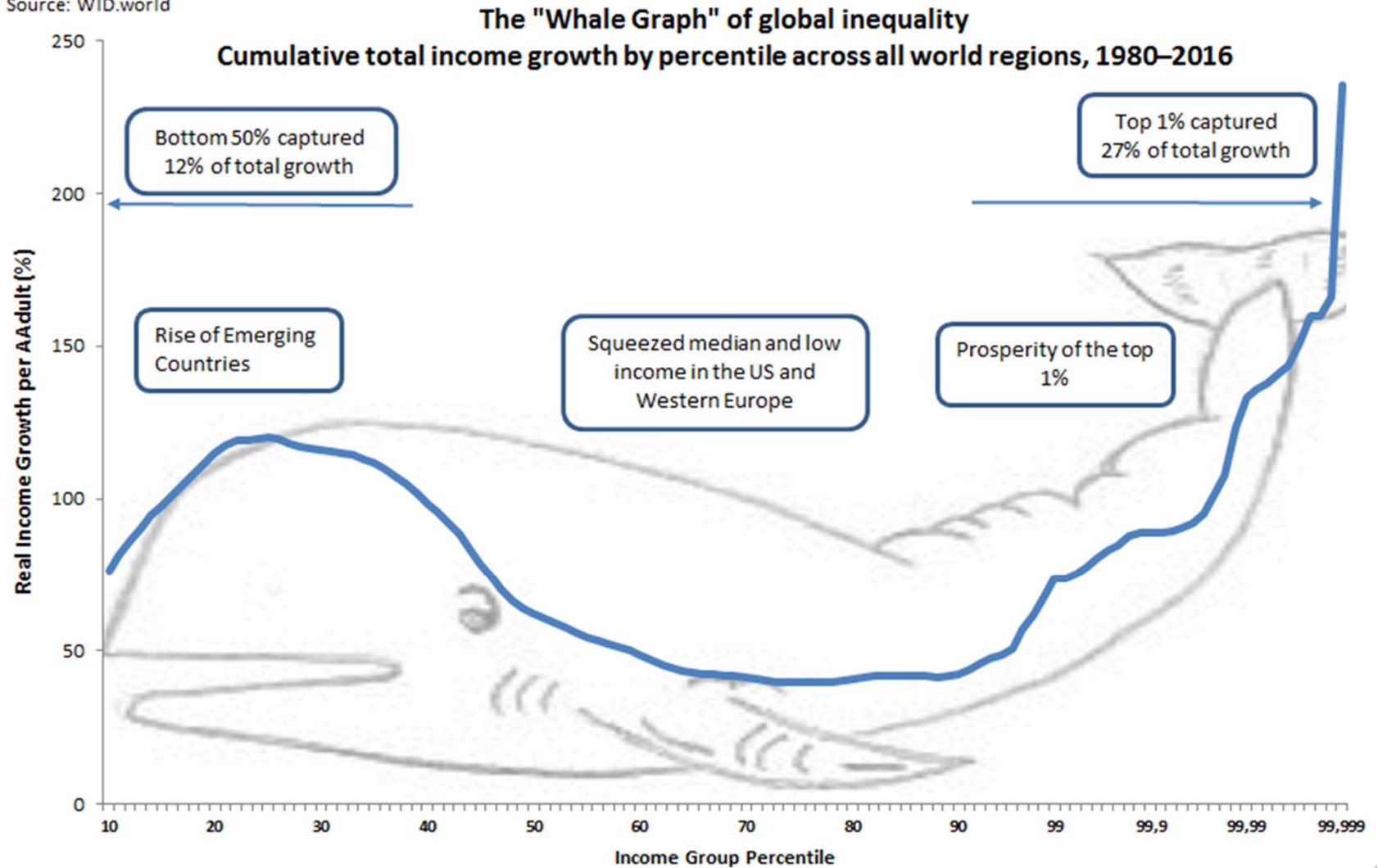
1. Total foreign claims for all BIS reporting countries.

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.

Source: Bank for International Settlements Banking Statistics and Debt Securities database.

Increasing fragmentation: social

Source: WID.world



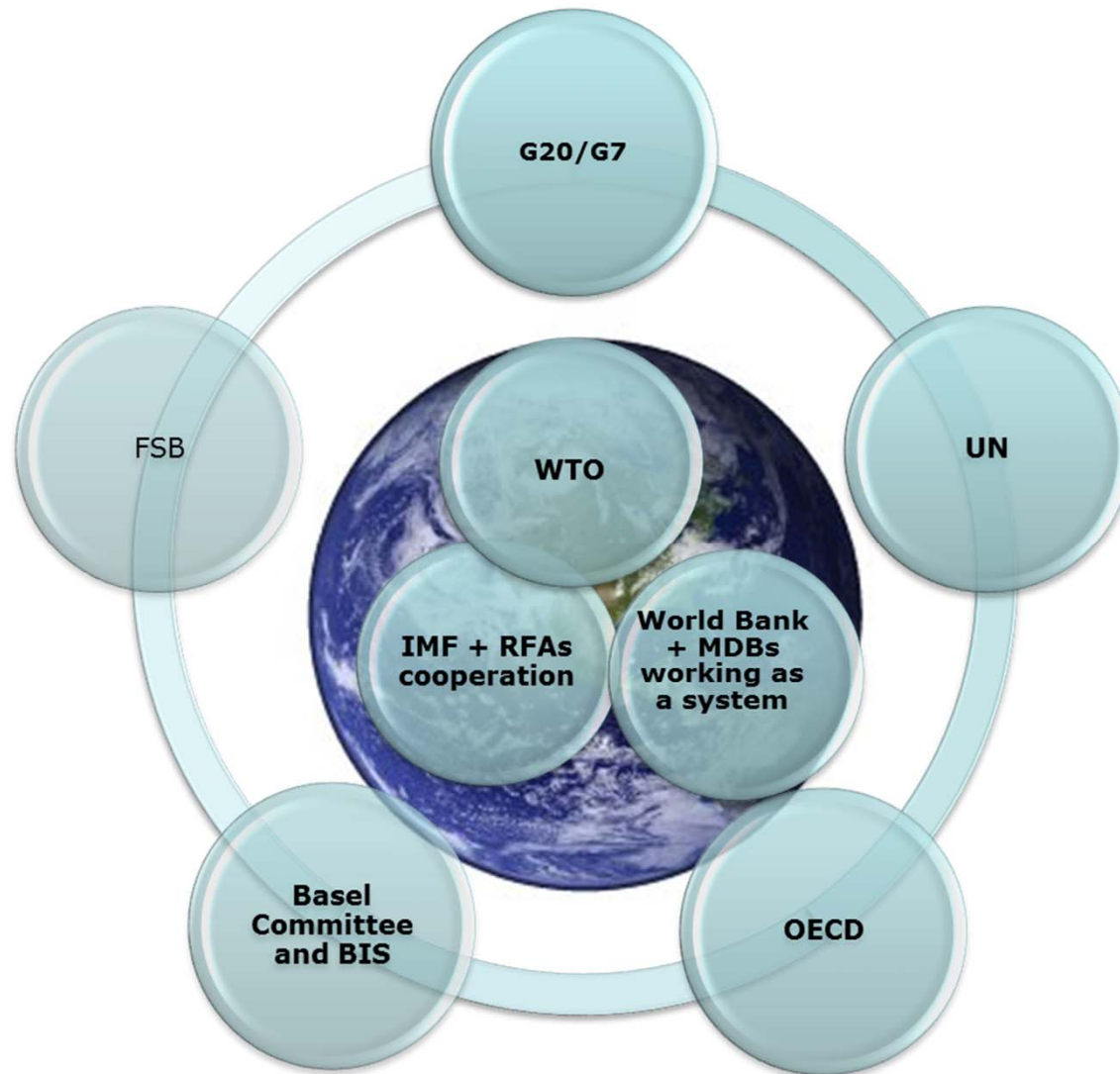
II Policy responses: inclusive multilateralism



Move towards inclusive multilateralism ...

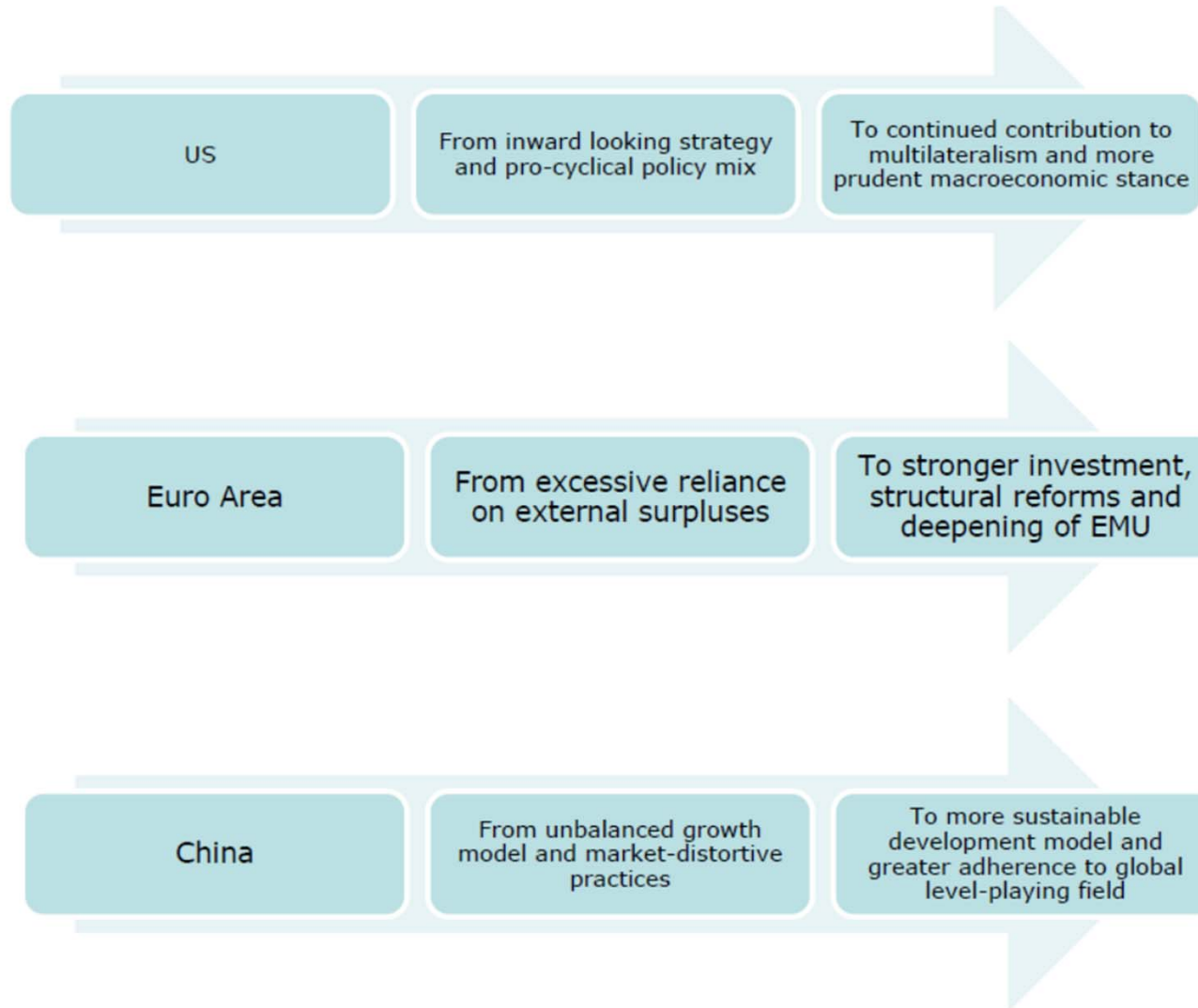
- *Strive for collective and concrete individual commitments to foster strong, sustainable, balanced and inclusive growth;*
- *Develop common global approach to tax policies;*
- *Strengthen digital economy rules;*
- *Promote new generation trade deals;*
- *Deliver new global public goods, financial stability,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



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***