

Global Economic Order and Global Economic Governance

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Lecture to be given to given at Treasury

Wellington, New Zealand

Friday 5 July 2024

This lecture will be based on the introductory essay in an issue of the *Oxford Review of Economic Policy* on The Changing World Order, Global Economic Governance and Liberal Internationalism which was published in June 2024

1 Introduction

In this lecture I explore the origins of the US-led liberal multilateral economic order in the post-war world and the threats which that order now faces.

- I discuss how some form of cooperative international order might be sustained.
- In short, where might twenty-first century multilateral rule-making emerge from, and how might the resulting global economic order be made sustainable?

There are four aspects to this lecture.

- I provide a narrative history of how economic collaboration emerged post WWII.
- I describe the nature of the global economic governance that emerged and provide a new formal framework for analysing it, using the idea of ‘concerted unilateralism’.
- Third, I explore how contemporary challenges—a broadening of policy requirements, the rise of economic nationalism, and the rise of China as a new hegemon—mean that the global economic order is now in flux.
- And finally, I conclude with a general observation: that international relations (IR) scholars are inclined to analyse international economic regimes, economists to study particular policy proposals, and that these two perspectives can—and should—complement one another.

My aspiration, as editor of the issue of OxREP on which this lecture is based has been to bring together two different groups: academic IR scholars and international economists, (both academics and policy-makers) coming from many different countries.

2 The Global Economic Order established after WWII

2.1 The Postwar International Policy Matrix: Establishing the 'Golden Age'

Objective	Instrument(s)	Responsible authority
Full employment	Demand management (mainly fiscal)	National governments
Balance of payments adjustment	Pegged but adjustable exchange rates	International Monetary Fund
International Financial Stability	Regulation Of International Capital Flows	World Bank
Promotion of International Trade ["export-led growth"]	Tariff Reductions etc	International Trade Organisation

Initial discussions leading to the Atlantic Charter on 14 August 1941

Negotiations between the US and the UK

- Differences in relation to trade
- Differences in relation to finance.

The resolution: the hegemon needed to compromise

2.2 Reconfiguring the Postwar International Policy Matrix: the Great Moderation

Objective	Instrument(s)	Responsible authority
Inflation targeting	Demand management (mainly monetary)	National governments
International solvency	Floating exchange rates and fiscal discipline	International Monetary Fund
International Financial Stability	Regulation Of International Capital Flows	World Bank
Promotion of International Trade [“export-led growth”]	Tariff Reductions etc	International Trade Organisation

Bye bye Bretton Woods:

- no more full employment of fixed exchange rates

Hello inflation targeting and floating exchange rates

- The “divine coincidence”
- Fiscal policy relegated to ensuring fiscal solvency Negotiations between the US and

The Great Moderation

- In principle possibly to imagine a perfectly managed system

3 Global economic governance: initial study

3.1 IR scholars

Prisoner's dilemma approach to study of global regimes

Repeated games – Keohane, Axelrod and Hamilton This paper has four sections.

- An attempt to understand the postwar political economy regime
- A discussion of the “shadow of the future” –
 - but unpersuasive

3.2 Similar discussions amongst economists

- Similar prisoners' dilemma ideas to study of cooperation in delivering particular policies
- Understanding of the WTO as solution to a prisoners' dilemma problem
- Macro policy coordination thought about in a similar manner
 - Also unpersuasive

4 Global economic governance: an evolutionary approach using ideas of concerted unilateralism

4.1 Concerted Unilateralism

The example of APEC

		Representative foreign country	
		Liberalize	Protect
Home country	Liberalize	<u>-3, -3</u>	-4, 1
	Protect	<u>1, -4</u>	0, 0

Figure 1: Pay-offs from unilateral and joint liberalization: a ‘prisoner’s dilemma’

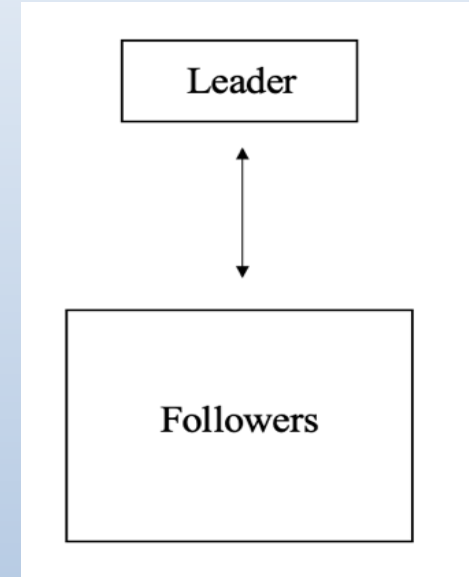


Figure 2 Leader follower with just hegemon

4.2 The Importance of Hegemonic Leadership

A Stackelberg leadership game

4.3 Cooperation as an evolutionary process (Peyton Young)

Insight into how cooperation forms, establishment of rules of the game
Vulnerability to shocks

5 Challenge of Economic Nationalism

Objective	Instrument(s)	Responsible authority
Inflation Targeting	Demand management (mainly monetary)	Central Banks
International Solvency	Floating exchange rates	International Monetary Fund
International financial Stability	Regulation of International Capital Flows.	World Bank
Concerns about Globalisation	New Rules needed	World Trade Organisation

For many years the US's leadership position was tied to its support for multilateral trade

The New World of Supply-side policies: WTO rules v. unclear

(i) *Inequality.* Globalization has made life difficult for low-wage, unskilled labour in advanced countries, and industrial policy is seen as a response to this problem. The Trump response

- (i) Collapse “embedded liberalism”
- (ii) Of course this is against WTO rules

(ii) *Innovation* See Martin Guzman and Joe Stiglitz (OxREP, June 2024). Market failure to do with innovation. No innovating firm can fully capture the rewards which innovation creates, because the intellectual property is insecure since the newly invented ideas and processes are likely to be copied, and since its key workers are liable to leave, taking their ideas with them. Support of domestic innovating firms, and support of the domestic innovation process through the support of education and research is thought necessary, in possibly protectionist manner. I call this “Stiglitz 1”.

(iii) *Dynamic Comparative advantage* (See Stiglitz, 1996). Consider South Korea. In the early 1950s, neoclassical economists advised those making policy in Korea to formulate a growth policy based on static comparative advantage, which was to export primary commodities. The policy proposal was to develop the rice industry. This would have seen Korea locked into a development strategy with a very low growth potential. But Korea did the opposite: first protecting its industry from foreign competition and then opening to international trade, but only doing this when industry had been firmly established and was competitive. I call this “Stiglitz II”



This is now a global issue; each country faces its own challenges

- Economic nationalism is leading to an increasingly protectionist world. But the WTO rules about trade policy restraint now seem outdated and inappropriate as a response to that new struggle. The original WTO rules were conceived using an economic theory based on competitive markets functioning under close to perfect competition. But the modern world of oligopolistic rivalry presents a very different set of challenges.
- Much of the new work that trade theorists will need to do about this topic has already been done by economists thinking about competition policy.
- For medium-sized countries—like Canada, Australia, New Zealand and the UK—this new world creates three major kinds of challenges.
 - (i) The first is for each country to design its own industrial policies so that they do not degenerate into inefficient rent-seeking and protectionism, as in the past.
 - (ii) Instead such policies need to support investment and growth outward looking tradeable goods industries leading to economies of scale and agglomeration economies in high-tech industries
 - (ii) The third is to find what role these countries can play on the international stage in writing the new global trade rules. If the US is in the process of ripping up the post-war trading rules, what can middle-level powers like, for instance, Canada and Australia do to help preserve the best of them? See Fried (2024) and Evans (2024) in *Oxford Review of Economic Policy*.
- Can a multilateral system of rules and institutions be devised to prevent the worst from happening? Where do China and the Global South fit into this shifting system? What coalitions of countries can work together to engage in rule-making in this area?
- Can the existing institutions be adapted for this purpose, or do we need new institutions? Can agreements constrain abuses of sanctions and industrial policy so as to prevent a free-for-all? 9

6 Finding New Rules

6.1 Finding a new version of the PIPM

Objective	Instrument(s)	Responsible authority
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Need for more than Keynesian policies or inflation targeting

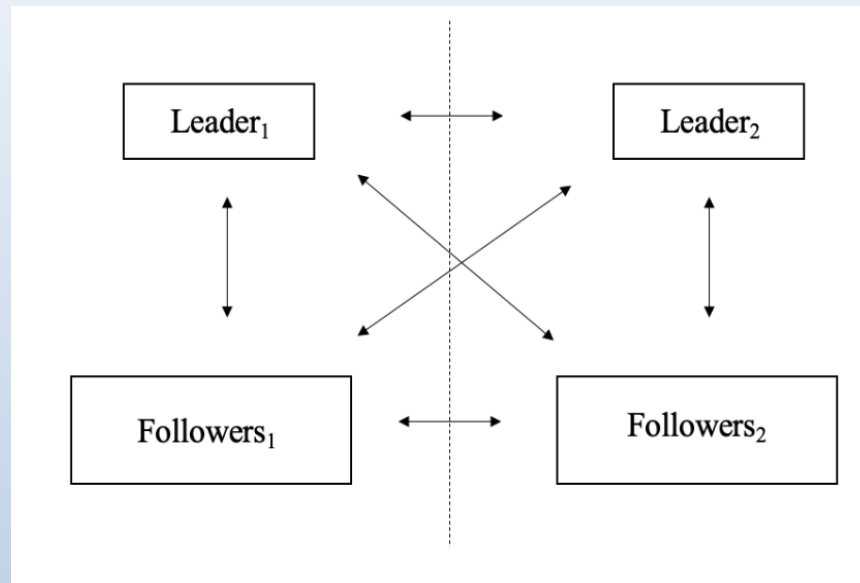
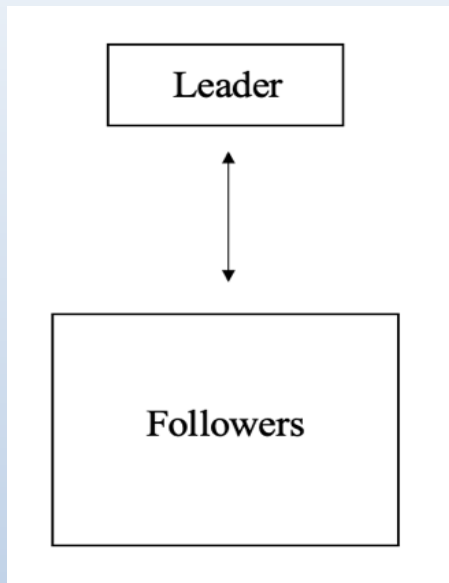
Issue for the IMF – potential financial instability as threat to international solvency

6.2 Going Beyond the PIPM

For the WTO, the World Bank and the UN – managing transition to Net Zero

For the World Bank: lending in support of global health policies

7 China: The rise of a new Hegemon



Complexity and Indeterminacy

Security

Values

Strategy

8 Conclusions

Framing – need to think about foundations of cooperation in new ways

Broad Policy Regimes and Particular Policy Proposals

Concerted Unilateralism as a Framework

Looking ahead

We have a challenge of preserving exiting wisdom

There is much granular plumbing in place to do with global governance.

The End