Global Governance, Individual Preferences

Dani Rodrik[1]
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The world economy is entering a new phase, in which achieving global cooperation will become increasingly difficult. The United States and the European Union, now burdened by high debt and low growth – and therefore preoccupied with domestic concerns – are no longer able to set global rules and expect others to fall into line.

Compounding this trend, rising powers such as China and India place great value on national sovereignty and non-interference in domestic affairs. This makes them unwilling to submit to international rules (or to demand that others comply with such rules) – and thus unlikely to invest in multilateral institutions, as the US did in the aftermath of World War II.

As a result, global leadership and cooperation will remain in limited supply, requiring a carefully calibrated response in the world economy's governance – specifically, a thinner set of rules that recognizes the diversity of national circumstances and demands for policy autonomy. But discussions in the G-20, World Trade Organization, and other multilateral fora proceed as if the right remedy were more of the same – more rules, more harmonization, and more discipline on national policies.

Nothing endangers globalization more than the yawning governance gap – the dangerous disparity between the national scope of political accountability and the global nature of markets for goods, capital, and many services – that has opened up in recent decades. When markets transcend national regulation, as with today's globalization of finance, market failure, instability, and crisis is the result. But pushing rule-making onto supranational bureaucracies, such as the World Trade Organization or the European Commission, can result in a democratic deficit and a loss of legitimacy.

How can this governance gap be closed? One option is to re-establish national democratic control over global markets. This is difficult and smacks of protectionism, but it is neither impossible nor necessarily inimical to healthy globalization. As I argue in my book The Globalization Paradox, expanding the scope for national governments to maintain regulatory diversity and rebuild frayed social bargains would in fact enhance the functioning of the global economy.

Instead, policy elites (and most economists) favor strengthening what is euphemistically called "global governance." According to this view, reforms such as those that enhance the effectiveness of the G-20, increase the representativeness of the International Monetary Fund's Executive Board, and tighten the capital standards set by the Basel Committee on Banking Supervision are necessary to provide a sound institutional underpinning for the global economy.

[1] This is based on two of my Project Syndicate columns, "National Government, Global Citizens" (March 12, 2013) and "Leaderless Global Governance" (January 13, 2013).

How much global governance do we really need?

Going back to basics, the principle of "subsidiarity" provides the right way to think about global governance issues. It tells us which kinds of policies should be coordinated or harmonized globally, and which should be left largely to domestic decision-making processes. The principle demarcates areas where we need extensive global governance from those where only a thin layer of global rules suffices.

Economic policies come in roughly four variants. At one extreme are domestic policies that create no (or very few) spillovers across national borders. Education policies, for example, require no international agreement and can be safely left to domestic policymakers.

At the other extreme are policies that implicate the "global commons": the outcome for each country is determined not by domestic policies, but by (the sum total of) other countries' policies. Greenhouse-gas emissions are the archetypal case. In such policy domains, there is a strong case for establishing binding global rules, since each country, left to its own devices, has an interest in neglecting its share of the upkeep of the global commons. Failure to reach global agreement would condemn all to collective disaster.

Between the extremes are two other types of policies that create spillovers, but that need to be treated differently. First, there are "beggar-thy-neighbor" policies, whereby a country derives an economic benefit at the expense of other countries. For example, its leaders restrict the supply of a natural resource in order to drive up its price on world markets, or pursue mercantilist policies in the form of large trade surpluses, especially in the presence of unemployment and excess capacity.

Because beggar-thy-neighbor policies create benefits by imposing costs on others, they, too, need to be regulated at the international level. This is the strongest argument for subjecting China's currency policies or large macroeconomic imbalances like Germany's trade surplus to greater global discipline than currently exists.

Beggar-thy-neighbor policies must be distinguished from what could be called "beggar thyself" policies, whose economic costs are borne primarily at home, though they might affect others as well.

Consider agricultural subsidies, bans on genetically modified organisms, or lax financial regulation. While these policies might impose costs on other countries, they are deployed not to extract advantages from them, but because other domestic-policy motives – such as distributional, administrative, or public-health concerns – prevail over the objective of economic efficiency.

The case for global discipline is quite a bit weaker with beggar-thyself policies. After all, it should not be up to the "global community" to tell individual countries how they ought to weight competing goals. Imposing costs on other countries is not, by itself, a cause for global regulation. (Indeed, economists hardly complain when a country's trade liberalization harms competitors.) Democracies, in particular, ought to be allowed to make their own "mistakes."

Of course, there is no guarantee that domestic policies accurately reflect societal demands; even democracies are frequently taken hostage by special interests. So the case for global rulemaking takes a rather different form with beggar-thyself policies, and calls for procedural requirements designed to enhance the quality of domestic policymaking. Global standards pertaining to transparency, broad representation, accountability, and use of empirical evidence, for example, do not constrain the end result.

Different types of policies call for different responses at the global level. Too much global political capital nowadays is wasted on harmonizing beggar-thyself policies (particularly in the areas of trade and financial regulation), and not enough is spent on beggar-thy-neighbor policies (such as macroeconomic imbalances). Over-ambitious and misdirected efforts at global governance will not serve us well at a time when the supply of global leadership and cooperation is bound to remain limited.

From inter-governmental institutions to global citizens

The trouble with existing global institutions is not just that they remain weak. It is also that they are inter-governmental bodies – a collection of member states rather than agents of global citizens. Because their accountability to national electorates is indirect and uncertain, they do not generate the political allegiance – and hence legitimacy – that truly representative institutions require. Indeed, the travails of the European Union have revealed the limits of transnational political community-building, even among a comparatively limited and similar set of countries.

Ultimately, the buck stops with national parliaments and executives. During the financial crisis, it was national governments that bailed out banks and firms, recapitalized the financial system, guaranteed debts, eased liquidity, primed the fiscal pump, and paid the unemployment and welfare checks – and took the blame for everything that went wrong. In the memorable words of outgoing Bank of England Governor Mervyn King, global banks are "international in life, but national in death."

But perhaps there is another path, one that accepts the authority of national governments, but aims to reorient national interests in a more global direction. Progress along such a path requires "national" citizens to begin viewing themselves increasingly as "global" citizens, with interests that extend beyond their state's borders. National governments are accountable to their citizens, at least in principle. So, the more global these citizens' sense of their interests becomes, the more globally responsible national policy will be.

This may seem like a pipedream, but something along these lines has already been happening for a while. The global campaign for debt relief for poor countries was led by non-governmental organizations that successfully mobilized young people in rich countries to put pressure on their governments.

Multinational companies are well aware of the effectiveness of such citizen campaigns, having been compelled to increase transparency and change their ways on labor practices around the world. Some governments have gone after foreign political leaders who committed human-rights crimes, with considerable domestic popular support. In her paper for the present project, Nancy Birdsall cites the example of a Ghanaian citizen providing testimony to the US Congress in the hope of convincing American officials to pressure the World Bank to change its position on user fees in Africa.

Such bottom-up efforts to "globalize" national governments have the greatest potential to affect environmental policies, particularly those aimed at mitigating climate change – the most intractable global problem of all. Interestingly, some of the most important initiatives to stem greenhouse gases and promote green growth are the products of local pressures.

Similarly, Andrew Steer notes that more than 50 developing countries are now implementing costly policies to reduce climate change. From the perspective of national interest, that makes no sense at all, given the global-commons nature of the problem.

Some of these policies are driven by the desire to attain a competitive advantage, as is the case with China’s support for green industries. But when voters are globally aware and environmentally conscious, good climate policy can also be good politics.

Consider California, which at the beginning of this year launched a cap-and-trade system that aims to reduce carbon emissions to 1990 levels by the year 2020. While global action remained stalled on capping emissions, environmental groups and concerned citizens successfully pushed for the plan over the opposition of business groups, and the state’s Republican governor at the time, Arnold Schwarzenegger, signed it into law in 2006. If it proves a success and remains popular, it could become a model for the entire country.

Global polls such as the World Values Survey indicate that there is still a lot of ground that needs to be covered: self-expressed global citizenship tends to run 15-20 percentage points behind national citizenship. But the gap is smaller for young people, the better educated, and the professional classes. Those who consider themselves to be at the top of the class structure are significantly more globally minded than those who consider themselves to be from the lower classes.

Of course, “global citizenship” will always be a metaphor, because there will never be a world government administering a worldwide political community. But the more we each think of ourselves as global citizens and express our preferences as such to our governments, the less we will need to pursue the chimera of global governance.