

Globalization in the Aftermath of the Pandemic and Trump

Joseph E. Stiglitz

ASSA Meetings

January 4, 2021

Pandemic heightened awareness of need for global cooperation

- Global public health, like global warming, is a global public good
 - Problem can only be addressed globally
 - Pandemic won't be fully controlled until it is controlled globally
- Pandemic economic downturn also needs to be addressed globally
 - Won't be robust recovery until there is a recovery in most countries
 - Especially so because China likely won't be playing the same role that it did in 2008 crisis

Need for global economic cooperation

- Especially great because developing countries and emerging markets don't have resources to sustain their economy in the way that advanced countries have done
 - Of \$12.7 trillion public stimulus spending, .002% spent by 46 LDCs.
- Further concern: **risk of debt crisis**, with potential global consequences
 - Some countries were overindebted before pandemic
 - Marked declines in incomes for many countries mean difficulties in servicing debt
 - Debt suspension of official debt for least developed countries not sufficient
 - Has to be more comprehensive (all debt, emerging markets as well as LDCs) and needs to entail debt restructuring, not just postponement of debt service

Reference: Stiglitz and Rashid, "Averting Catastrophic Debt Crises in Developing Countries: Extraordinary challenges call for extraordinary measures," Centre for Economic Policy Research, Policy Insight, July, 2020. Accessible at:

https://cepr.org/sites/default/files/policy_insights/PolicyInsight104.pdf

But major impediments to cooperation

- Pandemic exposed **lack of resilience of global supply chains**—rethinking of whether globalization was pushed too far
- Pandemic exposed **extent of inequalities within and between countries**—changed politics of globalization
 - And recovery likely to reflect these inequalities—K-shaped recovery
- Trump and other **populist attacks on globalization**—undermining international rule of law
- Longer term effects: **can US (or any other country) really be trusted?**
 - Nation state still basic political unit
- That trade would promote democracy (“End of history”) now seems pollyannish
 - **New cold war?**
 - **Increased awareness of conflicts over values (democracy, human rights)**
 - **No consensus on right economic model (such as prevailed in era of neoliberalism)**

General principles

- **We *have* to cooperate to address issues of common concern**
 - Climate change, global health, preservation of oceans
 - There are still large potential gains from trade and an international rule of law is as necessary for global commerce/finance as a domestic rule of law is necessary for domestic commerce
 - Mutual gain from such cooperation
- **Sustainable cooperation requires strengthening international institutions**
 - Making it more difficult for a rogue government to overrule international rule of law
 - That, in turn, requires US ceding some power
 - US gained in doing so after WWII
 - Would be in US long term interest in doing so now

Some of the examples to be discussed below were reflected in the Report of the Commission of Experts on Reforms of the International Monetary and Financial System appointed by the President of the United Nations General Assembly: *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis 2010*

1. Special drawing Rights (SDR's)

- Global currency advocated by Keynes, including in IMF
- Major issuance in 2008 global financial crisis
- **Key instrument in providing support for emerging markets and developing countries**
- Many advanced countries have agreed to recycle SDR's to those in need
- Benefits even those who don't have take up: lowering cost of borrowing
- No real cost to US—no good argument for *not* doing it
- US vetoed issuance of \$500 billion
- Congressional legislation to expand issuance to \$2 trillion

2. Debt—short run

- **Needs to be debt restructuring**

- With private sector participation
 - So far, reluctance to participate in meaningful way even on debt stay (Africa) or to engage in necessary depth of restructuring (Argentina)
 - Head in the sand approach—too little too late
 - Shows machismo, but is counterproductive
- Need statement from new Administration: recognizing principle of sovereign immunity and principle of force majeure
 - If there was ever a time this principle was relevant, it is now
 - Remove incentives not to have an agreement—9% prejudgment interest
 - Explore new tools—debt buybacks; debt-nature swaps

Debt—long term solution

- Just as every country needs a bankruptcy law, so too for international debts
- Recommendation of IMF after Argentina 2001 crisis; of UN Commission after 2008 crisis
 - Overwhelming support in UNGA in 2015
 - Opposed by few creditor countries
 - Thought “collective action clauses” would resolve issues
 - Fantasy: if that were true, why has every country had to have bankruptcy law
 - Issues in cross border bankruptcies even more complex
 - Collective action clauses helped in Argentina, but were far from sufficient
- Pandemic bankruptcy also raises issues of systemic bankruptcy—need for “super chapter 11”

3. WTO

- An international rule of law is as necessary for global commerce/finance as a domestic rule of law is for domestic commerce
- Key challenges: lack of global consensus on underlying economic framework; temptation of large countries (US) to exercise power
 - Belief that they do better under law of jungle than under rule of law
 - Probably false—unreliable trading partner
 - More reliable alternatives
- Breach of trust always latent possibility, demonstrated under Trump
 - Effectively abrogating broad understandings
 - Hamstringing WTO by refusing to appoint judges, to go along with consensus on choice of next Director

And yet, some hope

- Biden could quickly end deadlock at WTO
- Work to deal with areas that have proven problematic over recent years
 - Growing consensus for a need for new digital rules not written by Silicon Valley
- Trump trashed investment agreements—one of most problematic areas
- Trump proposed countervailing duties for environmental dumping—another potential area of broad consensus today

4. Intellectual property and health

- Covid-19 once again exposed weaknesses in global IPR regime
 - Weaknesses already noted by ILO World Commission on the Social Dimensions of Globalization
 - Global cooperation needed to share knowledge
 - Researchers throughout world worked together
- But some companies saw opportunities for profits
 - And some countries demonstrated “health nationalism”—including vaccine nationalism
 - Rejecting Costa Rica initiative at WHO
 - In spite of realization noted earlier: Pandemic won’t be fully controlled until it is controlled globally

5. Global taxation

- Global tax avoidance/evasion one of most invidious areas of globalization
- Current transfer price system provides too many opportunities for tax shifting
- Race to bottom distorts production and deprives countries of needed revenues
- Growing consensus: minimum tax rate at 25%; formulaic approach
- Opposition: obvious, from tax evaders, from countries that make money by facilitating tax evasion, and by governments which represent interests of tax evaders
- OECD initiatives have been step in right direction, but too little
- Time when money is so desperately needed is time to fix international tax regime

6. Global regulation of social media

- Misinformation and multiple social harms occur over social media
 - Aided and abetted by system without accountability
 - With rules written three decades ago to encourage nascent industry
- At least for countries with strong democratic institutions, must find institutional way of achieving better balance—benefits from restricting harms, preserving basic rights
- Recent global effort under UN: Forum for Information and Democracy

7. Global competition authority

- Growth of inequality one of major societal problems
- Growth of market power one of major underlying sources
 - Evidence that pandemic has led to increased concentration of market power
- Globalization has entailed growth of global behemoths
- Best tamed at global level, through global cooperation
- But runs into power game: the push for national champions

Concluding Remarks

- Globalization has had a field day for four decades
 - Rules written by and for corporate interests
 - Large distributive consequences within many countries—often overwhelming, in some sense, the magnitudes of overall gains
 - Retreat from hyper globalization was already under way before pandemic
- Trump turned things on head: said agreements (which we had largely written) were unfair to US
- Rewriting new rules will be difficult
 - Differences in values, economic systems, and views about how economic systems work
 - Deep lack of trust
- Yet there is still need for global cooperation
- Challenge to find minimalist set of rules—likely markedly different from those of neoliberal era—to facilitate at least the minimal level of cooperation we need
- And to create robust multilateral institutions that are truly multilateral, can generate trust, and are resilient against the vagaries of domestic politics in any member country