

# Whither Multilateralism?

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**ASSA Meetings**

**New Orleans, January 2023**

# Best of times...worst of times

- International cooperation in fighting Russian aggression in Ukraine
  - But lagging support in Third World
- International cooperation on climate change
  - But world is still not doing enough
  - And advanced countries have not lived up to their previous commitments
- International cooperation in fighting pandemic
  - But vaccine apartheid, and now inequalities in access to tests and treatment
- New cold war
- US monetary policy new form of “beggar-thy-neighbor” policies, inducing global slowdown and debt crisis in poorest countries
  - Inadequate global framework for macroeconomic coordination
  - Inadequate global framework for debt resolution

# Whither multilateralism?

- Pandemic, war, climate change show need for global cooperation
- But new geo-politics has made such cooperation more difficult
  - Can we compete, even aggressively, in some areas while cooperating in others?
  - Are there new rules, new and reformed institutions, that would facilitate the requisite cooperation?
    - New trade rules
    - New IPR rules
    - Sovereign debt-restructuring mechanism
    - Multilateral green banks

# I. New trade rules needed: Old rules aren't working

- Trump claimed essentially everything was a matter of national security
- Biden imposed constraints on exports/imports of high technology products
- US adopted industrial policies favoring domestic production of chips, green investment
- Europe engaged in massive bailouts (subsidies)
- US blocked appointment of new appellate judges in WTO

# Risks of not establishing new framework

- China retaliation: We are heavily dependent on China for many products, especially in short run, including key products, minerals associated with move to green economy
- Won't be able to take advantage of comparative advantage—higher costs of production, lower standards of living
- *Real politick* governing trade today
  - US does as it pleases
  - Developing countries have to obey rules

# Intellectual and political foundations of old trade order gone—we have no choice but to look for a new order

- Old order based on neoliberalism—largely discredited
- US was strongest supporter—no longer
- But arguments for free trade exaggerated benefits
  - In absence of good risk markets, everyone could be made worse off (Newbery-Stiglitz, 1984)
  - Importance of learning by doing for developing countries (Greenwald-Stiglitz, 2006)
  - Distributive costs are large, and may outweigh gains in GDP
  - Macroeconomic instability and environmental and other forms of exploitation
- And current regime is not a free trade regime—shaped by vested interests in rich countries
  - Agricultural subsidies allowed, others not

# Possible new framework for industrial policy

- Small developing countries should be allowed to engage in such policies
  - No systemic effect
- National security
  - Needs to be focused on domestic production—can't extend to exports
    - Strengthening countervailing duty regime—others could tax US chip exports
    - Limited to areas where compelling national security exemption required—not autos

# Promoting a global green economy

- Permanent (non-predatory) subsidies for green products allowed, without countervailing duties (US duties on Chinese solar panels not allowed)
- Cross-border carbon taxes allowed (not taxing carbon is an implicit subsidy)
- Should subsidies allowed for green production of non-traded goods? Distinction between final goods and intermediate goods
- Hardest questions:
  - should green subsidies be allowed for traded goods?
  - Should green subsidies be limited to inputs produced domestically?
  - Countervailing duties for goods indirectly subsidized through subsidies to non-traded inputs?
  - All second best questions: global benefits in reduce emissions, global cost, loss of global efficiency
    - Former probably more important than the latter
    - Most of costs borne by the country engaged in distortionary policies



# Some general principles

- Concern about jobs should not be at center of trade policy for advanced countries—maintaining full employment is responsibility of monetary and fiscal policy
- Market failures, including concerns about public goods and inequality, mean that there is a rationale for industrial policy
- Not about picking winner, about identifying externalities (and other market failures)
- Hard question is about global spillovers of policies intended to correct for domestic externalities
  - For small countries, global externalities likely to be small, but not for large country
  - Even for large countries, global welfare *may* be enhanced—everyone in advanced countries benefitted from US subsidies for vaccines, globe has benefitted from China's subsidies to renewables
  - Hard to define simple global rules

# We have two conflicting competition policies

- In anti-trust, presumption is that markets are naturally competitive, hard to establish predatory behavior
- In trade, presumption is that selling below costs (typically incorrectly measured) is predatory and should be stopped/countervailed
- Reality is in between
  - Permanent subsidies/low prices should not be viewed as predatory
    - Can devise punishments for those ex-post engaging in predation
  - Small country subsidies should not be viewed as predatory

## II. Intellectual property regime

- Hasn't served world well in pandemic
  - Vaccine apartheid
  - As we move to testing and treatment, may be even worse
    - Possibility of production in developing countries larger
- US supported vaccine waiver, but a few European countries opposed
  - US has not supported waiver of testing and treatment IPR

# Foolishness of US position

- While disease festers, mutations arise
  - Drug company profits put ahead of lives and health
  - Particularly strange given that most of funding for research came from governments
- Played important role in undermining global cooperation on Ukraine (and other issues)
- If we couldn't get global agreement to do everything possible to combat pandemic, what does it say about global cooperation in other arena?

# III Sovereign debt

- US monetary policy exacerbating risk of debt crisis
  - Higher interest rates
  - Higher value of dollar
  - Global slowdown
- But we have no framework for resolving sovereign debt
  - UN passed a resolution for creating such a framework and set forth a set of principles (2014,2015) but US opposed
  - Contract provisions (collective action clauses) have—as predicted—not resolved issue
  - Some US policies exacerbate problem (NY State law on prejudgment interest, Champerty provisions)

# Problems today are worse than in earlier crises

- More lenders—including China, not member of Paris Club, and private sector
- More securitization—not just banks
- More borrowers
- More interdependence
- Likely result: problem of “too little, too late” will once again prevail
- Undermining global solidarity, ability of world to cooperate on a wider range of issues

# Whither multilateralism?

- Need for multilateralism has never been greater
- In the past, US saw it in its interests to promote multilateralism
- Probably true today
- But currently, US is pursuing policies in several arenas that are undermining the possibility of wider global cooperation
- In each of these areas, there are alternative frameworks that would promote global cooperation and from which the US would benefit
  - The problem is that in several of these areas, special interests have had a disproportionate role in shaping policy