LSE The London School of Economics and Political Science

The World in Polycrisis: A NEW AGENDA FOR GLOBAL ECONOMIC GOVERNANCE

INTERIM REPORT

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INTRODUCTION

In March, the Commission held the first of its evidence sessions on the future of global economic governance. The purpose of these sessions is to initiate a global conversation informed by the research and expertise of scholars and policymakers on the Commission, from the London School of Economics and elsewhere. The aim of the initial conversation was to identify the main challenges faced by the current economic order, as well as the concrete political conditions and institutional pathways by which this order could be transformed to overcome them.

This task of transforming the politics, norms and institutions of global economic governance has been complicated by the political, economic and environmental 'polycrisis', in which the world has found itself since the pandemic: the tangled global supply chains and attendant shortages and price rises; the global energy and food price crises sparked by Russia's invasion of Ukraine; the cycle of monetary policy tightening that is being embarked on in response; the inevitable risks of capital flow reversal and debt crises for emerging markets; as well as the short- and long-term consequences of weaponising the global financial system through sanctions and economic statecraft.

These developments have thrown into sharp relief the need not only for the high-politics of multilateralism and global summitry—International Monetary Fund (IMF) Director Kristalina Georgieva has called for with a 'new Bretton Woods'—but also for narrow and issue-specific technocratic reforms that will be able to improve existing policies and procedures, without being obstructed or diluted by the divisiveness that has come to define the international system. In the first session organised by the Commission on 31 March 2022, the Commissioners took stock of the state of multilateral politics and how it must change to successfully meet the challenges ahead. This first Interim Report relays this effort.

ISSUES OVER INSTITUTIONS, POLITICS OVER POLICY?

An early consensus emerged on where the emphasis in the conversation should be placed: namely, not on institutional design. Instead, the first step is to identify which issues need to be addressed, and then to figure out what role the already-existing institutions can play in addressing them. This issue-based approach is informed by the fact that institutional reform, or *de novo* institution-building, takes time, while the challenges we face require swift action at the appropriate scale. It is therefore important to pursue the policy reforms that are most politically viable and which do not require the construction of grand, and unlikely, international coalitions. Professor Alden emphasised that a targeted approach which materially improves existing practices could help redress the low levels of trust in established institutions.

Lord Stern pointed to the achievements of the COP26 climate conference in Glasgow in 2021 as being emblematic of the success of this method. Specifically, it involved creating a shared understanding of our goals which then determined the scope of institutional change. In the case of COP26, the direction-setting goal was 'net zero'.

In the context of economic governance, the goal of coordination is to ensure significant front-loaded investment, specifically for the purpose of meeting the UN's Sustainable Development Goals (SGDs). The high investment needs were recognised as one of the key features of what was cautiously identified by the Commissioners as a 'new Bretton Woods moment'; the others being the financing of that investment, the focus on infrastructure, and the need to act internationally. In Lord Stern's view, the main vehicles through which political coordination can be achieved are the G20 and G7, while the IMF and multilateral development banks (MDBs) are the most important institutions on the policy side.

The Commissioners also agreed that the main obstacle to global coordination on these matters is politics. Efforts to address the problems of global economic governance should be strategically minimalistic, in that they should focus on those solutions that are politically plausible. In other words, finding the right policies isn't enough; what is also needed is the right politics—identifying concrete political paths or working through apolitical institutional procedures that could lead to policies being implemented as soon as possible and at the appropriate scale.

THE CENTRALITY OF US-CHINA RELATIONS

Professor Jin stressed that the defining feature of this 'new Bretton Woods moment' is the presence of other important actors beyond the US: emerging markets as a whole—particularly China, who's weight in the world is evident. China's economy represents a third of global growth, is the largest trading partner for many countries, and is the centre of global supply chains. It is also a player with the ambition to become even more integrated into the global trading- and financial-system. Successful global cooperation would require focusing on and ameliorating the relationship between China and the United States. One avenue for doing this, which would be well insulated from the pressures of domestic politics, would involve finding some level of cooperation between the Federal Reserve and the People's Bank of China—already existent to a limited extent—on key issues of global liquidity, financial spill-over, and the management of the international monetary system.

Several key challenges were identified. The first is that the US-China relationship is already deteriorating. Coordination is currently difficult due to how domestic issues and sentiment are undermining multilateralism. These issues include economic nationalism and populism on either side, as well as increased competition in the technology sector.

The second challenge is the threat to international monetary and financial stability. Here, Professor Jin stressed the increasing burden on the US, resulting from having to anchor the global financial system by providing the key currency for trade invoicing and offshore credit creation. In what was described as a variant of the Triffin Dilemma, rising levels of debt and unfavourable demographic trends in the US strain its ability to meet the global demand for dollar liquidity and safe assets—particularly in developing countries.

The predicament of these developing countries is the third major challenge to global cooperation. These countries rely on a global financial and monetary system in which they have very little voice. This dependence was evident in the selective provision of emergency dollar liquidity in the form of swap-lines, which were extended almost exclusively to US allies in the developed world. Emerging markets instead came to rely on renminbi (RMB) swap-lines.

The key question is whether politics can be separated from competition. Professor Jin noted that collaboration exists in the private sector. This current situation is reminiscent of the technological competition between Japan and the US in the 1970s. In the case of the US and China, it is not inevitable that cooperation should fail in light of political difference. Commissioners concluded that the world will likely remain crisis-prone in the absence of effective global cooperation, but that there is a clear path forward to cooperating on joint objectives.

PARTICIPANTS

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LSE Global Economic Governance Commission

The LSE Global Economic Governance Commission is a forum for debating and redesigning global economic governance.

COVID-19 has presented the world with a new Bretton Woods moment. It has exposed the fragilities of the global monetary order and the dislocations in the global trading system. With economic damages rising and tax revenues falling, it has presented a new crisis for global development and demonstrated the overdue need for global tax coordination. As states have struggled to band together to overcome their shared challenges, it has made clear the difficult road ahead for the global climate agenda.

To steer the much-needed transformation of the rules, practices, and institutions of the global economy, The London School of Economics and Political Science and LSE IDEAS have convened the LSE Global Economic Governance Commission. The Commission brings together leading academics and policymakers around five core domains of global economic governance: monetary policy, trade policy, development policy, tax policy, and climate policy. The Commission hosts public and closed-door panels, lectures, and workshops on all matters relating to global economic governance. Event details are announced online by LSE and LSE IDEAS.

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