International Economic Policy | Last lecture

1. The US economy is at the centre of the global economy as the dominant player.
   - US dominance was apparently achieved after two world wars (emergence of the dollar as a global currency after the First World War; international emergence of the US industrial, trading and investment power after the Second World War).
   - The Bretton Woods system institutionalized this dominance.
   - Has the US made abusive use of its global dominance and caused global imbalances?
   - Was the collapse of the Bretton Woods systems the outcome of US abuse (its 'exorbitant privilege') or simply died as a result of its own success?
   - Is the financial globalization that accelerated in the 1980s the consequence of the US to redefine its dominance (from global industrial to global financial power)?

2. Do prosperous economic regional blocks must necessarily be organized hierarchically?
   - Is there an intrinsic limitation to the hierarchial organization of the global economy?
   - Triffin dilemma and generalized Triffin dilemmas: a tension between the stability of the international monetary/financial system and its usefulness as an instrument for economic development.
   - The global economy appears to be organized in a centre (developed economies) and a periphery (the rest). The same basic two-tier structure seems also to apply to regional economic blocks (in the European Union there is also a centre, the northern and Scandinavian economies, and a periphery, eastern and southern economies). Must this be necessarily so for these economies to develop/expand?
   - The dominant global economic power appears to be led to run current account deficits. Dominant regional economic powers appear to require running current account surpluses (Germany, Japan, China). Could the US economically behave like Germany?

3. Must successful challengers to US dominance be global military powers?
   - Japan: failed to replace the US in the 1980s
   - Like Japan, Germany became after World War II an economic (industrial, export-led) power that lacked global military power/influence. The US could accept the full integration of the two economies in the global system the US created because, in the last instance, they could not pose a threat to US dominance.
   - European Union: introduction of the euro has not been sufficient to displace US financial dominance (the European Union is politically a weak entity).
   - Russia: seriuous military contender whose economy eventually failed.
   - Is China the only real, serious challenger to US global supremacy, economic, political and military?

4. Conditions for global economic/financial dominance

- The centre of an international monetary system must provide: (i) a liquid and safe asset; (ii) in sufficient amount; and (iii) with a satisfactory return (to be a global and stable store of value).
- An international reserve currency must meet properties of scale (large number of transactions), liquidity and stability.
- The economy is better suited to provide a global economic currency if it has (i) large population, (ii) has economic success (develops the potential for economic expansion associated with a large population) and (iii) is sufficiently integrated with the rest of the world.

5. Globalization is a political project

- Two views of this project: the Washington Consensus (the view from the West); the Beijing Consensus (the view from the Rest).
- At the global level, political decisions determine economic outcomes: global markets are not, and cannot be, 'free'.
- The global currency, also acting as an international reserve currency, expresses political (and military) global dominance.

6. Constraints globalization imposes on domestic economies

- A monetary constraint: the open economy trilemma (tension between exchange rate stability, monetary stability and financial globalization).
- A general constraint: Rodrik's trilemma (after Dani Rodrik: tension between domestic economic policy, democracy and globalization).
- A monetary union constraint: the monetary union trilemma (tension between fiscal policy flexibility, financial stability and free capital mobility).
- The great trilemma: can sovereignty (a sovereign state system), democracy (democratic governments) and globalization (integrated global marketplace) coexist?
- Do TARGET2 balances describe an eurozone imbalance between northern and southern European economies? Are the southern countries (like the US) caught in a deficit trap?
- Debt-led vs export-led growth
- Does globalization increase or decrease economic inequality?

7. Theoretical instruments for global economic policy?

- How useful or relevant is the Coase theorem for global economic problems?
- The implications of the theories of second and third best for global economic policy.

8. What occurs in a state system without a dominant player (or with one not willing to be dominant)?

- Global/international cooperation and coordination appear historically (i) to be rare and episodic and (ii) to occur in situations of crisis.
- Does competition among states improve economic policy?
- Does globalization and interdependece make international cooperation more desirable?
- How important is free riding for international economic policy? Without institutions of global governance, how can international agreements be enforced?
- The troubles of the eurozone: bad institutional architecture?

9. Dimensions of global instability

- Sources of financial instability. (i) Global shadow banking. (ii) International dimension of Hyman Minsky's financial instability hypothesis. (iii) Insufficient or weak global finantial institutions. (iv) Lack of global finantial regulation. (v) Excessive privileges of the US economy and the dollar: the US is the centre of financial flows and US monetary policy diverts international financial flows. (vi) Triffin dilemma: stability vs liquidity.
- Sources of economic instability. (i) The global dual structure centre (rich and productive) vs periphery, which also tends to be reproduced at smaller economic scales. (ii) Domestic source: real-wage growth vs productivity growth. Insufficient real-wage growth leads to excessive debt accumulation, which endangers financial stability. (iii) Persistent global trade imbalances. (iv) Growth of transnational corporations. (v) Two views on the impact of globalization on economies: is it a stabilizing or a desatabilizing force? (vi) Is the increasing role of regional powers (EU, China and Japan) a stabilizing or a destabilizing global economic force? Do they favour discrimination excessively (preferential trade agreements)? (vii) Is the rise of China ultimately destabilizing for the global economy? (viii) Technological challenges: (a) is technological development out of control?; (b) is this development creating massive technological unemployment? (ix) Environmental challenges: (a) are we putting to an end the period of benign climatic conditions?; (b) is the working of the global economy depleting the stock of natural resources?
- Sources of political instability. (i) How stable are international political alliances? (ii) How stable is an international state system lacking strong institutions of global governance? (iii) The Thucydides trap (risk of an all-out war between hegemon and contender to global dominance) and the Churchill trap (risk of a long-term confrontation between two major powers, as in the Cold War). (iv) Are emerging powers (China, India, Russia) sufficiently stable domestically? (v) The paradox of dominance: dominant powers create a system used by challengers to rise.

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