International Economic Policy

1. **Political effects of financial crises.** "A recent study by Michael Funke and colleagues examines political effects of financial crises in 20 developed countries over the past 140 years and 800 elections. They find: 1) government majorities shrink after a financial crisis, political polarization increases; 2) policy uncertainty increases; 3) voters tend to be drawn to the far-Right, which typically attributes blame to foreigners or minorities; on average, vote share of far-Right parties increases by 30% after financial crises; these effects are much stronger after financial crises than after 'normal' recessions or macroeconomic shocks that are not financial."

2. **Cooperative internationalism.** "I make a partial defense of President Trump's skepticism about the virtues of ever freer trade, ever more economic integration between countries. My bottom line is that 'the open international trade system' does need adjustment to provide more 'policy space' for national governments and regional blocs. 'Cooperative internationalism' should be the goal, not the prevailing 'integrative globalization' – which relies on multilateral institutions and American hegemony to glue the world together and prescribes that national governments should have no more influence over trade and other cross-border movements than US states or even EU states have over theirs."

3. **Elite-supported globalization.** "In this context globalization refers to the opening of domestic markets and the integration of global production via multinational corporations (MNCs). More broadly, it refers to movement in the world economy towards 'one country', or 'deep (not shallow) integration'. Ever since the 1980s leaders of western states – including shareholders and top executives of MNCs – have agreed that states, on their own and cooperating (in free trade agreements, and in inter-state organizations like the World Bank, IMF, World Trade Organization, European Union), should push for ever more globalization, more 'market access' for their corporations, and less state 'intervention' or 'regulation' in markets. Here is Martin Wolf of the Financial Times, one of the world's most influential economic commentators: '…*The failure of our world is not that there is too much globalization, but that there is too little*'. Here is Renarto Ruggiero, former head of the WTO: 'trade integration is not just a recipe for growth but also security and peace, as history has shown' (…) Here is the WTO saying on its website: global integration under WTO and predecessor GATT supervision 'has been one of the greatest contributors to economic growth and the relief of poverty in mankind's history' (…). Here is the World Bank summarizing others' research findings, with which it agrees: 'openness to international trade, based on largely neutral incentives, was the critical factor in East Asia's rapid growth'."

4. **Free trade and orthodox economic theory.** "Globalization champions draw comfort from neoclassical economic theory, which purports to give a rigorous and 'general interest' justification for the policy of free trade in goods and services. The argument today rests on basically the same theory of comparative advantage as David Ricardo proposed in 1817 – a theory which was static, timeless, abstract, elegant, and which today broadly retains those characteristics (…) Surveys of economists' opinions confirm that there is nothing that economists, especially American economists, agree about more than the virtues of free or almost free trade (…) It is scarcely an exaggeration to say that *comparative-advantage-driven free trade is the core mechanism by which modern mainstream economics explains the great question, how market capitalism generates human welfare*. Beneficial global integration – moving towards 'one economic country' – is the overarching narrative of the past several decades."

5. **Argument supporting the free trade policy.** "The argument boils down to three propositions supporting the conclusion that the institution of free trade is 'right' for each country and the world. 1) Free trade leads to production specialization in activities in which the economy holds a 'comparative or relative advantage' (not 'absolute advantage'); 2) This pattern of production specialization yields maximum efficiency of resource allocation among the trading partners, and therefore maximum 'welfare' for these trading countries; 3) Economists should recommend policy measures which will result in maximum efficiency (including free trade) and leave it to political choice as to how to distribute the resulting maximum income or consumption."

6. **Questioning the free trade policy.** "At a high level of aggregation the theory of comparative advantage 'works', in the sense that global trade patterns are broadly in line with its predictions. Countries with abundant land and scarce skilled labor (Africa) tend to produce and export land-intensive products and import manufactured products, and countries with scarce land and abundant labour (East Asia) tend to produce and export labour-intensive manufactured products and import land-intensive and skill-intensive products. But this is not the end of the story. The theory's broad consistency with trade patterns does not translate straightforwardly into the policy conclusion that free trade is best for each country and the world. The theory rests on a raft of assumptions so limiting of its domain of applicability as to make one wonder how it could have survived for so long as the crown jewel of economic theory (...)

   The theory assumes no externalities; in other words, assumes that prices reflect true economic value – including the economic cost of environmental damage and the economic gains of one company's innovation for other companies (...) The theory assumes full employment throughout, ignoring 'transitional costs' of increased exposure to trade. By assuming full employment, it avoids facing a trade-off between the welfare gains from trade and the welfare losses from unemployment or precariate employment (...) The theory of comparative advantage accounts for aggregate (consumption) gains from trade and neglects the distributional consequences (...)

   The theory assumes that trade remains balanced between the trade partners (...) Underlying the invocation of the balancing exchange rate is an assumption that *international trade is basically barter* – producers barter goods among themselves. *Money is simply a neutral medium of exchange, to lower transactions costs*. The assumption rationalizes the discipline separation between 'international trade', with its specialists, and 'international finance', with its specialists (in exchange rates, payments systems and capital markets), with little communication between the two. The assumption that international trade is basically barter – and is balanced – removes a fundamental dynamic of foreign exchange markets, a dynamic which explains why (1) a trade deficit need not produce an exchange rate devaluation, and (2) the exchange rate change need not restore balanced trade (no payments surpluses or deficits) (...) The Trade and Development Report 2009, from the United Nations Conference on Trade and Development (UNCTAD), sums up: 'The most important lesson of the recent [2008] financial crisis is that financial markets do not 'get the prices right'."

   "The theory of comparative advantage tells how countries can reap efficiency gains by reallocating their existing resources by moving to freer trade. It is silent on the effects of the reallocation on long-run growth."

7. **Orthodox economic theory as a faith.** "Why have the large majority of professional economists, especially in the academy and in western-dominated international organizations like the World Bank and IMF, been committed to free trade policy, downplaying theoretical and empirical weaknesses in ord er to remain so? The teaching of economics in just about all universities of the western world, and in large parts of the developing world, socializes students into belief in the rightness of the 'market' paradigm, and the more 'rigorous' the training the more thoroughly socialized they become. The paradigm focuses on price competitiveness – free labor markets, flexible prices, free international trade – as the key to national competitiveness. It treats the market system as 'self-organizing', firms being essentially passive except for competing in price (...) Tthe culture of the profession elevates belief in comparative advantage and free trade as the litmus test of competence to be an economist (...) The market paradigm fits the larger 'conservative' worldview, which sees the market as 'natural' and the realm of 'freedom', the state as artificial and the realm of coercion (often predatory coercion). This worldview is not just cognitive ('how the world works'), but intensely normative ('how the world should work', 'the right order of society'). In the market paradigm, the role of government is limited to 'correcting market failures' (...) In short, the consensus belief in free trade stems from the wider cognitive and normative belief – inculcated in economics education – that the key to economic development lies in improving the scope of, and the institutions of, exchange."

Wade, Robert H. (2017): "Is Trump wrong on trade? A partial defense based on production and employment", Real-world Economics Review 79.

M. Funke, M. Schularick, C. Trebesch (2016): "Going to extremes: Politics after financial crises, 1870-2014", European Economic Review.

8. **Is free trade the future of humanity?** "It is true that the various subsidies and barriers to competition, which are the essence of protectionist policies, have a very bad press today. On both the right and the liberal left, they are taboo (…) Prescriptive discourses that seek to extend free trade are based on extremely questionable normative bases. The assumption that competition is ever and everywhere beneficial for all is neither theoretically nor in practice grounded."

   "Economically, free trade is not the best solution and carries risks of crises and increases in inequalities that are considerable. It puts different territories in competition, not on the basis of the human activities deployed in them, but on that of social and fiscal choices themselves very debatable. Trade liberalization has not benefited the poorest countries, as shown by the most recent studies. A comparison of benefits and costs, particularly with regard to the collapse of public investment capacity in health and education following the collapse of fiscal resources, suggests that the balance is negative. Politically, free trade is dangerous. It is an attack on democracy and the freedom to choose one's social and economic institutions."

9. **Does trade create wealth?** "It is mainstream wisdom that over the past three decades, international trade has largely driven economic development. This thesis has been popularized by some economists, but on closer inspection appears false. In 2008 and 2009, international trade declined in proportion to the decline in production in the major industrialized countries. Trade, therefore, does not create value by itself, an old error of mercantilists that reappears in the form of the belief in growth driven only by trade. On the contrary, growth in the main countries draws trade (…)

   In fact, globalization is synonymous with growth only when it can be based on a national development project, often articulated to a nationalist ideology. Merchant globalization only yields results if one does not play its game but while others do. The case of China is exemplary here, because it is through the combination of a National policy and the openness of development over the last 25 years. But even in this case, the rise of social inequalities and ecological destruction makes the continuation of this model problematic (…) Basically, the idea that we would have from the end of the 'short 20th century' regained a tendency to integration by trade thus proves to be a myth."

Sapir, Jacques (2017): "President Trump and free trade", Real-world Economics Review 79.

10. **Dominant view in social science: 'expectation of ultimate positive convergence of all states' (debate homogenization/convergence vs heterogenization/polarization).** "Over the past two centuries, the dominant view in social science has been that the modern world shows a pattern of linear development in which all positive trends go upward in more or less linear fashion (albeit perhaps at an uncertain speed), and that therefore over time discrepancies between the leaders and the laggards are overcome, eventually resulting in a relatively homogenized world."

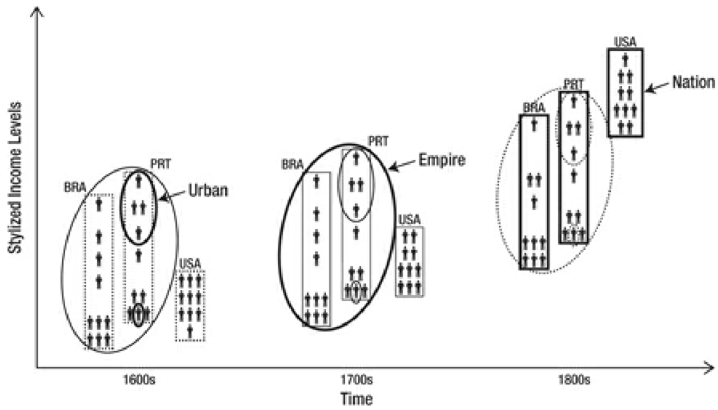
    "…in the post-1950 period, a number of analysts began to contest this linear model (…) The linear progress model viewed the modern world as a process of homogenization and therefore one of overcoming the gaps between states or groups of any kind. Against this view, many social scientists began to argue that the modern world was one of heterogenization and polarization. Indeed, they said, the pattern of polarization escalated over time, the result of the way in which the modern world was structured (…) In analyzing the social world, the linear versus polarizing models of historical development became a debate about whether the various zones (or countries) of the world-system would converge to an approximately equal standard of living and similar political and cultural structures, or in fact over time would diverge ever more sharply."

11. **Inequality as a world-historical phenomenon: some propositions on social stratification, mobility, and inequality (R. P. Korzeniewicz and T. P. Moran).** (1) "Levels of inequality within countries over the

last one hundred years show two clusters. Some nations have been characterized by relatively high inequality and others by relatively low inequality.” (2) “The origin of patterns of high and low inequality within the current geographical state boundaries can be traced back in time to at least before the eighteenth century.” (3) “The persistence of such distinct patterns of within-country inequality for such a long period of time suggests situations of equilibria, in which opposing forces are balanced. We designate these as high-inequality equilibria (HIE) and low-inequality equilibria (LIE).”

“In HIE, institutional arrangements enhance economic opportunities for elites while restricting the access of large sectors of the population to various forms of educational, political, or economic opportunity. Enhanced opportunities for elites and the restricted access of the majority are related. Selective exclusion serves to reduce competition among elites (…). In HIE, this selective exclusion operates fundamentally within national borders (…) Selective exclusion, in the case of LIE, operates fundamentally through the very existence of national borders, reducing competitive pressures within these borders while enhancing competitive pressures among the excluded population outside those very same borders in the arenas or markets to which these populations are restricted.”

(4) “Between-country inequality can be understood best as involving a HIE over at least the last two centuries.” (5) “The HIE characterizing the current distribution of wealth between countries emerged only gradually before the nineteenth century.” (6) “Over the last two centuries, the establishment of within-country LIE and the emergence of between-country HIE are not two separate processes. Rather, they are the outcome of the institutional arrangements undergirding world inequality.” (7) “The single most immediate and effective means of global social mobility for populations in most countries of the world has been to migrate.”



Stylized historical trends of inequality, 1600s–1800s

“ = Stylized country income deciles. The three income distributions within each ‘moment’ are stylized representations of what will eventually become Brazil, Portugal, and the United States.”

12. **Structural crisis of the modern world-system.** “Those who start with a premise of eternal linear progress must necessarily believe that any difficulties in which the world finds itself are essentially transitory and momentary. Sooner or later, the difficulties will be overcome by the logic and the pressures of the system. In our present situation, there are two major variants of this expression of certainty about the future. One group believes that as long as we maximize the priority of the so-called free market, the seeming difficulties of the moment will be overcome and further economic growth will ensue, to everyone’s mutual benefit. A second group believes that as long as we defend and expand a social-democratic ‘welfare state,’ the seeming difficulties of the moment will be overcome and further economic growth will ensue, to everyone’s mutual benefit. However, if one believes that there has been increasing polarization and that systems have finite lives, and therefore that we may now be in our system’s structural crisis, (…) no ‘solution’ to our current difficulties looms on the horizon. There exists neither a neoliberal nor a social-democratic way out of the structural crisis.”

“What happens in a structural crisis is that the system bifurcates (…) The principal characteristic of a structural crisis is a series of chaotic and wild fluctuations of everything—the markets, the geopolitical alliances, the stability of state boundaries, employment, debts, taxes, and the groups we blame for the crisis. Uncertainty, even in the short run, becomes chronic. And uncertainty tends to freeze economic decision-making, which of course makes things worse, primarily by reducing levels of real income for the vast majority of the world’s populations.”

13. **The world's future.** "Here are some of the things we may expect in the middle run of the next decade or two. Most states are facing, and are going to continue to face, a squeeze between reduced income and increased expenditures (…) The juggling between the multiple loci of geopolitical power will also become ever more unstable in a situation in which none of these loci will be in a position to dictate the interstate rules. The United States is today no longer hegemonic. It has become an erstwhile hegemonic power with feet of clay. However, it still remains powerful enough to be able to wreak damage by missteps. China today seems to have the strongest emerging economic position, but it is probably less strong than both it and others think (…) Obviously, these wild oscillations and increased short-term uncertainties do not offer happy outcomes for most people. World unemployment can be expected to rise, not fall. And ordinary people will feel the pinch very severely. They have already shown that they are ready to fight back in multiple forms, and this popular resistance will grow. We shall find ourselves in the midst of a vast political battle to determine the world's future."

"Those who have wealth and privilege today will not sit idly by. However, it will become increasingly clear to them that they cannot secure their future through the existing capitalist system. They will seek to bring into existence some other system, one based not on a central role of the market but rather on a combination of brute force and deception. The primary objective would be to ensure that the new system guaranteed the continuation of three key features of the present system—hierarchy, exploitation, and polarization (…) On the other side will be popular forces across the world, which will also seek to create a new kind of historical system, one that is based on relative democracy and relative equality. Such a system has never yet existed. (…) Who will win out in this battle? No one can predict. It will be the result of an infinity of nano-actions by an infinity of nano-actors at an infinity of nano-moments."

Wallerstein, Immanuel Maurice; coord. (2015): *The world is out of joint: World-historical interpretations of continuing polarizations*, Routledge

14. **The world-system analysis.** "Part of the problem is that we have studied these phenomena in separate boxes to which we have given special names –politics, economics, the social structure, culture– without seeing that these boxes are constructs more of our imagination than of reality. The phenomena dealt with in these separate boxes are so closely intermeshed that each presumes the other, each aff ects the other, each is incomprehensible without taking into account the other boxes. And part of the problem is that we tend to leave out of our analyses of what is and is not 'new' the three important turning points of our modern world-system: (1) the long sixteenth century during which our modern world-system came into existence as a capitalist world-economy; (2) the French Revolution of 1789 as a world event which accounts for the subsequent dominance for two centuries of a geoculture for this world-system, one that was dominated by centrist liberalism; and (3) the world revolution of 1968, which presaged the long terminal phase of the modern world-system in which we find ourselves and which undermined the centrist liberal geoculture that was holding the world-system together (…) The proponents of world-systems analysis (…) have been arguing that the separate boxes of analysis –what in the universities are called the disciplines– are an obstacle, not an aid, to understanding the world. We have been arguing that the social reality within which we live and which determines what our options are has not been the multiple national states of which we are citizens but something larger, which we call a world-system."

15. **World-system and world-economy.** "The world in which we are now living, the modern world-system, had its origins in the sixteenth century. This world-system was then located in only a part of the globe, primarily in parts of Europe and the Americas. It expanded over time to cover the whole globe. It is and has always been a world-economy. It is and has always been a capitalist world-economy. What we mean by a world-economy (…) is a large geographic zone within which there is a division of labor and hence significant internal exchange of basic or essential goods as well as flows of capital and labor. A defining feature of a world-economy is that it is not bounded by a unitary political structure. Rather, there are many political units inside the world-economy, loosely tied together in our modern world-system in an interstate

system. And a world-economy contains many cultures and groups-practicing many religions, speaking many languages, differing in their everyday patterns. This does not mean that they do not evolve some common cultural patterns, what we shall be calling a geoculture. It does mean that neither political nor cultural homogeneity is to be expected or fo und in a world-economy. What unifies the structure most is the division of labor which is constituted within it (…) We are in a capitalist system only when the system gives priority to the endless accumulation of capital. Using such a definition, only the modern world-system has been a capitalist system (…) A world-economy and a capitalist system go together. Since world-economies lack the unifying cement of an overall political structure or a homogeneous culture, what holds them together is the efficacy of the division of labor. And this efficacy is a function of the constantly expanding wealth that a capitalist system provides."

16. **Unequal exchange.** "The axial division of labor of a capitalist world-economy divides production into core-like products and peripheral products (…) What we mean by core-periphery is the degree of profitability of the production processes. Since profitability is directly related to the degree of monopolization, what we essentially mean by core-like production processes is those that are controlled by quasi-monopolies. Peripheral processes are then those that are truly competitive. When exchange occurs, competitive products are in a weak position and quasi-monopolized products are in a strong position. As a result, there is a constant flow of surplus-value from the producers of peripheral products to the producers of core-like products. This has been called unequal exchange."

    "Since (…) quasi-monopolies exhaust themselves, what is a core-like process today will become a peripheral process tomorrow. The economic history of the modern world-system is replete with the shift, or downgrading, of products, first to semiperipheral countries, and then to peripheral ones (…) The strong states, which contain a disproportionate share of core-like processes, tend to emphasize their role of protecting the quasi-monopolies of the core-like processes. The very weak states, which contain a disproportionate share of peripheral production processes, are usually unable to do very much to aff ect the axial division of labor , and in eff ect are largely fo rced to accept the lot that has been given them."

17. **Cycles of the world-economy.** "The normal evolution of the leading industries –the slow dissolution of the quasi-monopolies– is what accounts for the cy clical rhythms of the world-economy. A major leading industry will be a major stimulus to the expansion of the world-economy and will result in considerable accumulation of capital. But it also normally leads to more extensive employment in the world-economy, higher wage-levels, and a general sense of relative prosperity. As more and more firms enter the market of the erstwhile quasi-monopoly, there will be 'overproduction' (that is, too much production for the real effective demand at a given time) and consequently increased price competition (because of the demand squeeze), thus lowering the rates of profit. At some point, a buildup of unsold products results, and consequently a slowdown in further production. When this happens, we tend to see a reversal of the cyclical curve of the world-economy. We talk of stagnation or recession in the world-economy."

18. **Kondratieff cycle.** "The process (…) expansion of the world-economy when there are quasi-monopolistic leading industries and contraction in the world-economy when there is a lowering of the intensity of quasi-monopoly (…) can be drawn as an up-and-down curve of so-called A-(expansion) and B-(stagnation) phases. A cycle consisting of an A-phase followed by a B-phase is sometimes referred to as a Kondratieff cycle (…) Kondratieff cycles have up to now been more or less fifty to sixty years in length. Their exact length depends on the political measures taken by the states to avert a B-phase, and especially the measures to achieve recuperation from a B-phase on the basis of new leading industries that can stimulate a new A-phase. A Kondratieff cycle, when it ends, never returns the situation to where it was at the beginning of the cycle. That is because what is done in the B-phase in order to get out of it and return to an A-phase changes in some important way the parameters of the world-system. The changes that solve the immediate (or short-run) problem of inadequate expansion of the world-economy (an essential element in maintaining the possibility of the endless accumulation of capital) restore a middle-run equilibrium but begin to create problems fo r the structure in the long run. The result is what we may call a secular trend."

19. **States in the world-system.** "There are two questions to ask. The first is why transforming the world-economy into a world-empire was never possible, whereas achieving hegemony within it was. The second is why hegemony never lasted (…) A world-empire (…) would in fact stifle capitalism, because it would mean that there was a political structure with the ability to override a priority for the endless accumulation of capital. This is of course what had happened repeatedly in all the world-empires that had existed before the modern world-system. Thus, whenever some state seemed intent on transf orming the system into a world-empire, it found that it faced eventually the hostility of most important capitalist firms of the world-economy."

    "How then could states even achieve hegemony? Hegemony, it turns out, can be very useful to capitalist firms, particularly if these firms are linked politically with the hegemonic power. Hegemony typically occurs in the wake of a long period of relative breakdown of world order in the fo rm of 'thirty years' wars' (…) Hegemony creates the kind of stability within which capitalist enterprises, especially monopolistic leading industries, thrive. Hegemony is popular with ordinary people in that it seems to guarantee not merely order but a more prosperous fu ture for all. Why not then hegemony forever? As with quasi-monopolies in production, quasi-absolute power in hegemonies self-destructs. To become a hegemonic power, it is crucially important to concentrate on efficiencies of production which lay the base for the hegemonic role. To maintain hegemony, the hegemonic power must divert itself into a political and military role, which is both expensive and abrasive. Sooner or later, usually sooner, other states begin to improve their economic efficiencies to the point where the hegemonic power's superiority is considerably diminished, and eventually disappears. With that goes its political clout (…) The use of 'imperial' force undermines the hegemonic power economically and politically, and is widely perceived as a sign not of strength but of weakness, first externally then internally. Far fr om defining the world cultural language, a declining hegemonic power begins to find its preferred language out of date and no longer readily acceptable."

    "As a hegemonic power declines, there are always others who attempt to replace it. But such replacement takes a long time, and ultimately another 'thirty years' war.' Hence hegemony is crucial, repeated, and always relatively brief. The capitalist world-economy needs the states, needs the inter-state system, and needs the periodic appearance of hegemonic powers. But the priority of capitalists is never the maintenance, much less the glorification, of any of these structures. The priority remains always the endless accumulation of capital."

Wallerstein, Immanuel (2004): *World-systems analysis: An introduction*, Duke University Press.

20. **Environmental Kuznets curve.** "When these economists plotted pollution of different kinds on the vertical axis and per capita income on the horizontal axis, they also found an empirical relationship that took the shape of an inverted U, suggesting an initial positive relationship between economic growth and pollution that at some point reversed, after which higher per capita income was associated with lower levels of pollution. Their inverted U-shaped curve is the famous, misnamed 'environmental Kuznets curve' (…) Just as proponents of trickle-down economics used Kuznets' own inverted U-shaped curve to argue against the need for policies designed to reduce economic inequality, others have cited the environmental Kuznets curve as evidence that environmental problems are merely a transitional phenomenon that economic growth will eventually resolve."
21. **I = PAT.** "Ecological economists like to begin with the equation I = PAT, where I stands for environmental impact (which ecological economists think of as throughput), P stands for population, A stands for affluence (which ecological economists define as per capita consumption, but we can think of as per capita income for purposes of comparison with the environmental Kuznets curve), and T stands for technology, meaning new technologies that increase 'throughput efficiency,' such as increases in 'energy efficiency.' In terms of growth rates, the I = PAT equation says that throughput will grow at a rate equal to the sum of the population growth rate and the rate of growth of per capita GDP, minus the rate of growth of throughput efficiency."

22. The Coase theorem. "Regardless of whether the polluter or pollution victim is assigned the property right, voluntary negotiation should yield the efficient outcome. This is the typical presentation of the Coase theorem in textbooks. All textbooks acknowledge, as did Coase, that negotiations are likely to fail in the presence of high *transaction costs* (…) The Coase theorem is widely interpreted, not only by free-market environmentalists but by the authors of economics textbooks as well, as 'proving' that efficient outcomes can result even in the presence of externalities as long as property rights are clear, independent of who has them. For example (…) 'The Coase theorem states that if property rights are well defined, and no significant transaction costs exist, an efficient allocation of resourcs will result even with externalities.'" (Jonathan Harris)

"It is reasonable to describe Coasian negotiations as the laissez-faire solution to the problem of externalities and as an alternative to government intervention. However, it is inaccurate and misleading to describe Coasian negotiation as a market process."

"The main reasons voluntary negotiations between polluters and their victims will not lead to efficient outcomes are not because of positive transaction costs or irrational behavior, but because negotiators seldom know their opponent's true situation, which leads to perverse incentives to dissimulate, and because the existence of multiple victims creates perverse incentives for victims to free ride, hold out, and misrepresent the extent of damages (…) The realm of real-world situations where voluntary negotiations could be reasonably expected to provide efficient solutions to environmental problems is so small that free-market environmentalism no more deserves a seat at the policy table than miracles deserve a role in the operating room."

Hahnel, Robin (2011): *Green economics: Confronting the ecological crisis*, Routledge

See chapter 7: Real-world environmental policy and chapter 8, A brief history of climate negotiations

23. Ecological overshoot (World Wildlife Fund). Ecological overshoot "occurs when humanity's demand on nature exceeds the biosphere's supply, or regenerative capacity" (Global Footprint Network 2009)

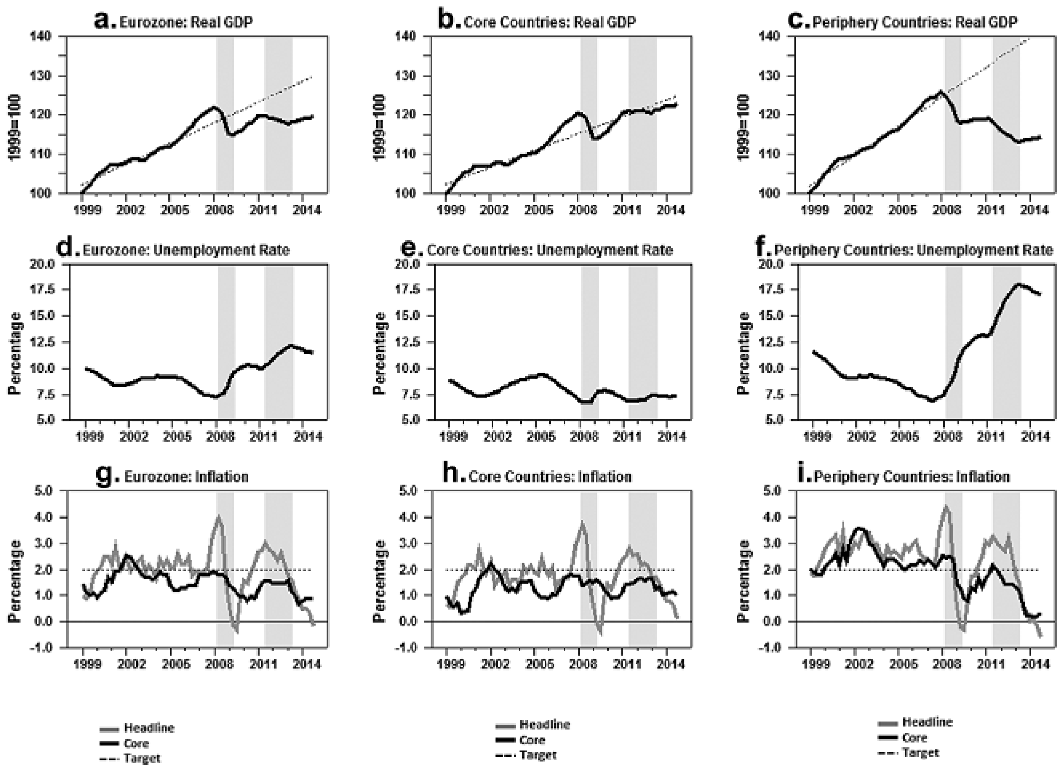
"The environmental Kuznets curve (EKC) has been the dominant approach among economists to modeling aggregate pollution emissions and ambient concentrations over the last quarter century."

Stern, David I. (2017): "The environmental Kuznets curve after 25 years", Journal of Bioeconomics

On Kondratieff waves: Leonid Grinin, Andrey Korotayev, Arno Tausch (2016): *Economic cycles, crises, and the global periphery*, Springer.

24. Eurozone crisis. "The eurozone crisis represents one of the greatest economic tragedies of the past century. It has caused immense human suffering, which continues to this day. The standard view attributes the economic crisis to an earlier buildup of public and private debt that was augmented by the imposition of austerity during the crisis. Although evidence exists of a relationship between the debt buildup, austerity measures, and economic growth during the crisis, that same evidence, on closer examination, points to eurozone countries' common monetary policy as the real culprit behind the area's sharp decline in economic activity. In particular, it seems that the European Central Bank's tightening of monetary policy in 2008 and again in 2010-2011 not only caused two recessions but also sparked the sovereign debt crisis and gave teeth to the austerity programs. Such findings point to the need for a new monetary policy regime in the eurozone. The case is made for the new regime to be a targeted growth path for total money spending."

Beckworth, David (2017): "The monetary policy origins of the eurozone crisis", International Finance 20, 114-134



Gray bars = GDP recession

core countries = Austria, Belgium, Finland, France, Germany, and the Netherlands;

periphery countries = Greece, Ireland, Italy, Portugal, and Spain

25. **EMU reforms and sovereign debt.** "A missing element in the architecture of the euro area is a mechanism for an orderly restructuring of unsustainable sovereign debt. Clear rules for creditor participation in case of overindebtedness would strengthen market discipline and enhance the effectiveness of crisis assistance. We propose a novel two-stage mechanism that allows for postponing the crucial distinction between liquidity and solvency crises and is part of the assistance provided by the European Stability Mechanism (ESM). At the onset of a programme, the framework includes an immediate maturity extension if the debt burden is high. If post-crisis debt turns out to be unsustainable, the debtor country can negotiate a deeper debt restructuring. In addition, we introduce a gradual transition phase into the new regime. As current debt matures, it is replaced by a new class of bonds with Creditor Participation Clauses (CPC), which are subject to the new rules as mentioned above."

"The recent reforms of the architecture of the European Monetary Union (EMU) build on the premise that national governments are responsible for fiscal policy. In order to help member states to control their indebtedness, the Stability and Growth Pact (SGP) was reformed and additional fiscal rules were introduced. The European Semester and national fiscal councils were established. With the creation of the European Stability Mechanism (ESM), an important element of a crisis mechanism became part of EMU architecture. However, the existing crisis mechanism lacks a framework for debt restructuring to constitute a safeguard against moral hazard and to handle cases of unsustainable public debt."

Jochen Andritzky, Désirée I. Christofzik, Lars P. Feld, Uwe Scheuering (2018): "A mechanism to regulate sovereign debt restructuring in the euro area", International Finance 1–15.

Colin Krainin (2016): "Preventive war as a result of long-term shifts in power", Political Science Research and Methods, available on CJO 2015 doi:10.1017/psrm.2015.35

26. **The Schuman Declaration (9 May 1950).** "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity. The coming together of the nations of Europe requires the elimination of the age-old opposition of France and Germany. Any action taken must in the first place concern these two countries. With this aim in view, the French Government proposes that action be taken immediately on one limited but decisive point. It proposes that Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe. The pooling of

coal and steel production should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe, and will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims. The solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible."

27. **Optimum currency area puzzle.** "The theory of optimum currency areas, suggesting the redrawing of currency areas across countries or splitting of national money into several currencies, is at odds with the one-money-one-country pattern that has dominated monetary history for 26 centuries. This paper puts forward an equilibrium approach which, by stressing the influence of the border effect on intranational adjustment, solves the puzzle and analyzes the closely related issue of the viability of monetary unions and regional specialization (…) In a world of continuous change, tailoring currency areas to one inbuilt characteristic, as the received view prescribes, would at best answer just one type of imbalance. Likewise, redesigning currency areas in order to avoid asymmetric shocks would not do because the adjustment problem would emerge again in the new setting: under ever-mutating circumstances, a once-and-for-all policy is illusory."

    "When we look at the factors that actually determinate the domains of different monies, we find that they are not the economic considerations suggested by the theory of optimum currency areas, as first discussed by Mundell, Kenen, and McKinnon 30 years ago. They are, rather, political. In particular, virtually all of the world's nations assert and express their sovereign authority by maintaining a distinct national money and protecting its use within their respective jurisdictions. Money is like a flag; each country has to have its own." (Michael Mussa 1995)

Cesarano, Filippo (2013): "The optimum currency area puzzle", Int Adv Econ Res DOI 10.1007/s11294-013-9404-5.

Mussa, Michael (1995): "One money for how many?" In P. B. Kenen; ed.: *Understanding interdependence: The macroeconomics of the open economy*, Princeton University Press, pp. 98-104.

Obstfeld, Maurice; Rogoff, K. (2001): "The six major puzzles in international macroeconomics: Is there a common cause?", In B. S. Bernanke; K. Rogoff; eds.: *NBER Macroeconomics Annual 2000*, volume 15, MIT Press, pp. 339-412.

28. **Capitalism, power, democracy.** "Capitalism is premised upon two kinds of power: (1) private economic power that comes from the control of property and profit-making; and (2) coercive power exercised by states in (and often beyond) bounded national territories (…) It may be that liberal democracy needs capitalism, but it is definitely not the other way around. In fact, whatever anticapitalism's prospects, the future of anything like democracy will depend very much on which of the terms dominates the capitalism-democracy pairing. Even if in the short term it seems democracy is tied to capitalism, there is clearly no necessary mutual dependence between the two. What is certain is that we can no longer leave democracy to the capitalists."

29. **'Long Boom' and 'Longer Downturn'.** "The quarter-century or so following World War II is often called capitalism's 'golden age' or the Long Boom—an era during which the capitalist global North (western and northern Europe, North America, and—confusingly—Australia and New Zealand) experienced unprecedented economic growth, low unemployment, increased average living standards, decreasing income and wealth inequality, and a vast expansion of what we now call the welfare state. The following fifteen years or so, however, roughly 1967–82, saw the whole thing seemingly go to pot. Many thought that capitalism itself was in its death throes. These years inaugurated a process we might call the Long Downturn, a trajectory which, depending upon one's data and interpretation, continues today."

30. Bretton Woods system. "Bretton Woods (…) had three main formal aims: to promote and fund postwar European reconstruction (…); to secure the political stability of debtor nations (the UK in particular (…)); and to stabilize the international monetary regime, which was (correctly) understood to be crucial to the first two goals. Forty-four nations, including the most powerful states in the world and led by the US (which emerged from the war the clear capitalist hegemon), signed the agreements. According to their architects, the institutions would work as follows: The IMF, using funds contributed by all nations, would provide low-interest loan coverage to debtor states to prevent default during reconstruction and reconversion (…). The World Bank would provide loans or grants for the reconstruction of European (and, eventually, Japanese) economies, a flow of funds greatly enhanced by the US's Marshall Plan, which rebuilt German industry remarkably rapidly in the 1940s and 1950s (…). To make all this possible, the international monetary regime was stabilized via a system of 'fixed' exchange rates between all major currencies, so all capitalist nation-states had the value of their moneys 'pegged' to a specific rate against the US dollar (unsurprisingly, China and the Soviet Union were not signatories). The foundation of the system lay the US dollar's anchor to a gold standard. In other words, its value was pegged to gold, which made the US responsible for the stability of the regime as a whole. Every US dollar was to be backed by—exchangeable for—gold: 1 troy ounce for every 35 US dollars, to be precise."

"The Bretton Woods monetary scheme was a system in which all capitalist moneys could in theory move securely in the international realm because their values, and the stability of the economies in which they were based, were guaranteed by an institutional backstop in the form of the IMF, the World Bank, and the general context of American economic power. No need for frantic currency trading, no fears of massive devaluation or overvaluation, and no way for speculators to manipulate or exacerbate exchange rate fluctuations. This is the political economic regime within which the 'welfare state' emerged."

31. Long Boom. "… the Long Boom (…) from a growth, social security, income equality, and wage-rate perspective, (…) was more successful than any previous international or national mode of economic organization—capitalist or noncapitalist. Of course, not everyone enjoyed the fruits of this 'success.' It entailed—indeed, it depended upon—a vastly unequal distribution of political economic power and the further geographical concentration of wealth in the global North."

32. Long Downturn. "The Long Downturn is closely associated with the collapse of the Bretton Woods regime, since many of the dynamics it was designed to suppress or eliminate in the mid-1940s raised their ugly heads two decades later. By the late 1960s, the fixed-exchange-rate regime was falling apart. Food and commodity prices rose, driving inflation and inviting speculation. Oil prices skyrocketed (rising 400 percent), and the advanced capitalist world experienced a severe decline in productivity growth (the increase in output per unit of labour). This slower rate of growth ignited distributional conflict between labour and capital, and between different fractions of capital. This fanned the inflationary flames higher, as different social groups and classes fought to retain their piece of the income pie, exacerbating political instability."

"… the crisis that ended the good ol' days of the Long Boom was a distributional struggle (…) This struggle had two fronts: (1) a struggle between labour and capital over the distribution of income—an increasingly empowered labour-force wanted more of it; (2) a struggle between nationally based capitalists over the distribution and control of productive power and international market share. One might also add: (3) conflict between highly developed rich countries and resource-rich but less powerful countries (…) States played a key role in these developments, mostly by attempting to manage or contain the distributional conflict."

33. Neoliberalism as counter-revolution. "So the Long Downturn that followed the long boom was at least partly a product of that boom's successes (…). The eventual response to the crisis, in the 1970s and early 1980s, took a little while to configure. But when it came, at least in North America, the UK, and parts of western Europe (…), it brought the reassertion of capitalist discipline. It put capital back on top of the political economic hierarchy (…) by choosing domestic conflict management option (b) above: clamp down by reducing government spending, raising interest rates, suppressing wages and benefits, and tightening up the supply of money and credit in circulation (…) This turn to inflation control marks the consolidation of the neoliberal capitalist state in the industrialized world. The principal objective was to reverse course on the distributional conflict strategy: to give up on the conciliatory attempt to inflate our way out of crisis, and force markets to swallow a bitter pill and deflate. In other words, the state, with the particularly vocal support of bankers, decided to kill inflation, no matter what the social cost (…) What we know today as "neoliberal" policy was established at this time, and not just in monetary policy, but across the whole realm of capitalist economic management. It was the moment when business, and finance capital in particular, started to reassert control of an economic system that had throughout the post–WWII era been increasingly influenced, if never dominated, by labour."

"Following the analysis of political economist Andrew Glyn, we can describe the components of this strategy as 'austerity, privatization, and deregulation' (although 'reregulation' would be better (…)). Glyn says these involved a 'counter-revolution' in macroeconomic policy (fiscal austerity, restrictive monetary policy), the retreat of government from many arenas of economic life via deregulation and privatization, and the 'freeing' of labour market dynamics, in particular by repealing or not enforcing worker protections and union-friendly legislation."

"Neoliberalism is the ongoing effort, in an inevitably uneven global political economy, to construct a regulatory regime in which the market is the principal means of governance and the movement of capital and goods is determined as much as possible by firms' short-term returns. Because that global political economy is dynamic, neoliberalism is always incomplete."

34. **The IMF as an agent of neoliberalism.** "The IMF is one of the most important frontline units in the diffusion of neoliberalism beyond the wealthy world. It has been a key player in many of neoliberalism's most notable disasters, including the institutionally imposed starvation, poverty, and indebtedness due to the global North's so-called 'management' of the Latin American debt crisis. Much of this devastation is associated with the IMF's role in the 'structural adjustment' of developing world national economies. Although the IMF was not originally designed to do this work, by the 1980s one of its principal objectives was to remove what it identified as 'structural' obstacles preventing client states' 'integration' into the global economy, especially via trade, but also via financial flows (…) Why, in the IMF's view, is international economic integration good for everyone? The IMF's policy programs are designed with particular theories in mind. On the economic side, we have the classical political economy (…) The political theory side is underwritten by a doctrine that goes hand in hand with classical political economy: classical liberalism (…) Its constituent policy prescriptions have three main objectives, which, in the case of the IMF's loans, become 'conditions' that must be met to receive funds: Liberalization (drop tariffs, subsidies, capital controls, export restrictions, etc.); privatization (sell state holdings, which in many cases are substantial); stabilization (allow currency to float at its 'natural' [usually lower] exchange rate)."

35. **Neoliberalism, globalization, financialization.** "Neoliberalism is not merely a way to specify the modern variety of classical orthodoxy, but a description of at least two powerful and intertwined contemporary economic dynamics: globalization and financialization. Neoliberalism can be understood as the historical conjuncture, and political legitimization (via both coercion and consent) of these two processes. Globalization is the integration of the international economy via trade. The original version of liberalism certainly involved globalization, but without the kind of financialization we have today with neoliberalism—or at least, back then, finance played a different and subordinate role as investor in productive enterprise (…) In the first era of globalization [British free trade imperialism in the 19th century], the era of classical liberalism, the term meant international economic integration via trade and production networks, especially trade in goods and primary commodities. Indeed, as measured by international trade, the first era of globalization was as integrated as the present. In our present era of neoliberal globalization, the term means international economic integration via trade and financial channels. In contrast to the first era of globalization, today the movement of goods and services, and the flows of often untethered capital, are equal but often independent partners (…) The simultaneous explosions of financialization and globalization in the last thirty or so years have been interdependent."

36. "The most fundamental problem with capitalism, and the reason it must be rejected, is that it is *structured*, in its very operation, to make it impossible for millions and even billions to be free in any meaningful sense."

Mann, Geoff (2013): *Disassembly required: A field guide to actually existing capitalism*, AK Press.

Hickel, Jason (2018): "Is it possible to achieve a good life for all within planetary boundaries", Third World Quarterly, doi 10.1080%2F01436597.2018.1535895.

Francesco Paolo Mongelli (2008): "European economic and monetary integration, and the optimum currency area theory", Economic Papers 302, European Commission.

Cristian Nitoiu (2017): "European and Eurasian integration: Competition and cooperation in the post-Soviet space", Journal of European Integration, DOI: 10.1080/07036337.2017.1317989.

Amy Verdun; Alfred Tovia; eds. (2013): *Mapping European economic integration*, Palgrave Macmillan.

Petros Nousios, Henk Overbeek; Andreas Tsolakis; eds. (2012): *Globalisation and European integration: Critical approaches to regional order and international relations*, Routledge.

Sabine Saurugger (2014): *Theoretical approaches to European integration*, Palgrave Macmillan.

Richard E. Baldwin; Charles Wyplosz (2009): *The economics of European integration*, McGraw-Hill.

Sinn, Hans-Werner (2014): The euro trap: On bursting bubbles, budgets, and beliefs, Oxford University Press.

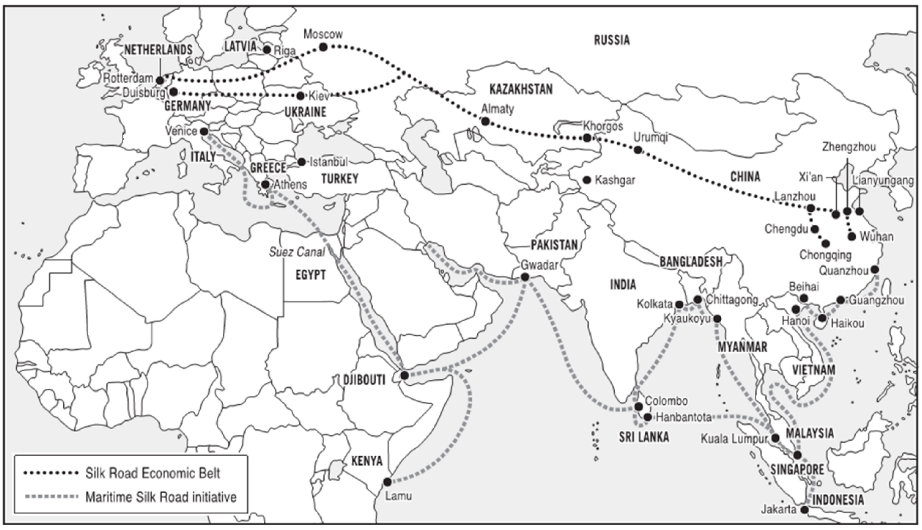
Zimmermann, Hubert (2016): "The euro trilemma, or: how the Eurozone fell into a neofunctionalist legitimacy trap", Journal of European Integration, DOI: 10.1080/07036337.2016.1141904

37. The EU ETS. "The EU ETS is one of the most exciting and important initiatives ever taken to limit the greenhouse gas emissions that cause climate change (…) It can provide the cornerstone for an eventual global trading regime, which will be an important component of the set of policies that will be needed to address climate change."

"The EU ETS draws its inspiration from Dales' (1968) observation that '[i]f it is feasible to establish a market to implement a policy, no policy maker can afford to do without one'. A key underlying reason for the problem of climate change is the failure of the market to recognize the scarcity value of the atmosphere as a sink for anthropogenic greenhouse gas (GHG) emissions. There is no price that signals this increasing scarcity, and therefore no incentive to reduce emissions. Economists recognize two broad policy instruments to repair this failure (…) The first is to introduce environmental taxes, whereby a tax is levied on every unit of emissions produced. This was the instrument first proposed by the European Commission, in the form of a carbon energy tax (…) in essence it failed because of the human reluctance noted by Edmund Burke over two centuries ago: 'To tax and to please, no more than to love and be wise, is not given to men.' The second market-based policy instrument is emissions trading, which draws on humanity's singular impulse to trade. In its simplest expression, this involves setting an overall cap per unit of time on the emissions to be permitted and allocating allowances or permits to emitters such that the sum of the allocations does not exceed the cap. These emitters can then pollute as much as they wish, but only on the condition that they hold sufficient allowances at the end of the period to 'cover' their emissions. If they wish to emit more than the allowances they have received, they must buy allowances from those who emissions are lower than the quantity of allowances they hold. These transactions produce a price per unit of pollution that provides the incentive to polluters to reduce emissions and sell the surplus to those who need to buy to cover their emissions. Emissions trading also provides a signal to innovators to come up with new and better ways to reduce emissions (…) The European Union Emissions Trading Scheme is the creation of a Europe-wide market for carbon dioxide (CO2)."

Ellerman, A. Denny; Frank J. Convery; Christian de Perthuis (2010): *Pricing carbon: The European Union Emissions Trading Scheme*, Cambridge University Press.

38. Rise of the global South. "For much of the post-war period the drivers of the global economy and the trustees of international development were unproblematically seen as the wealthy countries of Europe and North America whilst historically much of the theory and practice of development has been focused around North–South relations and interactions. Yet over the past few decades the order of international development has fundamentally changed with (re)emerging or 'rising' powers from the global South taking a greater role in the global economy and international politics."



39. Seoul Development Consensus. "South Korea's economic transformation from a war-destroyed and largely agricultural country with a per capita income of US$67 in 1953 to membership of the OECD in 1996 is often hailed as a remarkable 'rags to riches' success story, one that is now being offered as a "model" for other states of the global South (…). Founded on a 'development first, democracy later' philosophy, this story is said to have particular appeal to many authoritarian and hybrid regimes in Africa (…) The G20 summit in Seoul in 2010 was regarded as belated international recognition of the country's success story. The formulation of the 'Seoul Development Consensus' on how to tackle global poverty and volatile markets through the establishment of financial stability nets along with the 'Seoul action plan' were seen as a huge success for Korea as an emerging player and 'issue leader' in the field of development cooperation."

40. Failure of development? "Development has, since the earliest days of decolonisation, promised to slay the dragon of backwardness and underdevelopment but the regularly promised annulment of global poverty that this has rested upon has proven elusive."

"If development can be seen as a formula for sharing the world with others, in its present configuration many seem destined to die before their time, while others are able to live beyond their means." (M Duffield)

"… the winds of war are blowing in our world and an outdated model of development continues to produce human, societal and environmental decline." (Pope Francis, Christmas message, December 2017)

Power, Marcus (2019): *Geopolitics and development*, Routledge.

Duffield, M. (2010): "The liberal way of development and the development-security impasse: Exploring the global life-chance divide", Security Dialogue 41(1), 53-76.

41. The China paradox. "Since Mao's demise, China has given birth to *the China paradox*, which has proved so far to be a winning formula. China's hybrid developmental model has worked well since the forces of change, of entrepreneurialism, of innovation have enjoyed a productive equilibrium with the ruling CCP, which, while not abandoning its autocratic instincts, has displayed remarkable pragmatism in leading the economic reforms. Incompatible forces unexpectedly became mutually supportive and aligned. Hence, *the China paradox* (…) The fundamental goal of the CCP is to stay in power. When we acknowledge that simple but core fact, then China is less puzzling. Things fall into place. People ask why a ruling autocratic communist party would provide the business class room to grow. The answer is that wealth creation underpins the longevity of CCP rule. What seems a paradox is perfectly logical."

"*The China paradox* emerged as a hybrid model with a mixture of spontaneous economic activity and bureaucratic guidance (…) While *the China paradox* proved successful in kick-starting the economy, there has been a heavy cost to this model, resulting in China actually turning out to be an underperformer. Unbridled development has left China with a serious hangover. Unprecedented wealth creation is a mixed blessing since it opened the door to corruption on a grand scale that amounts to nationwide kleptocracy. While hundreds of millions of Chinese have indeed been pulled out of (or have pulled themselves out of) poverty, much of the wealth has gone missing, siphoned off into the families of top leaders, salted away in real estate in London or New York (…) But the risks all track back to the CCP (…) Having reaped the benefits of the reforms, the CCP is revealing its longer-term vision on how it plans to rule. Its goal is to restore more of its central authority and play a stronger coordinating role in the economy."

Clifford, Paul G. (2017): *The China paradox: At the front line of economic transformation*, de Gruyter.

42. **Propositions on optimum currency areas.** "Proposition 1: A monetary union is a public good. Hence, a country's cost-benefit-analysis tends to under value the union. Proposition 2: The exchange rate as a policy instrument is apt to correct monetary shocks and is, in so far, needless in a monetary union. Proposition 3: Asymmetric real shocks and rigidities in labour markets are not compelling reasons against a monetary union."

"A monetary union is a regime for low inflation. In such a regime, the macroeconomic policy options have changed. If (…) the monetary equilibrium requires an adjustment of real wages, neither inflationary policies nor realignments of exchange rates are options available for national governments. So, responsibility for real wage adjustments rests largely on the wage bargaining parties."

Tomann, Hörst (2007): *Monetary integration in Europe*, Palgrave Macmillan

43. **Economic integration and political disintegration.** "In a world of trade restrictions, large countries enjoy economic benefits, because political boundaries determine the size of the market. Under free trade and global markets even relatively small cultural, linguistic or ethnic groups can benefit from forming small, homogeneous political jurisdictions. This paper provides a formal model of the relationship between openness and the equilibrium number and size of countries, and successfully tests two implications of the model. Firstly, the economic benefits of country size are mediated by the degree of openness to trade. Secondly, the history of nation-state creations and secessions is influenced by the trade regime."

Alberto Alesina, Enrico Spolaore, Romain Wacziarg (2000): "Economic integration and political disintegration", American Economic Review 90(5), 1276-1296.

Ronald W. Jones, Sugata Marjit (2001): "The role of international fragmentation in the development process", American Economic Review 91(2), 363-366

44. **European integration.** "The issue of European integration was framed by theoretical analyses most of which were undertaken as part of the orthodoxy of Optimum Currency Areas. The traditional OCA theory holds that in a monetary union of countries which meet certain criteria, namely a minimum level of convergence, less developed economies are expanding faster than developed ones. As a result, there is convergence of the levels of per capita income with the one of developed economies, namely real convergence. The arguments of this theory received strong criticism, thus giving rise to the endogenous OCA theory, according to which these criteria can be met ex post."

"Convergence, according to the endogenous growth theory is not the norm but the exception. Yet in particular these authors support that trade integration can possibly lead to an increase in the specialization of each country (…) and consequently to greater sensitivity towards a shock in the industrial sector, leading to more asymmetric business cycles (…) They also conclude that the creation of the EMU is easily justified ex-post. This conclusion is also supported by the argument of the endogenous nature of financial integration (…) The overall conclusion is that the monetary union can strengthen trade integration and the synchronization of business cycles. Thus according to the theory of endogeneity, a process of structural transformations renders the member states more capable of satisfying the criteria of optimization ex-post."

"The anticipated benefits from the creation of an OCA, which must outbalance the relative cost, concern the reinforcement of internal and external equilibria and must facilitate the response to shocks. The main benefits include the elimination of the uncertainty involved in the exchange rate fluctuations – as trade between the members of the OCA and specialization are reinforced and scale economies are created – and the elimination of transaction costs and exchange rate risks."

"… the abandonment of Keynesian principles and the adoption of the monetarist Maastricht criteria (…) gave rise to strong concerns about the sustainability of the EMU. Ignoring the heterogeneity of member states of the union and imposing uniform rules of economic policy (…) created internal and external imbalances in the member states. These imbalances were reinforced by the global financial and economic crisis both within the EMU, and in the majority of the new EU members, creating debt crises and sovereign default risks. The European institutions have not provided an effective collective solution to the problem of the debt crisis. It was this gap that, within the framework of globalization, allowed dependence of problematic EU countries on international financial markets on high cost."

Makris, Georgios (2015): "Optimum currency area theory, nominal and real convergence controversies and the European experience after the recent global economic crisis", in Karasavvoglou, Anastasios; Ongan, Serdar; Polychronidou, Persefo; eds.: *EU crisis and the role of the periphery*, Springer.

Grubel, Herbert (2006): "The economics of monetary unions: Traditional and new", in *Regional Economic Integration: Research in Global Strategic Management, Volume 12*, pp. 55–75

45. Economic integration. "In general, this integration may take five main forms, which (in order of increasing degree of integration) are: 1) A preferential trading club, which is an agreement between two or more countries to reduce tariffs and other restrictions on imports from one to the other; each member, however, retains complete freedom to impose different tariffs and other restrictions on imports from non-member countries. 2) A free-trade area (or association), in which the partner countries abolish tariffs and other restrictions on imports from one to the other, while retaining complete freedom over their commercial policies towards the rest of the world. 3) A customs union, which, in addition to the provisions of the free-trade area, establishes a common external tariff schedule on all imports from non-member countries. 4) A common market, in which the countries, in addition to the provisions of the customs union, allow free movement of all factors of production among themselves. 5) An economic union, in which the partner countries, in addition to the provisions of the common market, proceed to unify their economic policies."

Gandolfo, Giancarlo (1987): *International economics I*, Springer.

46. Globalization and conflict. "… most of the Wall Street funding is in speculation. At least 90% of the trading that goes on in Wall Street has nothing to do with assisting real businesses (…). Financiers are just gambling by exchanging pieces of paper in expectation of either a bubble or a fall. This has absolutely nothing to do with real wealth. When we are told that the economy is expanding, it actually means that rich people are getting richer or getting richer faster than the rest of us. Money managers are now running the global economic system."

"Any understanding of how a corporate elite dominates global development owes much to the personal history of John Perkins (…). His clandestine position, first with the National Security Agency and then transferred to a private company, was predicated upon an ability to make inflated economic forecasts and sell large loans to heads of state in undeveloped countries. The loans were always for the development of infrastructure, oil drilling and pipelines, dams, electric power grids, and building complexes. The contracts would be awarded to giant corporation giants like Bechtel or Halliburton. The inducements to foreign leaders included military and police aid, lucrative fi nancial benefits, recognition in US diplomatic circles, and even the procurement of personal mistresses (…). The contracts would make a small group within the accepting country very wealthy. They would make the particular nation a client state, dependent upon further loans and adjustments to repay the debts and unable, therefore, to use the country 's resources for sustainable productivity for its farmers, education and healthcare for its children, and protections for its environment."

"The manipulation of local economies has been part of a worldwide effort to impose what has been labeled the Washington Consensus. This has been forced on developing countries via procedures of the US government, the World Bank, the International Monetary Fund, and the World Trade Organization. The basic tenets are reforms calling for economic deregulation, privatization, encouragement of foreign investment, unrestricted movement of capital, liberalization of trade policies, and reduction in public expenditures. This program of 'neoliberalism' has been aggressively pushed as primary US foreign policy." [Washington Consensus = stabilize + liberalize + privatize]

"Increasingly, US strategy has been to support governments subservient to US corporate interests and to provide the military aid that keeps them in power. Such governments are associated with financial indebtedness and military control over their dissenters (…) It is an elite network of diplomatic, financial, and military ties that determines the paths of information and influence."

"Globalization fuels a conflict for jobs. One of the great economic trends of the past 50 years has been the movement of the industrial heartland of America from the Midwest to China, to India, and to the developing world. Labor organizers in every continent are harassed and in fact killed while profits, drained from local communities by transnational corporations, go to enlarge remote financial empires."

"The top officials and board members of international corporations reap the benefits of environmental degradation. With environments destroyed, no new frontiers to exploit, and middle-class consumers lacking credit to fulfill heavily marketed needs, the global elite have created fictitious transactions as a justification for collecting fees from the system."

"The total financial claims built up through the bubble greatly exceed the real wealth of the planet, which means that they are fictitious and can never be realized. Money in the global economy has been changed from a medium of value to a storehouse of expectations. It is drained from the environment and from communities and it accumulates at the top (…) The excessive wealth of a small few is astounding: '793 billionaires possess $2.6 trillion dollars' (…) The answer to exploitative economic globalization is to dismantle and decentralize corporate entities that have grown too large to fail."

"We have monetized the economy and a part of that process is monetizing relationships (…). This diminishes our humanity. When everything has a price then nothing, neither the purity of water nor the sound of songbirds, is sacred. In a world that has become so intricately interconnected it is no longer satisfactory to solve one problem at a time without regard for the impact of the solution on other people and places."

Pilisuk, Maarc; Gianina Pellegrini (2012): "Globalization and Conflict", in Daniel J. Christie, ed.: *The encyclopedia of peace psychology*, Blackwell.

Perkins, J. (2006): *Confessions of an economic hitman*, Plume.

Pilisuk, M. (with J. A. Rountree) (2008): *Who benefits from global violence and war: Uncovering a destructive system*, Greenwood/Praeger.

47. **Globalization, democracy and peace.** "What explains the democratic revolution? Is democracy for everyone? There is clearly a correlation between economic and political development. The demands for political rights and representation grow along with a middle class. Certainly there is a link between economic prosperity and political freedom. The more people have of one, the more they tend to demand the other. Although most cultures do not have democratic values of political equality and liberty, democracy has become a universal good. Virtually every regime, even the most despotic, claims to be

democratic in some ways (...) Any victory celebration over liberal democracy's triumph may be premature. (...) Samuel Huntington rejects Fukuyama's 'everyone is becoming more like us' theory. Geopolitics did not end with the fall of the Berlin Wall in 1989. Indeed, the fall of the World Trade Center in 2001 symbolized the emergence of a form of global politics that is increasingly shaped by the clash among civilizations rather than nation-states (...) War will increasingly be within rather than between nation-states or will pit a transnational terrorist group like Al Qaeda versus sovereign states and their transnational allies. While the world unites in many ways, parts of it are rapidly disintegrating into civil war and anarchy as long suffering minorities, or in the case of Kosovo, majorities, revolt against the dominant nationality. Nationalism rather than internationalism is the driving force behind the independence struggles of scores of suppressed peoples around the world. Many of those conflicts are also fueled by religious extremism, especially among Muslims (...) Geopolitics will not disappear from the earth any time soon."

Nester, William R. (2010): *Globalization, war, and peace in the twenty-first century*, Palgrave Macmillan.

48. **Predatory versus cooperative globalization.** "The recent collapse of the international financial system, followed by the worst economic crisis since the 1930s, is the latest reminder of the extent to which national standards of living and social wellbeing have become dependent on developments in the rest of the world. Even the largest economies are unable now to maintain these standards without the active cooperation of other countries (...) Is the process of globalization that has accelerated since the early 1980s sustainable without fundamental changes in national attitudes, institutions and policies? If necessary, what would such changes require and why."

"Contrary to what one might expect (...) there is little agreement about the meaning of the term [globalization], even less agreement about the processes that bring it about and no agreement at all about its effects on *global* prosperity, social wellbeing, political stability and peace. As a result, the world is undergoing profound economic, cultural and institutional changes that are imperfectly understood despite the general recognition that, because of their potential consequences, they require urgent attention. The problem arises from the failure to distinguish clearly between the two closely related processes involved in shaping human behaviour (individual and collective) in the process of globalization: the economic and the political."

"... according to neoliberal 'free market' ideology, universal acceptance of the key economic aspects of globalization (free trade, free capital and labour movements), combined with unregulated competition on a unified global market, will eliminate the eternal problems of absolute and relative poverty. It will achieve such an outcome (...) 'automatically' because everyone who competes in the market has access to the same opportunities, resources and information as well as the same foresight! In other words, the conclusion that follows from this kind of 'analysis' is that the political aspect of the globalization process can be ignored."

"The severe economic crisis that the world is currently experiencing is not so much the result of either 'globalization' or 'capitalism' per se as of the particular form of both adopted by individual countries. These differences are particularly large (...) between the cooperative (social democratic and corporatist) and the predatory ('free market'/laissez-faire) models. The former recognizes the importance of collective action and, therefore, cultivates consensus and collaboration. The latter rejects them in order to allow powerful individuals and groups the freedom to make use of human and other resources in ways that 'maximize' most effectively their own – rather than social – wealth, influence and power (...) Contrary to neoliberal claims, the predatory ('free market') form of capitalism –the driving force behind the rapid international economic integration since the 1980s irrespective of its social and political consequences– is fundamentally an antithesis of the old cosmopolitan goal of a world in which different nations and cultures coexist and collaborate peacefully for the good of all."

49. **Common features of global economic crises (1870s, 1930s, 2000s).** "First, all three happened during the periods (the 1870s, 1930s and 2000s) when the 'free market' model of capitalism was the dominant form of economic and social organization in many of the world's leading economies and, as a result of their global influence, in the ascendancy internationally.

Second, thanks to its dominance in these countries, the same ideology also permeated international economic relations, determining the regimes for trade, payments and long-term capital flows. Independent states were under pressure from the most powerful countries to liberalize their trade and/or join international monetary unions irrespective of their levels of development and, therefore, their ability to compete with more advanced economies. The outcome was therefore the same in all three periods: large increases in inequalities of income and wealth, both nationally and globally, causing widespread breakdowns in social cohesion and political consensus.

Third, despite significant increases in international economic interdependence, no effort was made during the three periods to create a framework of global institutions that would help nation states solve through cooperation problems that were beyond the capacity of any one country to resolve in isolation (…) An important reason behind the drive by transnational corporations for the liberalization of trade and capital movements is that it enables them to avoid (…) effective regulation and supervision by national governments. Not surprisingly, there has been a significant increase in the frequency and scale of international financial crises since the early 1980s (…). The creation of a global market without a global political authority is, therefore, the nearest equivalent to a world of laissez-faire in which those who control giant transnational enterprises, rather than democratically elected governments, effectively set the rules that determine how and in whose interests the economic system operates."

"Fourth, the problem (…) is that this is a form of global economic interdependence and international relations that is unsustainable. Economic success at all levels of development requires (…) an ideology and institutions that promote a harmony of interests, consensus and cooperation. Globalization makes such a requirement even more imperative at the international level (…) The more cooperative form of capitalism (social democracy) demonstrated after the Second World War both nationally and internationally (…) the extent to which different outcomes are possible within a market-based economy (…) The post-war experience demonstrated an important fact: in its *social democratic* form, capitalism was able to achieve, in the small number of countries that adopted it, the highest levels of economic, social and political wellbeing that humanity has ever experienced."

50. **EMU.** "The most distinctive feature of the European Monetary Union (EMU) is its uniqueness. It is impossible to find a single case since the beginning of the Industrial Revolution where a number of independent, sovereign states have created a *complete* monetary union with a common currency, central bank, monetary and exchange rate policies without first establishing a *political* union! (…) A political union becomes essential, therefore, if the constituent countries/regions are to be able: (a) to share similar values and goals; and (b) to mobilize their resources for the provision of public goods that benefit the whole union. It is also needed for creating the common institutions without which it is virtually impossible to pursue with consistency the objectives and policies that, by keeping regional and personal inequalities within socially acceptable limits, make it possible for the whole union to work towards the same goals without coercion (…) The greatest danger confronting the EMU in its present form is that economic stagnation in member countries, and the restrictions imposed on the ability of national governments to prevent it, are raising serious doubts about its long-term viability. Inflation apart, the European Central Bank shows little sensitivity to the economic problems of member countries (…) Economic and social inequalities within the eurozone are greater than in any of its member states. What is more, they are increasing (…) For the socio-economic benefits of such a union to outweigh the costs, it is imperative for the countries to create an institutional framework that ensures long-term improvement (…) in the economic security and welfare of *all* member states."

Panić, Milivoje (2011): *Globalization: A threat to international cooperation and peace?*, Palgrave Macmillan.

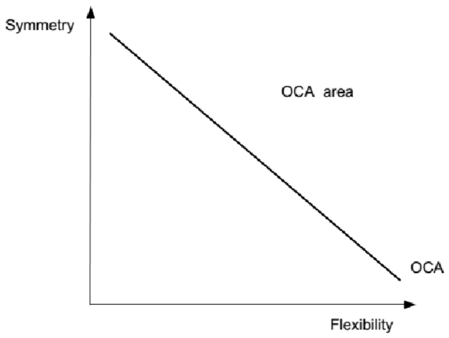
51. **EMU flaws.** "The present governance of the euro area has been devised assuming that the world fits the monetarist-real-business-cycle theory. But that theory is not a correct representation of the world. The European monetary union is a remarkable achievement, but remains fragile because of the absence of a sufficient degree of political union."

"A first idea which may have helped to convince the critics of monetary union is that, even if the euro area countries do not yet satisfy the OCA criteria, they will in the future as the monetary union sets in motion a process of more intense integration. This good-news-theory suggests that the euro area may be moving safely into the OCA area by the very fact that the euro area was started."

"The European monetary union is a remarkable achievement. Yet it also remains fragile because of a flaw in its governance. This is the absence of a sufficient degree of political union which includes a central European government with the power to spend and to tax, and which is independent of national governments. Such a government is necessary to complement the macroeconomic management of the euro area which is now entrusted exclusively to the ECB. In addition, a central European government is the only institution that can fully back the ECB."

"Finally, the absence of a minimal degree of budgetary integration that can form the basis of an insurance mechanism is another flaw in the design of European monetary union. (…) It is difficult to conceive how a union can be politically sustainable if each time a country of the union gets into trouble because of asymmetric developments, it is told by the other members that it is entirely its own fault and that it should not count on any help. Such a union will not last."

52. **Conditions to make a monetary union.** "The conditions that are needed to make a monetary union among candidate Member States attractive can be summarized by three concepts: Symmetry (of shocks); Flexibility; Integration. Countries in a monetary union should experience macroeconomic shocks that are sufficiently correlated with those experienced in the rest of the union (*symmetry*). These countries should have sufficient *flexibility* in the labour markets to be able to adjust to asymmetric shocks once they are in the union. Finally they should have a sufficient degree of trade *integration* with the members of the union so as to generate benefits of using the same currency."



"Figure 1 presents the minimal combinations of symmetry and flexibility that are needed to form an optimal currency area by the downward-sloping OCA line. Points on the OCA line define combinations of symmetry and flexibility for which the costs and the benefits of a monetary union just balance. It is negatively sloped because a declining degree of symmetry (which raises the costs) necessitates an increasing flexibility. To the right of the OCA line, the degree of flexibility is sufficiently large given the degree of symmetry to ensure that the benefits of the union exceed the costs. To the left of the OCA line, there is insufficient flexibility for any given level of symmetry.

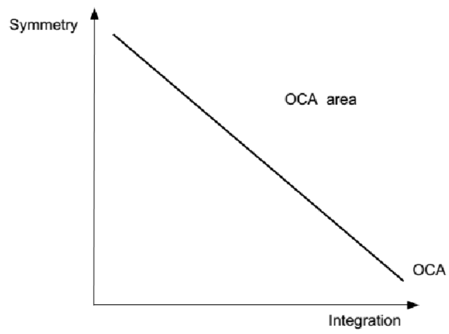


Figure 2 presents the minimal combinations ofsymmetry and integration that are needed to form an optimal currency area. The OCA line represents the combinations of symmetry and integration among groups of countries for which the cost and benefits of a monetary union just balance. It is downward sloping for the following reason. A decline in symmetry raises the costs of a monetary union. These costs are mainly macroeconomic in nature. Integration is a source of benefits of a monetary union, i.e., the greater the degree of integration the more the member countries benefit from the efficiency gains of a monetary union. Thus, the additional (macroeconomic) costs produced by less symmetry can be compensated by the additional (microeconomic) benefits produced by more integration. Points to the right of the OCA line represent groupings of countries for which the benefits of a monetary union exceed its costs.

The presumption of many economists at the end of the 1980s was that the EU countries should be located to the left of the OCA lines in Figures 1 and 2, i.e., given the degree of integration achieved in the EU there was still too much asymmetry and too little flexibility for the EU to form a monetary union whose benefits would exceed the costs."

53. **Monetary union theories: Mundell I and Mundell II.** "Mundell I is the traditional theory of optimal currency areas (OCA) pioneered by Mundell (1961) in the early 1960s and further elaborated by McKinnon (1963), Kenen (1969) and others. The OCA theory determines the conditions that countries should satisfy to make a monetary union attractive, i.e. to ensure that the benefits of the monetary union exceed its costs. This theory has been used most often to analyse whether countries should join a monetary union. It can also be used to study the conditions in which existing members of a monetary union will want to leave the union."

    "In the world of Mundell II joining a monetary union should not be seen as a cost arising from the loss of the exchange rate as an adjustment mechanism, but as a benefit of eliminating a source of asymmetric shocks. For most countries, the exchange rate does not provide a degree of freedom but uses up a degree of freedom in their economic policy since they have to stabilize this asset price (…) The view expressed by Mundell II is based on the idea that foreign exchange markets are not efficient and should not be trusted to guide countries towards macroeconomic equilibrium. There is a second insight in Mundell II. This is that only in a monetary union can capital markets be fully integrated so that they can be used as an insurance mechanism against asymmetric shocks (…). When countries remain outside a monetary union they cannot hope to profit from insurance against asymmetric shocks provided by capital markets in the rest of the world. The reason is that the large and variable exchange risk premia prevent these capital markets from providing insurance against asymmetric shocks. Thus the world of Mundell II is one in which countries that stay outside a monetary union will have to deal with large asymmetric shocks that arise from the instability of international capital flows. In addition, these countries' ability to insure against traditional asymmetric shocks is severely restricted when they stay outside a monetary union. With such an analysis it should not be surprising that Mundell II became a major promoter of monetary union in large parts of the world, and in particular in Europe."

De Grauwe, Paul (2006): "What have we learnt about monetary integration since the Maastricht Treaty?", Journal of Common Market Studies 44(4), 711-730.

54. **Global migration.** "The world is experiencing a phase of intense human mobility within the context of multiple political and ecological crises." "The number of forced migrants from the Global South to the Global North has increased in recent years, contributing to an on-going, multi-level political crisis in an already struggling European Union, as well as to a rise in right-wing populism across the 'Northern'/'Western' world. How does the West's claim to be a norm entrepreneur for rule of law, freedom and prosperity relate to a growing rejection of an 'other' who is asking for refuge in this protected space in accordance with the latter's self-proclaimed rules?"

Fröhlich, Christiane (2017): "A critical view on human mobility in times of crisis", Global Policy 8, Supp. 1.

55. **Core, periphery, semi-periphery.** "World-systems theorists hold that the division of labor in the capitalist world economy divides production into core-like products and periphery-like products, and states into statuses of core, periphery, and semi-periphery. The core specializes in the production of the most advanced goods, which involves the use of the most sophisticated technologies and highly mechanized methods of production (capital-intensive production). The core states are the most economically and politically dominant, militarily powerful, and administratively well organized in the world-system. At the other extreme, the periphery specializes in the production and export of raw materials and labor-intensive goods. The peripheral states are militarily and organizationally weak. Between these two extremes are those states in the semiperiphery. They have some economic activities similar to those of the core (core-like production) and some more typical of the periphery (periphery-like production). Some world-systems theorists suggest that the semi-peripheral states play a critical role as 'buffer zones' or 'intermediaries' between the core and the periphery. World-systems theorists view the nature of the economic relationship

between core and periphery in some aspects similarly to dependency theory; that is, the trading relationship is fundamentally exploitative."

56. **Dollar as the core of the International Monetary System.** "The US emerged from the two world wars to become the economically and politically dominant core state. The US specialized in the production of the most advanced goods, which involves the use of the most sophisticated technologies and capital-intensive production. The postwar international monetary order, the dual-peg exchange rates or the gold exchange standard, placed the dollar as the single core currency of the international monetary system (…) Nevertheless, after the late 1960s the US no longer held a significant economic advantage over its major allies in the sphere of world production (…) After 1971, the Bretton Woods system was de facto replaced by a regime of freely floating fiat currencies that remains in place to the present day (…) The principal benefits the US enjoyed from the dollar's status as the dominant international currency were: the ability to run balance-of-payment deficits that others could not, the willingness of foreign official institutions to purchaseand hold US government bonds, and the related and crucial discretion of the Federal Reserve to implement expansionary monetary policy to stimulate a recessionary economy or inflate away debts (…) In this sense, the manufacturing disadvantages and the trade deficits of the US in the global economy were offset by the exorbitant privilege of the dollar in the post-Bretton Woods monetary order, which perpetuated the US's position as the core of the world economy (…) The dollar's core status in the international monetary system is the centerpiece of the US's core status in the international system."

57. **US-China symbiotic and asymmetric economic relations.** "… the US and China have formed a symbiotic relationship because of the dollar's core status in the international monetary system and China's excessive manufacturing capacity and dependence on foreign markets (…) China in the twenty-first century has been committed to export-oriented growth based on maintaining a low exchange rate (…) The result was the continuous expansion of China's foreign exchange reserves. China used part of these foreign reserves to purchase US Treasury bonds in order to finance American balance-of-payment deficits. On the one hand, China repressed its own domestic consumption and exported large quantities of inexpensive goods, which helped reduce US inflation and stimulate US consumption. On the other hand, China's massive purchase of US Treasury bonds helped lower their yields and bring down US interest rates, as another effort to secure the continuous increase of US demand for China's exports (…) It is estimated that about two-thirds of China's reserves are held in the form of dollar debt (…) The US and China have formed a symbiotic relationship in the capitalist world economy since the 1990s: the US consumes China's cheap exports, paying China in dollars, and China holds US dollars and bonds, in fact lending money to the US."

    "China, as a semi-periphery, is more vulnerable in the symbiotic relationship of its own making (…) Were China to dump its dollar reserves and destabilize the world economy, it would definitely hurt itself as well as the US. China would not only lose much the value of its reserves with the falling dollar, but would also jeopardize Americans' ability and willingness to continue to import Chinese goods, which would probably give rise to job loss and social instability in China. On the other hand, China's vulnerability can be seen in the enormous difficulties faced by its manufacturing exports after the global financial crisis (…) Therefore, it is more proper to describe the US–China economic relationship as symbiotic but asymmetric."

58. **Old and new Triffin dilemmas.** "Many economists and government officials have concluded that the unipolar, dollar-based monetary system is seriously flawed. Belgian-American economist Robert Triffin pointed out in the 1960s that an international monetary system based on the currency of one country cannot sustainably deliver both liquidity and confidence. More specifically, the continuous growth of the world economy demands a steady stream of dollars, which requires the US to run balance-of-payments deficits. However, excessive US deficits erode people's confidence in the dollar's value (convertible into gold at a fixed price). This inherent conflict between the dollar's role as the world's reserve currency and the declining confidence in the dollar in the postwar international monetary system is called the Triffin dilemma. Though the Triffin dilemma was directed against the Bretton Woods monetary system, it remains valid for today's international monetary system. The modern version posits that the massive amount of dollars created by the US authorities to satisfy world demand is inconsistent with people's confidence in the

dollar's value (convertible into a fixed basket of US goods and services). Here arises the question of why the dollar remains the preeminent currency in the international monetary system despite the relative American economic decline and the obvious flaw of dollar hegemony. Eichengreen provides a simple but compelling answer: 'The dollar's dominance was supported by a lack of alternatives.'"

59. **Towards a multipolar currency system?** "Despite the rapid development of RMB internationalization, it is also worth noting that for the time being the inconvertibility of the RMB, as well as China's capital account control, both impose severe restrictions on the RMB's role as an international reserve currency. Therefore, the internationalization of the RMB is not expected to dethrone the dollar as the key international reserve currency in the foreseeable future (…) The growing roles of the euro and the RMB in the global economy indicate that the unipolar, dollar-based monetary system is evolving into a multipolar currency system that will exercise better discipline over the fiat currencies in the international monetary order."

60. **China's global role.** "… the Chinese leadership is thinking beyond the current world system to craft a post-Western world order in an incremental manner. With regard to the three competing hypotheses—the convergence hypothesis, the status quo hypothesis, and the challenge hypothesis—this paper lends no direct support to any of them (…) It is not in China's interest to take extreme measures to destabilize or overthrow the existing world order; thus the radical challenge hypothesis is rejected. Moreover, the US-China economic relationship is asymmetric, which underlies the structural crisis of the world economy. It is argued that BW2 [the revived Bretton Woods system] is not sustainable in the long term; thus, the status quo hypothesis is also rejected. After the global economic crisis, the China leadership demonstrated its concerns with the existing international order, particularly the obvious flaw of a unipolar dollar-based monetary system. In this sense, the convergence hypothesis seems implausible. By anticipating the scenario that China could eventually shift to a more sustainable development model and push the internationalization of the RMB to reform the current international monetary system, one might conclude that China's policy response is more inclined to the challenge hypothesis. Even so, it is still more proper to describe China as a 'dissatisfied responsible great power.' China's incremental reforms in both domestic and international domains after the global crisis reveal that China as a rising power is no longer a rule-taker, accepting the status quo with regard to the current arrangement of international monetary order. Rather, China is better viewed as some combination of a rule-maker (promoting global reforms of existing arrangements) and a rule-breaker (in that it is creating its own arrangements)."

Wang, Zhaohui (2017): "The economic rise of China: Rule-taker, rule-maker, or rule-breaker?", Asian Survey 57(4), 595-617.

61. **Kant's liberal argument for international peace and prosperity.** "The key to the liberal argument is the claim that by establishing domestic liberty, political participation, and market exchange one can have the international payoff of peace as well (…) Kant described a decentralized, self-enforcing peace achieved without the world government that the global governance claim posits as necessary (…) Kant's argument was (…) presented in three necessary conditions (…) First, states should adopt a liberal constitutional, representative, republican form of government which would constrain the state such that the sovereign would, on average, usually follow the interest of most of the people, or the majority. Second, the citizens of this liberal, constitutional, representative republic must affirm a commitment to human rights, one holding that all human beings are morally equal. Then states that represent liberal democratic majorities in their own countries will regard with respect other states that also represent free and equal citizens (…) Third, given trust, states then lower the barriers that would have been raised to protect the state from invasion or exploitation in the competition of the balance of power. Trade, tourism and other forms of transnational contact grow which lead to prosperity, reinforcing mutual understanding with many opportunities for profitable exchange, and producing contacts that offset in their multiplicity the occasional sources of conflict."

62. **Challenges of globalization to the liberal peace.** "The first challenge of global interdependence is to the sustainability of the liberal peace. Can it operate in a much more intensive environment of social and

economic exchange? And the second is to the legitimacy of the liberal democratic system. Can the people truly govern themselves when much of their social and economic interaction is with other societies outside their borders and outside the reach of their representative government? (…) The new market interdependence poses three challenges to the liberal scheme of global democratic peace.

Commodification (…) globally regulated norms of non-discrimination—however efficient and fair from a global point of view—are eroding democratic, or at least national, accountability.

Inequality. The second challenge to democratization concerns both intra-national and international equality. Globalization allows for those who are most efficient to earn the most. That is what markets usually do. And as the barriers fall to global sales, production, and investment, inequality also tends to rise.

Security. The third challenge is security. Kantian liberalism produces security and peace (among the liberal republics). But globalization challenges the stability of liberal geopolitics in two ways. On the one hand, what Americans call *globalization* is what many others call *Americanization*. That is, the US leading role within the world economy, which to Americans appears as an economic issue of dollars and cents, is to other countries a power issue, one fraught with control and guns. The other hand is that global rules for trade and investment have allowed China to benefit from its high savings rate and labour productivity, becoming one of the fastest growing economies in the world (…) From a geopolitical point of view, China's growth entails a massive shift of world political power eastward. That makes the statesmen of the US and Europe nervous, especially if, referring again to the Kantian liberal argument, China has not democratized."

63. **Responses to the challenges.** "There have been a variety of responses of widely varying purpose and consequence. The key question that faces us today is whether and how the liberal equilibrium can be renovated, reincorporating a combined prospect of peace, prosperity and self-government.

Protectionism. Polanyi called this the 'Crustacean' strategy—one that reinforced the hard shell of the nation state. It focuses on each nation protecting itself from globalization."

"*National champions* (…) If protectionism is a 'crustacean' strategy, we can extend Polanyi's aquatic metaphor, bringing into view 'sea slug' strategies. The sea slug, a voracious and non-discriminating eater, consumes anything that is smaller than itself. This is the strategy of *national champions*. The nation state supports its own firms in order to compete to win more global sales and seeks to lure foreign firms, increasing shares of inward FDI for the national economy (…) To the extent that states try to foster national champions or subsidize inward FDI to attract capital and jobs, they produce similar behaviour by other countries. This may benefit international consumers. It may also lead to a 'race to the bottom' with fewer and fewer environmental and labour standards, or increased international conflicts, as short-term prosperity is again pitted against long-run democratic autonomy."

"Democratic solidarity (…) Here statesmen seek to extend the liberal *political* peace into an economic arrangement. Forget about the rest of the world, let us build a stronger WTO for the democracies, a democratic WTO."

"*Disaggregated cooperation* (…) Proponents urge us to break down the problem. Let's let the multinational corporations (MNCs) deal with other MNCs and markets solve as many of the problems as they can. State bureaucracies will scramble to keep up, doing less than may be ideal but enough to avoid catastrophe. Genetically engineered food may be sold with less controversy if the United States labels organic food and then lets consumers buy it or not as they wish. US organic food exports, having been certified, could be sold in Europe. Consumers, not governments, will decide; hopefully, depoliticizing the issue. Furthermore, courts will deal with courts, bureaucrats with bureaucrats, experts with experts. Take it out of politics and solve the problems pragmatically. Unfortunately, there are some problems that just are not pragmatic."

"Global democratization (…) For some it is now time for a global parliament or civic assembly, structured on the model of the European parliament in Strasbourg (…) Realistically, however, no strong version of global democracy is viable at the present time. We will not soon see global legislation deciding new regulatory standards for the global economy. Why not? Because global democracy is not about being willing to *win* democratically, it is about being willing to *lose* democratically. None of the popular advocates of increased democratization (…) are willing to lose an issue and accept it because it went through a democratic process (…) Our primitive political global condition is reflected in disputes about the very meaning of global democracy. Is the world more democratic when the majority of nations decide, when the most populous nations decide, when only democratic nations participate, or when the majority of the world's people decide? Unfortunately, there is as yet no agreed meaning of 'global democratization'."

Doyle, Michael W. (2000): "A more perfect union? The liberal peace and the challenge of globalization", Review of International Studies 26, 81-94.

64. **Growing defects of international economic statistics.** "Official international economic statistics are generally considered accurate and meaningful gauges of cross-border flows of trade and capital. Most data users also assume that the quality of the underlying data keeps improving over time. Through an extensive review of the national accounting literature, archival research, two dozen interviews with high-level statisticians, and a series of data quality tests, we evaluate this common view for the primary source of data on trade and capital flows: the International Monetary Fund's Balance of Payments (BOP) Statistics. Our assessment paints a less rosy picture: reported figures are far less accurate than they are typically imagined to be and often do not correspond to the theoretical concepts with which users associate them. At the same time, measurement quality deteriorates over time as the transnationalization of economic production gradually undermines the validity of BOP statistics. Our findings raise serious questions about the widespread use of these numbers, with their deceptive pretense to accuracy, in scholarly research and public debate about the international political economy."

65. **Political implications of deficient statistics.** "These growing defects of BOP statistics can be consequential for global politics in at least three ways. First, the apparent solidity of BOP statistics can mask the considerable uncertainty underlying them. It not only generates an unwarranted sense of confidence about our ability to monitor global economic transactions. It also bestows disproportionate power on those actors in the global economy whose authority relies on quantitative economic assessments. This concerns international organizations such as the IMF or the World Bank as much as credit rating agencies, whose data-based verdicts can shape nations' economic fortunes (…) Second, the concept-measurement gap can distort policy analyses when the indicators feeding policy assessments don't neatly capture what policymakers think they do (…) The resulting absurdities surfaced when in 2017 both the US and the UK boasted a trade surplus with the other country (…) Third, most worryingly, distorted analyses can feed misguided policy responses. Local content requirements imposed by trade negotiators may have unintended consequences if they lack a clear view of how such regulations ripple through the supply chains. Credit rating agencies that build country risk assessments on skewed current account figures (…) can distort governments' access to global capital markets."

Linsi, Lukas; Daniel K. Mügge (2019): "Globalization and the growing defects of international economic statistics", Review of International Political Economy, DOI: 10.1080/09692290.2018.1560353.

66. **Independent or lonely central banks?** "The financial crisis has called our understanding of central bank independence (CBI) into question. Central banks were praised for bold interventions but simultaneously criticized for overreaching their mandates. Central bankers themselves have complained that they are 'the only game in town'. We develop the second generation theory of CBI to understand how independence can turn into loneliness when a financial crisis calls for cooperation between fiscal authorities and the central bank. Central banks are protected from interference when there are multiple political veto-players, but the latter can also block cooperation. Furthermore, central banks in multi-veto-player systems operate under legal constraints on their financial stabilization actions. They can circumvent these constraints, but this invites criticism and retribution. More surprisingly, central banks have strategically invoked their constraints to gain cooperation from political authorities."

Mabbett, Deborah; Waltraud Schelkle (2019): "Independent or lonely? Central banking in crisis", Review of International Political Economy, DOI: 10.1080/09692290.2018.1554539.

67. **Trans-pacific partnership.** "The trans-pacific partnership (TPP) has been hailed as a bold step in trade diplomacy, a gold standard agreement which not only opens markets but also boosts labor and environmental protections. Despite its future being put in doubt by the US' withdrawal, the TPP continues without it, touted as a 'model' agreement to shape trade politics in the coming years. To understand the rise and fall and rise of the TPP, this article analyses it through the framework of 'new constitutionalism': a set of judicial and institutional mechanisms that insulate transnational capital from democratic accountability, while also opening up new spaces for accumulation and co-opting resistance. Within this framework, the TPP is understood as an instrument of crisis management, attempting to preserve the rights of capital and stimulate accumulation in response to the post-2008 crisis, while also seeking to quell the backlash against free trade by addressing labor and environmental concerns. It is this duality, however, which undermines the success of the agreement. While on the one hand the TPP aims to foreclose progressive options for governance, at the same time, it opens up spaces from which neoliberal hegemony can be contested, empowering a diverse coalition to challenge the agreement."

"… the TPP is more than just a trade agreement. Rather, it represents a new constitutionalist instrument of crisis management, which aims to preserve the privileges of transnational capital, stimulate accumulation to revive stagnating economies, and resecure consent for trade liberalization."

Chodor, Tom (2019): "The rise and fall and rise of the trans-pacific partnership: 21st century trade politics through a new constitutionalist lens", Review of International Political Economy, DOI: 10.1080/09692290.2018.1543720.

68. **Development policy.** "The story of development policy in the post-Second World War international economic order is often conceptualized as a series of paradigm shifts (…). On this story, the Keynesian embedded liberal consensus was displaced by neoliberalism, which has in turn given way to the post-Washington Consensus (…) I distinguish between four policy nexuses (…) First, in the 1950s, there was a *productivist* nexus that emerged from the combination of bankers' and engineers' professional norms and the demands of American hegemonic leadership. Second, as large numbers of academically trained economists entered the World Bank in the 1960s and 1970s, a *neoclassical growth* nexus formed around neoclassical ideas and models. In the 1980s, a third nexus centered on *neoliberal growth* policies formed as broader political imperatives interacted with developments in neoclassical knowledge. While the Washington Consensus bolstered growth-centric policies in the 1980s, the focus on growth outlasted the neoliberal wave, persisting through the late 1990s and into the 2000s. Bank rhetoric shifted again in the 1990s, as critics pushed poverty and other factors back onto the Bank's policy agenda. However, when poverty returned in the 1990s, it did so either as 'per capita income' or within 'human capital' discourse, which muted the impact of the rhetorical shift on Bank policy. In forming this *multidimensional growth* nexus, the neoclassical core of Bank discourse and practices again adapted to change, but maintained that growth was the central end of development policy."

Allan, Bentley B. (2019): "Paradigm and nexus: Neoclassical economics and the growth imperative in the World Bank, 1948-2000", Review of International Political Economy, DOI: 10.1080/09692290.2018.1543719.

69. **Number of countries and economic integration.** "… the stable number of countries is increasing in the amount of economic integration and openness (…) The intuition is that a breakup of nations is more costly if it implies more trade barriers and smaller markets. On the contrary, the benefits of large countries are less important if small countries can freely trade with each other. Concretely, this result suggests that regional political separatism should be associated with increasing economic integration."

Alesina, Alberto; Enrico Spolaore (1997): "On the number and size of nations", Quarterly Journal of Economics

70. **Macroprudential policy.** "Could macroprudential policy frameworks have prevented the last crisis? Perhaps."

David Aikman, Jonathan Bridges, Anil Kashyap, Caspar Siegert (2019): "Would macroprudential regulation have prevented the last crisis?", Journal of Economic Perspectives 33(1), 107-130.

71. **Intergovernmental approach.** "This article seeks to explain when governments are more likely to take an intergovernmental approach to resolving global collective problems rather than step back and encourage (or simply allow) nongovernmental actors to become the main global governors. The authors suggest that an important factor driving this choice is the domestic ideological leanings of powerful states toward greater or lesser government activism. Such ideologies connect domestic preferences to international ones. They also lead to the establishment of domestic institutions that, in turn, facilitate the emergence of international organizations."

Grigorescu, Alexandru; Başer, Çağlayan (2019): "The choice between intergovernmentalism and nongovernmentalism: Projecting domestic preferences to global governance", World Politics 71(1), 88-125.

72. **Borders and trade.** "Extensive research demonstrates that international borders are associated with decreased trade flows, a pattern commonly referred to as 'border effects.' The conventional wisdom views border effects as primarily a result of transaction costs (…) But the consensus on border effects was called into question following recent findings that internal administrative borders—such as US states' borders or countries' internal ethnic borders—can impede trade as much as international borders. We argue that understanding how political borders affect trade is greatly clarified by explicitly treating borders as institutions that coordinate the behavior of economic actors across time and within that bounded space."

Carter, David B.; Goemans, H. E. (2018): "International trade and coordination: Tracing border effects", World Politics 70(1), 1-52.

73. **Technology and international cooperation.** "Is technology competition between commercial rivals an impediment to international co-operation? Or could it instead help states collaborate? Our game-theoretic model suggests that technology competition impedes international co-operation when states hold 'techno-nationalist' preferences but have starkly asymmetric abilities to capture new markets. States that expect to lose refuse to co-operate, so treaty formation fails. However, technology competition may also facilitate co-operation. While states invest in new technologies out of self-interest, doing so also reduces consumer prices for other states. Comparative case studies of environmental co-operation demonstrate the model's utility. For example, European co-operation on climate policy was easier to achieve because forerunner countries, such as Denmark and Germany, implemented industrial policies that enhanced the competitiveness of their renewable energy industries. This technology competition reduced the cost of renewable energy for other European countries, and thus lowered the economic costs of their emissions reductions."

Sung Eun Kim; Johannes Urpelainen (2014): "Technology competition and international cooperation: Friends or foes?", British Journal of Political Science 44, 545-574.

74. **Regulation and globalization.** "How does economic globalization shape the regulations that states enact to control negative externalities? Previous research downplays the role of international cooperation and the present historical context, so it cannot offer a coherent theoretic account of the empirical record. I construct a formal model in which states can engage in regulatory cooperation to coordinate their policies. I prove three main results. First, a ''race to the bottom'' is unlikely because it requires non-cooperative adjustments by industrialized countries. Second, a partial ''race to the top'' is likely because many emerging countries stand to gain from reduced negative externalities and the competitiveness problem is limited

when the most lucrative export markets are already regulated. Finally, powerful industrialized countries with a high regulatory capacity benefit from a global expansion of regulation."

Urpelainen, Johannes (2010): "Regulation under economic globalization", International Studies Quarterly 54(4), 1099-1121.

75. Globalization and peace. "Studies of signaling in international relations reveal how punishing bluffing ex post through domestic audience costs or opposition groups facilitates credible ex ante communication among states and reduces the impetus toward war. Global integration of economic markets may also reduce uncertainty by making talk costly ex ante. Autonomous global capital can respond dramatically to political crises. To the degree that globalization forces leaders to choose between pursuing competitive political goals and maintaining economic stability, it reveals the intensity of leaders' preferences, reducing the need for military contests as a method of identifying mutually acceptable bargains. Asymmetric integration can dampen the pacific effects of globalization, but asymmetry does not in itself exacerbate dispute behavior. We present the theory and offer preliminary corroborative tests of implications of the argument on postwar militarized disputes."

Gartzke, Erik; Quan Li (2003): "War, peace, and the invisible hand: Positive political externalities of economic globalization", International Studies Quarterly 47(4), 561-586.

76. WTO specific principles. "The GATT, and now the WTO, focuses on the design, implementation, updating, and enforcement of procedures, rules, and guidelines rather than on seeking to agree upon the volume of exports or market shares. This overreaching constitutional principle is implemented with five specific principles. 1) Nondiscrimination. This rule has two aspects: nondiscrimination at the border and nondiscrimination behind the border. Nondiscrimination at the border, called "most favored nation treatment" in the WTO's circumlocutive parlance (since WTO members should treat no nation better than it treats its most favored trading partner), means that any tariff which is applied should be applied equally to all WTO members (…) The other aspect of nondiscrimination is called "national treatment," which is the rule that within each country, taxes and regulations should be applied evenly to domestic and imported goods. 2) Transparency. Liberalizing trade and reducing conflicts over trade is easier when the actual policies are transparent to all by having been made public. 3) Reciprocity. Nations that remove barriers to imports can expect other nations to reciprocate (…) Reciprocity also applies to retaliation. When a nation engages in a practice or policy that undoes the gain another member had from a previous agreement, the aggrieved nation has the right to reciprocate—that is, to retaliate. 4) Flexibility, or "safety valves." (…) The GATT allows some exceptions in which nations can at times impose trade barriers, but seeks to discipline them with various strictures and requirements for compensation. 5) Consensus decision-making. Like the other principles, this one has exceptions, but most WTO decisions are by consensus."

Baldwin, Richard (2016): "The World Trade Organization and the future of multilateralism", Journal of Economic Perspectives 30(1), 95-116.

77. Why a world bank? "The arguments in favor of multilateral development lending and aid reflect concerns over how national governments politicize aid in either bilateral or regional settings (…) A well-functioning global institution can generate economies of scale in knowledge and lending that are out-of-reach for a bilateral agency or even a regional institution. A global institution can also encourage broader participation by high-income countries, thus reducing what otherwise could be a severe free-rider problem. A multilateral institution can also serve a coordination function, embracing both bilateral and regional development lending and aid programs (…) While the World Bank is increasingly called upon to address development problems that spillover across country borders—such as pandemics and climate change—it is far from clear that it is currently well equipped for such tasks."

Ravallion, Martin (2016): "The World Bank: Why it is still needed and why it still disappoints", Journal of Economic Perspectives 30(1), 77-94.

78. **IMF in charge?** "The international community's management of the 2010 financial crisis in Greece revealed a major gap in the international financial system. No single institution is any longer unambiguously in charge. Consequently, the path is open for narrow interests to predominate over global interests. An examination of postwar history shows that this problem has been growing gradually since the 1970s and has become much greater since the mid-1990s. To alleviate the problem, the International Monetary Fund needs to develop an effective strategy for reducing the opportunities for creditor countries to intervene in decisions on how crises should be resolved."

Boughton, James M. (2016): "The IMF as just one creditor: Who's in charge when a country can't pay?", International Economic Journal 30(3), 392-408.

79. **IMF's unmet challenges.** "The International Monetary Fund is a controversial institution whose interventions regularly provoke passionate reactions. On one side are those (…) who argue that the IMF is an 'indispensable institution.' On the other are critics who object that the Fund is unrepresentative, inefficient, and an engine of moral hazard and conclude that the world would be better off without it."

"… there is an important role for the IMF in helping to solve information, commitment, and coordination problems with significant implications for the stability of national economies and the international monetary and financial system. In its role as a trusted advisor to governments, the Fund can apply lessons from the experience of other countries, basing its analysis on information that national authorities are not inclined to share with other interested parties such as rating agencies and investment banks. It can raise awareness of cross-border spillovers of policies that governments would otherwise have little incentive to acknowledge and encourage mutually advantageous policy adjustments to internalize those externalities. As emergency lender, it can prevent cash-strapped governments from having to resort to policies that could endanger domestic and international financial stability (…) In executing these functions, the effectiveness of the IMF (…) depends on whether the players see it as competent and impartial.

We will argue that the Fund's perceived competence and impartiality, and hence its effectiveness, are limited by its failure to meet four challenges (…) All four of the challenges threaten the legitimacy of the institution and therefore its capacity to execute its core functions. The first unmet challenge is how to organize the *surveillance* through which the IMF 'monitors the economic and financial policies of its 188 member countries … highlights possible risks to stability and advises on needed policy adjustments' (…) It may be unrealistic to expect that the Fund should have anticipated and warned of the US subprime crisis, the global financial crisis, and the Greek debt crisis. But the IMF batted 0 for 3 on these three events, which suggests that its capacity to "highlight risks to stability" leaves something to be desired.

Second, there is confusion about what kind of *conditionality* should be attached to IMF loans. Conditionality refers to policy commitments by governments made in return for receiving assistance. But there is disagreement about how many and what kind of commitments to require (…).

Third, there is disagreement about the IMF's role in *the management of sovereign debt crises*. Multiple stakeholders, significant transactions costs, and the absence of an internationally agreed legal framework for resolving sovereign debt crises create coordination problems that constitute a prima facie case for the involvement of a multilateral institution like the IMF. But there is confusion about the form that involvement should take (…) Fourth, *governance problems* raise questions about the Fund's impartiality (…) Governments and their constituents question whether its advice is well-tailored to their circumstances or simply reflects the self-interest of the institution's dominant shareholders. They point to pressure from the United States for countries to accelerate public-enterprise privatization in the 1990s and pressure from large European countries to avoid a Greek debt restructuring in 2010."

Eichengreen, Barry; Woods, Ngaire (2016): "The IMF's unmet challenges", Journal of Economic Perspectives 30(1), 29-52.

• Suggestions for further reading

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Thies, Cameron G.; David Sobek (2010): "War, economic development, and political development in the contemporary international system", International Studies Quarterly 54(1), 267-287.

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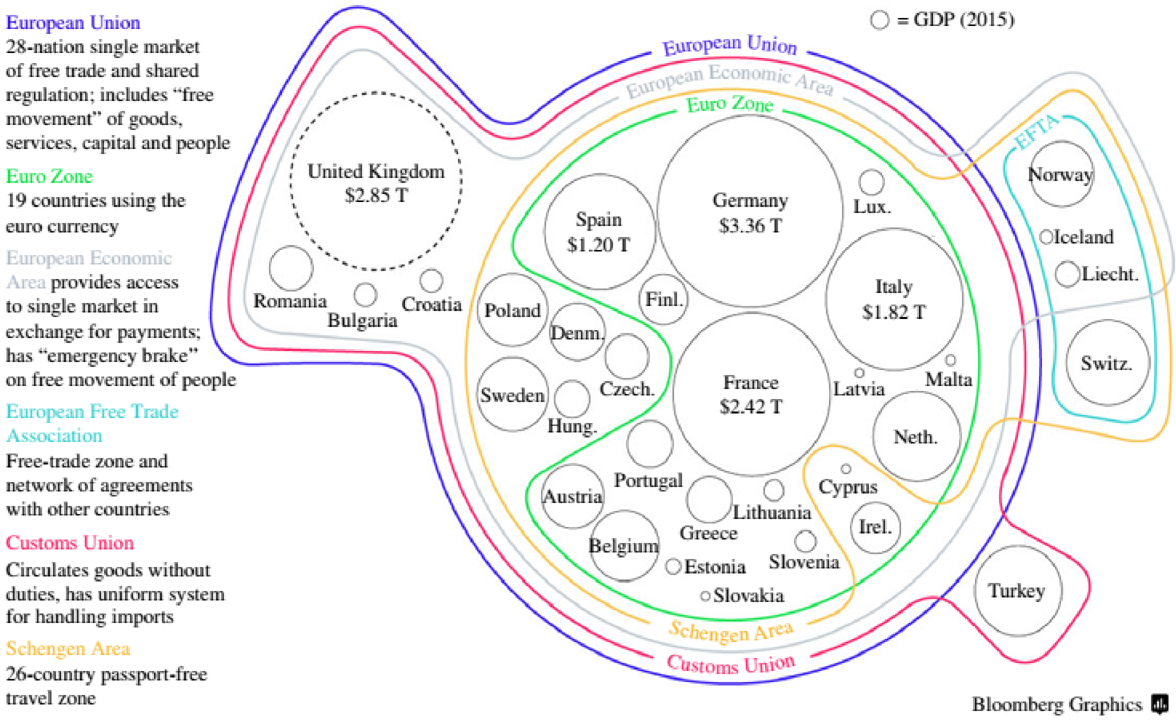

FIGURE 2 EU before Brexit

Source: Bloomberg Graphics. https://assets.bwbx.io/images/users/iqjWHBFdfxIU/imJGHnotXP.Y/v3/1600x-1.png.

Huang, Zongye; You, Yu (2018): "How does capital control spur economic growth?", The World Economy, doi 10.1111%2Ftwec.12682.

Seghezza, Elena (2018): "Can swap line arrangements help solve the Triffin dilemma? How?", The World Economy, doi 10.1111%2Ftwec.12669.

Antoniades, Andreas; Griffith-Jones, Stephany (2018): "Global debt dynamics: The elephant in the room", The World Economy, doi 10.1111%2Ftwec.12623. ("By any account, <u>global debt has reached historically unprecedented levels and keeps rising, as proportion of many countries' GDP</u>. Any attempt to suppress credit bubbles in any asset class or economic sector, at national or international level, seems often to lead to more credit bubbles at different asset classes and/or sectors within and across national economies. <u>Financial globalisation and loose monetary policy since the global financial crisis (GFC), seem to encourage such an evolution</u>. The dangers that these conditions present for the global economy are hard to overstate (…) Equally worrying is the fact that mainstream economic analysis has been only slowly coming to grips with this global political economy of debt (…) <u>Examining the interplay between global debt dynamics and the rebalancing of the global economy is sine qua non for understanding the new political economy of global debt</u> and how it can be dealt with. How have changes in the vulnerability/resilience nexus between advanced economies and EDE affect the global politics and economics of debt? Have they been translated to better terms of borrowing for EDE?")

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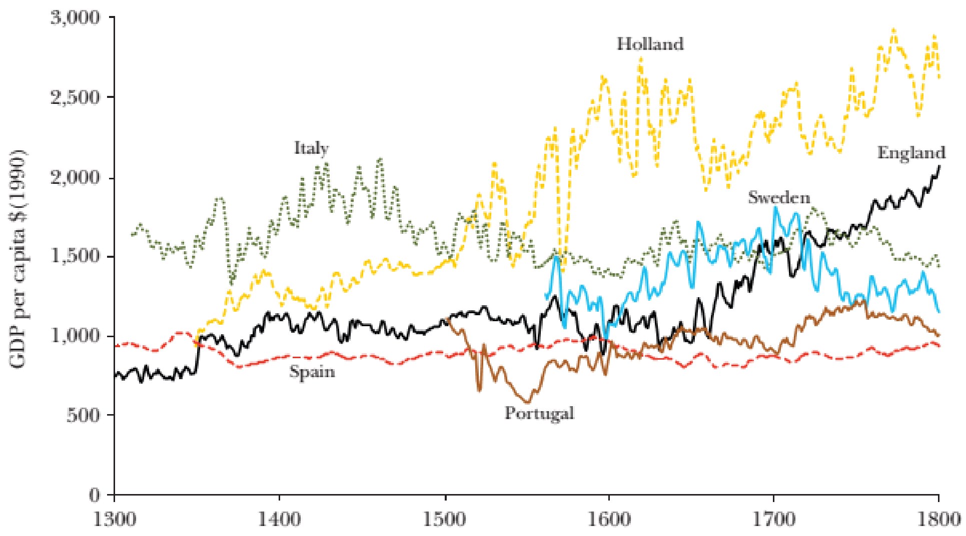

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