Reconsideration of Economic Statistics in Global Governance

Author Naoyuki Haraoka

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Introduction

Are we living in a comfortable world? This is a basic question we may ask at election time, when we may vote for a candidate we think can offer us the greatest comforts in life. Exactly what these comforts are and where they come from are questions we would need some philosophy to answer.

The first question we might ask is whether happiness is the same as comfort. I would say that happiness is not the same, since comfort is largely the result of material welfare while happiness includes a certain element of individual spiritual development. Comfort can be pursued in terms of tangible welfare but happiness cannot be. As far as material welfare is concerned, we can achieve it with relevant government policies, but spiritual satisfaction must be left to each individual's own efforts. It is also notable that material welfare can be measured by statistics.

Today government policies are discussed around the world, as the policies of any particular country can affect other countries' economies under globalization. Thus we need global governance to coordinate the possible outcomes of each nation's policies and try to achieve the optimum outcome for the entire global community by collaboration among countries. This best outcome should be a common value and goal to be achieved by all members of the global community.

I believe that human comfort, to be practically achieved by government policies on the basis of statistical measures, could be considered eventually as the ultimate goal of global governance, a scheme of cooperation and coordination among different national policies, through venues such as the G7 or G20. But the ultimate goals of such governance must doubtless vary in accordance with trends in the global economy and politics.

Challenges from Diversity of Values & Concepts

During the 1980s and 1990s – the first stage of globalization when international organizations such as the OECD were trying to lead a global economy with the common concept of a free market – the diversity of capitalism was at the center of discussions to harmonize the principal players' economic policies. While the Anglo-Saxon economies were characterized as market mechanism-oriented capitalism, Japan, which at that time had the highest economic growth among developed nations supported by a significant increase in its exports and current surplus, was considered a different type of capitalism, dominated by collusive business relations rather than market competition. "Capitalism against capitalism" was often referred to as a conflict of values, an impediment to achieving common values or concepts among the nations through global governance.

However, today we are in more complicated situation. The emergence of new principal economic players is a notable characteristic of the second stage of globalization, which began in the 2000s with the new century. They are the so-called BRIC nations, and in particular the emergence of China as a leading power in the world has completely changed the background affecting the direction of global governance. The foundation of the Asian Infrastructure Investment Bank (AIIB), proposed and initiated by China, shows that China has a different strategy for global governance from the existing one represented by the IMF or the World Bank.

In helping underdeveloped nations build the infrastructure vital to their economic growth, the IMF or the World Bank set rigorous conditions for their loans, but the AIIB could be ready to mitigate its loan conditions with the return of benefits to national enterprises. And now even the IMF acknowledges the Chinese yuan as a key currency and its weight among the key currencies has become larger than the Japanese yen. Two or three decades ago, although we had a different kind of capitalism in the world, capitalism still ruled over the global economy as a common value and concept. Today our global economy consists of free market capitalism and national enterprises leading the economic system, and this will make it even harder to find common values and concepts, a leading principle of global governance. This is the situation which Ian Bremmer, author of *Every Nation for Itself: Winners and Losers in a G-Zero World* (2012), calls a "hybrid economy".

The entities responsible for global governance, such as the G7 or G20 or international organizations like the IMF and OECD, are expected to create common values or concepts in a "hybrid economy". Japan is hosting the G7 Summit in 2016 and it is vital that Japan creates such common values.

Common Values in "Hybrid Economy"

The financial crisis of 2008 has also complicated this picture of the new background to global governance. Even among the market capitalism nations, the new rules set by the government to prevent or moderate excessive financial speculation, considered a major culprit of the financial crisis, have been respected. Meanwhile, in the domain of international trade, free trade and free market mechanisms observing trade policy rules are still highly regarded such as in mega-regional FTA negotiations like the Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP).

This dichotomy of strengthened regulation in finance and promotion of free trade in the mega-regional context can be confusing when thinking about common ideas to be shared among the capitalist countries leading global governance. Is the world moving towards strengthened regulation or deregulation? This question is worth reflecting on, given trade liberalization efforts today that address not only genuine trade barriers like tariffs but also non-tariff barriers related to each nation's domestic policies. FTAs today trigger structural economic reforms in the nations involved in favor of a free market, often accompanied by overall deregulation, and therefore could overhaul an entire domestic economy.

Under such circumstances, global governance cannot be aimed at dealing with a simple confrontation such as "capitalism against capitalism" like three decades ago. What should the common denominators be in this world to achieve coherent global governance? Peace and prosperity are often mentioned as ultimate goals of global governance, but how can we measure them? We would need some kind of indicator showing how much these goals have been realized.

TABLE 1

Ranking by GDP per capita of major economies in 2014

(US$)

1	Switzerland	85,594.3
2	Australia	61,925.5
3	Singapore	56,584.6
4	US	54,629.5
5	Canada	50,235.4
6	Germany	47,821.9
7	UK	46,332.6
8	France	42,732.6
9	Japan	36,194.4
10	Italy	34,908.4
11	South Korea	27,970.5
12	Russia	12,735.9
13	China	7,590.0
14	Thailand	5,977.4
15	Indonesia	3,491.9
16	India	1,581.5

Source: World Bank

TABLE 2

Gini coefficient in major economies

Germany	0.29	(2012)
South Korea	0.30	(2013)
France	0.31	(2012)
Canada	0.32	(2011)
Australia	0.33	(2012)
Italy	0.33	(2012)
Japan	0.34	(2009)
UK	0.35	(2012)
Thailand	0.39	(2012)
US	0.40	(2013)
Russia	0.42	(2012)
Brazil	0.53	(2013)
South Africa	0.63	(2011)

Note: If this coefficient becomes zero, it means perfect income equality. As it becomes closer to 1, it means income inequality is rising.

Sources: OECD, World Bank

GDP growth may be a simple answer to this. It is apparently an indicator of prosperity and prosperity would be a source of peace. Whether we are in a "hybrid economy" or not, or whether we are pursuing strengthened regulation or deregulation, GDP growth rates clearly indicate how successful each nation's economic policies are in achieving prosperity and at the venues of global governance, such as the G7 or G20, the nations coordinate their national interests and collaborate to achieve a high global GDP growth rate. Thus, at this point in time, global GDP growth is an ultimate goal of global governance.

New Common Denominators Necessary

However, we are now entering a new era when GDP growth is not necessarily the best indicator as a goal of global governance. First, except for the emerging economies, for most of the leading economies it will be very difficult to enhance GDP growth significantly merely by economic policies. Monetary policy alone cannot be effective anymore, given that interest rates continue to be so low and fiscal policy is constrained by cumulative budget debts. But their supply side structural reform policies would have an impact on the economy over the very long run. It would still be meaningful to have GDP growth as a common denominator to achieve prosperity and peace for the emerging economies' policies, but it may not be effective anymore for the governance of the developed nations, the current leading nations in the world economy.

Second, today there are other goals or values to be achieved globally apart from GDP growth. The first one is well-being, in other words, the value of a comfortable life, as I mentioned at the beginning. I think a good material measurement of human comfort would be GDP per capita rather than national GDP. How each individual succeeds in having a materially satisfactory life should be a more important goal for economic policy than the total size of a national economy, based on the assumption that GDP growth reaches saturation point among most developed nations and we realize that individual value exceeds national value. GDP per capita is also a good indicator of the success of structural economic reforms, since structural policies are all related to an individual's well-being *(Table 1)*.

In talking about peace and prosperity today, the question of income inequality always comes up. Domestically, income inequality is an issue in national elections everywhere and accounts for the rise in populism all over the world. International terrorism is also often considered to be provoked by the increasing gap between rich countries and poor countries. How to address this issue of rising income gaps should be another goal for global governance. One good indicator of the degree of income inequality is the Gini coefficient, and this must also be considered as a common denominator for current global governance *(Table 2)*.

GDP per capita and the Gini coefficient, in addition to GDP growth rates, will reveal how well a country's structural economic policy is working, since both can be considered almost as the outcomes of structural reform.

Through a wide range of venues for international discussions, not just the G7 or G20, and whether officially or privately organized, we should have continuous dialogues about each nation's structural reforms by drawing on these two indicators as benchmark criteria. This international benchmarking exercise would surely be effective in motivating nations to improve their structural reforms.

The improvement of each nation's performance with regard to these two criteria would be a result of better global governance. Maintaining exchanges of views and information on each nation's policies in any venue or forum would be at the core of good global governance. JS

Naoyuki Haraoka is executive managing director, editor-in-chief of Japan SPOTLIGHT.