Global Collective Action – the Case for Minimalist Strategies

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The range of problems whose solutions require international collective action and the acuteness of these problems are unprecedented. Yet as dreadfully illustrated by the Coronavirus crisis, the willingness of nation-states to cooperate to address these problems is lower than it has been for three quarters of a century.

This tension is here to stay. How it will be solved – or not – will have a fundamental bearing on our ability to tackle rising challenges. This calls for a minimalist but effective strategy that builds on existing institutional arrangements and draws on solutions at work in various sectors to develop adequate incentive schemes that help address collective action problems, while limiting constraints to independent decision-making at national level.

These are the ideas developed in this article. Section 1 revisits the case for global collective action; Section 2 explains why the mismatch between the demand for global collective action and the supply of cooperation is structural; and Section 3 argues that although they fall short of the ambitions for a "new world order", arrangements at work in a series of fields provide the basis for defining a minimalist agenda for collective action.

Global Challenges: Reality or Artifice?

"A global crisis requires global solutions": ever since the G20 Summit in London in 2009, there has been a tendency to assume that pressing current challenges call for closer coordination, tighter global rules and stronger international institutions, in short for more global governance. It has been Dani Rodrik's merit to question it. In a recent paper ("Putting Global Governance in its Place", World Bank ABCDE Conference, June 2019), he claims that the case for global governance has been overstated. His point is that the relevance of the rationale it rests on, global public goods (which must be managed at the global level), is much narrower than assumed by conventional wisdom (Rodrik makes a similar point about beggar-thy-neighbor policies. I concentrate here on global public goods). According to him, "The world economy is not a global commons, and virtually no economic policy has the nature of a global public good (or bad)."

Rodrik is undoubtedly right that, as is often the case in policy discussions, precisely defined economic paradigms have been taken out of context and applied much beyond the range of cases where they have relevance. Especially, the global public goods concept has been used metaphorically as a justification for a large set of concerted action issues, many of which do not exhibit the features of a true public good.

Significant positive spillover effects from national policy decisions are not sufficient to characterize a global public good. Development, for example, is not really a public good (though it does have positive spillover effects) and as I will develop, even public health or financial stability do have the required characteristics. The metaphorical use of economic concepts is tempting, but it often leads to wrong policy prescriptions.

Rodrik's point is valid. But it does not follow from it that the need for international collective action can be overlooked and that each country should only care about its own priorities. To start with, managing the *true* global public goods has become a much more pressing and challenging issue than at any time before in world history. A preserved climate, biodiversity, ocean life, a global Internet, a reasonably well-managed outer space are true global public goods. These – especially the prevention of climate change – are furthermore first-order challenges whose implications may dwarf the costs and benefits of standard economic and trade cooperation. The relevance of the global public goods concept may have been overstated, but this is no reason to disregard its increased and pressing relevance in major fields.

Moreover, the fact that some channels of interdependence do not result in the existence of a true global public good does not eliminate the need for structured international cooperation. It only means that collective action does not face the same challenges and does not need to rest on the same type of international arrangements. This point can be illustrated by comparing climate change mitigation and the preservation of financial stability. A preserved climate is a true global public good, because every emission of greenhouse gas has the same consequences, wherever it takes place. Formally, each country's utility has the form:

$$U_i = U\left(f_i(E_i), \sum_{1}^{N} E_j\right) = V\left(g_i(E_i), \sum_{j\neq i}^{N} E_j\right)$$

where E_k is the emission reduction effort of country k and $f_k(E_k)$ measures the corresponding disutility in terms of equivalent outcome (which depends on a country-specific abatement curve). Except perhaps for very large countries dU/dE_i is negative (the direct benefits from a country's own climate preservation efforts are lower than the welfare costs of emission abatement), whereas dU/dE_j is positive for $j \neq i$ (the other countries' efforts are good for me). As each country benefits equally from the emission cuts of all its partners and absent an international coercion mechanism, each has an incentive to free-ride on the common effort. Hence, the need – in a first-best world – for coercive global governance mechanisms that tackle the free-rider curse.

Because of the frequently transnational character of financial crises, it is tempting to regard financial stability also as a public good. Actually, it has often been dubbed one ("International Financial Stability as a Public Good", speech by Masaaki Shirakawa at BOJ-IMF Conference, Oct. 14, 2012). Whereas no country is totally immune from spillover effects from financial crises in partner countries, however, stability depends first and foremost on domestic efforts and secondarily on those of financial partners. Formally,

$$U_i = V\left(h_i(E_i), \sum_{j\neq i}^{N} \lambda_{ij} E_j\right)$$

where λ_{ij} is a measure of bilateral financial linkages. In most cases $\frac{dU}{dE_i} > \frac{dU}{dE_{j\neq i}} > 0$, meaning that whereas the partners' efforts matter, domestic efforts matter more and some at least are worth being undertaken in isolation. In such cases there is no incentive to free-ride on the partner's efforts, but each national regulator may fail to do enough as it overlooks the positive spillover effects of its action. The same applies in public health: each government cares about preserving domestic residents, but in so doing it also reduces contagion to other countries.

What each regulator wants is to ensure that its counterparts act sufficiently strongly *in their own interest*. There is still a need for *some form* of global governance, the goal of which is to agree on standards, to ensure transparency and to create trust, so that each regulator adequately contributes to the common effort. Whereas tackling climate change requires coercion, such interdependence requires information and nudge.

The observation that there are fewer public goods than often assumed does not therefore weaken the case for international collective action, as Rodrik suggests. It merely calls for differentiated governance models, whose principles and binding features should depend on the strength of the corresponding interdependence and the nature of the underlying game.

Indeed, the design of appropriate global governance regimes can be regarded as a matching exercise whereby cooperation schemes of varying scope and exigency meet interdependence channels of varying nature and strength.

The Nature of Obstacles

If the demand for global collective action is strong, is the problem on the supply side? Appetite for common solutions has undoubtedly diminished as a consequence of the worldwide rise of economic nationalism. Furthermore, the insistent assertiveness of the Chinese leadership under President Xi Jinping and the aggressively unilateral stance of the US administration of President Donald Trump both undermine existing institutions and mechanisms.

Governments that still believe in collective action claim their intent to keep multilateralism alive until the Trumpian parenthesis closes, China reconsiders its attempt to build a world order of its own, and the nationalist wave recedes. Hope, indeed, is a tempting strategy. But obstacles to collective action are in fact of a more fundamental nature.

To start with the United States, reluctance over multilateral entanglements has a long history. It has manifested itself on several occasions, from the rejection of the Havana Charter in 1948 to the refusal of the International Criminal Court in 1998 and to recurring difficulties in Congress with trade agreements or the ratification of increases in IMF resources. But something new is happening: the growing perception in policy circles is that the US has accepted too many constraints on its own behavior for the sake of building a multilateral regime that does not put enough constraints on the other players' behavior.

China is evidently at the core of US grievances, but the issue is in fact broader. When former deputy USTR chief Stephen Vaughn says that the WTO's Appellate Body instituted on the occasion of the creation of the organization has "become its own sort of rules-making body" that tries to "answer questions that the members left open during the negotiations" and that "American policymakers of both parties have been warning the rest of the world that [..] the United States never agreed to this sort of a process" (*Trade Talk with Chad Bown and Soumaya Keynes*, Episode 111, Peterson Institute for International Economics, Nov. 25, 2019) he is expressing widely shared concerns amongst US lawmakers, some of which were already spelled out by officials in the administration of Barack Obama ("After Doha: Why the Negotiations Are Doomed and What We Should Do About It" by Susan Schwab, *Foreign Affairs* 90(3), 2011).

Overall, however, there is evidence of growing US doubts over the benefits of being bound by international disciplines which limit the scope of (US) policy choices but are not regarded as putting effective enough constrains on the behavior of other players in the global game. For this reason, even if the US eventually abandons the "America First" doctrine, reluctance to engage in binding international arrangements is likely to persist. As Vaughn puts it, “If you’re really just talking about getting other countries to do what you want the other country to do, I think most of the time, the best way to do that is going to be to use the direct leverage of the United States in terms of its market.” Vaughn, who confesses no sympathy for protectionism, considers that trade policy and international economic policy more broadly should be the result of a domestic political process rather than from an external process and procedural commitments.

What is being suggested is that the US could be freer of international entanglements, but behave as a liberal hegemon that offers global leadership and provides adequate resistance to destabilising shocks. But this is precisely what it was unable to do in the interwar period, at a time when there was hardly a global governance system to speak of. Adam Tooze notes that “the British couldn’t and the United States wouldn’t [...] assume responsibility for [...] (a) maintaining a relatively open market for distressed goods; (b) providing counter-cyclical long-term lending; and (c) discounting in crisis” (*The Deluge: The Great War and the Remaking of Global Order 1916-1931*, Penguin, 2014). In contrast, the US assumed this responsibility in the postwar era through the development of a web of global rules and the creation of dedicated global institutions, but also through a proactive policy attitude, for example through crisis management initiatives such as the provision of swap lines to partner central banks.

This is where China and the increasingly multipolar character of the world economy factor in. The world is not that of the 1960s or even the 1990s anymore. Even if the US “would”, it might not “could”. It is not the dominant trade power anymore, and even if it were willing to “maintain an open market for distressed goods”, it could not lastingly play the role of importer of last resort. As long as the US was an unrivalled global economic and geopolitical power, leaders in the White House could trade off short-term domestic economic or financial interests for the wider development of the liberal international order they regarded as being ultimately in their national interest. But the growing rivalry with China and more generally the advent of a more multipolar world where a series of commensurate powers coexist is likely to result in a retreat from liberal hegemony (*The Great Delusion: Liberal Dreams and International Realities* by John Mearhsheimer, Yale University Press, 2018). In a more economically and geopolitically balanced world, it is more difficult for the US – or any other would-be hegemon – to internalize the costs of systemic stability, especially if other players are not bound by rules.

Whether and where the US, China or the European Union “could” and “would” nevertheless assume the corresponding responsibility is the defining question for global collective action in the coming decades. Even leaving aside the sheer geopolitical rivalry between the incumbent and the rising power and the risks of falling into the “Thucydides trap” emphasized by Graham Allison (*Destined for War: Can America and China Avoid Thucydide’s Trap?*, Scribe, 2017), it will prove challenging to avoid what Fred C. Bergsten calls the “Kindelberger trap” (*The United States vs. China*, Unpublished MS, 2020) and to share responsibility for leadership.

Scholars of collective action have long pointed out that group size is a key variable to monitor when analyzing impediments to collective action (*The Logic of Collective Action: Public Goods and the Theory of Groups* by Mancur Olson, Harvard University Press, 1965). Todd Sandler regards the difficulty of forming large effective coalitions as the first of Olson’s seven rules of thumb (*Global Collective Action*, Cambridge University Press, 2004). This can be illustrated by the fact that one of the main reasons behind the success of the 1987 Montreal Protocol on eliminating ozone-depleting gases was that only a few countries were significant producers: the US, the EU and Japan accounted for 80% of total production and developing countries for 5% only. But when the same approach was applied to greenhouse gas emissions, it resulted in the failure of the Kyoto Protocol of 1997. There were simply too many major emitters in the developing world for the joint commitment of the advanced countries to be viable and effective.

A Minimalist Agenda

What is commonly called the rules-based multilateral system (or order) covers in fact a fraction of the web of international interdependence: essentially international trade and macro-financial interactions. In the first of these fields, global governance relies on a core set of hard principles backed by a relatively weak institution, the World Trade Organization, but effective dispute settlement mechanisms (until the US challenged them). In the second, governance relies on a strong, adaptable institution, the International Monetary Fund, underpinned by fairly general principles. In both fields, however, global governance is on the retreat and a process of fragmentation is at work.

Outside this core domain, a series of soft arrangements have filled gaps in the incomplete global architecture. In some cases they have failed to produce meaningful results; in some others they have delivered a real modicum of collective action without encroaching on national sovereignty in a major way. Two interesting models in this respect are, first, cooperation between independent institutions endowed with similar mandates (such as central banks, regulatory agencies and competition authorities) and operating at a distance from political government; and, second, pledge-and-review mechanisms based on shared standards, such as those at work for banking regulation and to some extent climate change.

Hard international law is in some cases indispensable to effectiveness. But depending on the nature of the underlying game, it may not be needed. In fact, the range of solutions accessible without resorting to binding constraints is significant. What is needed is a minimalist strategy that ensures the best use of necessarily limited legal, institutional and financial resources, in a way that matches the nature of the collective action problem that is to be tackled.

This minimalist approach can rest on seven essentials.

1. *A common knowledge base.* Shared knowledge is essential to identify issues and overcome obstacles to cooperation arising from divergent representations of the same problem. Common assessments of upcoming challenges help shape policies even in the absence of any binding arrangement. Climate change mitigation, macro-financial coordination and financial stability initiatives heavily rely on shared knowledge assembled by epistemic communities. Public opinion can pressure governments to act.
2. *Shared principles.* Fundamental principles that command universal support, like national treatment for trade or the no-beggar-thy-neighbour principle in international finance do not eliminate divergence but limit the scope for it. They also serve as an informal coordination mechanism between variable-geometry initiatives. These principles are few, which implies that it is important to preserve them.
3. *Nimble institutions.* Institutions were once considered the masters of sectoral fiefdoms within the multilateral system. But nowadays the fiefdoms hardly cover globalization’s territory. With the principles, procedures and governance they are equipped with, institutions should be regarded as wells of social and informational capital that international collective action can draw from. They can provide support much beyond the confines of their initial mandate.
4. *Transparency.* Reliable assessments and independent evaluations of policy actions provide an indispensable basis for cooperation. Transparency does not compel a government to act in a certain direction, but it helps sort out effective from ineffective policies.
5. *Incentives.* Global collective action increasingly relies on pledge-and-review mechanisms that do not compel participants to achieve specified targets but set standards. Such incentive mechanisms, often buttressed by markets or public opinion, are at work in climate action and financial stability. They can help considerably in fields where the nature of the underlying game does not require collective action to rely on coercion, but where national or regional initiatives need to be coordinated.
6. *Clubs.* Absent universally enforceable rules, sectoral or regional clubs can serve as a substitute. This is most evident in the climate field: should a group of countries decide to implement significant carbon taxes while their trade partners would abstain from introducing them, a border adjustment mechanism would serve both as a way to limit the risks of endogenous breakdown of the climate coalition, and as a way to avoid its members losing out in international trade because they would be the only ones to internalize climate externalities. But the potential role of clubs as a substitute to a truly enforceable international order has more general value. For them not to result in incoherent arrangements, they should be rooted in common principles and could be served by common institutions.
7. *Leadership.* By itself, a scattered landscape of partial and rather soft arrangements is unlikely to provide a response that is commensurate to the magnitude of today’s collective action problems. Leadership is indispensable to set priorities, mobilize the institutions, arbitrate between divergent interests, and put pressure on free-riders and rogue players. As things stand, no single country or entity can anymore provide this leadership across the range of fields that must be covered. At the end of the day what matters most is whether or not the major players, starting with the US, China, the EU and other key regional players, will be able to provide the minimum modicum of leadership that will help trigger collective action.

Note: This paper builds on a lecture delivered at RIETI Tokyo on Jan. 10, 2020. It draws on joint research conducted at the EUI in cooperation with George Papaconstantinou. See below.

George Papaconstantinou and Jean Pisani-Ferry, eds. (2019), *Global Governance: Demise or Transformation?*, European University Institute, September

Jean Pisani-Ferry (2019a), “Can Economic Multilateralism Survive”, *Economic Affairs* 39:3-24.

Jean Pisani-Ferry (2019b), “Collective Action in a Fragmented World”, *Bruegel Policy Brief* 5, September 2019 JS

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