Blog

The United States and global economic institutions: a case of invention resented by the inventor?

International economy | 10 May 2019 | Risto Herrala

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The future of global economic institutions may be much more complex than the present.

Unprecedented things are afoot in the relationship between the United States and global economic cooperation, the institutional underpinnings of which the United States itself, to a large extent, championed after the Second World War. In the 1940s, the USA was the main architect of the United Nations, conceived to establish and uphold peace. It was also instrumental in setting up the International Monetary Fund and the World Bank to support the international monetary system and reconstruction of the world economy after the horrors of war.

The United States kick-started European economic cooperation through its massive aid programme, the Marshall Plan, and pushed hard for the General Agreement on Tariffs and Trade (GATT), the multilateral trading system established in 1947 that preceded the current World Trade Organization (WTO). Throughout the years, the United States has continued to play a key role in further developing the institutions that support global economic cooperation and the world economy, and safeguard the global financial system.

But history is, in the words of a great American inventor,[1] more or less bunk. The evidence is overwhelming, based on recent US policies. The United States recently used its veto power at the IMF to delay the institution's much needed governance reform. The current administration seems eager to get involved in trade disputes and is jeopardizing the operation of the WTO by blocking the appointment of the judges of its appeals court. The United States has threatened to cut UN funding and has already withdrawn from the Paris Climate Agreement, thereby undermining its credibility.

All of this could, of course, be only temporary. But a real possibility remains that recent US policies reflect a more permanent shift in the way the United States views global economic cooperation. The main institutions that support cooperation may, therefore, have lost the endorsement of their inventor. It is of some urgency to consider what the implications of US policies are for global economic cooperation.

Setting the ongoing short-term hiccups aside, the answer to this question seems relatively straightforward over the longer horizon. One only needs to consider the numerous previous inventors who became uncomfortable with their own creations. The list is long and distinguished, including such greats as Alfred Nobel (dynamite), Tim Barnes–Lee (the Internet) and Anna Jarvis (Mother's Day).

Tim Barnes–Lee, for example, who laid the foundations of the Internet to promote connectivity between people, has since been dismayed over how his invention is used by governments and corporations to enhance their grip over the individual. Anna Jarvis came up with the idea of Mother's Day to commemorate her mother, but subsequently became resentful of her invention's commercialization. The typical storyline seems to be that, once introduced, an invention starts to evolve on its own, irrespective of the views of the inventor.

As happened with Mother's Day, the Internet and dynamite, global economic cooperation will most likely continue on its merry way pretty much independently of how the United States feels about its institutional underpinnings. Although US actions are important in the short run due to its historical role in the institutions of today, the country may no longer be big enough to dictate the direction in which global cooperation evolves. An important measure of US influence is its share of the world economy, which since the 1950s has halved to around 14% (in PPP terms). Measured in goods trading, the United States has already been surpassed by China.

Furthermore, recent US policies in actual fact seem to be reinforcing the ongoing trends in global economic cooperation. The key word here is fragmentation. At the WTO, progress at the global level has for some time now been stalled, as witnessed by the Doha round, which has been lumbering along for almost two decades without reaching an agreement. At the same time, regional trading arrangements, such as the recent EU-Japan Economic Partnership Agreement and the Central American-Dominican Republic Free Trade Agreement, are mushrooming all over the map in numbers approaching 300 by the latest count.

In the global financial arena, the importance of Regional Financing Arrangements is also rising, most definitely so in the euro area, where the European Stability Mechanism did much of the financial heavy lifting during the recent crisis episode, in cooperation with the IMF. In the development arena, actors with a more regional focus (such as the Asian Development Bank and

the European Investment Bank) are also gaining prominence.

So, whether we want it or not, we seem to be on our way to a new, fragmented and multipolar world. In this world, instead of participating in discussions on the global agenda in well-defined rules-based global institutions, our efforts focus more on gaining access to the institutions and other clubs that suit our needs and values. While the fragmented system may offer some gains in terms of flexibility, there may also be drawbacks, such as the inevitable turf wars between competing camps, coordination nightmares and blind spots in the global economic architecture. Thus, the future of global economic institutions may be much more complex than the present. Let's hope that this complexity does not translate into significant instability in the global economy and an inability to tackle the shared global problems.

Keywords

Bretton Woods, fragmentation, global economic institutions, USA