Multilateralism: Past, Present and Future

Session 2B: Globalization and De-globalization

Discussant: Maurizio Bussolo (WB)

Three very interesting papers

- They tackle the issues of (de)globalization and its consequences from quite different perspectives;
  - The full methodological spectrum: from a theory paper to an empirical VAR paper, including a lab (experimental) paper;

- Can we get a general conclusion from the three papers?
  - Would it be: "Has globalization gone too far?" to paraphrase the title of Rodrik 1997 book

- Perhaps:
  - Two papers (Giordani and Mariani, and Camera Hohl and Weder) explicit refer to populism, protectionism, and other anti-globalization attitudes;
  - One (Candelon, Carare, Hasse and Lu) advances a more balanced view that with intense globalization countries have to deal with stronger challenges in addition to potential benefits

- General policy lesson?
  - Not sure, but probably one could suggest that there seem to be a growing need to re-think the social contract both at the national level, but also at the international level (assuming that one can talk about that at the multilateral level)
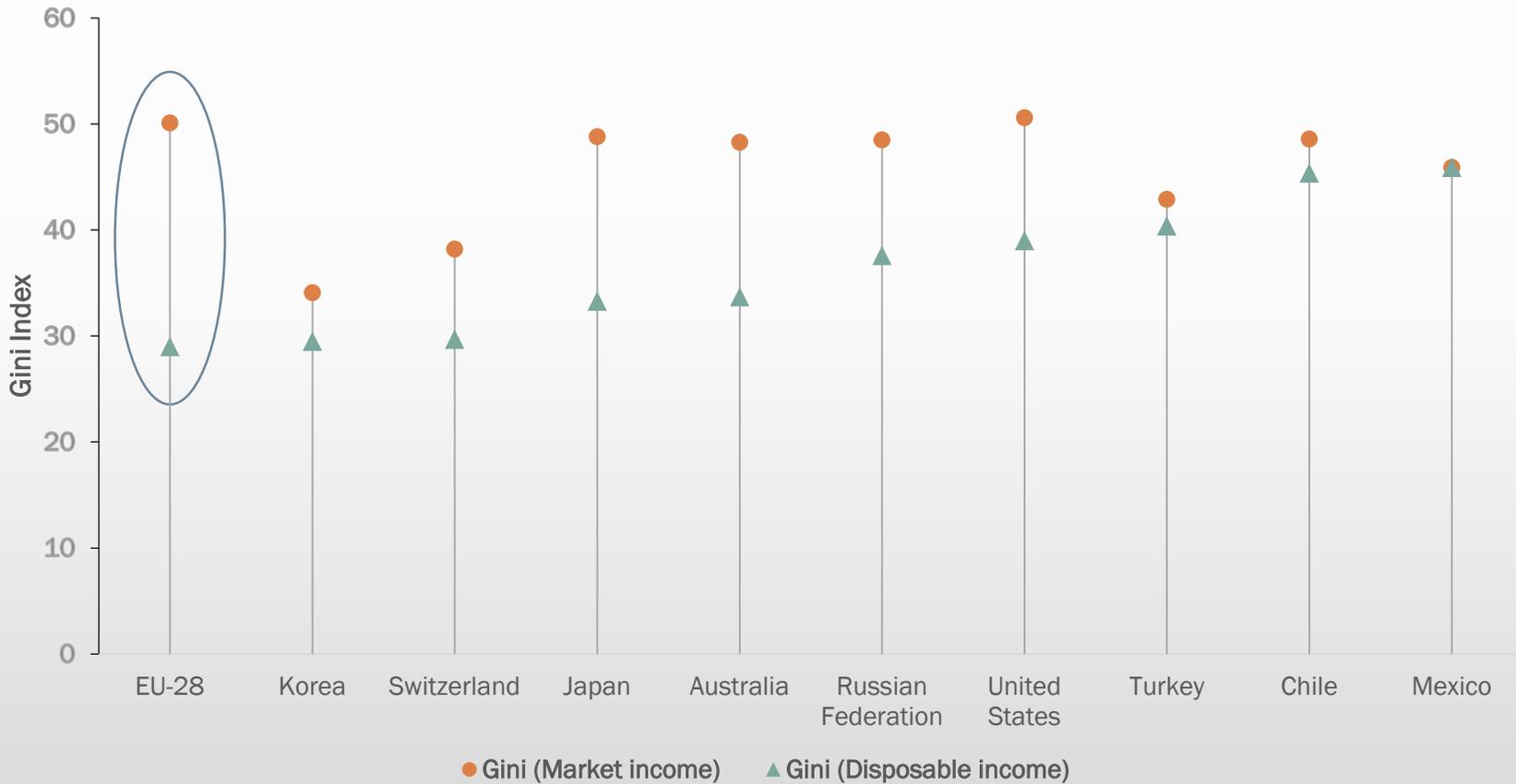
Giordani and Mariani: "Unintended consequences: can the rise of the educated class explain the revival of protectionism?"

- Authors develop an original and interesting model; the combination of a trade model with a political economy model (median voter deciding on degree of trade opening and redistribution) is quite nice;
  - An interesting related paper is Kanbur 2018 "On the Volume of Redistribution: across income levels and across groups":
    - "[...] When the capacity for the volume of redistributive flows, across income levels or across socio-political groups, is reached, an increase in market inequality can lead to a fall in progressivity in the tax-transfer regime without any change in the government's preferences for equity."

- Some non innocuous assumptions that may deserve checking to make model predictions more robust:
  - Self-interest is the only motivation for demand for redistribution as in the Meltzer–Richard (1983) model. Basically utility function does include only consumption, not indirectly or directly inequality (see Alesina and Giuliano 2011);
  - Production of G is immaterial;
  - Two tradeable goods/sectors; would be interesting to add a non-tradable one

- "Our theory is motivated by a series of stylized facts":
  - The pace of globalization is slowing down [not so clear, see the paper by Candelon et al in this session];
  - Relationship between trade openness and redistribution has been changing [it depends how you define redistribution]
  - Increase of the Gini coefficient [also this depends on the countries and period]

What is redistribution?

- The process through which the government shifts resources between individuals.

- Usual tools are taxes and transfers, but may also include subsidized provision of public services.

- Typically understood as transfers from the "rich" to the "poor" ("vertical redistribution").

- One dimension often overlooked are transfers between different groups ("horizontal redistribution").

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Vertical redistribution

Gini Index

Legend: ● Gini (Market income) ▲ Gini (Disposable income)

Categories: EU-28, Korea, Switzerland, Japan, Australia, Russian Federation, United States, Turkey, Chile, Mexico

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ABCDE conference
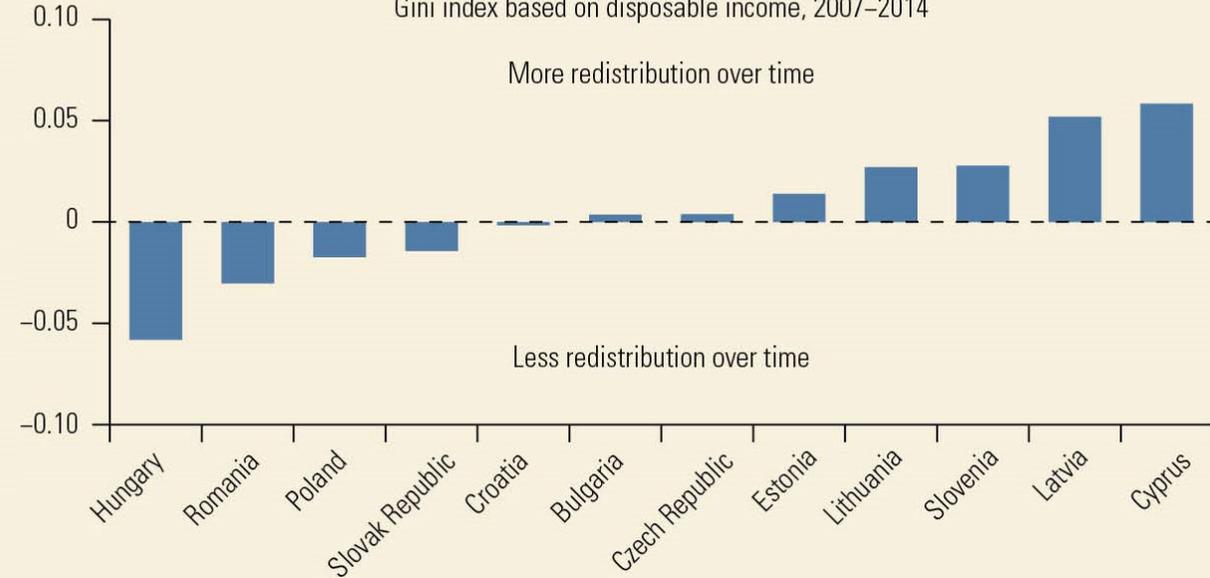
Vertical redistribution
2007 vs 2014

a. Western Europe

Difference between Gini coefficient based on market income and Gini index based on disposable income, 2007–2014
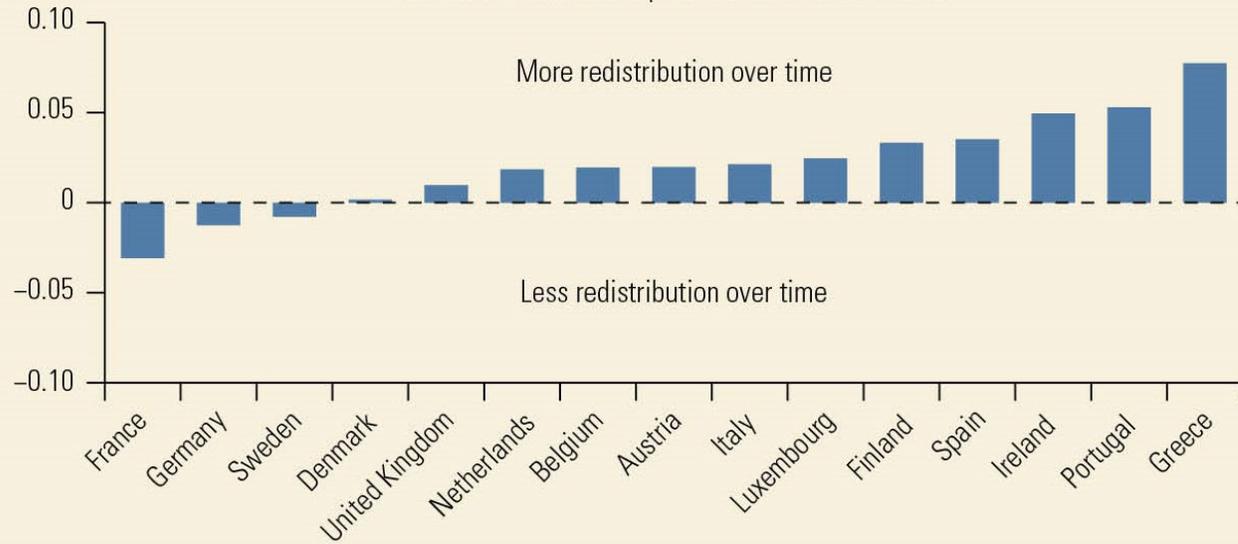
b. Eastern Europe

Difference between Gini coefficient based on market income and Gini index based on disposable income, 2007–2014

Candelon, Carare, Hasse and Lu: "Globalization and the New Normal"

- Authors main contribution is to reconcile two narratives on globalization and, more so, to provide a measurement of (a) when globalization "begins' to go to far and (b) what are the positive and negative consequences;

  - The thresholds effects of globalization is the key insight of the paper;

  - The first comment then is to provide more concrete illustrations of the threshold effect and its country-specific impacts;

    - The authors provide some examples when they show different thresholds for different groups of countries (64 for high income countries; 27 for low income ones); or for different components of the KOF (73 for the KOF economics, 56 for the KOF political); but what do they mean?

- Methodological choice (threshold panel VAR):

  - Valid choice, but sometimes authors seem to present the regression model as causal;

  - What is the usefulness of presenting results with the disaggregated KOF components? Are there strong correlations between components, is there a sequencing issue?

- Policy implications:

  - So shall countries go with more globalization, even if vulnerabilities increase?

    - The authors answer "Yes!" (page 26, exclamation point added); but based on the descriptive (not casual) evidence of past data;

    - And they caution that sound macro policies would help contain the vulnerabilities; but these are rather generic recommendations (not very controversial), and, most importantly, there is no causal mechanism tested in the VAR;

  - No mention of social and distributional tensions; see Rodrik (1999) "Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses"

  - No mention of multilateralism.

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Camera, Hohl and Weder: "Breaking Up: Experimental insights into international economic (dis)integration"

- Authors produce an interesting and ambitious experiment
  - One conclusion: it may not be useful to focus on the final (promised) allocation but rather on the process that enables it. This echoes the literature on inequality of opportunity;

- The distinction between partnership and mixed groups is clear, but the role of the country (color coded group) is less so;

- Why is β^* called threshold discount factor, and what is the intuition for the hypothesis 1, that cooperation and discount factor have a negative association;

- Presentation of the results:
  - The size of the samples is not always clear;
  - Distinction between treatment and controls;