The London School of Economics and Political Science

The World in Polycrisis: **A NEW AGENDA FOR GLOBAL ECONOMIC GOVERNANCE**

INTERIM REPORT

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INTRODUCTION

In March, the Commission held the first of its evidence sessions on the future of global economic governance. The purpose of these sessions is to initiate a global conversation informed by the research and expertise of scholars and policymakers on the Commissioner, at the London School of Economics, and elsewhere. The aim of the initial conversation was to **identify the main challenges faced by the current economic order**, as well as the **concrete political conditions and institutional pathways** by which this order could be transformed to overcome them.

This task of transforming the politics, norms and institutions of global economic governance has been complicated by the political, economic and environmental **'polycrisis'** in which the world has found itself since the pandemic: the tangled global supply chains and attendant shortages and price rises; the global energy and food price crises sparked by Russia's invasion of Ukraine; the cycle of monetary policy tightening that is being embarked on in response; the inevitable risks of capital flow reversal and debt crises for emerging markets; as well as the short- and long-run consequences of weaponizing the global financial system through sanctions and economic statecraft.

These developments have thrown into sharp relief the need not only for **the high-politics of multilateralism and global summitry** (as the IMF Director Kristalina Georgieva has called for with a "new Bretton Woods") but also for **narrow and issue-specific technocratic reforms** that will be able to improve existing policies and procedures without being obstructed or diluted by the divisiveness that has come to define the international system. In the first session organised by the Commission on 31 March, the Commissioners took stock of the state of multilateral politics and how it must change to successfully meet the challenges ahead. This first Interim Report relays this effort.

ISSUES OVER INSTITUTIONS, POLITICS OVER POLICY?

An early consensus emerged on where the emphasis in the conversation should be placed, namely not on institutional design. Instead, the first step is to identify which issues need to be addressed, and then to figure out what role the already-existing institutions can play in addressing them. This **issue-based approach** is informed by the fact that **institutional reform or *de novo* institution building takes time**, while the challenges we face require swift action at the appropriate scale. It is therefore important **to pursue the policy reforms that are most politically viable** and which do not require the construction of grand (and unlikely) international coalitions**.** Professor Alden emphasised that a targeted approach which materially improves existing practices could help redress the low levels of trust in established institutions..

Lord Stern pointed to the achievements of the COP26 climate conference in Glasgow in 2021 as being emblematic of the success of this method. Specifically, it involved **creating a shared understanding of our goals which then determined the scope of institutional change.** In this case of COP26 the direction-setting goal was 'net zero'.

In the context of economic governance, the goal of coordination is to ensure significant front-loaded investment, specifically for the purpose of meeting the UN's Sustainable Development Goals (SGDs). **The high investment needs** were recognised as one of the key features of what was cautiously identified by the Commissioners as a **new 'Bretton Woods moment'**, the others being the **financing of that investment, the focus on infrastructure, and the need to act internationally**. In Lord Stern's view, the main vehicles through which political coordination can be achieved are the **G20 and G7,** while the **International Monetary Fund (IMF) and multilateral development banks (MDBs)** are the most important institutions on the policy-side.

The Commissioners also agreed that the main obstacle to global coordination on these matters is politics. Efforts to address the problems of global economic governance should be strategically minimalistic, in that they should focus on those solutions that are politically plausible. In other words, **finding the right policies isn't enough; what is also needed is the right politics**, that is, identifying concrete political paths or working through a-political institutional procedures that could lead to policies being implemented as soon as possible and at the appropriate scale.

THE CENTRALITY OF US-CHINA RELATIONS

Professor Jin stressed that the defining feature of this new Bretton Woods moment is the presence of other important actors beyond the US: emerging markets as a whole, but particularly China. China's weight in the world is evident. It represents a third of global growth, is the largest trading partner for many countries, and the centre of global supply chains. It is also a player with the ambition to become even more integrated into the global trading- and financial-system. **Successful global cooperation would require focusing on and ameliorating the relationship between China and the US.** One avenue for doing this, which would be well insulated from the pressures of domestic politics, would involve finding some level of cooperation between the Federal Reserve and the People's Bank of China to work together—as they already, to a limited extent, do—on key issues of global liquidity, financial spill-over, and the management of the international monetary system at large.

Several key challenges were identified. **The first** is that the US-China relationship is already deteriorating. Coordination is hard at the moment due to how domestic issues and sentiment undermine multilateralism. These issues include economic nationalism and populism on both sides and increased competition in the technology sector.

The second challenge is the threat to international monetary and financial stability. Here Professor Jin stressed the increasing burden on the United States resulting from having to anchor the global financial system as the provider of the key currency for trade invoicing and offshore credit creation. In what was described as a variant of the **Triffin Dilemma**, rising levels of debt and unfavourable demographic trends in the US strain its ability to meet the global demand for dollar liquidity and safe assets – particularly in developing countries.

The predicament of these developing countries is the **third major challenge** to global cooperation. These countries rely on a global financial and monetary system in which they have very little voice. This dependence was evident in the selective provision of emergency dollar liquidity in the form of swap-lines, which were extended almost exclusively to US allies in the developed world. Emerging markets instead came to rely on RMB swap-lines.

The key question is whether **politics can be separated from competition.** Professor Jin noted that collaboration is done in the private sector. This current situation is reminiscent of the technological competition between Japan and the US in the 70s. In the case of the US and China, it is not inevitable that cooperation should fail in light of political difference. Commissioners concluded that the world will likely remain crisis prone in the absence of effective global cooperation, but that there is a clear path forward to cooperating on joint objectives. ■

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LSE Global Economic Governance Commission

The LSE Global Economic Governance Commission is a forum for debating and redesigning global economic governance.

COVID-19 has presented the world with a new Bretton Woods moment. It has exposed the fragilities of the global monetary order and the dislocations in the global trading system. With economic damages rising and tax revenues falling, it has presented a new crisis for global development and demonstrated the overdue need for global tax coordination. As states have struggled to band together to overcome their shared challenges, it has made clear the difficult road ahead for the global climate agenda.

To steer the much-needed transformation of the rules, practices, and institutions of the global economy, The London School of Economics and Political Science and LSE IDEAS have convened the LSE Global Economic Governance Commission. The Commission brings together leading academics and policymakers around five core domains of global economic governance: monetary policy, trade policy, development policy, tax policy, and climate policy. The Commission hosts public and closed-door panels, lectures, and workshops on all matters relating to global economic governance. Event details are announced online by LSE and LSE IDEAS.

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