Il Sole 24 ORE

Once Upon a Time, There Was Multilateralism

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September 07, 2013

It's now fully official: global economic coordination is dead and buried, and nobody has even tried to resuscitate it. Its final death certificate was delivered by the G20 summit in St. Petersburg. True, there was the compelling drama of Syria to deal with, and some progress was made on cross-border taxation, but it is now patently clear that there is zero appetite for any genuine international economic cooperation. The ambitious project to coordinate and mutually assess national economic policies, launched by the G20 in 2009 - the last spark of a collaborative spirit - is now ancient history.

Everybody of course pays lip service to the fact the world's growing economic interdependence requires joint responses. But a resigned fatalism then quickly sets in: the political conditions for coordinated action, it is said, are simply not there; best to wait for this or that election; there is no point in striving for agreements that are beyond reach. Such passivity comes even more to the fore when the first, frail shoots of economic recovery appear, and are immediately seized upon by political leaders. In such a clime, there is no audience for the IMF's words of caution, as sounded in its note for the summit: "Downside risks remain and some have become more prominent." Not true, was the general reaction, the worst is over. But the very task of economic policy (and of these costly summits) is to minimize downside risks and avoid that the world economy be at the mercy of events, buffeted by successive shocks which, while partly inherent to shifting cycles, could at least be mitigated .

The overall multilateral picture is indeed bleak. The IMF, whose very raison d'être is that of international cooperation, is hobbled by the standstill in its governance reform, agreed in 2010 but still blocked by the absence of U.S. ratification (where it finds itself in the odd company of countries such as Iraq, Syria, Venezuela and Zimbabwe). There follows an erosion of the institution's legitimacy and a growing resentment on the part of emerging market countries. This expresses itself also in hostility toward the mega-loans extended to euro area countries. Hostility, one may add, fueled also by Europe's presumptuous assumption that it had nothing to learn from Asia or Latin America with regard to crisis management. There is on the contrary reason to believe that, with just a bit more humility, Europe - aside from gaining itself some goodwill - could also have dodged a couple of mistakes. But here too insularity, the very enemy of international cooperation, won the day.

The IMF, for its part, has tried to counter these impulses, expanding its multilateral analysis, publishing "spillover reports" for five systemic countries and economic areas, and reviewing its position on the management of global capital flows. Here it advised (in November 2012) that countries that generate large capital flows should take into account the potential impact of their policies on other economies. This of course is the issue at the forefront today, given the repercussions of the Fed's announced "tapering." But the response, at least unofficially (at Jackson Hole and elsewhere), has been that such external repercussions do not fall within the Federal Reserve's mandate. A short-sighted reaction to be sure, which overlooks the impact of the emerging economies' slowdown on U.S. growth and employment – very much part of the Fed's mandate.
The picture is bleak also in other traditional areas of international cooperation, with WTO free trade negotiations stuck in the mud, and backtracking on development and poverty reduction commitments (consider the delays on almost all of the Millennium Development Goals and the continued contraction in bilateral development aid).
The demise of multilateralism is in good part attributable to the degeneration of the domestic political process in the major countries. Chief among these, of course, the United States, where Congressional polarization and its political dysfunction block any decision, including even the approval of the Federal budget. For its part, Europe has been too consumed by its own crisis, and related attempts to iron out its internal differences, for it to be able to be a global player.

And what about Italy? It cannot of course make up for the shortcomings of the major economic powers. But it still remains a member of the G7 and of the G10, and at the IMF heads a country constituency that (for now) has a larger voting share than China. At the same time, however, the country suffers, possibly more than others, of the malady that hobbles the international community itself: that of "every-man-for-himself," in full display in these days in the maneuvers around the future of the government. For the good of the country, the political class must turn its attention to the real problems afflicting its economy. A side benefit would be to become a more reliable international partner, who could contribute to reviving the collaborative spirit that – from the Marshall Plan to the Treaty of Rome – has done so much for Italy.