The Consequences of Multipolarity

Harold James

We are facing problems that are very new and very old at the same time. We are confronted by a paradox: technology allows an instantaneous connection across the world, but it is also pushing the development of a localist backlash. Information is more available, and the cost of processing it is falling. That means that the advantages of managing, manipulating and even monopolizing it at the same time become greater. Financial flows and their instability can best be seen as responses to imperfect information. In order to produce stability, the information disequilibrium needs to be tackled.

How should “a resilient global financial safety net “ be managed that does not encourage countries to attempt to externalize the costs of financial crises – imposing losses elsewhere, on other societies, and encouraging nationalist responses (as have developed over the course of the European debt crisis)? There is a general risk of a deglobalization that could reverse the successes of a process that have resulted in a substantial reduction in poverty and deprivation across the world. I offer two lessons – one drawn from history, one from thinking about how change is transforming the complex institutional world.

The History of Security Linkages

Sometimes history helps to understand the nature of the problem that needs to be resolved. Bretton Woods was designed as a multilateral and multipolar system, the expression of the wartime coalition (the United Nations), in which security and economic stabilization were joined at the hip. Today there is an urgent need for a similarly joined up governance structure at the global level, offering a coordination between the profusion of regional bodies. In 1944-45, the five largest shareholders of the BW institutions, the IMF and the World Bank, which would have their own representatives on the Executive Board, were also the countries which would have the permanent seats on the UN Security Council: the USA, the USSR, the UK, China and France. But because of the failure of the USSR to ratify the BW Agreement and of the communist revolution in China, the IMF and the World Bank developed in a different direction, excluding both the USSR and (initially) the PRC. And in practice, the international financial system evolved as a unipolar order, built explicitly (as the Articles of Agreement of the IF recognized) around the US dollar. The most complex contemporary financial crises – Ukraine or Venezuela – are also overshadowed by a distinct security dimension; and neither the security nor the financial dimension can be tackled on its own.

The BW institutions also reflected a concern of the mid-twentieth century, the centrality of Europe in security issues (since two European powers, France and Great Britain, were also great imperial powers). That diagnosis it is no longer applicable today. Though there has been for at least two decades a widespread consensus that the European over-representation should be reduced, nothing has come of that besides relatively small quota adjustments. At a moment when following President Macron’s initiative there is a much greater willingness to contemplate joint European action in military and security issues, and more effective enhanced economic cooperation is also on the agenda, the implications should be realized and Europe represented by a single seat in IFIs.
The aftermath of the GFC – as was true after the interwar Great Depression - has been a revival of thinking in zero-sum terms: nations or regions are involved in a competitive struggle and what benefits one will hurt the others. That is a marked contrast with the central vision of BW, as elaborated in his closing address by Treasury Secretary Henry Morgenthau. “Prosperity, like peace, is indivisible. We cannot afford to have it scattered here or there among the fortunate or to enjoy it at the expense of others. Poverty, wherever it exists, is menacing to us all and undermines the well being of each of us. It can no more be localized than war, but spreads and saps the economic strength of all the more-favored areas of the earth.” Competition can theoretically produce big gains, and a pluralism of political forms is also an incentive to better outcomes, and to enhanced development. But competition between countries in a bid for dominance (or monopoly of power, or information) is destructive and dangerous.

Zero-sum thinking in addition is not just a chance product of the financial collapse of 2008. It is fostered by new and revolutionary technical developments. That is because transformative present strong gains from network effects. The network offers a winner take all advantage: there is no room left for the second player. The old and very successful Avis advertisement from 1962 for hire cars (“When you’re only No. 2, you try harder”) no longer works: if you’re No. 2, you’re history. This logic applies above all to the development of AI. China aims to have a control by 2030: as its official plan puts it, “the strategic initiative in the new stage of international competition in AI development, to create new competitive advantage, opening up the development of new space, and effectively protecting national security.” Many experts think that 2030 is actually long after the date when China will in reality achieve dominance.

The Chairman’s paper rightly draws attention to governance mechanisms needed “to avoid a competitive loosening of standards.” There are many areas in which this dynamic has harmful effects: tax competition is an obvious one, and the need to address it is increasingly evident, but that effort means a substantial challenge to the idea of sovereignty.

Another area – crucial to financial inter-connectedness – is the renegotiation of public sector debt. Over-indebted sovereigns are hardly news – the history goes back hundreds if not thousands of years. Discussions about a coordinated general mechanism in the early 2000s for sovereign restructuring of private debt (the SDRM initiative) failed. But there was a well understood process, involving the Paris Club for official creditors in conjunction with an IMF program and conditionality. One of the features of the recent defaults of Venezuela is that there is a competition between creditors to use favorable terms for debt renegotiation as a way of establishing or enlarging influence. That looks again like a historic throwback to the way debt was handled by 19th century Great Powers, and also endangers the access of countries to private debt markets as private creditors see enhanced likelihood of default.

*The Operation of Multilateralism*

The debt dilemma raises directly the old linkage of security issues with financial stabilization. The old mechanisms have reached the limit of what can be achieved. There were three distinct ways in which multilateral governance institutions operated in the era of postwar stability. The first, and probably initially most attractive, but also most uncertain in terms of its legal status, is a judicial or quasi-judicial
role in arbitrating disputes between countries. There are many cases that look as if they require arbitration: trade disputes, or – often associated with trade disputes – debates about whether currencies are unfairly valued so as to produce a subsidy for exporters. The new emphasis on sovereignty in the UK, and elsewhere in Europe where “sovereignists” confront “globalists,” pushes back against this type of arbitration.

The second style of multilateralism involved institutions acting as sources of private advice to governments on policy consistency and on the interplay between policy in one country and those in the rest of the world: explaining and analyzing feedbacks and spillovers, and offering policy alternatives. That sort of consultation – rather than a formal arbitration procedure - was the main vehicle for discussion of currency undervaluation issues in the 2000s. The essence of this kind of advice is that it is private. It is like speaking with a priest in the confessional. The outcome may be that behavior or policy changes, but the outside world will not really understand the reason why or the logic that compels better behavior.

The third is as a public persuader with a public mission. British Prime Minister Gordon Brown liked to use the phrase “ruthless truth-telling” or “speaking truth to power” with regard to the advice of multilateral institutions. There is an increasing recognition of the limits of secret diplomacy and behind the scenes advice. Societies cannot be moved unless there is a genuine consensus that they are moving in the right direction. The backlash against globalization is fed by a climate of suspicion: experts, economists, international institutions are not trusted. In the course of the 2000s, the G-20 and the IMF moved to public assessments of how policy spillovers affected the world.

The third, public, style of action looks more appropriate than the secretive processes of the second in an age of transparency, when IT looks less secure, when secrets leak, when Wikileaks flourish. Now it is unwise to assume that anything is secret. Former diplomats publish indiscreet memoirs. Officials tweet about what they are doing.

The accessibility of information opens a fundamental dilemma. Policy advice is invariably quite complicated. Spillovers and feedbacks require a great deal of analysis and explanation, and cannot easily be reduced to simple formulations.

Should international institutions be more like judges, or priests or psychoanalysts, or persuaders? None of the traditional roles on their own and by themselves are any longer credible. But multilateral institutions will also find it impossible to take on all three roles at the same time. Judges do not usually need to embark on long explanations as to why their rulings are correct. If they just act as persuaders, maintaining a hyper-active tweeting account, they will merely look self-interested and lose credibility. But if the judges are secret – like the World Bank’s International Centre for Settlement of Investment Disputes – they may be more efficient (as measured by the gains arising out of their rulings) but they will lose legitimacy.

It is easy to see why the institutions that successfully built the stability of the post-1945 order might be despondent in the face of apparently insuperable challenges. But there is a way out that harnesses the
new technologies, and that allows for a successful mediation of disputes that threaten to divide but also to impoverish the world.

The post-crisis world is one in which ever larger and more updated amounts of data are available. In the past, we needed to wait for months or years before we could conclude accurate assessments of the volume of economic activity or of trade. Now real time data on a much broader set of measurable outcomes is available. Some analysts like Yuval Noah Harari see data as a new religion.

Some of the issues that need to be addressed are new, or appear in a new forms, and are global public goods: defense against diseases that spread easily in an age of mass travel, against terrorism, against environmental destruction. In each case, the availability of large amounts of detailed information, quickly, is essential to the ability to coordinate an effective response: for instance, where there is pollution and how it impacts health and sustainability, and then where and why it originates. Even large countries on their own cannot find the right response. So the data should not be confined to financial or economic data, but include quickly available health data (on a range of vital indicators – broad demographic measures, but also the accumulation of personal data, pulse rates, or oxygen or sugar levels in blood, or blood pressure). This is data that matter to people: it is also data that invites public policy responses, but also private sector activity to rectify problems and satisfy demands.

The wider dissemination of data will be controversial. Not least because it offers the public, the citizens, an element of control. They can ask: are governments doing well in promoting public goods? Are specific companies with substantial market power hurting and harming, or protecting and promoting the general welfare? Data would offer a basis for more informed political choice.

The Challenges

There are three major challenges that today will force a rethinking of public goods: each of them may be thought of in terms of fundamental challenges to security, personal and national. One is the existential threat of climate change, and the bizarre geopolitical consequences of that change. The thought that at some point in the future, the extraction of energy from fossil fuel will become impossible, produces a calculation that it is an asset with diminishing returns, so that it should be utilized now. That has both production and price effects, so that more carbon energy is supplied at lower prices, and hence more is consumed, and the CO2 issue aggravated. CO2 reduction is ultimately a common good: the problem is that on the way individual countries will have different calculations of the trade-offs, so that an international element of compensation of trade-offs is required.

The second is the impact of AI in changing labor market practices. AI is not only an obvious threat to employment, but also a security challenge. It threatens to disrupt the technologies that states use to defend their populations and to deter aggression. Big states are consequently involved in a race to harness and control and dominate data technology, but it is a dangerous and unstable game in that each technological turn could fundamentally transform politics by making old defenses obsolete.

The third related challenge is the monetary revolution that is being produced by new technologies such as blockchain, and the consequent possibility of generating non-state moneys. They promise the
possibility of radical disruption to existing markets. In the past century, monetary dominance was a form of power, and in particular gave the United States, both in the Bretton Woods period and after, a preeminence. The alternative modes of money will offer challengers a way of asserting power, and at the same time disrupting the extensive financial relations on which existing industrial societies are based.

Managing and publishing that data in accessible and intelligible ways can be a critical way of forming the debate about the future and about the way individuals, societies and nations interact. Instead of a judge, multilateral institutions can become purveyors of the costs and benefits of alternative policies by making information generally available (and eliminating the partial information that is a powerful cause of unstable financial flows). They need to work on ways of letting data speak to policy-makers but also to people. That is the way to create “a strong and credible IFMS.”