Harold James

Institutions – Moving to the Global?

KEY MESSAGES

- **Domestic (but not foreign) borrowing became cheaper after the 17th century financial revolution**
- **Trilemmas present a way of weighing the losses and gains from trade-offs from capital openness**
- **The policy limitations on democracy resulting from capital openness may be treated analogously**
- **Limitations from the international system or order can also be treated in this manner.**
- **The 17th century domestic analogy suggests a need for coordinated or linked up global governance**

A dominant strand of modern policy literature has revived what used to be a particularity of the German Historical School of Economics. The interpretation puts institutions and institutional design at the center of an analysis of economic growth, stability, and sustainability. The modern version was formulated in the influential work of North and Weingast (1989), with multiple important contributions by Acemoglu and Robinson (2006). The key is a historical parable from the end of the seventeenth century, when a fiscal revolution in England in the wake of the 1688 Glorious Revolution, in which a Protestant constitutional monarchy (under William of Orange and his Stuart wife Mary) replaced the less constrained and (under James II) Catholic Stuart monarchy. The core of the transformative deal as presented by North and Weingast was that the British monarchy borrowed from a class of creditors, institutionalized through the Bank of England created in 1694, which also dominated the constitutional political institutions, or parliament. The creditors could thus be secure that their debts would be serviced and repaid punctually by the Crown, because it was they who in parliament decided the taxation that would allow repayment.

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Default, which was the regular story of early modern monarchies, including the spectacular cases of the Spanish and French monarchies, was thus impossible. The security of borrowing increased and drove down the rate of interest. The cheaper public debt also affected private credit markets, where borrowing was also cheaper. Investment was hence cheaper and more plentiful. Thus, the stage was set for the Industrial Revolution. Over centuries, the central bank accumulated an ever more extensive role in guaranteeing monetary and hence economic stability (Bagehot 1873).

The move also had international consequences. Britain, although substantially smaller in terms of population than France, could borrow more cheaply and thus afford a more vigorous naval and military presence, while France struggled with the cost of wars. The security implications of the British financial revolution made thinkers and political leaders in other countries keen to emulate the British example; for example, after political revolutions, the new United States (under Alexander Hamilton as Treasury Secretary) and France (under Emperor Napoleon) introduced variants of the British scheme and drove down the cost of debt. The advantages of establishing credibility were so great that even after the restoration of the French monarchy in 1815, there was no default on the debt of revolutionary and imperial France, with policymakers arguing on the basis of the importance of maintaining credibility. By the middle of the nineteenth century, international banking houses – notably the Rothschilds – urged their customers to constitutionalize in order to get access to cheaper credit (Ferguson 1999).

AN INTERNATIONAL ANARCHY

Unfortunately, the development of international borrowing subverted some of this cycle of benign institutionalization. There were substantial temptations to borrow – and overborrow– from foreign creditors, and these were not represented in the political institutions, with the consequence that default (expropriating the foreigners) might seem an attractive option. Globalization, in the form of capital flows, in this way undermined the perfect model of self-discipline presented by the British seventeenth-century model. Globalization thus undercut a key part of the institutional model. Policymakers over the past two centuries, from John Stuart Mill onwards, have attempted to find ways of building a more resilient international framework at a global level. The dream of a world monetary union and of a universal central bank is often at the center of such a coordination effort, but this is sometime a pipedream, and sometimes – when translated into a regional or even a wider reality – a nightmare.

The first three-quarters of the nineteenth century were replete with debt crises caused by capital mobility. Then, at the turn of the new century, they became less common, and the world looked more stable. The instability returned on a devastating scale in the Great Depression. Dealing with the legacy of Depression and the Second World War, which was widely believed to have arisen out of the social and political strains of the Depression, raised a challenge: the need to design an international institution that might have the same beneficent consequences as the domestic financial revolution of late seventeenth- century England.

CAPITAL CONTROLS

A new consensus on the causes of the Great Depression had shifted the emphasis away from the favorite villains of the 1930s literature: the uneven distribution of gold and the sterilizing policies of the Banque de France and the Federal Reserve System, the allegedly excessive monetary inflation of the 1920s, or structural weaknesses in major industrial centers. Rather, the new view looked at the transmission process of depression and came to the conclusion that the large short-term capital flows of the 1920s and 1930s had led to disaster (Nurkse 1944). These movements had made it impossible for states to pursue stable monetary policies, threatened exchange rate stability, and made fiscal stabilization highly hazardous.

John Maynard Keynes, one of the principal architects of Bretton Woods, did not believe in what might be called the "globalization paradigm" – the theory, elaborated already by Montesquieu and celebrated by Richard Cobden and John Bright as well as by Norman Angell, that commerce and commercial interconnectedness would by themselves bring international peace and order (Keynes 1919).

The Bretton Woods scheme depended on a worldwide agreement on the control of capital movements, which was presented as a "permanent feature" of the post war system. In the British draft, what was initially called the Clearing Union (which later developed into the proposal for the International Monetary Fund) would work closely not only with an agency dedicated to stabilizing prices (in order "to control the Trade Cycle"), but also with a supranational peacekeeping agency ("charged with the duty of preserving the peace and maintaining international order"). The British draft concluded that the proposal was "capable of arousing enthusiasm because it makes a beginning at the future economic ordering of the world between nations and the 'winning of the peace', and might help to create the conditions and the atmosphere in which much else would be made easier" (Horsefield 1969, III, 13).

TRADE-OFFS AND THE TRILEMMA

Capital movements, however, turned out to be hard to suppress or control. They were often initially hidden in trade financing, as leads and lags of payments. Debates about the weaknesses of Bretton Woods, and then later about whether a new version of Bretton Woods could be applied in the regional setting of the European Monetary System after 1979, revolved around an inconsistent trinity famously identified by Robert Mundell (1963): fixed exchange rates, capital mobility, and independent monetary policies are inconsistent with each other. The presence of capital mobility in a fixed-rate regime makes it impossible for countries to set their own monetary policies or determine their own monetary preferences. As applied to Bretton Woods, Mundell's interpretation emphasizes the frustration of some of the growing export economies about rising levels of inflation that were interpreted as being imported from the United States, and hence the need to control international inflation by monetary reform.

Later Tommaso Padoa-Schioppa (1988) reformulated Mundell's proposition as the "inconsistent quartet" of policy objectives by bringing in commercial policy, another central part of the globalization package: free trade, capital mobility, fixed or managed exchange rates, and monetary policy independence. In both the Mundell and Padoa-Schioppa formulations, the impossible choice provided a rationalization for building a more secure institutional framework to secure cross-border integration, especially to deal with the problem of small or relatively small European countries. Both economists were major architects of the process of European monetary union. They justified this step of further integration on the grounds that the exchange rate was a useless instrument–the monetary equivalent of a human appendix or tonsils – that could be conveniently and painlessly abolished. However, some countries continued to regard the exchange rate as a useful tool for obtaining trade advantages.

The policy constraint following from free capital movements has recently been posed in a more severe form by Hélène Rey (2013), who shows that in a globalized world of free capital movements, monetary policy is limited even with flexible or floating exchange rates. A choice to have a floating exchange rate thus does not give a free pass to monetary policy. Rey identifies "an 'irreconcilable duo': independent monetary policies are possible if and only if the capital account is managed, directly or indirectly, via macroprudential policies."

This argument does not necessarily lend itself to the demonstration of the necessity of monetary union: If the aim is to preserve national policy autonomy, a better choice is to control capital movements, as was envisaged in the 1944 Bretton Woods Conference and provided for in the Articles of Agreement of the International Monetary Fund. Capital movement across borders – through both inflow surges and the consequences of reversals – may fundamentally limit the scope of national monetary policy. Since the 2008 global financial crisis, the articulation and elaboration of institutional solutions – macroprudential policies – has become a way of trying in practice to limit or manage the extent to which capital may be mobile; consequently, the discussion of the monetary policy trilemma leads in a straightforward way to the discussion of financial policy issues (Klein and Shambaugh 2015; Jeanne 2021).

Capital mobility, however, continues to be attractive. Financially constrained borrowers – corporations as well as governments – see capital inflows as a way of obtaining access to financial resources. In addition, the inflows may be linked to institutional innovation and governance reform. After waves of overborrowing, the costs may be clearer: capital flows, in the neat analogy of Stiglitz, generate such large waves as to upset the delicate rowing boats of small countries afloat on the sea of globalization. But many participants in the process quickly forget the possibility of the large waves and tides.

The logic of the original Mundell trilemma thus points either in the direction of closer cooperation (including perhaps political arrangements that constrain domestic choices) or toward capital controls as a way of rescuing national policy autonomy. In light of the gains that may be lost as a result of capital controls (and of an awareness of the necessarily incomplete character of capital controls that makes them prone to evasion), the process of globalization would suggest a need for cooperation and coordination. But the policy solutions are not in the corners or on the sides of the triangle of options, but rather in the middle: there is never complete capital mobility or immobility; exchange rates are never completely fixed (even a currency union in theory allows exit); and monetary policy is informed by news from abroad (see Bordo and James 2019).

THE TRILEMMA AND DOMESTIC POLITICS

There exists another well-known trilemma, concerned with political economy, and most famously described by Dani Rodrik (2007 and 2011). After a period of financial opening, the consequent development of financial imbalances may strain the political system, undermining the constitutional compromise at the heart of the North and Weingast institutional model. States (whether they are autocracies or democracies) initially like the benefits of open capital markets. Democracies, in which governments are responsive to the short-term demands of voters, are also likely to want to set monetary policy independently. They need to work out a trade-off between present monetary autonomy and the ability to attract inflows.

In addition, both policies have time-consistency problems of a different character. First, the monetary stimulus will bring immediate benefits only if it is unanticipated; if there is an expectation that the behavior will be repeated, agents will build the future into their responses to the stimulus. The stimulus relies on the non-continuation of the policy.

Second, by contrast, capital inflows may also bring short-term effects, but if there is a sudden stop, investment projects will remain unfinished and repayment will be problematic. The benefits rely on the expectation that the flows will continue. But states, especially democratic states, find it hard to commit to policies that will lock in the institutional basis on which long-term inflows can occur; instead, there is an incentive to derive simply short-term advantages (such as those following from monetary stimulus) and leave the longer-term problems to successor governments.

While capital inflows continue and the financial imbalances build up, the system looks as if it is politically attractive and stable. Indeed, political parties often make compromises to support governments that can promise the institutional reforms needed to allow the inflow of capital to continue. Because inflows are generally the result of external financial conditions or a global financial cycle (Borio James Shin 2014; Borio 2019), they should not be interpreted as a response to particularly suitable or well-designed economic policies; but that is how they are commonly interpreted by voters, who view economic success as a key determinant in their choice (Kayser 2009). In practice, large inflows may weaken effective economic policymaking, because they relax the constraints under which governments operate and because the generally rising tide means that signals are suppressed that might indicate problematic features of the economy (Fernández-Villaverde et al. 2013).

Capital flows thus may suppress basic signals about government effectiveness that are essential to the functioning of democracy because voters are not correctly informed about the level of competence of their governments. Warning against the potentially deleterious effects is a business that is unattractive and as result left to outsiders, who make Cassandra-like prophecies. The insiders who benefit from inflows can in aggregate behave to ridicule the Cassandras.

However, when financial strains appear as a result of capital account openness, political parties no longer wish to be associated with the consequences. Voters blame the parties that have been associated with power for their past mistakes and flock to parties that define themselves as being against the system. In modern parlance, these parties are often described as “populist.” The populist parties may be on the left or on the right; in fact, most anti-system parties combine elements of a left-wing and a right-wing critique of the system they are trying to overthrow. The left-wing critique is that the burden of crisis adjustment of incomes and wealth falls unequally and unfairly on the poor. The right-wing critique emphasizes that the adjustment works to the benefit of foreign creditors and represents a derogation of national sovereignty. These opposing arguments are not really contradictory; they can be (and are) easily combined. In these circumstances, the democratic principle is simply recast as a defense of national sovereignty.

Examples of the disintegration of traditional party systems in the aftermath of severe financial turbulence can be found in twentieth-century history and in the story of the European debt crisis. The Great Depression produced disintegration of democratic systems in central and eastern Europe and Latin America.

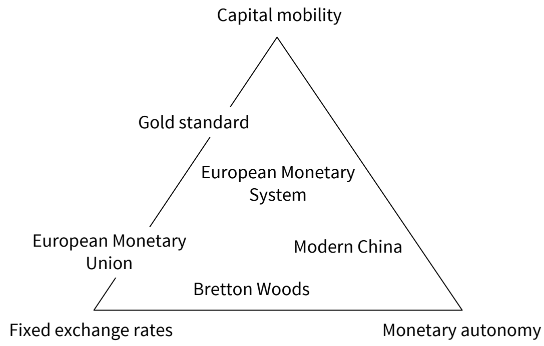
The iconic case of democratic failure is that of Weimar Germany, which had a constitution and political system that had been carefully designed by distinguished political theorists (notably Max Weber and Hugo Preuss) to be as perfect a reflection as possible of popular voting preferences: the system featured both a direct election of the president and proportional representation designed so that there would be no "lost" votes. However, the parties committed to democracy progressively lost voting shares, and the parties associated with government lost especially badly. By the time of the Great Depression, both the center-left (the Social Democratic Party) and the center-right (the Democratic Party and the German People's Party) had lost significantly and were no longer capable of commanding a parliamentary majority. In terms of policy, the governments could do little, and their policy options were profoundly limited (Borchardt 1991). The disintegration of system parties in the face of economic constraints was also a key element in the modern financial and political crisis in Europe.

In hard times – when politicians demand sacrifices from their voters – they often explain their position by saying that their hands are tied (Giovazzi and Pagano 1988). While that may be a plausible argument in very small countries, the larger the country, the less compatible this stance is with the idea of national sovereignty. Consequently, the demand for an enhanced national sovereignty appears as a frequent response to setbacks, and even small countries may rebel against the system (Financial Times 2015).

But it is also striking that small countries that are frequently the victims of international financial turbulence in the longer term do not see a turn to populist politics. Thus Greece, indisputably the most suffering victim of the European debt crisis, by the early 2020s no longer had either right- of left-wing populism: Golden Dawn collapsed, as did the Independent Greeks; Syriza became a mainstream center-left party, and the country was ruled by the old center-right party, New Democracy.

The demand for national policy autonomy affects the policy equilibrium that arises out of the first trilemma. When monetary independence might lead to the possibility of short-term stimulus at the cost of longer-term credibility, such autonomy would be undesirable. Monetary independence would lead to political pushes to manipulate monetary policy for short-term advantages without providing any long-term gains. The Mundell trilemma in these circumstances points in the direction of constraining national monetary autonomy. If the outcome of a likelihood of turning to a more national monetary policy is known in advance, it will influence investors' calculations. They would see commitment to a gold standard or fixed exchange rate regime as ultimately lacking credibility, and that reflection in turn influences politics.

Figure 1
The Macroeconomic Trilemma



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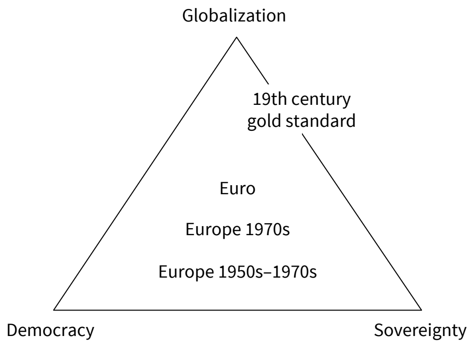
The memory of the politics of turning against creditors during the Great Depression faded as the credit super-cycle emerged in the second half of the twentieth century, when the argument began to resurface about the compatibility of globalization with democracy in emerging markets (Eichengreen 1996). Rodrik formulated the point in this way as a general argument about the incompatibility of hyperglobalization, democracy, and national self-determination: "democracy, national sovereignty and global economic integration are mutually incompatible." He also presented the European Union as the best template of a new form of global governance with supranational rulemaking. After the global financial crisis, the same problems and policy dilemmas appeared in rich industrial countries, and globalization appeared vulnerable again.

Democratic politics can be thought of as evolving two types of operation: the formulation of laws based on general principles of conduct, and redistribution of resources. The capacity to redistribute is limited if there is a large cross-border mobility of factors of production: capital is most obviously mobile, and it escapes if rates of capital taxation are too high; but the same process may also hold true in the case of taxation of high incomes, which may prompt income earners to try to operate in a different national and tax setting. Even the capacity to formulate general

Figure 2
The Political Economy Trilemma



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laws may be limited, in that incompatible principles in different countries may produce anomalies or loopholes and possibilities for forum-shopping. Again, the sustainable policy choices will lie in the middle of the triangle.

THE TRILEMMA AND INTERNATIONAL RELATIONS

Finally, there is an international element. Considering a broader concept of democracy in an international setting reduces the political logic of a zero-sum-game mentality, in which one country's gains can be achieved only through losses imposed on others. A larger security umbrella can therefore provide a framework for a system of rules about capital movement and a framework for stability that would limit or circumscribe the destructive capacity of capital-inflow fueled credit booms.

Alliances and treaties can lead to a prospect of stabilized capital inflows, that in turn – it is hoped – produce better relations. "Tied hands" could serve as a way of making capital flows more reliable. The "tied hands" argument with regard to ensuring that democratic decisions were compatible with a longer-term framework of stability was frequently presented in the form of treaties or security arrangements. Often the reassurance creditors needed to convince them to lend was political rather than simply a monetary commitment mechanism (such as participation in the gold standard, an exchange rate mechanism, or the monetary union).

How could a political tie make investors more secure or overcome concerns that the investment had not been sound in the first place? A functioning global political order can generate more financial security by increasing the degree of commitment – and also the cost of default. In this way the international system may in the right circumstances reproduce elements of the North and Weingast domestic compromise.

Alliances offered investors the security that creditor governments would put pressure on banks to continue lending and hence reduced the likelihood of sudden stops. The search for enhanced credibility might then lead to a security commitment, in which countries would seek ties with powerful creditor countries because of the financial benefits. This kind of argument about the security bulwark that locks in capital movements applies to both democratic and nondemocratic regimes.

Like the other mechanisms involved in the various trilemmas, the security relationship too thus may reverse. If the security regime were severely challenged, the gain in credibility would no longer look attractive. And if capital flows reversed or financial fragility appeared, there would be fewer gains from participating in the international order. Potential borrowers that had locked themselves into security or other cooperative arrangements would then be tempted to defect.

When capital dries up, incentives to make international commitments also disappear. Interwar Italy is a good case of the consequences of the logic of the reversal – when the international system no longer promises large financial gains. When the capital market was open in the 1920s, the fascist dictatorship of Benito Mussolini stabilized its currency and entered a fixed exchange rate regime (the quota novanta). Mussolini also moderated his foreign policy and suppressed any proclivity for political adventurism. When the international financial system broke down in the banking crisis of 1931, foreign policy restraint no longer offered any financial benefits, so Mussolini reoriented his policy toward imperial expansion. Adolf Hitler proposed a similar response to the Great Depression: Germany should break with international constraints and enrich itself at the expense of neighboring countries. Thus, a reversal of the gains that follow from security commitments is likely to be associated with a backlash against democratic politics.

There are more modern variants of the same process. After private capital flows in Europe from north to south halted in 2008, many southern Europeans lost their enthusiasm for European integration and turned against both the euro and the European Union.

The case of modern Russia is even more striking. Initially Russian President Vladimir Putin seemed to be a rather pro-Western, modernizing leader who sought engagement with the world economy, which included access to capital markets that would allow Russia to develop. Before 2008, Russia acquiesced to the logic of global capitalism; it needed to cooperate with global multinational companies to build an economy based on raw materials and energy production, as well as technologies to process the raw materials. But in 2007–08, Russia's strategy changed. On the eve of the global financial crisis, Putin spoke to the annual Munich Security Conference about the new power potential of the BRICs (Brazil, Russia, India, and China) as an alternative to what he dismissed as an arbitrary "unipolarity." His audience was shocked, and many saw the speech as evidence of insecurity or irrationality.

However, as the financial crisis spiraled out of control, Putin reached the conclusion that he had been prophetic. After the crisis (in accordance with a Realpolitik power logic instead of the logic of economic growth) there was no longer so much to be gained from global markets. Instead, the best game in town was to cooperate with other countries with more state-centered capitalism, notably China. In this case, the escalation of sanctions as an instrument of financial warfare has threatened to produce a new division of the world into blocs, reproducing aspects of the deglobalization experience of the 1930s.

Grand compacts (of which the best historical example is Bretton Woods) are hard to achieve without a substantial amount of fear and uncertainty. The equivalent today of the time pressure that existed at the end of World War II is an urgent but also uncontrollable global crisis. The sad lesson of Bretton Woods (and the strains that it produced) is that things need to be extremely dangerous before a political dynamic of reform develops.

A WAY FORWARD?

Are there ways of constructing or reconstructing a robust international economic order that would reproduce the domestic commitment mechanism described by North and Weingast? The modern global financial safety net, as constructed in response to the Global Financial Crisis of 2007-8, was a patchwork of global with bilateral solutions, that depended in each instance on ad hoc cooperation; it built on earlier experiments with central bank swap arrangements, but now with a greater involvement of China (McCauley and Schenk 2020). At first, the solution was hailed as a brilliant conceptual breakthrough that removed the need for an impossibly large augmentation of IMF resources. But it depended on cooperation and on the idea that there was a common threat of financial and economic instability. That network is under strain because of the threat of a new generalized debt crisis coinciding with a world that is increasingly envisaged in terms of competing blocs (Giorgieva 2022).

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 happened over the course of the European debt crisis since 2010)? There is a general risk of a deglobalization that could reverse the successes of a process that has brought about 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.

Sometimes history helps us 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 coordination between the profusion of regional bodies. In 1944-45, the five largest shareholders of the Bretton Woods institutions, the IMF and the World Bank, which would have their own representatives on the Executive Board, were also the countries that 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 Bretton Woods 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)

Figure 3
The International Relations Trilemma

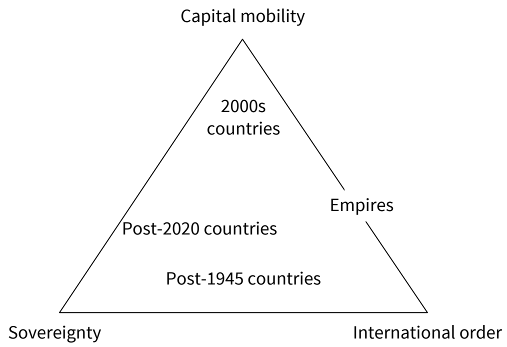

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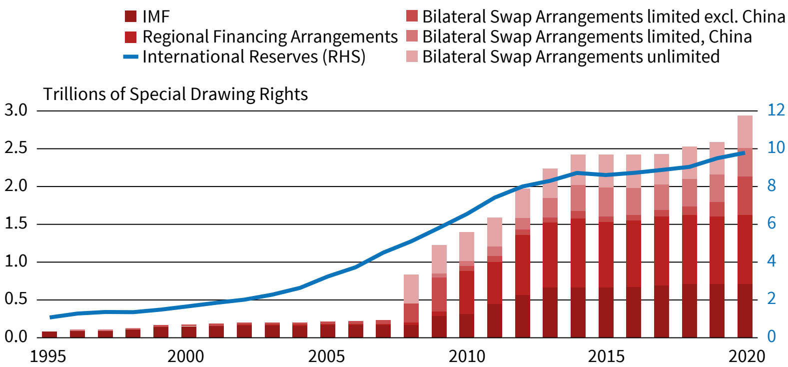
Figure4
The Global Financial Safety Net



Source: IMF (2021). © ifo Institute

the People's Republic of China (PRC). Thus, in practice, the international financial system evolved as a unipolar order, built explicitly (as the Articles of Agreement of the IMF 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 Bretton Woods 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. In the wake of Russia's attack on Ukraine, and following a much earlier initiative of President Macron (2017), there is a far greater willingness to contemplate joint European action in military and security issues; add the more effective enhanced economic cooperation that is also on the agenda, and the implications should be realized that Europe ought to be represented by a single seat in the IMF and the World Bank.

The aftermath of the Great Financial Crisis (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 ruled by the tenet that what benefits one will hurt the others. That is a marked contrast with the central vision of Bretton Woods, as elaborated in his closing address by Treasury Secretary Henry Morgenthau (1944): "Prosperity, like peace, is indivisible." 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, furthermore, 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 technologies present strong gains from network effects, in which the network offers a winner-take-all advantage: there is no room left for the second player.

Another area – crucial to financial interconnectedness – 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 a competition arises between creditors to use favorable terms for debt renegotiation as a way of establishing or enlarging influence. Interest rate tightening, combined with soaring of the US dollar, may lead to a generalized debt crisis. The early manifestations in Pakistan and Sri Lanka look different to late twentieth-century-style debt crises in that there is a tension between satisfying China's demands and those of other creditors. Again, that looks like a historic throwback to the anarchic way debt was handled by nineteenth-century Great Powers and also endangers the access of countries to private debt markets as private creditors see an enhanced likelihood of default.

The debt dilemma directly raises the old linkage between security issues and 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, was 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 (a set of problems that will reemerge as the dollar soars). 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. Former 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 would be moving in the right direction. The backlash against globalization is fed by a climate of suspicion: experts, economists, and 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 is 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 hyperactive 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 form, and are global public goods: defense against diseases that spread easily in an age of mass travel, defense against terrorism, defense against environmental destruction. In each case, the quick availability of large amounts of detailed information is essential for 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 originated. 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 AND POLICY CONCLUSION

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 fuels 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 CO_2 issue aggravated. CO_2 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 on 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 preeminence, both in the Bretton Woods period and after. The alternative modes of money will offer challengers a way of asserting power, and at the same time disrupt 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 policymakers but also to people—voters all over the world. The North-Weingast model was about creating credibility: that is the way to create a strong and credibly institutionalized international financial and monetary system, replicating but updating the resilience of the British domestic revolution of the 1690s.

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