Globalization and the state

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Bojos per l'Economia! 2019

Globalization and the size of government

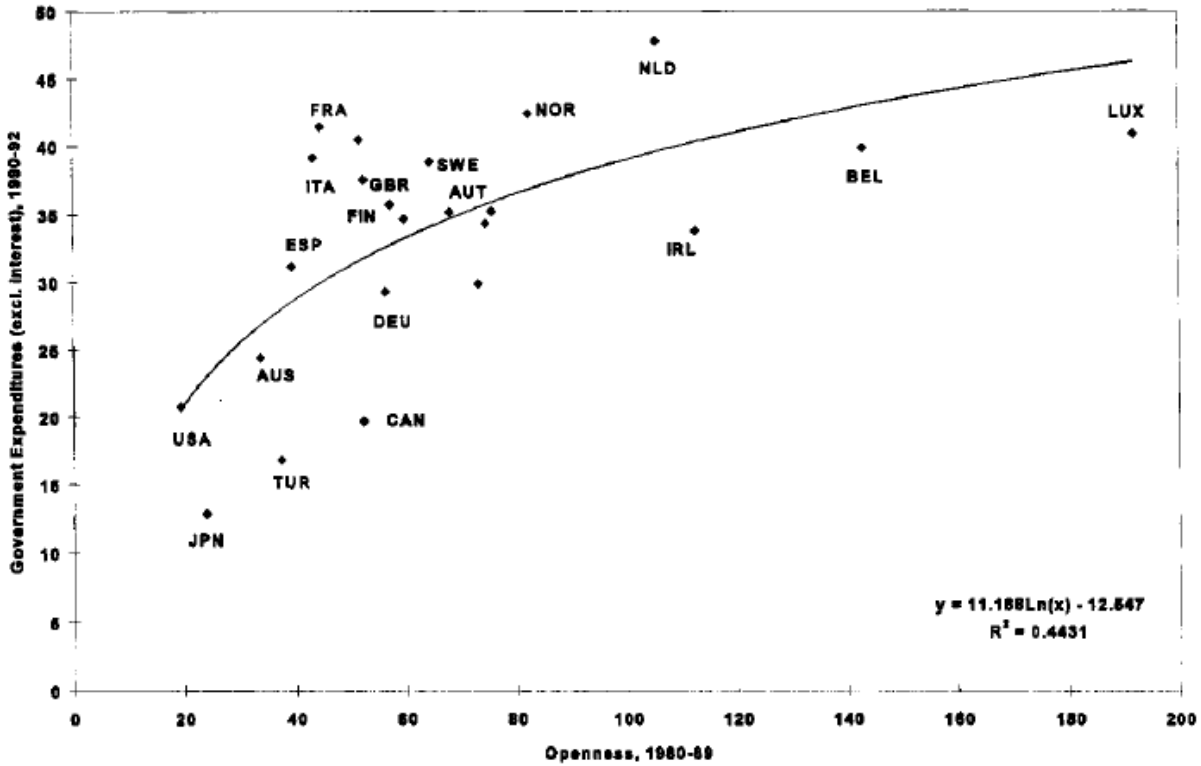

FIG. 1.—Relationship between openness and government expenditures

Globalization and the size of government

Openness and government size (cross-sections)

Dependent variables: government consumption and gov. expenditure for social security and welfare (% of GDP)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Government consumption						
Openness	0·149***	0·138***	0·132***	0·104***	0·167***	0·150***	0·192***
	[0·031]	[0·033]	[0·042]	[0·032]	[0·039]	[0·034]	[0·047]
Log of income		−4·346***	−2·832***	−6·055***	−6·271***	−4·970***	−5·618***
		[0·759]	[0·953]	[1·180]	[1·125]	[1·300]	[1·317]
Log of population		−1·138	−1·118	−1·767**	−1·678**	0·336	0·016
		[0·692]	[0·754]	[0·719]	[0·725]	[0·831]	[0·973]
ToT variability					6·771		8·523*
					[4·397]		[4·536]
Openness × ToT Var.					−0·149**		−0·139*
					[0·071]		[0·076]
Polity						−0·255	−0·186
						[0·293]	[0·268]
Black market premium						−0·000	−0·000
						[0·000]	[0·000]
Current account restr.						2·592	1·856
						[3·022]	[3·068]
Exchange rate restr.						−2·956	−3·176
						[2·838]	[2·974]
Capital account restr.						1·556	1·584
						[1·931]	[1·973]
Regional dummies				YES	YES	YES	YES
Observations	143	143	115	143	131	111	104
R^2	0·20	0·38	0·30	0·54	0·55	0·60	0·60

Globalization and the size of government

Openness and government size (fixed-effects)

Dependent variables: government consumption and gov. expenditure for social security and welfare (% of GDP)

	(1)	(2)	(3)	(4)	(5)
	Government consumption				
Lagged dependent variable		0·840***			
		[0·041]			
Openness	0·054***	0·039***	0·060***	0·068***	0·076***
	[0·015]	[0·011]	[0·018]	[0·022]	[0·027]
Log of income	−3·380***	−0·186	−3·173***	1·185	1·373
	[0·878]	[0·677]	[0·965]	[1·222]	[2·251]
Log of population	7·047***	1·098	6·851***	7·723***	−14·711
	[1·651]	[1·460]	[1·792]	[2·400]	[11·663]
ToT variability			0·617	0·769	1·313
			[1·292]	[1·411]	[1·192]
Openness × ToT variability			−0·022	−0·026	−0·031
			[0·019]	[0·024]	[0·020]
Polity				0·043	−0·049
				[0·065]	[0·069]
Black market premium				0·002***	0·002***
				[0·000]	[0·000]
Current account restrictions				0·636	2·147**
				[0·933]	[0·886]
Exchange rate restrictions				0·038	−1·482*
				[0·792]	[0·780]
Capital account restrictions				2·058**	1·413
				[1·022]	[1·033]
Country-specific trends					YES
Time dummies	YES	YES	YES	YES	YES
Observations	973	973	865	558	558
Countries	128	128	127	94	94
R^2	0·23		0·23	0·25	0·65

The Newbery-Stiglitz 1984 model

- Apple and orange growers in autarky
  1. Production:

	Apples	Oranges
$S1$	150	100
$S2$	100	150

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  1. Production:

	Apples	Oranges
$S1$	150	100
$S2$	100	150

  2. Prices:

	Apples	Oranges
$S1$	0.8	1.2
$S2$	1.2	0.8

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  2. Prices:

	Apples	Oranges
$S1$	0.8	1.2
$S2$	1.2	0.8

  3. Consumptions:

	Apple growers	Orange growers
$S1$	$(75, 50)$	$(75, 50)$
$S2$	$(50, 75)$	$(50, 75)$

- Price fluctuations provide risk sharing!

The Newbery-Stiglitz 1984 model

- Apple and orange growers in a globalized world
  1. Production:

	Apples	Oranges
$S1$	150	100
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The Newbery-Stiglitz 1984 model

- Apple and orange growers in a globalized world
  1. Production:

	Apples	Oranges
$S1$	150	100
$S2$	100	150

  2. Prices:

	Apples	Oranges
$S1$	1	1
$S2$	1	1

The Newbery-Stiglitz 1984 model

- Apple and orange growers in a globalized world
  1. Production:

	Apples	Oranges
$S1$	150	100
$S2$	100	150

  2. Prices:

	Apples	Oranges
$S1$	1	1
$S2$	1	1

  3. Consumptions:

	Apple growers	Orange growers
$S1$	$(75, 75)$	$(50, 50)$
$S2$	$(50, 50)$	$(75, 75)$

- Globalization eliminates price fluctuations and destroys risk sharing!

The Epifani-Gancia 2009 model

- An increase in the size of government in autarky
  1. Private production:

	Home goods	Foreign goods
SG	150	150
LG	100	150

  2. Consumptions:

	Home residents	Foreign residents
SG	$(150, 0)$	$(0, 150)$
LG	$(100, 0)$	$(0, 150)$

- An increase in the size of the government reduces the consumption of domestic residents one-to-one.

The Epifani-Gancia 2009 model

- An increase in the size of government in a globalized world
  1. Private production:

	Home goods	Foreign goods
SG	150	150
LG	100	150

  2. Prices:

	Home goods	Foreign goods
SG	1	1
LG	1.2	0.8

  3. Consumptions:

	Home residents	Foreign residents
$S1$	$(75, 75)$	$(75, 75)$
$S2$	$(50, 75)$	$(50, 75)$

- An increase in the size of the government reduces private consumption one-to-0.5. Thus, globalization reduces the cost of expanding the government!

Globalization and the size of government

- Rodrik (1998): the increase in government size is good, globalization creates individual uncertainty and the government provides insurance.
- Epifani-Gancia (2009): the increase in government size is bad, policymaking ignores terms-of-trade externalities.
- Questions:
  1. What is the evidence on the composition of government spending? Public employment is growing, while transfers are not growing that much.
  2. Cross-sectional evidence: the growth of government is stronger in countries whose terms of trade are more sensitive to changes in output
  3. Does the government need to provide insurance? Newbery-Stiglitz (1984), Eaton-Grossman (1985), Dixit (1987, 1989a, 1989b). Can the government provide insurance? Broner-Ventura (2011, 2016)

Globalization and contract enforcement (Reinhart-Rogoff 2009)

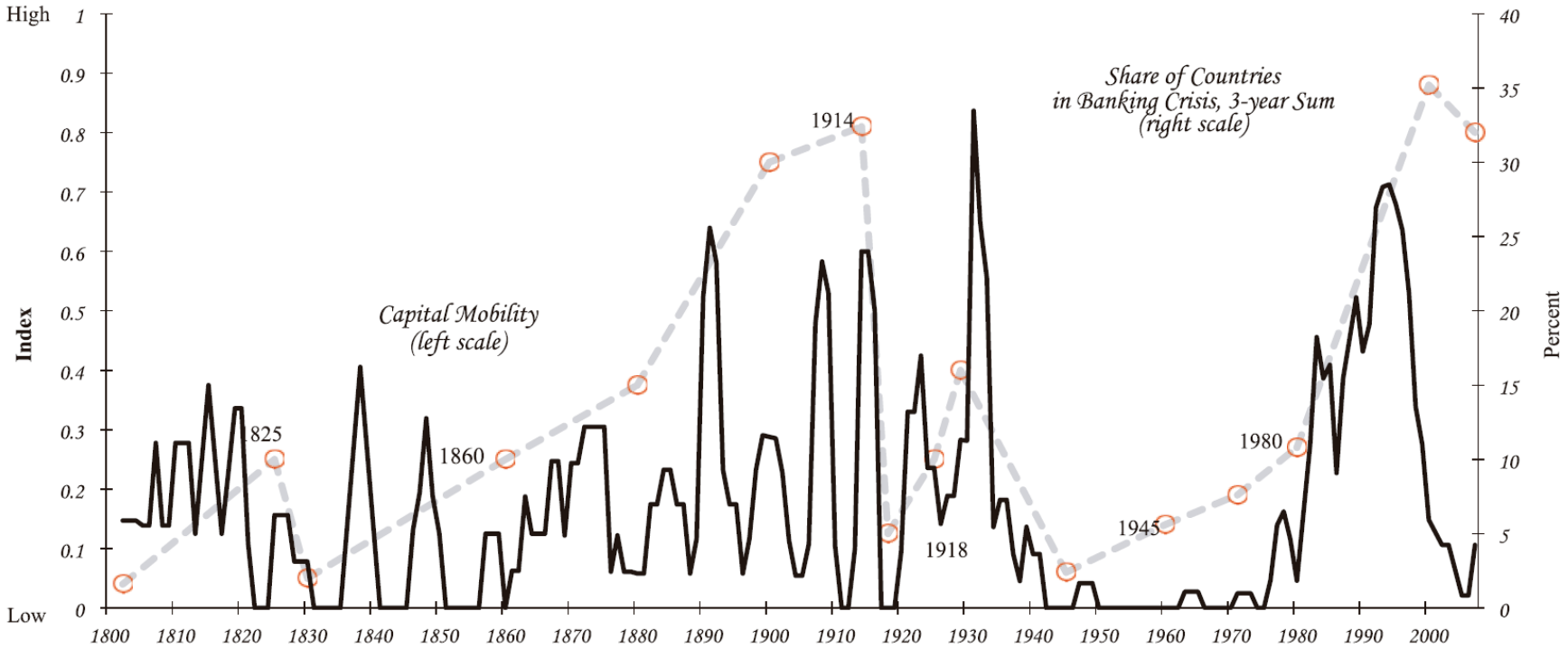
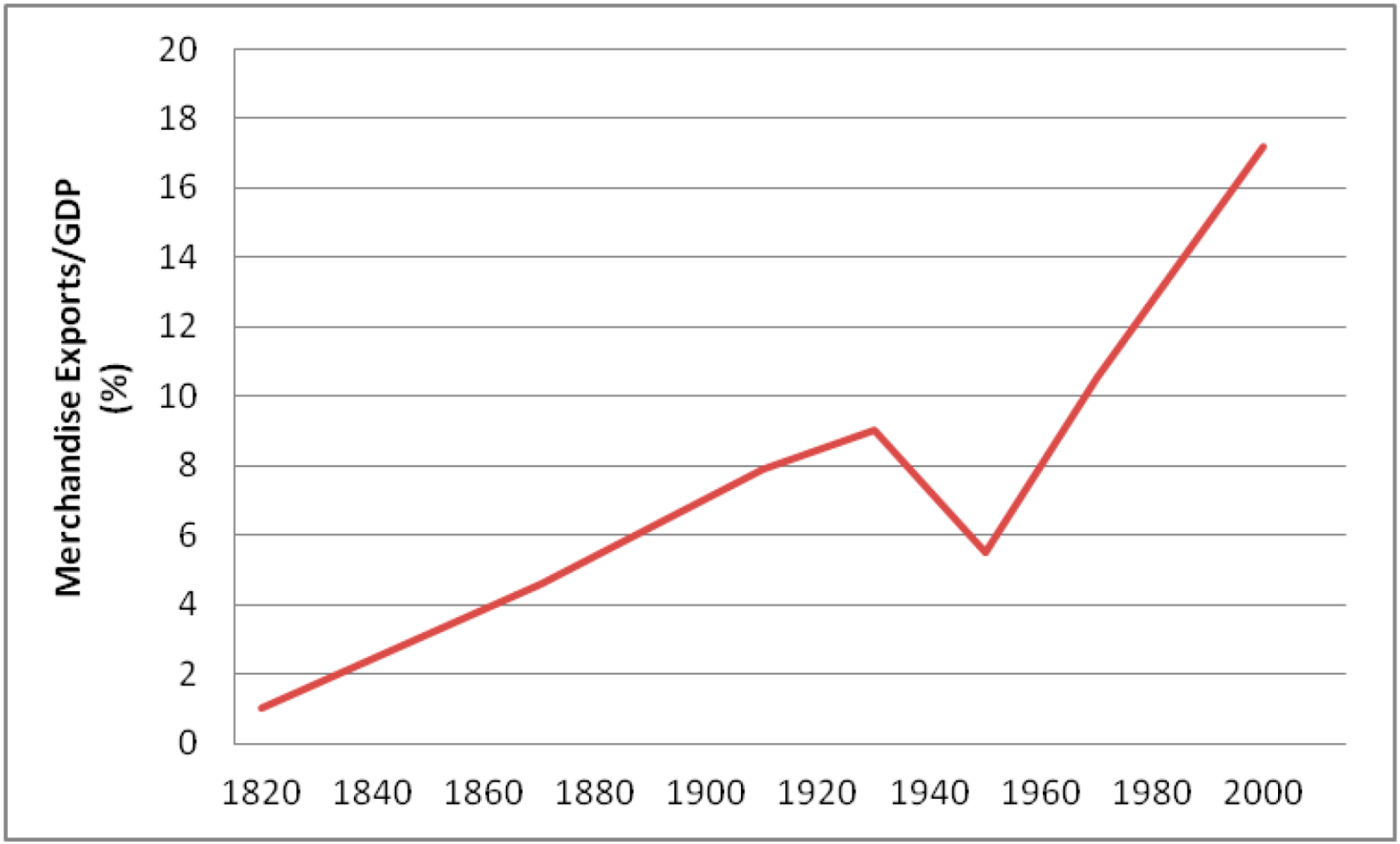


FIGURE I

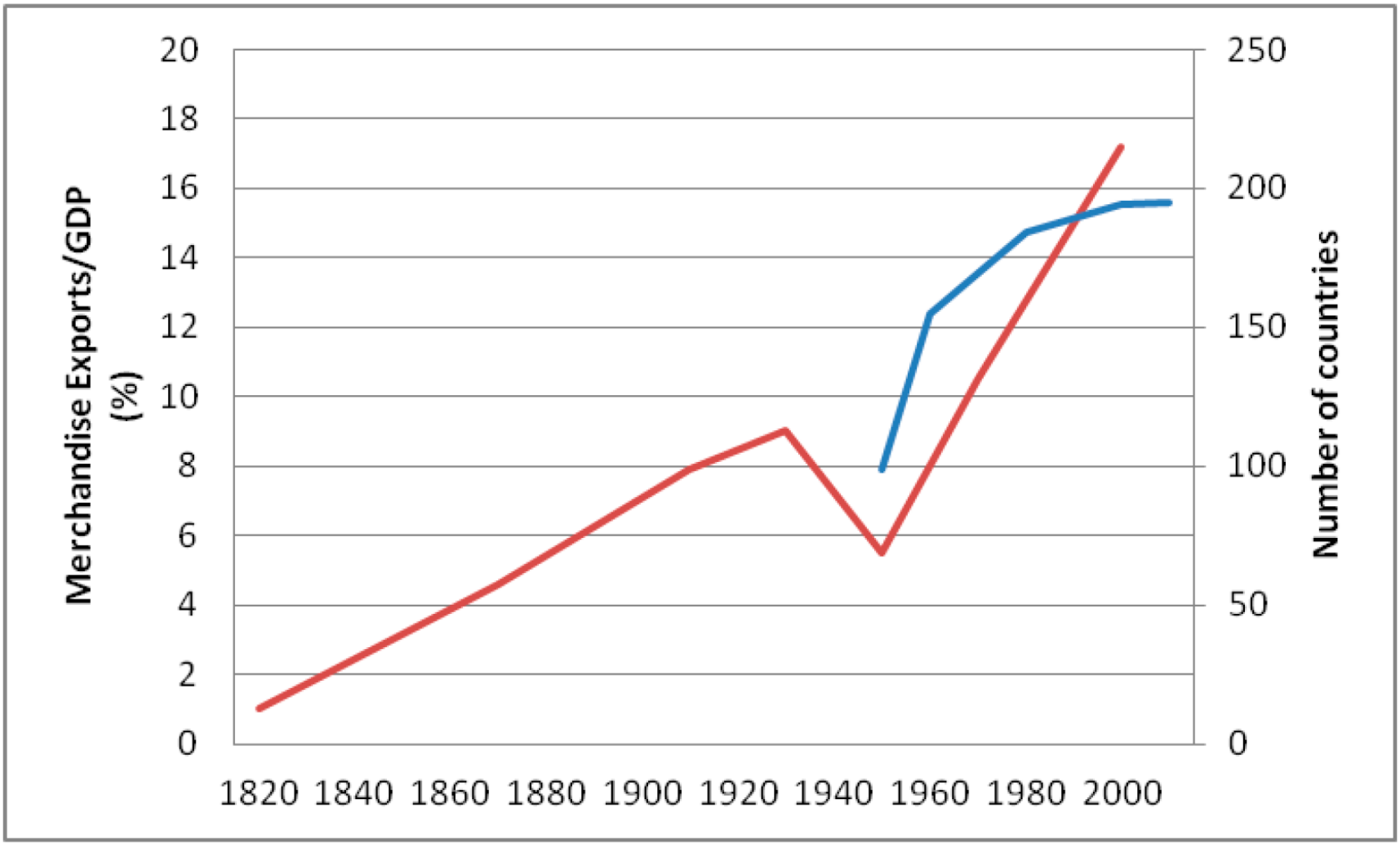
Capital Mobility and Incidence of Banking Crises

Sources: Reinhart and Rogoff (2009), who combine own data with Kaminsky and Reinhart (1999), Bordo et al. (2001), Obstfeld and Taylor (2004), and Caprio et al. (2005). The index of capital mobility is the subjective index from Obstfeld and Taylor (2004).

Two waves of globalization



Globalization and the number of countries



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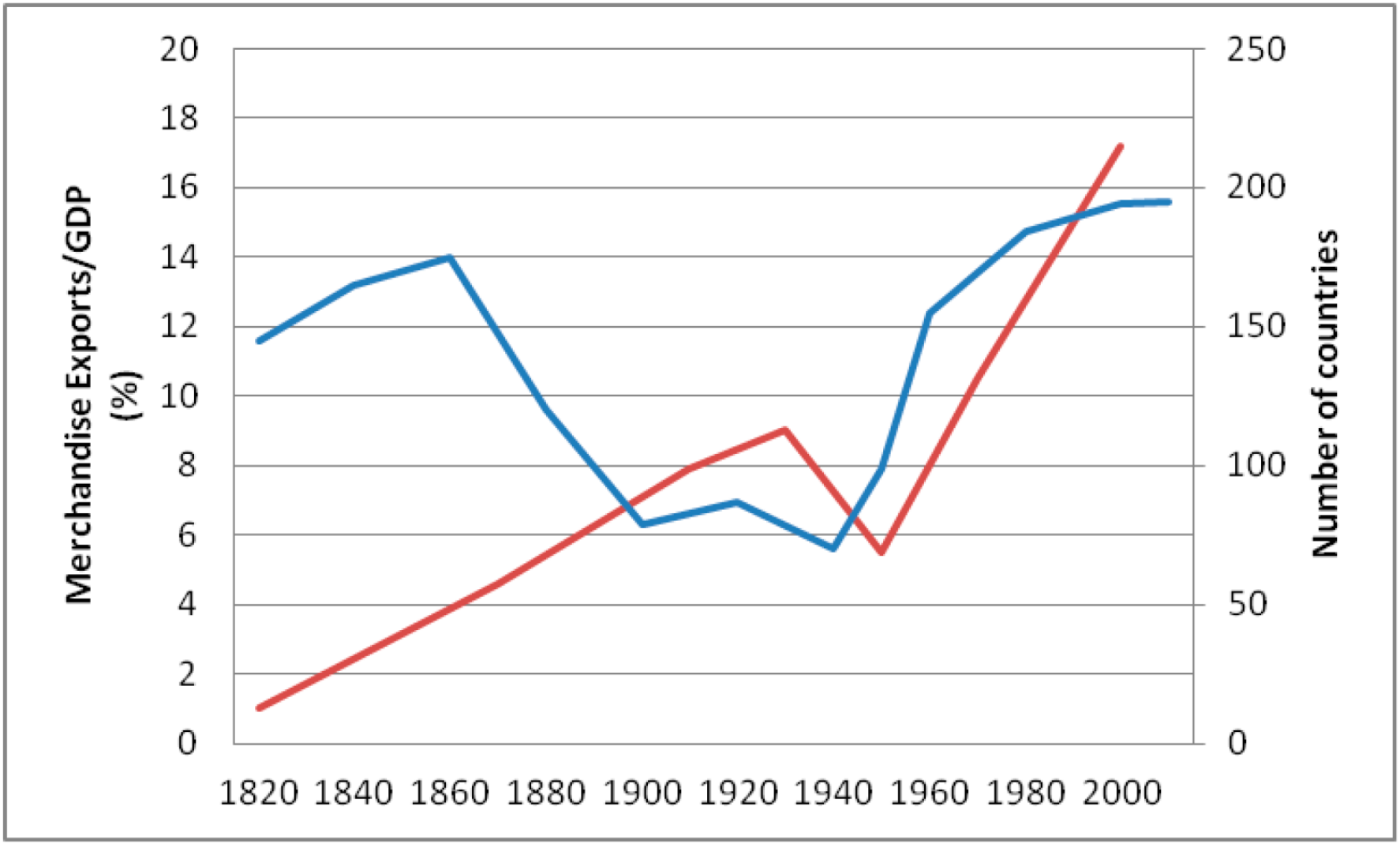
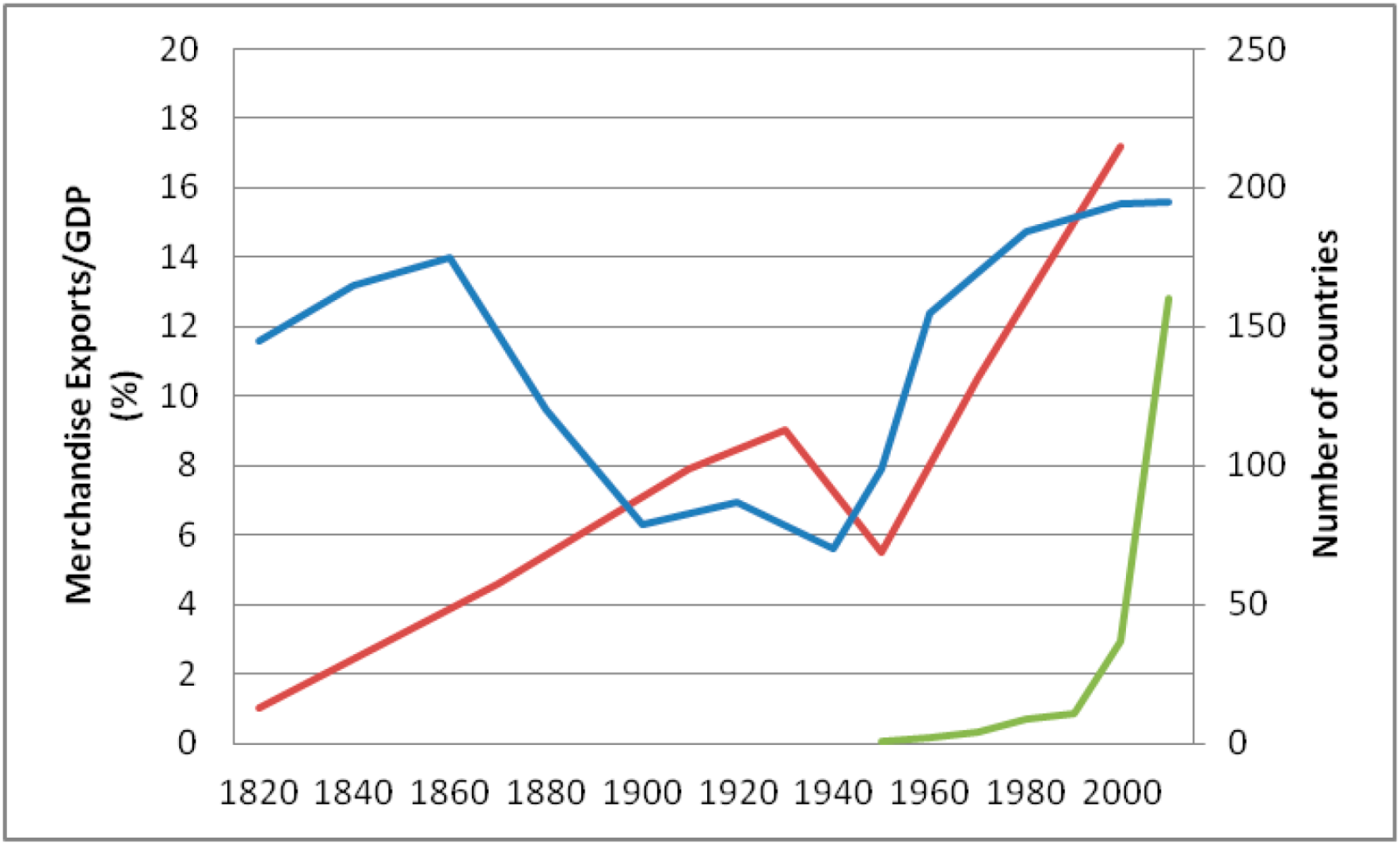


Globalization, countries and free-trade agreements



The Gancia-Ponzetto-Ventura 2016 model

- **Locality:** Primitive geographic unit with homogeneous population
- **Government functions**
  - *Regulate markets:* common regulation enables trade
  - *Provide public services:* uniformly to all residents
- **Costs of government**
  - *Economies of scale:* fixed costs of government
  - *Economies of scope:* costs of multi-level governance
- **Geographical and cultural distances**
  - A geometric model:

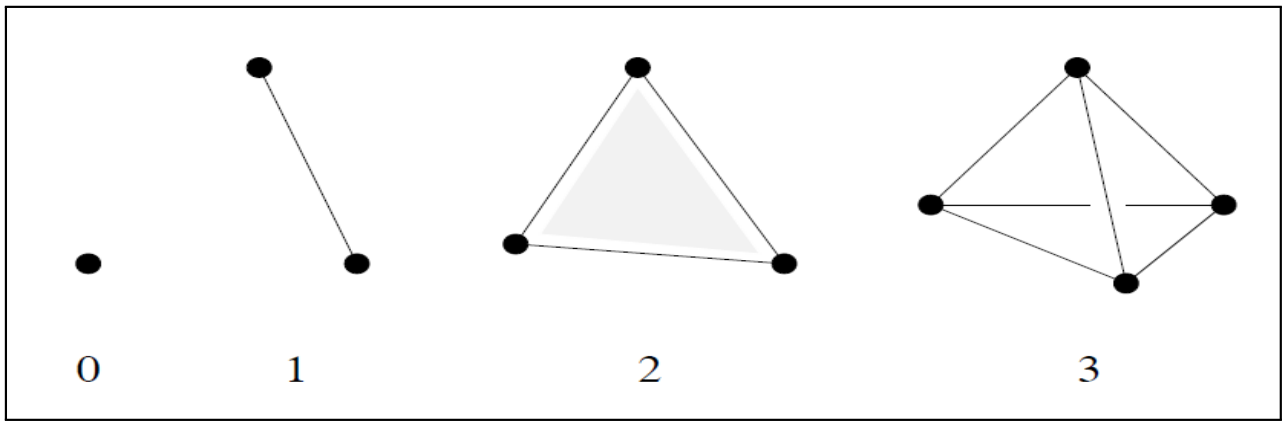


Figure: The (M-1)-simplex

- **Globalization:** Shrinking geographical distances

Globalization with law and diplomacy

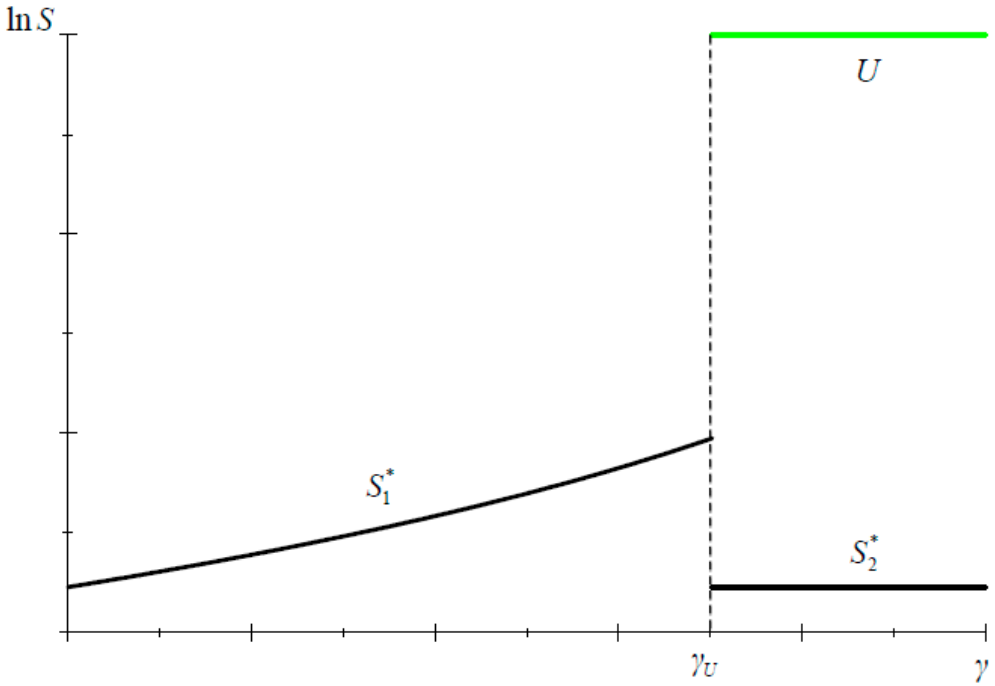


Figure 4: Globalization, Countries and Unions. The figure shows how the world political structure changes with globalization (τ). The black line is the size of each country, the green line is the world union.

Changing the state's structure

A single-level state for the XIXth century

Markets
Defense
Law and order
Welfare state
Infraestructures

A two-level state for the XXIst century

Markets
Defense

Law and order
Welfare state
Culture

- Thus, globalization leads to smaller states and larger unions
  - The XIXth century nation state is being transformed
  - Creation of supra-national unions and growth of separatist movements

Globalization with war and conquest

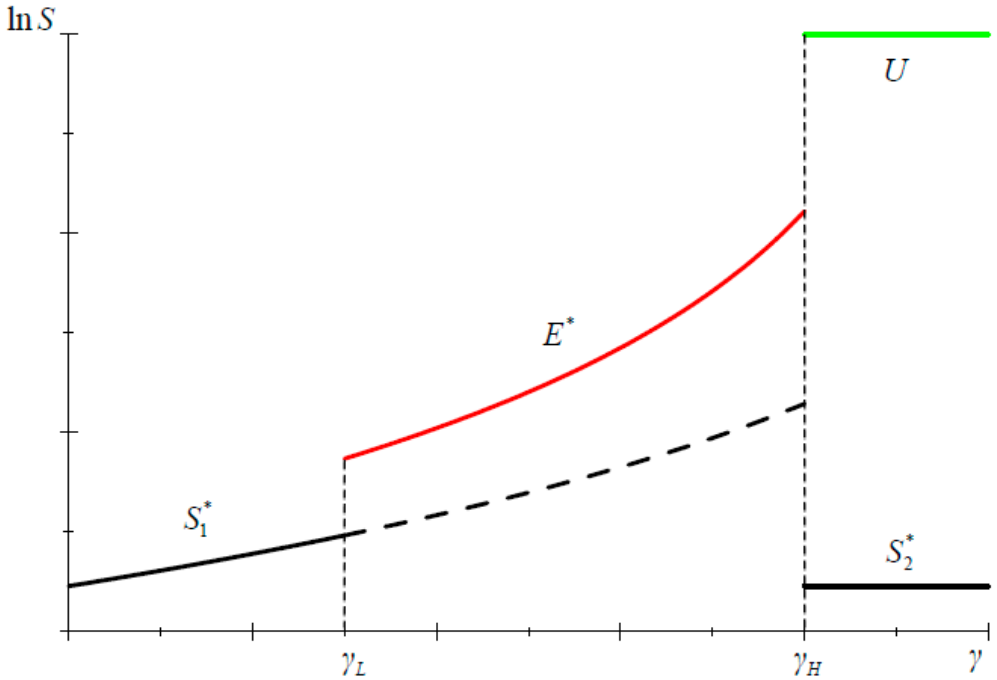


Figure 6: Countries, Empires and Unions. The figure shows how the world political structure changes with globalization (γ). The black line is the size of peaceful countries, the red line is the size of empires, the green line is the world union.

Border Changes and Conflict

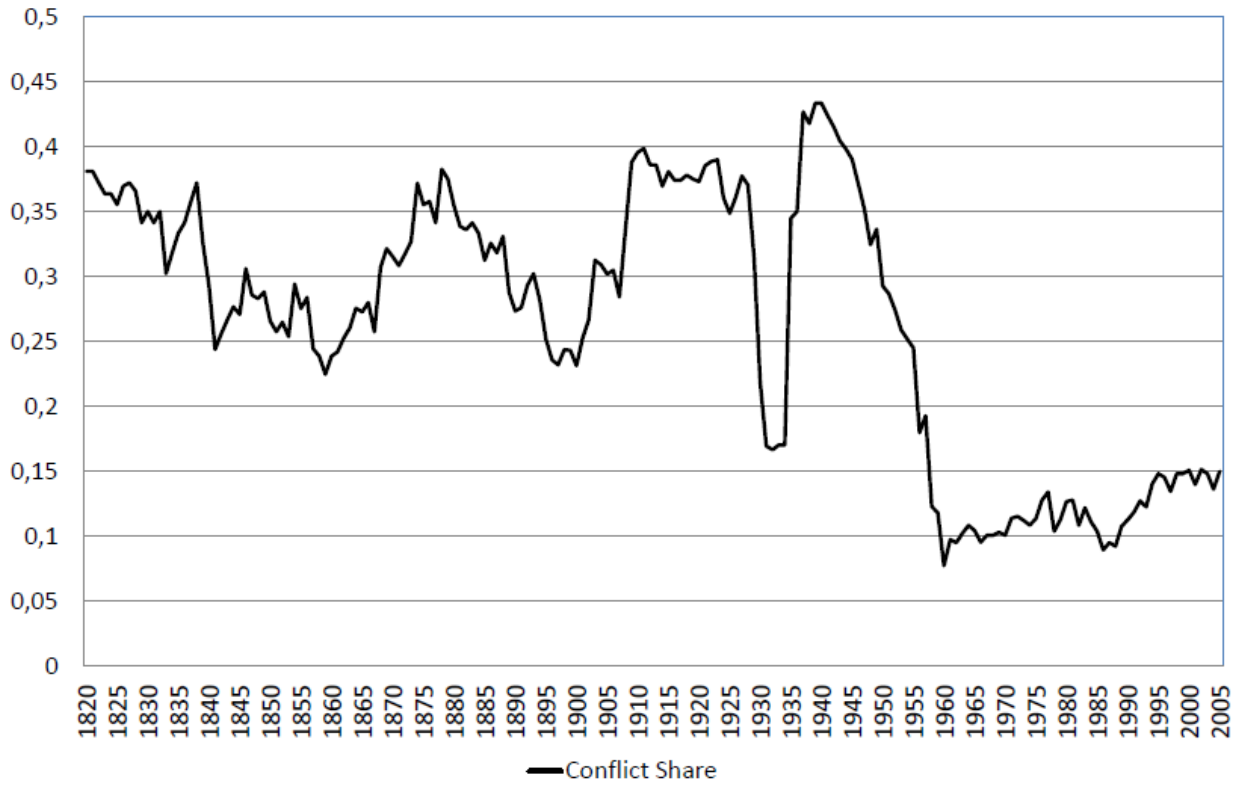


Figure 9: Border Changes and Conflict. The figure plots the share of changes of borders involving military conflict. Each point corresponds to an average over a +/-10 year window. Source: Correlates of War.

Regional Unions

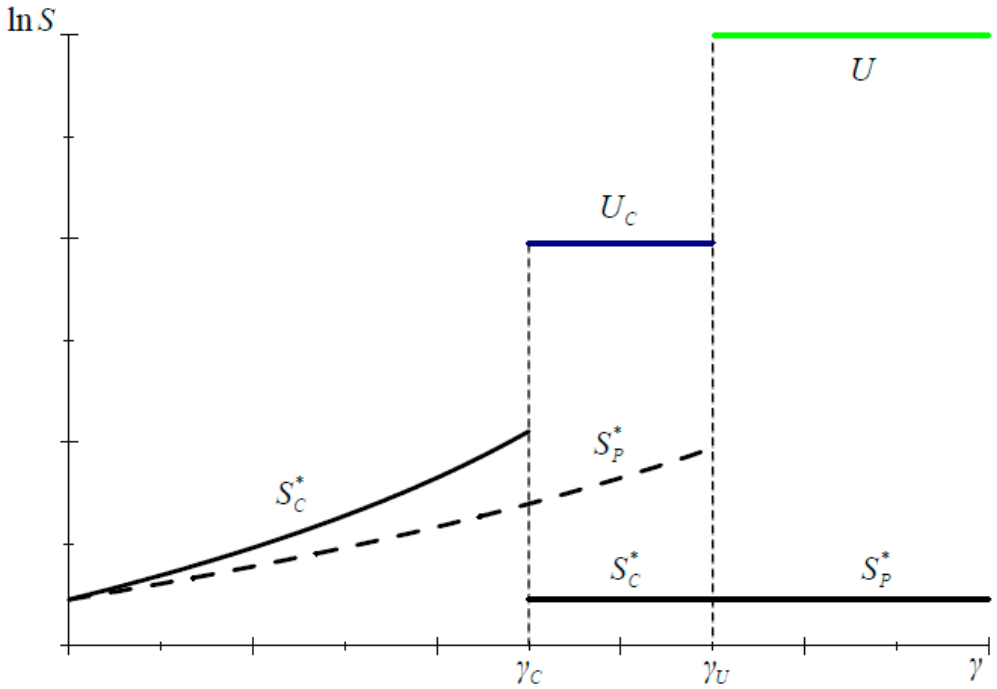


Figure 7: Globalization, Countries and Regional Unions. The figure shows how the world political structure changes with globalization (γ). The black line is the size of core countries, the broken line is the size of periphery countries, the blue line is the core union and the green line is the world union.

Europe after the Congress of Vienna

Figure 10: Europe after the Congress of Vienna (1815)

Europe before World War I

Figure 11: Europe before World War I (1914)

Europe today

Figure 12: Europe Today (2014)