

Globalization and the state

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Bojos per l'Economia! 2017

Globalization and the size of government

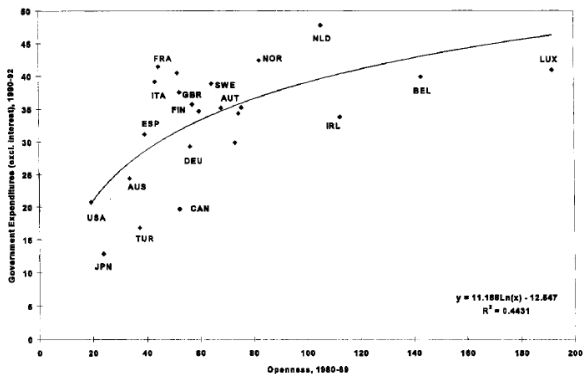


FIG. 1.—Relationship between openness and government expenditures

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*** [0.031]	0.138*** [0.033]	0.132*** [0.042]	0.104*** [0.032]	0.167*** [0.039]	0.150*** [0.034]	0.192*** [0.047]
Log of income		-4.346*** [0.759]	-2.832*** [0.953]	-6.055*** [1.180]	-6.271*** [1.125]	-4.970*** [1.300]	-5.618*** [1.317]
Log of population		-1.138 [0.692]	-1.118 [0.754]	-1.767** [0.719]	-1.678** [0.725]	0.336 [0.831]	0.016 [0.973]
ToT variability					6.771 [4.397]		8.523* [4.536]
Openness × ToT Var.					-0.149** [0.071]		-0.139* [0.076]
Polity						-0.255 [0.293]	-0.186 [0.268]
Black market premium						-0.000 [0.000]	-0.000 [0.000]
Current account restr.						2.592 [3.022]	1.856 [3.068]
Exchange rate restr.						-2.956 [2.838]	-3.176 [2.974]
Capital account restr.						1.556 [1.931]	1.584 [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*** [0.015]	0.039*** [0.011]	0.060*** [0.018]	0.068*** [0.022]	0.076*** [0.027]
Log of income	-3.380*** [0.878]	-0.186 [0.677]	-3.173*** [0.965]	1.185 [1.222]	1.373 [2.251]
Log of population	7.047*** [1.651]	1.098 [1.460]	6.851*** [1.792]	7.723*** [2.400]	-14.711 [11.663]
ToT variability			0.617 [1.292]	0.769 [1.411]	1.313 [1.192]
Openness × ToT variability			-0.022 [0.019]	-0.026 [0.024]	-0.031 [0.020]
Polity				0.043 [0.065]	-0.049 [0.069]
Black market premium				0.002*** [0.000]	0.002*** [0.000]
Current account restrictions				0.636 [0.933]	2.147** [0.886]
Exchange rate restrictions				0.038 [0.792]	-1.482* [0.780]
Capital account restrictions				2.058** [1.022]	1.413 [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

The Newbery-Stiglitz 1984 model

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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

- 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

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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
<i>SG</i>	150	150
<i>LG</i>	100	150

② Consumptions:

	Home residents	Foreign residents
<i>SG</i>	(150, 0)	(0, 150)
<i>LG</i>	(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
<i>SG</i>	150	150
<i>LG</i>	100	150

② Prices:

	Home goods	Foreign goods
<i>SG</i>	1	1
<i>LG</i>	1.2	0.8

③ Consumptions:

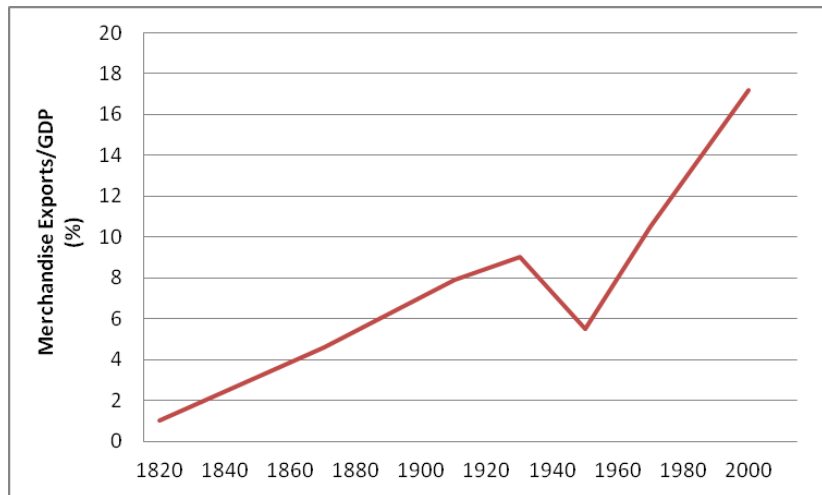
	Home residents	Foreign residents
<i>S1</i>	(75, 75)	(75, 75)
<i>S2</i>	(50, 75)	(50, 75)

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

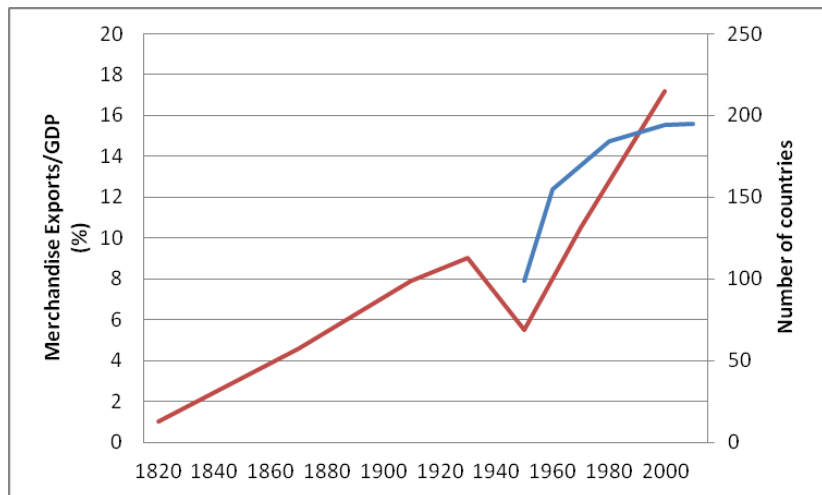
Globalization and the size of government

- Rodrik (1998) argues that the increase in government is good because it provides insurance.
- Epifani-Gancia (2009) argue that the increase in government is bad and reflects bad policymaking due to externalities.
- Questions:
 - 1 Why does the government need to provide insurance? Is the private sector not able to do so? Dixit (1992) and Broner-Ventura (2011)
 - 2 What is the evidence on the composition of government spending? Public employment is what is growing, while transfers are not growing that much.
 - 3 Externalities and the Coase theorem. Should we have a market for policies? Do we have one already? (assigning property rights, monopoly and lack of commitment)

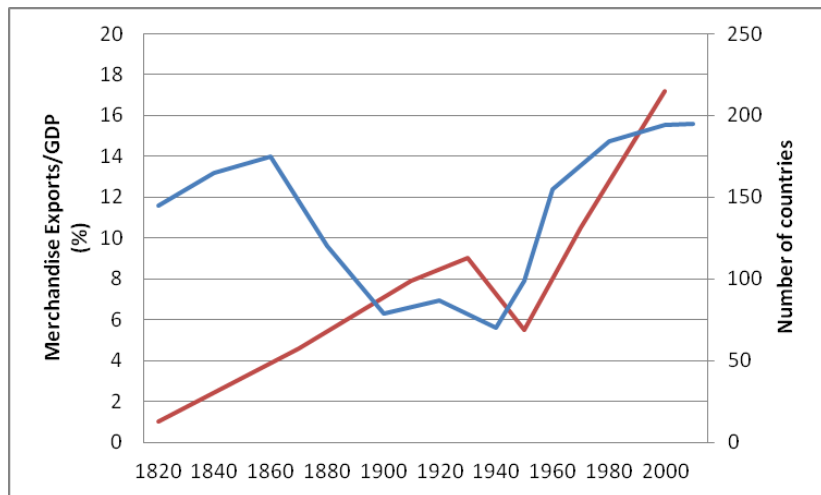
Two waves of globalization



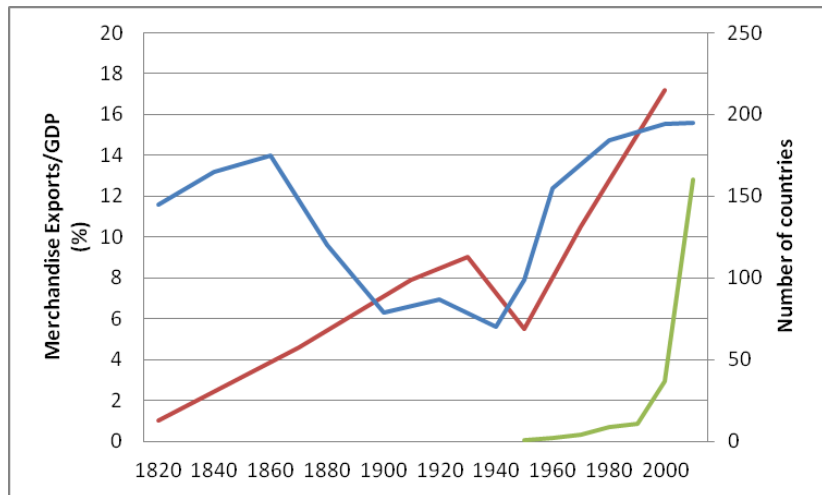
Globalization and the number of countries



Globalization and the number of countries



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:

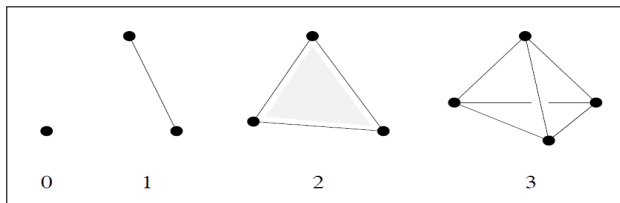


Figure: The (M-1)-simplex

- **Globalization:** Shrinking geographical distances

Globalization and the Size of Countries and Unions

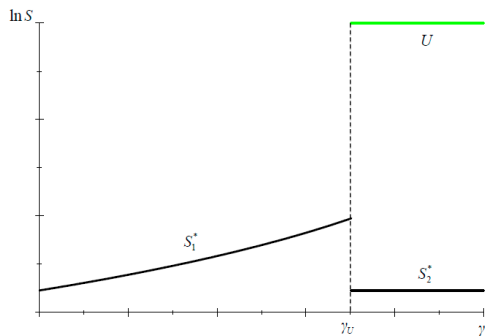


Figure 4: Globalization, Countries and Unions. The figure shows how the world political structure changes with globalization (τ). The black line is the size of each country, the green line is the world union.

Changing the state's structure

A single-level state for the XIXth century

Markets
Defense
Law and order
Welfare state
Infrastructures

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
 - ▶ A parsimonious explanation for two seemingly opposed forces: the creation of supra-national unions and growth of separatist movements

Countries, Empires and Unions

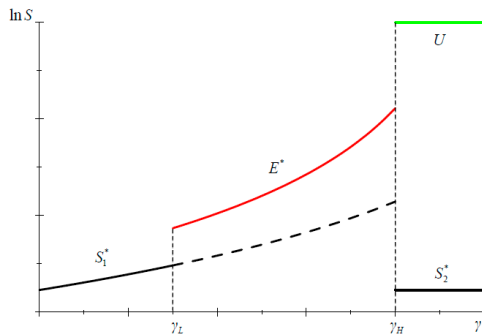


Figure 6: Countries, Empires and Unions. The figure shows how the world political structure changes with globalization (γ). The black line is the size of peaceful countries, the red line is the size of empires, the green line is the world union.

Suggestive Evidence

% of peaceful changes of border

1816-1900

70%

1901-1950

62%

1951-2008

89%

The Rise and Fall of Empires

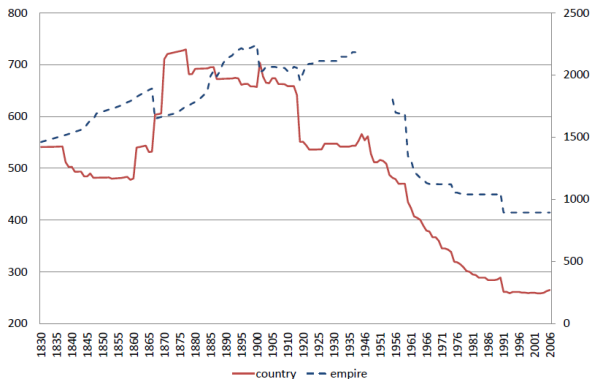


Figure 2: Size of countries (left axis) and empires (right axis). Thousand squared miles, see the appendix for details on data.

Globalization, Countries and Regional Unions

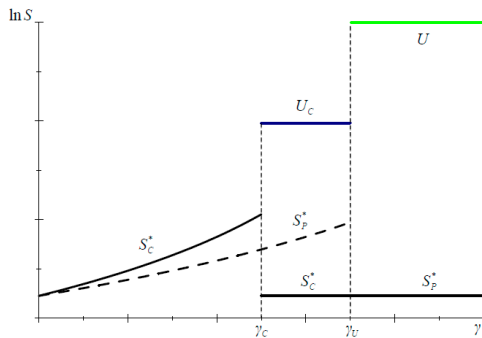


Figure 7: Globalization, Countries and Regional Unions. The figure shows how the world political structure changes with globalization (γ). The black line is the size of core countries, the broken line is the size of periphery countries, the blue line is the core union and the green line is the world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

Europe after the Congress of Vienna



Europe before World War I



Europe today

2014

