47

The dilemma of disruption / 47th St. Gallen Symposium / 3–5 May 2017

Benjamin Hofmann – Saving Liberalism:
Governance through Global Hanses

Saving Liberalism: Governance through Global Hanses

Benjamin Hofmann is one of the top six contributors to this year's St. Gallen Wings of Excellence Award. He studies at the University of St. Gallen and will attend the 47th St. Gallen Symposium as a Leader of Tomorrow.

Benjamin Hofmann (DE), Ph.D. Candidate in International Affairs, University of St. Gallen



Benjamin Hofmann is a Research Associate and Ph.D. Candidate in International Affairs at the Institute of Political Science, University of St. Gallen. He graduated with a MA in Political Science from the University of Salzburg in 2012. Between 2012 and 2015, he worked for the world's oldest intergovernmental organization – the Central Commission for the Navigation of the Rhine (CCNR). In his function as Policy Officer to the Secretary-General, he drafted a sustainability strategy for inland waterway transport, developed alternative fuel policies, and contributed to EU expert groups. He also has experience from German public administration (industrial policy, foreign affairs) and consulting (energy and environment). Benjamin Hofmann conducts research on energy governance and international environmental regulation. His dissertation examines the stringency of international environmental regulations in maritime industries, and the role of corporate first-movers in regulatory negotiations. He has presented preliminary results at major conferences, such as ECPR and Arctic Frontiers.

Political and economic liberalism is the fabric the current world order is made of. Liberalism has assumed its dominant role after the defeats of fascism and communism. These days, however, liberalism is seriously challenged. Many people are increasingly unable or unwilling to follow globalization. Others are keen to maintain liberal achievements. Existing national and global governance institutions cannot cope with this widening cleavage. Liberalism can only be saved by reinventing the governance of globalization.

This essay sketches the disruptive idea of governing through Global Hanses. Global Hanses are flexible, democratic, competitive and responsive governance collaborations among regions and municipalities. Their goal is to tailor globalization to the needs and capacity of their inhabitants.

The Disease: The Demise of Liberalism

The liberal world order has recently come under considerable pressure. First, political liberalism is on the retreat. Political liberalism finds expression in democratic government. However, democracy seems to have lost much of its appeal as ever more countries are reintroducing authoritarian rule. Democratic institutions are rolled back in Russia, Turkey, and most Arab countries.

Authoritarian forces are also rising in established democracies. Young democracies are transforming themselves into increasingly illiberal regimes – see Hungary and Poland. Older democracies are experiencing a continuing rise of authoritarian parties – see France and the Netherlands. Not even historic lessons can stop the rise of illiberal populism as the German case illustrates.

Second, economic liberalism is seriously challenged as well. The most important international manifestation of economic liberalism is free trade. However, free trade is challenged as more countries are sliding into protectionism. Donald Trump won the U.S. Presidential Elections with a protectionist program. The EU faces fierce internal opposition to new free trade agreements. Distrust is becoming more widespread in economic relations, for instance, between China and the West.

Third, regional integration projects are in stormy waters. Liberalism has provided the rationale for European integration. The EU, however, finds itself amidst one of its most severe crises. Brexit is looming, and Euroscepticism is growing in many member states. Other regional integration projects, such as ASEAN and Mercosur, have not advanced substantially in recent years either.

In short, the world is experiencing the demise of political and economic liberalism. This disease should be taken seriously because of its likely longterm consequences.

The Sequelae: The Return of History

The decline of liberalism will have serious implications for the world we live in. They become clearer by recalling the virtues of l iberalism.

Francis Fukuyama famously argued that global liberalism would lead to "*the end of history.*" After 1989, he expected a rapid global spread of liberalism. Liberal free trade policies would encourage an efficient international division of labor, leading to economic prosperity in many countries. Political liberalism would end largescale armed conflict by extending the scope of the "*democratic peace*," i.e., the perpetual peace among democratic states. The diffusion of both prosperity and peace are forceful arguments in favor of liberalism.

Fukuyama's view on the effects of liberalism is supported by historical evidence. Liberal democratic states have not fought any single war with each other. Liberalism has notably pacified large parts of the formerly warprone European continent. Likewise, economic liberalism has created prosperity in many formerly non-industrialized countries. Success stories include Chile, Mexico, South Korea, and several former transition countries in

Eastern Europe. Prosperity had also been growing for many years in emerging markets, such as Brazil, India, and South Africa.

However, Fukuyama misjudged the prospects of spreading liberalism. Liberalism diffused successfully in the 1990's, but has been retreating since the turn of the millennium. This calls into question the Hegelian vision of the irreversibility of liberalization. Indeed, the world is now witnessing the decline of liberalism. The demise of political and economic liberalism implies the return of history. First, the probability of armed conflict and war in the international system increases as authoritarian rule replaces democratic institutions in many places. The larger the military capabilities of these countries, the larger the potential scale of armed conflict. Second, economic depressions unfold as countries resort to protectionism. The larger their markets, the larger the economic shockwaves sent around the globe. Hence, the return of history is an alarming vision. It will make the world both less prosperous and less secure.

The return of history is a gradual process. Some hubs of liberalism might continue to exist far into the future. However, they will become increasingly isolated as history finds its way back into world affairs. And history is already returning forcefully. Wars, armed conflicts, and rising tensions are proliferating in the illiberal Eastern and Southern neighborhoods of Europe. Moreover, economic integration is losing pace as illustrated by the prolonged economic crisis in maritime shipping – the conveyer belt of globalization. Economic slowdowns in China, the UK, and the US also suggest that the heyday of economic liberalism has passed. Armed conflict and economic recession are the new realities in a less liberal world.

Most people will agree that these longterm consequences should be avoided. The only way to halt the return of history is to cure liberalism. Finding an effective treatment presupposes that the causes and patterns of the disease are diagnosed.

The Diagnosis: Cleavages and the Misfitted Governance of Globalization

The crisis of liberalism threatens peace and prosperity. At the root of this crisis is an illadapted governance of globalization. Attempts to steer globalization have relied on the nationstate and on global governance. Both have proven unable to shape globalization in ways consistent with the societal cleavages created and reinforced by the global economy.

First, the nationstate has been the traditional response to most governance challenges in past centuries. Yet, the nationstate is challenged by heterogeneous preferences within its borders. This heterogeneity has been amplified by globalization and its uneven economic and social effects on different parts of society.

Globalization is spatially differentiated. In America, for instance, entrepreneurs and whitecollar workers in Silicon Valley benefit from the virtues of globalization. For unemployed bluecollar workers in the Rust Belt, however, globalization is a broken promise of prosperity. In short, the adaptive capacity of different communities varies greatly.

This divide largely coincides with the societal cleavage on libertarian vs. authoritarian values. Adaptive communities witness the development of progressive lifestyles. Life in Silicon Valley is quite similar to life in other globalized places, such as London or Bangalore. These communities generally support libertarian agendas. By contrast, less adaptive communities experience that their traditional lifestyles are undermined without promising substitutes available. Indeed, life in the Rust Belt is quite different from Silicon Valley. It is these communities that may become supportive of authoritarian stances which pretend to control the threats of globalization.

The libertarianauthoritarian cleavage is highly relevant. It is underlying many societal questions, including policies on immigration, families, sexual orientation, gender equality, religion, education, and data protection. The nationstate is largely unable to cope with this cleavage and to accommodate globalization to community capacity. Even though some differentiation is possible in federal and multilevel systems, both the legal competences and the global leverage of subnational levels remain limited. Furthermore, the structure of federal systems is often too inflexible to spatially align with uneven globalization effects. Therefore, spatially more flexible governance structures are needed.

Second, a more recent response to globalization has been to shift authority to higher governance levels. Global governance has addressed various aspects of globalization, including health, migration, and transboundary pollution.

But global governance remains slow and largely decoupled from public preferences. Regulation by international organizations lags behind multinational corporate practices that create new policy problems in the economic, social, and environmental spheres. International organizations are widely criticized for this lack of legitimacy and accountability.

Put more broadly, both international and national governance have moved towards postdemocratic conditions. *Colin Crouch described the postdemocratic society* as one "that continues to have and to use all the institutions of democracy, but in which they increasingly become a formal shell."

Widespread dissatisfaction with formalshell institutions is aligning with rising nationalism. Nationalisms can fuel the "*clash of civilizations*" predicted more than two decades ago. There are very few alternative identities that could fence nationalism. Global governance has hardly led to the emergence of new stable identities. The EU might be a partial exception to this, but European identity formation has been hampered by the insufficient accountability of European governance. Accountability and identity formation are thus interlinked. Therefore, more accountable and responsive global governance structures that can create alternative identities are needed. This diagnosis inspires a disruptive cure that can heal liberalism.

The Disruptive Cure: Global Hanses

Liberalism can be cured by a new governance structure for globalization. This structure should be functionally differentiated, spatially flexible, democratically accountable, and responsive. I call such a structure the Global Hanse. The architecture of this governance structure is inspired by historical and philosophical reflections. Its main purpose is to ensure that globalization and its effects are governed in ways that match with the capacities of different communities.

The Global Hanse connects subnational governance units globally. First, it concentrates governance tasks in smaller units, such as regions, districts, municipalities, or even neighborhoods. The virtues of smaller governance units were recognized by Austrian philosopher Leopold Kohr: "*Small is beautiful*" because it reduces the heterogeneity of preferences and strengthens accountability relations between government and governed. Moreover, subnational governance allows people 'to vote with their feet' (relocation being easier on subnational than on national levels).

Second, it is polycentric and complemen-

tary to existing governance levels. Elinor Ostrom argued that *polycentrism enables progress at various scales*. Smaller units can serve as policy laboratories, triggering processes of creative destruction. This helps to quickly identify effective and locally supported policy responses to new problems.

Third, it creates global collaboration among small governance units. The Global Hanse is a decentral network of governance units. It stands in the tradition of the Hanseatic League – a confederation of merchant towns in Northern Europe from the 12th to the 17th century. The latter provided public goods, including trade and commercial exchange, transport development, and defense. The new Global Hanses should follow this model by covering policy areas relevant for shaping globalization and its effects. This includes trade in services, digitalization, energy & environment, immigration, social coherence, education, and research & development, amongst others.

Fourth, several Global Hanses overlap and compete. Bruno Frey and Reiner Eichenberger developed the concept of *Functional, Overlapping, and Competing Jurisdictions*. This model seeks to create value added by unleashing competit on among jurisdictions. Different Global Hanses shall thus compete with each other in each policy field. This will drive policy innovation and increase overall effectiveness.

Fifth, Global Hanses are governed democratically. Representative democratic procedures shall be established within the small governance units as well as on the level of each Global Hanse. The specific terms can be left to the competitive forces of the polycentric and overlapping governance architecture. Yet, direct democratic instruments might be particularly suitable for taking into account local preferences in collective decisions. A potential role model for decisionmaking within Global Hanses is Swiss referendum rules which require the majority of all voters and cantons for adoption.

The formation of Global Hanses faces a legal barrier. Devolution of powers is required in many countries before their subnational units can enter global governance arrangements. This barrier can be overcome by an economic profit sharing mechanism. In exchange for the freedom to join Global Hanses, more adaptive subnational units must use part of their profits to compensate less adaptive units for adverse globalization effects. Nationstates can provide the organizational frame for this profitsharing. Building Global Hanses is feasible. A first pilot can be led by some highly adaptive and globalized subnational units (e.g., the cities of London, New York, Hamburg, Bangalore, and Hong Kong, the State of California, and Flanders region). Areas of initial collaboration can be digitalization, education, and social cohesion. This portfolio can be extended as more legal competences are devolved.

The success of the first Global Hanse will spill over to other policy areas and encourage other communities to initiate own Hanse projects. An emerging ne work of successful Global Hanses will rebuild public support for political and economic liberalism. It might also create new 'glocal' identities that help to overcome old nationalisms. An emerging network of Global Hanses will thus be able to save liberalism and its achievements in the long run.



View publication stats