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Exigency Politics or New World Order?

Summary: Since the onset of the current crisis, numerous intergovernmental organizations made declarations and plans, but only national packages were implemented to minimize adverse effects to real (national) economies. Despite the fact that capital markets have long ago become increasingly complex with a multitude of actors, a state-level approach remains firmly in place. This paper aims to present political responses to the crisis, identifying how politicians envision the future of capital markets and the world economy. The financial crisis might have been a direct motive to start a global political interplay regarding regulation, but it was also a unique opportunity for numerous actors to start pressing for their own agenda vis-à-vis the global economic and political order. Reviewing the responses of several of the most prominent actors on the scene may contribute to understanding how close the world is to having a new financial - or even economic - structure on the global level.

Key words: Crisis, Capital markets, Regulation, Political agendas.

JEL: F59, F02, G38, F21, F55, G15.

In the years preceding the crisis beginning in 2007/08, economists worldwide happily recorded steady growth of total world output and remarkable rises in world trade volume, total reserves and cross-border transactions. Nevertheless, beneath those optimistic figures, global financial markets burgeoned at a pace that in 2008 started to collapse.

In 2007, the value of global financial assets reached nearly \$200 trillion - almost double their value in 2003. Total debt recorded a steady rise, particularly from 2005 to 2007, but governments on average were less keen to borrow than previously (Diana Farrell 2005, 2008). Then came the crisis and in 2008, total financial assets dropped by more than 11%. The greatest loss was in the US (nearly \$5.5 trillion in 2008), while the Eurozone performed slightly “better” with a loss of \$1.6 trillion (International Monetary Fund 2009a).

One of the most striking consequences of the financial crisis of 2008 was a steep drop in cross-border capital flows, notably foreign direct investments (FDI), from \$10.5 trillion in 2007 to just \$1.9 trillion in 2008. In comparison to GDP, the level of cross-border capital flows in 2008 was the lowest since 1991 (2007, 2009b). This created turmoil in the global banking system and severe liquidity crises because most types of flows reversed as investors, companies and banks sold foreign assets and repatriated the capital into their home countries.

Although volatility and risk have always been the critical features of any financial market, today’s financial markets have added a new dimension derived from global linkages and the speed at which volatility is transmitted. In addition, the ups

and downs of the global market fragments seem to occur with varying intensity and at various points of time in the financial continuum.

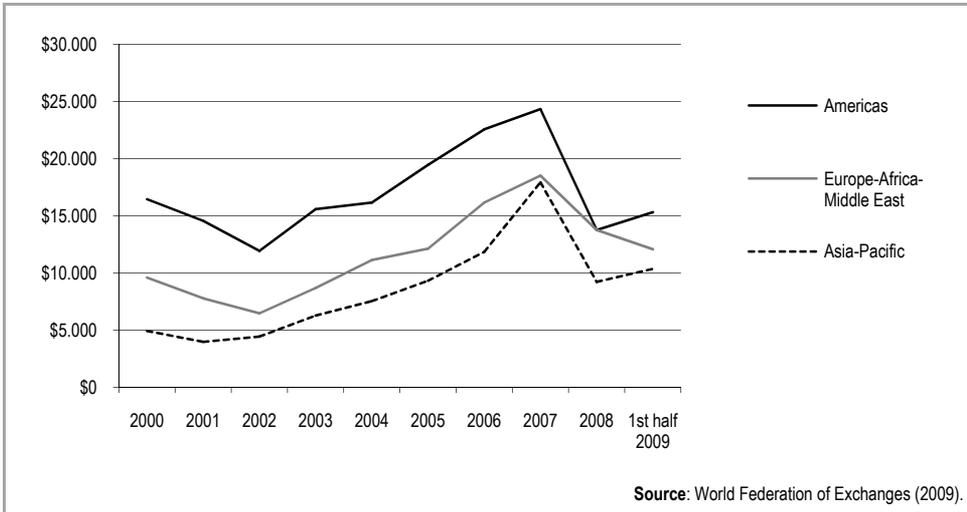


Figure 1 Domestic Market Equity Capitalisation 2000-2009, US\$ bn

“There is a great deal about volatility and risk that we do not understand. Even more critically, there is quite a bit about volatility and risk that we think we understand but don’t. This kind of ignorance (what we think we know but don’t) can really come back and bite us.” (Robert Swartz 2008, p. 2.) What might be true for our understanding of financial risks and volatility could also hold for a general apprehension of the global capital market, its inner logic, actors, movements and certainly its regulation.

This paper aims at exploring the debate on global economic governance, particularly from the aspect of official viewpoints of governments and intergovernmental organizations expressed with regard to the crisis and its resolution. The methodology used in this paper is based on comparative and discourse analyses of official pronouncements made by leaders of the most prominent and influential actors on the global stage. The discourse analysis aims not only to deliver the informational content but also to shed more light on the actors’ rhetoric, strategy and argumentation in order to explore differences in ranking of basic values. At present, it is still not possible to analyze (not even to foresee) to what extent the leaders will hold their views and implement the corresponding policies.

1. Intergovernmental Politics of the Crisis

The severity and reach of the present crisis have not only seriously affected most national economies but has also proved to be an opportunity to question, test or change basic principles of dominant neo-liberalism and even capitalism itself. In addition to numerous financial analyses wherein the level of liquidity and volume of

capital flows have been thoroughly researched (for example, Markus K. Brunnermeier 2008; and Gary B. Gorton 2009), recent literature in this area underscore wider political and economic aspects to take into account. Historical examples show how severe economic crisis changes economic regimes and inter-state relations, as well as redistribute wealth and power (Robert H. Wade 2009). This aspect of analysis might be especially applicable today. Other authors justifiably emphasize that the global crisis revises frameworks of the political settlements in terms of using (neo)liberalism as a power technology to help transform capitalism (Jose G. Palma 2009). Still others focus more on the impact side, concluding that systemic banking crises, typically preceded by asset price bubbles and large capital inflows, affect rich and poor countries alike (Carmen M. Reinhart and Kenneth S. Rogoff 2008). Of particular importance for this research is work done by authors who point out changes occurring with regard to major actors, i.e. the differences in governmental actors' values and foreign policy goals that underlie global movements of capital (Brad Setser 2008; Shai Bernstein 2009), eroding capabilities and legitimacy of contemporary governmental actors and politics in general to deal with global challenges (Adam K. Webb 2006; Furio Cerutti 2007) or a tendency of major regulators to fall into an under-regulation complacency during favourable economic times (Joshua Aizenman 2009). Still others (Randall Germain 2007) underscore the lack of an adequate deliberative context for decisions involving transnational economic governance for a global financial public sphere that emerges. The evidence regarding intensified contacts, communication and action-planning in the intergovernmental world might well support Germain's argument.

Since September 2008, governments in developed market economies have implemented actions aimed at supporting individual institutions (the so-called "too-big-to-fail" institutions) and programmes directed to the system as a whole. National measures have included, inter alia, capital injections to banks' capital, taking over contaminated assets or extending guarantees to help reduce banks' exposures to large losses, strengthening deposit insurance schemes, cutting reference rates and nationalizing banks. In December 2008, the EU leaders approved an overall package of €400 billion, with the UK leading the way in national packages assigning 19.8 per cent of its GDP for financial sector support. The new US administration succeeded in passing a bill of \$787 billion, the largest in the American history.

International financial institutions have also stepped in to provide additional lending at more favourable conditions, especially for developing countries (Fabio Panetta et al. 2009). At the same time, a plethora of diverse political ideas, plans, statements and declarations have been made on the causes, effects and prospects of the current crisis.

Regardless of their differences, the intensity of national and international political debates, particularly around the issues of interdependence and global linkages, might point out that a new global/transnational social space is emerging and all social, political and economic activities are becoming affected by its logic. Such a supraterritorial social space seems not bound by territory or distance, and structural change occurs independently of agency, frequently used by political leaders to justify their decisions as inevitable (Jan A. Scholte 2002, p. 7). A brief quantitative picture

of global capital flows given in the introduction shows how all economic activities have been affected by the transnational logic. The rest of the paper aims at illustrating that such structural changes will require agency changes as well.

Furthermore, structural changes today allow for potential different, multiple equilibria because actors' strategic and tactical choices interact with such changes, thus creating a number of potential outcomes. At present, particularly true for global capital, numerous interlinked processes design the global scene: internationalization, transnationalisation, translocalisation, and so on. In addition, a multitude of actors emerge on the supranational scene which had previously been strictly reserved for governmental actors, what Cerny calls multinodal politics (Philip Cerny 2007, p. 2) and Underhill describes as a relative disarmament of public authorities (Geoffrey Underhill and Xiaoke Zhang 2006, p. 29). Even though non-governmental actors have gained importance, the extent and consequences of the current crisis proved to be an excellent opportunity for authorities to invest in regaining the strength of their "arms".

Is this crisis simply a final nudge to "destroy" the neoliberal economic order that dominates today or are we witnessing a time wherein the level of world "fluidness" requires its total remake (John G. Ruggie 1993, p. 2)? What certainly is beyond doubt is the fact that global capital today presents one of the major areas of concern for the world economy as a whole and there is a pressing demand for new/updated arrangements to be made (Georg Sorensen 2006, pp. 7-9).

The processes of global political deliberations were directed to two culminating points: the G20 meetings in London and Pittsburgh. What was planned as a showroom for united and orchestrated action actually resulted in a serious compromise between the different agendas of the Anglo-American partnership and the continental European "league", while only a few of the developing countries' proposals were adopted. Once again, their overlapping but different agendas have pointed out that contemporary politics is one of detachment (Friedrich Kratochwil 2007, p. 5), of "cool loyalties" and "thin" patterns of solidarity.

The London G20 communiqué came out as a result of an ongoing political process, lasting for many months and encompassing a variety of issues, standing points, interlinked and conflicting values, as well as diverse proposals how to deal with the crisis.

2. European Union: Efficiency, Transparency, State Control

In October 2008, the EC Commission issued a communication outlining the European recovery plan (European Union 2008). The plan clearly emphasized the view that the current crisis poses an excellent opportunity to achieve a two-fold goal: on the one hand, improving endangered EU competitiveness (especially in relation to the US and the Far East), and on the other hand, fortifying the Union and rising state control. The latter has indeed become one of the stumbling stones in reaching compromise over proposals for a new global financial architecture. In addition, the EU underscored other goals, such as open markets, sustainable growth, transparency and accountability. Also important, decisive, coordinated and effective action backed up the communication: at the EU level by the French Presidency of the Council, the

Commission and the European Central Bank; and at the national level by the Member States, with full support and cooperation from the European Parliament.

A three part approach which will be developed into an overall EU recovery action plan/framework includes: a new financial market architecture at the EU level (read as: stronger state support and control); increasing investments in R&D innovation and education, with country-specific differences allowed in fiscal room for manoeuvres (read as: enhancing the EU position but maintaining state's fiscal sovereignty), and a global response to the financial crisis (neoliberalism in international affairs but wider and stronger control at home). In March 2009, the EU included two additional components in its proposal: changing the role of the IMF and plans to adopt a global charter for sustainable economic activity as a first step toward a set of global governance standards (European Union 2009).

At the Pittsburgh summit, the EU was able to present an even more unified position. This might be attributed to pressure exercised jointly by the leaders of the UK, France and Germany. In their letter to the President of the European Council ahead of the Pittsburgh summit, they reiterated that the summit success depended on a unified EU position. Such a position had to include exit strategies, supervision of systemically relevant financial institutions and countermeasures for non-cooperative jurisdictions related to tax avoidance. Keeping in mind that these countries were implementing the largest stimulus packages and that the EU economic dynamics largely depends on those economies, it is not surprising how easily "national" agendas have been transformed into a single EU stand.

3. G7: Economic and Trade Liberalism, Beneficial Globalization

Leaders of the seven most developed nations have been active in issuing joint declarations since the beginning of 2008, but their views have changed somewhat during the course of the crisis. In Tokyo, February 2008, the G7 finance ministers concluded that the world economy remained vulnerable to tighter credits, a deterioration of the US housing market, higher oil prices and rising inflation. In the beginning of 2008, the world's richest nations said they stood ready to take appropriate actions, individually and collectively, in order to secure stability and growth. Consequently, the market economy was not questioned and troubles were detected only in the short-term money markets. They continued to firmly support open trade, investment regimes and globalization benefits.

In February 2009, at the G7 meeting in Rome, a general intonation of the final communiqué radically changed. The severity and reach of the crisis was admitted and despite the fact that the market economy principles were not challenged, more specific issues were discussed: the need to restore normal credit flows, enhance liquidity and use newly created instruments and facilities, strengthen banks' capital base, and so on. For the first time, wide fiscal packages were proposed, as well as the need to redesign the international financial system (particularly the IMF).

Two particular features of the G7 responses differ them from the majority of other (inter)governmental responses. Firstly, they always manage to link issues of wider (or greater) importance to their own markets' development, such as the value of Chinese currency, Japan's rising fiscal imbalance, the growth of sovereign wealth

funds, terrorism, oil prices, and so on. Secondly, the G7 has been among the very few to underscore the significance of cooperation with private sector, for instance in developing mutually recognized securities regimes. The transition of the leading role from G7 to G20, ever wider issue-linkages in dealing with the crisis, and the involvement of private actors might serve well to illustrate that traditional approaches to international regimes (Ruggie 1993; Kratochwil 2007) are gaining in significance.

4. G8: International Organizations' Coordination, Structural Changes

The finance ministers of G8 (the G7 plus Russia) met in June 2008 in Osaka, again to reaffirm their beliefs in basic market principles but their final address clearly pointed out a new dimension to be taken. Namely, by calling upon a range of international (intergovernmental) organizations to start immediately providing their own inputs to national measures, they implicitly recognized the need for more structural changes. In other words (Underhill and Zhang 2006, p. 8), the group acknowledged the need for steering various multi-level entities toward shared rules.

The list of institutions and issues included Financial Stability Board, (cross-border cooperation in crisis management, sound compensation principles, sound financial systems), International Accounting Standards Board (off balance sheet items, valuation in illiquid markets), International Organization of Securities Commissions (code of conduct for credit rating agencies, improved disclosure by financial institutions), the Basel Committee (sound practice guidance on liquidity risk management), the OECD (best practices for open investment regimes), the World Trade Organization (successful conclusion of the Doha Round), International Energy Agency (volatility and level of oil and commodity prices) and the Financial Action Task Force (survey of financial system abuses).

In October 2008, the G8 summit allowed for the first time doubts to be raised regarding the quality of financial market regulation and the global system design. In the final statement they emphasized that while the focus was then on the immediate task of stabilizing markets and restoring confidence, changes to the regulatory and institutional regimes for the world's financial sectors were needed to remedy deficiencies exposed by the current crisis.

5. IMF: National Actions, International Spillovers, Private Capital

In April 2009, the International Monetary Fund presented concrete figures of economic losses from the financial crisis, arguing for forceful and immediate action on both the financial and macroeconomic policy fronts. As governments face a number of options and combinations in designing the response, leaders must be aware that the choice they make will produce effects in a wider transnational economic space. Initiatives that support trade and financial flows - including fiscal stimuli - will help support global demand, but moves toward trade and financial protectionism would be greatly damaging to all. The global financial architecture has become inadequate for

such an interconnected world economy and hence the greatest policy priority is financial sector restructuring, including common basic methodologies for the realistic asset valuation to be agreed among countries. The IMF primarily called for national regulation and national systems to be transformed in order to support the revival of global flows of private capital:

“Recent reforms to increase the flexibility of lending instruments for good performers caught in bad weather, together with plans advanced by the G20 summit to increase the resources available to the IMF, are enhancing the capacity of the international financial community to address risks related to sudden stops of private capital flows.” (International Monetary Fund 2009b.)

Regardless of widespread calls for the IMF to be reformed, this “champion of globalization” (James Putzel 2004, p. 5) obviously continues to support private capital among other pillars of the outdated Washington Consensus. Nevertheless, for continuing or revived legitimacy of the IMF, not only good performance that counts, but also its ability to conform to shared values and to some global model of good governance (Cerutti 2007, p. 4). Hence, it is not surprising that certain proposals (Christian Thimann 2007, p. 13) strongly advocate reforms that would place the IMF in the centre of an international economic dialogue. Yet others strongly criticize the limiteness of such reforms because they reflect the preferences of an alliance of national and multilateral agencies in the financial and monetary sphere, with powerful transnational market players based in these highly developed economies (Underhill and Zhang 2006, p. 3).

6. BRIC: Democratic International System, New Global Leadership

In May 2008, the BRIC summit in Yekaterinburg brought together ministers from the second largest food producer (Brazil), the biggest energy exporter (Russia), the largest democracy (India), and the most populous country (China). The agenda for the meeting sought to turn their combined economic power into political clout and covered issues from the global food crisis to the UN reform. The joint communiqué released at the conclusion of the summit outlined vastly different positions than those of the G8 and International Monetary Fund. The BRIC ministers urged the creation of a more democratic global system with the rule of law and multilateral diplomacy, wherein emerging markets should have a greater role and the dominant powers adhere to rules as all other countries. In this way, an expanded, new political community might add legitimacy (Underhill and Zhang 2006, p. 11) to the governance of the world economy which should be characterized by an accountable, legitimate, effective and fair governance structure (Germain 2007, p. 5).

In November 2008, BRIC countries stated their dissatisfaction with the global financial and economic order and called for introducing new principles and a new organization of the world financial system. Criticizing the G7 leadership, they wanted to see the G20 reinforced and elevated to a heads-of-state and heads-of-government level, above the finance ministerial status it had for a long time.

During the IMF meetings in March 2009, BRIC countries issued a separate communiqué, calling for their bigger voice in international bodies, and backed a large increase in IMF resources. “To achieve this goal, we emphasize the importance of better-focused even-handed surveillance across all IMF members, especially in respect to advanced economies with major international financial centres and large cross-border capital flows.” (International Monetary Fund 2009c.) The crisis has demonstrated that the IMF must strengthen its capability to monitor and give policy advice on the global economy. A few months later, BRIC countries proposed a concrete move: a 7 percent shift in IMF quotas in favour of developing countries, more than the 5 percent the United States proposed and which was later accepted by the G20.

7. European Central Bank: Long View, Multilateralism Informal Groupings

In discussing scenarios for the future of the global financial system during the 2009 Davos meeting, Jean-Claude Trichet, the ECB President, called for taking a step back to get a “bigger” economic picture (World Economic Forum 2009). World leaders needed a long-term vision to shape a more resilient system with strong governance, greater transparency and fight against “pro-cyclicality”. As a counterpart to the new financial architecture, he called for convincing, reasonable macroeconomic policies with effective surveillance and greater accountability in most dynamic parts of financial markets (for example, derivatives). A combination of micro and macro factors is the root of the present crisis and the turmoil cannot be explained by one or two variables. “Facts common to multiple markets suggest the existence of a common factor: one of these common factors was the lack of sufficient medium-term orientation of global macro policies. Structural issues have been at play in the development of imbalances in advanced economies.” (Jean-Claude Trichet 2009.)

The ECB strongly supports more rigorous regulation of the global financial system but only if it meets two fundamental goals: prevention of excessive risk taking, and creation of an environment conducive to long-term sustainable economic growth. In addition, the ECB supports a supranational, multilateral surveillance of global imbalances under the aegis of the IMF agreed by the G20. Most importantly, although international financial institutions have an important role to play, one must also consider a growing influence of new informal groupings and bodies (both public and private) that enable consensus building and further multilateralism development.

8. UK: Financial Isolationism, Fairness, Fiscal Stimulus

It is particularly instructive, for the purpose of analyzing how government responses change, to present the position and views of the United Kingdom. During the January 2009 business meetings in Davos, British PM Gordon Brown admitted that one of the problems was the absence of a global “map” to deal with it and as the financial industry was not that globalized in the 1930s, governments had no relevant previous experience. Again, globalization was taken as something that happens in the outer sphere and governments could do nothing than to react to such a process (Geoffrey

Garrett 2000, p. 29). He added that the international financial system had to be rebuilt and offered a confusing explanation: such an effort would partly serve as a means of limiting the contagion problem (limit negative globalization effects), but at the same time it would present a support to basic market principles (continue harvesting positive globalization effects). Governments were to decide how to set the border between the positive and negative effects of globalization as not everything could be left to the market.

Implicitly admitting the danger of further deterioration of the UK's position in the world finance, Brown underscored that financial protectionism was a greater danger than trade protectionism. He referred to unilateral actions of several countries that restrict government funding to national financial institutions thus barring their overseas operations from similar benefits. This is leading to the withdrawal of capital from these institutions' foreign operations and a new form of financial isolationism.

Nevertheless, after just two months (and during the London G20 meeting preparation), the focus of attention changed from global financial flows to family and business values, through bringing the UK's financial markets into proper alignment with the values held by families and business people across the country - hard work, taking responsibility, being honest, being fair.

In April 2009, the UK (together with the US) pressed hard for a wide, internationally coordinated fiscal stimulus that could help the real economy and *inter alia*, the seriously affected British economy, but with no success. Nevertheless, the alliance managed to concurrently resist the Franco-German efforts to introduce strict and comprehensive supervision rules for the global finance. Still, in preparation for the Pittsburgh summit in September 2009, the UK joined forces with Germany and France regarding several particular issues (as described above). In addition, the UK Prime Minister proposed a series of principles, including a financial system based on responsibility, transparency and integrity; sound macroeconomic policies; open economies; environmentally sustainable production; and fair distribution of the benefits of growth. What was also needed was a global agreement (and a regime) regarding durable growth that will in turn positively affect the country's security. In other words, the UK seems ready to use international institutions and arrangements. This supports the arguments of Underhill and Zhang that governments are becoming more inclined to actively participate in international arrangements for the purpose of enhancing their capacity to deal effectively with the denationalized economic structure.

9. France / Germany: New World - New Capitalism

Although the financial sectors of France and Germany have experienced different levels of stress under the current crisis (the former being less affected in relative terms), two governments seem to share very similar positions as to the solution for current turmoil and the future financial architecture.

In January 2009, under the banner "New world - new capitalism", politicians and financial experts met in Paris to discuss how the world can protect itself from financial crises in future. It was certainly one of the first occasions when leaders from both "worlds" were openly suggesting that the market-economy system, on national and international level, had faced serious challenges.

In line with the prevalent state-capitalism and social market economy tradition, Chancellor Angela Merkel called for a stronger governmental cooperation, for the current crisis was seen as an expression of poorly coordinated globalization. New regulation for the international financial markets was urgently needed and she proposed that an economic council be established under the auspices of the United Nations. Such a new organization, mirroring a world government, would be in charge of creating international regulation with binding rules for business at the world level. More influence and more responsibilities of states would create conditions for the development of a social market economy with global dimensions. Europe must once again play a major role in that process.

At the Pittsburgh summit, Ms Merkel pressed even harder for a system of global and detailed financial regulation. She called for a worldwide system in which every financial market product, every financial location and every financial institution would be regulated. The German idea of introducing a charter for sustainable economic activity under the auspices of the United Nations has since been adopted as the official position of the European Union but with significant resistance from the US and the UK.

The crisis of capital is also a crisis of capitalism, declared French President Nicolas Sarkozy, adding that the aim must not be to abolish capitalism, but to modify it. State interventionism forms one of the most significant elements in such modifications. It is necessary for moral and ethical values to be more firmly anchored in the system because they formed the basis for other fundamental values of capitalism (The Huffington Post 2009).

At the summit in Pittsburgh, France further developed the idea by introducing a new concept of development and progress. The G20 should initiate a fight against the “cult of figures” and the “cult of the market” because in times of crisis there is an obligation to seek other economic models - new paths for the future and for a new world. In addition to economic figures, there should be measures of well-being to promote “the politics of civilization”. These might include environmental sustainability, public services and possibilities for people to devote time to achieve certain family values.

Both France and Germany see the current crisis also as good opportunity to enhance Europe’s position, particularly in relation to more technologically advanced economies. According to them, if European businesses can be put on a sound technological footing for the future, they could be in a stronger position post-crisis than before. Needless to say, both countries are among the most influential ones in designing the EU policies (including those of over-protecting the EU market, hence causing its productivity lag) and the crisis might also be an opportunity to correct policy mistakes from the past. The position(s) of Germany and France might serve as a practical example how the notion of “world governance” transforms from a political idea into an emerging political project (Phillip S. Muller and Markus Lederer 2005).

10. China: New International Partnerships, New Institutions

More than other developing countries, China sees the crisis as a significant opportunity to improve its growth, as its economy has not suffered a decline comparable to

the developed countries. Beijing wants further strengthening of global financial markets and a strong but reciprocal fight against protectionism (Setser 2008, p. 24). Part of Beijing's plan is a substantial reform of international financial institutions, in order to give developing nations more power. (Currently at the IMF, for example, China has a 3.7 per cent voting stake, less than Germany and Britain.) It also backs plans for a new global reserve currency to replace the US dollar which certainly adds another dimension to the already changing currency structure of world capital flows.

Radical proposals have also included changing the role of governments in today's economies, introducing new models of market economies and dismantling international financial institutions all together. China presses for initiating an institutional experiment, in terms of market actors, processes and structures, which could more readily accepted and shared by authorities and investors worldwide.

Both official and unofficial voices from China agree that the country has acquired a new and powerful position in the international community but they disagree as to what role it should play: the one "prescribed" to it within the existing global system (by other major powers) or a new one within reformed world architecture. The fact remains that China would like to see further development of multilateralism and a greater role of the UN in handling international affairs. One must bear in mind that rules of global governance can be maintained (held legitimate) only if widely accepted and obeyed voluntarily (Underhill and Zhang 2006, p. 15 and p. 49). If, however, such a major player as China is strongly questioning the legitimacy of the present order and institutions, the success of current global politics raises serious doubts.

11. Russia: International Supremacy and Power

In addition to its activities, ideas and agenda pursued within the BRIC group of countries, Russia obviously wants to use the crisis for making a re-entry to the world scene and at least partially regain channels of influence.

"Naturally the world is asking why should we take seriously the American model of 'free-enterprise' as the debacle worsens? This crisis, it seems, is to America what 'imperial overstrain' was to Great Britain: a slow-motion unwind of international power and credibility - in short, the erosion of U.S. supremacy around the world and the ushering in of a 'post-American system'." (Cody Ross 2009.)

Russia came to the G20 summit in April 2009 with the most radical agenda for change, including proposals to counter US dominance, empower poorer countries and send an "obsolescent" economic order to the past. The Kremlin view is that the global economic downturn is the result of a collapse of the existing financial system due to poor management and basic inadequacies. According to the view, almost all components of the global system should be reformed: international monetary and financial systems, institutions and international regulation.

After the Pittsburgh summit, President Medvedev was happy to report that from a number of aspects, a new reality of the international political scene has been accepted by international community, thus marking at least the beginning of legitimacy rise. Russia's pressures for redistribution of quotas yielded results, showing "responsible attitudes" of various state leaders with regard to their international obli-

gations. More importantly, a “revolutionary change” was introduced regarding multi-lateral monitoring of macroeconomic parameters of the world’s largest economies, not only by the IMF but also by other countries.

12. United States: From Reaganomics to Obamanomics

Even before the major bankruptcies of the US banks, the presidential campaign revealed a shift in the agenda of the then-candidate Barack Obama. The US economy was beginning to slow down and refocusing was clearly a necessity. America was to reconsider free-market principles, introduce more governmental oversight, reorganize its society toward achieving more equality and less uncertainty, but at the same time continue to pursue its role as the world leader. The shareholder’s principle in creating international arrangements (Underhill and Zhang 2006) was reiterated as their common purpose, also for a new century.

After the new administration came into office and the crisis developed, those basic ideas found their way into various rescue and assistance packages. In addition to efforts for redesigning a new economic structure of “US Inc.,” fiscal packages were passed aiming at wealth redistribution and revival of the middle class. New roles for the government were envisaged but at the same time, the state budget was not planned to be the only financial source. Private investors such as hedge funds and private equity firms would be a key component in the plan to rescue US banks and public-private partnership should be promoted.

The G20 summit in April 2009 was actually the first opportunity for the new administration to test its positions vis-à-vis international responses to the crisis. In accordance with the tradition (and its position), the US was reluctant to proposals for “submitting” its economy to supranational rules and regulation. The latter was pressed for by France and Germany but fortunately for the US, the EU was not that unified regarding internationally-binding financial regulation and financial assistance.

Financial regulatory reform in the US has been planned to fortify the implementation of two basic principles: transparency and accountability, in addition to centralizing financial oversight and expanding Fed powers. A very strong message was also sent to other countries: the US would insist they also proceed with regulatory reforms but never at the expense of market principles and open trade, which was called a false choice.

At the Pittsburgh Summit in September 2009, the US position was more consolidated and the group adopted President Obama’s framework for improved economic cooperation and coordination. The framework outlined three basic dimensions of future (US) growth: strength, sustainability and balance (Group of Twenty 2009b). Those economic values, regardless of their questionable complementarities and trade-offs, would result in necessary realignments of global private demand for long-term growth (for all). Furthermore, in its closing remarks, President Obama openly admitted that in the world of shared security and prosperity, the US own interests depend on other countries’ actions. Declining US economic power and deteriorating political coherence at home on the one hand, and increasing transnationalisation of economic issues on the other hand, resulted in a change of the US agenda. These fac-

tors have also undermined the capacity of the US government to simultaneously cope with the problems of global integration and to commit to global governance (Underhill and Zhang 2006, p. 19). For the US, the international community does exist, interdependence cannot be overlooked anymore, common values have been developed and, most importantly, (all) members of international community have the obligation to work toward realizing those common values.

13. G20: Minimal Common Denominator

During 2008, the G20 was among the most energetic actors on the world scene with regard to making proposals and measures to counter the current crisis. Not surprisingly, those proposals were quite comprehensive and focused issues beyond “classical” monetary/fiscal policy approach to macroeconomic stability. The comprehensiveness of the G20 proposals also derived from linking various issues such as poverty reduction, social inclusion, emerging and low income countries, aid flows, climate change and cooperation with the private sector. The G20’s current status as a discursive organisation is in this way contrasted with the more strongly decisional types of other intergovernmental actors, such as the IMF (Richard Higgott 2004) and might shed more light on the future of multilateralism. Following the arguments of Muller and Lederer (2003), among the three strategies to categorize global governance emerge, the power and activities of the G20 might point to a new developing form of managing global affairs with specific actors, instruments and practices.

Following numerous formal and informal meetings within and outside the group, and in conjunction with other streams of political actions described above, the G20 summit in April 2009 resulted in three declarations on the recovery plan, the financial system and resources to implement the plan. The Global Plan for Recovery and Reform (Group of Twenty 2009a) underscores that fairness/equality in enjoying indivisible growth and its sustainability are the leading values. In order to achieve them, two basic components are agreed: effectively regulated market economy and strong, supranational institutions. Promotion of global trade and rejection of protectionism fall well behind the goals to restore confidence, growth, employment and lending, but ahead of an inclusive, green and sustainable recovery. A commitment was made to implement a \$1.1 trillion programme in support credit markets, growth and employment in the world economy.

Without the need to go into much detail, one must pay particular attention to different levels of norms planned to guide further actions. Four different types (or levels) of norms can be identified in the documents: global standards (most binding ones, applicable to all countries - related to accounting standards and principles); internationally-agreed norms (subject to separate agreements - financial system regulation); good practice (desirable, recommended - activities of credit rating agencies) and a consistent approach (most flexible - basic principles of national financial regulation, for example, the coverage, boundaries). This clearly reflects that, beyond joint pictures taken and statements made, the G20 leaders have set a particular “scale” of submitting their own policies and principles to global harmonization. Nevertheless, unless the norms and the policies in which they manifest themselves are perceived by the community as authoritative, and that they can be justified in terms of shared be-

liefs (Underhill and Zhang 2006, p. 10), there is still a long way for new, global governance in the field of finance to emerge.

The core part of the documents focuses on strengthening financial supervision and regulation. In order to secure much greater consistency and systematic cooperation, a new international body should be established - a Financial Stability Board. It would encompass a wider membership and work closely with the IMF to provide early warning of macroeconomic and financial risks. Most importantly, from the aspect of this paper, the G20 agreed "to extend regulation and oversight to all systemically important financial institutions, instruments and markets. This will include, for the first time, systemically important hedge funds." (Group of Twenty 2009a.)

The G20 Summit in Pittsburgh proved that leaders decided to keep the spotlight on their actions, at least in the short term. Though not yielding many results in terms of structural transformations (output side) as the London Summit did, this event brought forward two major changes. First, the G20, as a precursor to expanding the political community, should take over from the G8 the role of centre forum for the creation of new international economic architecture. Second, leading intergovernmental financial institutions should be reformed in a way that would give more voting power to dynamic emerging economies, thus enhancing the probability of successful future implementation of global norms. The G20 agreed to strong international standards for bank capital and compensation, as well as for more transparent over-the-counter derivatives markets. Reaching a consensus on the incorporation of macro-prudential concerns about system wide risks into international regulation has been one of the most significant accomplishments.

But maybe most importantly, the Pittsburgh Summit has initiated "a regulatory race to the top" for reaching international agreement and for implementing new standards nationally. One must not forget that, back in the 1970s, it was similar state competition (though in opposite direction of deregulation) that created the impetus for a sometimes high-risk search for a friendly environment and very short term economic restructuring.

14. Conclusion

The global capital market of today has not come into existence suddenly - it has evolved as a result of a multitude of trends and actors' strategies (including the state ones) to capture the benefits of globalization, in terms of rising efficiency, maximizing profit and developing flexibility to market changes.

On the other hand, governmental responses to the crisis (and the G20 compromise) seem to focus on only a limited set of particular issues directly related to global capital trends: stronger (national) supervision, hedge funds, tax heavens, bankers' remuneration, and so on. National policy actions have been more comprehensive, including wide fiscal packages, capital injections to (important) financial institutions, and stimuli to the industrial sector. Most of those actions, implicitly or explicitly, relied on some sort of protectionism which by its nature contravenes globalization and international cooperation. Nevertheless, most world leaders, groups and organizations felt obliged to point out that in the present world, cooperation and joint efforts are the *sine quibus non* if the global economy is to resume its "normal" functioning.

And here is the critical part: how should the world economy normally function? Through a completely new world economic system, based on non-neoliberal principles (though proponents of these ideas do not offer alternative principles)? Should such a change necessarily involve a change of global leadership (though the proponents have not openly submitted their candidacy)? Should a new social order (“new” capitalism) be based on social welfare, strong state presence and ownership? Is that maybe going back to traditional (Protestant) ethics of honesty, hard work and responsible way of living? Or does the normally functioning world economy depend on the development of public-private partnerships and critical remodelling of the governance concept? So far, leaders have agreed jointly to support the global economy with a financial injection worth around 1/200th of world financial assets. This might not seem like too much, but it is certainly a beginning. What lay ahead, after \$1.1 trillion is spent, is maybe a long process of building a set of shared values that might create a basis for legitimate and efficient governance.

In September 2009, one of the most influential advisories to the G20, the Basel Committee for Banking Supervision, issued a report that clearly defines two possible but opposite paths for a new world regulation of capital flows (Basel Committee on Banking Supervision 2009). One option for reform would be to reach a broad and enforceable agreement on sharing crisis financial burdens among different jurisdictions. However, as this option would give rise to considerable challenges, an international agreement on such mechanisms appears unlikely in the short term. An alternative path would be a “ring fencing” approach to supervision and a territorial approach to supervising cross-border groups. The second option might also be directly counterproductive. There is a possibility that uncoordinated actions of national regulators could increase stress on banking groups and the probability of further defaults, thus complicating crisis management (Basel Committee on Banking Supervision 2009, p. 7). Having in mind different “scale” of readiness of individual governments to accept global standards, it is very unclear how such an extension of supranational regulation will be designed and put in practice.

Differential powers, interests and ideologies of political actors are always constitutive elements of nascent regulatory arrangements. In present global finance, those significant differences affect at least two aspects of the existing structure: arrangement of the parts and ranking within the structure. Therefore, future solutions will need to be developed in a holistic and interdisciplinary way to ensure that the concerns of all stakeholders are addressed and “dots are connected”. Whatever the list and priorities of concerns governments may have, it is important to hold that such a new framework cannot be seen only in the short-term dimension of what seems to matter today, but also in terms of how far those new arrangements and institutions are prepared to confront challenges that, even if not in the spot light today, are recognizably contained in structures and trends of world finance. Future politics is requested to become politics for the future no less than for the present world. Hence time will play an explicit role and will confront “a challenge politics as we have known it during modernity may not be up to” (Cerutti 2007, p. 15).

Years ago, Kenneth N. Waltz (1979, p. 141) wrote that it was not possible to understand an economy or explain its functioning without considering the rules that

were politically laid down. This paper presented an overview of the official pronouncements at the beginning of and during the crisis. Future research related to the crisis should focus on three major areas: political processes to allow convergence of various agendas, implementation of the agreed norms and structures, and economic developments in global capital flows. Is there a possibility that, in the foreseeable future, heads of the territorial spaces become able and willing to discover and jointly decide on the basic postulates of the present global economy? What is the inner logic of the global capital flows and what are both beneficial and harmful consequences of such logic? Irreversibly transterritorial flows of capital have started to exert such a significant pressure to heads of states that some sort of hierarchic compromise might be expected in years to come. Bearing in mind that an order's legitimacy depends strongly on the body of shared beliefs, what remains to be seen is to which of today's multiple agendas (input side) new or adapted global rules and norms (output side) will be closer.

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