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**THE EVOLUTION OF A POST-CRISIS WORLD:
NEW TRENDS AND STRUCTURES IN A
TURBULENT GLOBAL SYSTEM**

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IN LIEU OF A SUMMARY

We are not students of some subject matter, but students of problems. And problems may cut right across the borders of any subject matter or discipline (Karl Popper)*.

To allow the market mechanism to be the sole director of the fate of human beings and their environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society... Robbed on the protective covering of cultural institutions, human beings would perish from the effects of social exposure (Karl Polanyi)**.

Key words: Financial and economic crisis, globalization, interdependence, internationalization, global competition, social sciences, conflicts, reforms, multilateral cooperation, international organizations

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* Popper, K. R.(1963): Conjectures and Refutations: The Growth of Scientific Knowledge. New York: Routledge and Kegan Paul, p. 88.

** Polanyi (1957) quoted in J. Ron Stanfield (1981): The Social Economics of Karl Polanyi. *International Journal of Social Economics*, Vol. 8, No. 5, pp. 3–20.

INTRODUCTION

Is the era of globalization and "neo-liberalism" over? Does the global crisis that began in 2007 mark the beginnings of the "post-neo-liberal" world? Are neo-liberal policies the only ones in crisis? Are there several global crises or is the current economic and financial one responsible for all the global turmoil? And what is in crisis: globalization, global capitalism, the financial system, or multilateral cooperation? These important issues in the ongoing debates are not just theoretical in nature. The outcomes of the search for practical answers and development policies may bring long-term changes.

Some schools of thoughts in the social sciences are more prone than others to label turbulence in a system as a crisis.[1] Several different approaches are taken to the present crisis. Some look at it in terms of the global system, others in terms of various subsystems, such as ecology, economy, politics or society. It should be emphasized here that crisis does not imply the collapse of the system concerned, but it is a major disturbance or turbulence blocking or seriously hampering its functioning. However, other views on this as well are being expressed during the current debate.

[1] This is not the most appropriate place to discuss the concept of crisis, but some aspects of its use or misuse need to be clarified. Its meaning has drifted, as has that of many other concepts. The Greek noun *krisis* (choice, decision or judgment) and its cognate verb *krinein* entered Greek and then Latin legal, medical, and rhetorical terminology as the turning point in a decision or argument. Its reappearance with reference to events, periods or processes dates from the late 18th century, with the meaning of episodes in a system that indicate structural dysfunction, for instance in society or the economy. It spread widely via the political process and the media into the political terminology of the 20th century, as an alternative to more concrete ideas marking major disturbances in various systems. Crisis management therefore became a task involving not only political science, but other disciplines.

According to some critics of today's global system, there are major problems on a global level that can be labelled crises and have influenced or been influenced by the current global financial and economic crisis.[2]

1. There is a mounting crisis of over-accumulation: only part of the capital accumulating can be invested in a productive way, and the profit rate of profit had been rather low in many non-financial areas in the period up to the crisis. Most accumulation has moved into the financial sector, where significant financial bubbles have built up. The ratio of global gross social product to financial assets in 1980 was 1:1.2, but by 2006 it had risen to 1:3.5. The expectations and entitlements to returns that are linked to this have become a threat to the global economy.[3]

2. There is a deepening global ecological crisis. The accumulation of material wealth and expanding utilization of resources have speeded up, as have the emissions of dangerous materials into the environment. The highly developed countries have not changed their development model, and other populous countries are busy taking up this model of development, which is outdated. The economic processes of globalization tie in closely with the changes in the global ecosystem (atmosphere, hydrosphere,

[2] One recent contribution to the debate appeared in *Development Dialogue* 51:2009 (the journal of the Dag Hammerskjöld Center). It enumerated five major global crises that might have provided "fertile soil" for the current global economic crisis. Other interesting theories have been developed by Tomas Szentes.

[3] Studies of the advanced industrial economies show a big drop in average rates of profit from the end of the 1960s through to the early 1980s. There were recurrent bursts of recovery in the mid to late 1980s and 1990s. But by 2000, profit rates had still not regained the levels of the boom during the quarter-century after World War II. There have, of course, been some exceptional years of profit high points, but financial bubbles developed as profits flew from one financial speculative venture to the next, as in the stock market and property booms of the late 1980s, the dot.com boom of the late 1990s, the sub-prime mortgage boom of 2002–6. Some extra profits translated into a boost in spending (through outlay on office buildings, spending by those managing the speculation, conspicuous consumption needed to attract speculative funds, *etc.*) and GDP growth.

geosphere, and biosphere). The future of the world and the limits of economic development are dependent on the ecosystem to sustain biological life. The ecosystem has been called a self-organizing or self-regulating system, in which the biosphere has become an increasingly active element. The global ecosystem is a highly complex mosaic of regional, sub-regional and national micro-systems where factors that have diverse environmental consequences interact. These micro-systems affect the global system in various ways, but they are connected and mutually influential. The macro system is a cumulative global network, which in turn influences how the micro-systems function. There are no prospects of finding a technological solution to the rapid destruction of the natural foundations of human life without a revolution in the mode of production.

3. There is a global food crisis. To meet the projected demand from a growing population, the world will need to double food production in the next 40 years. Among the middle classes, global demand for meat alone is expected to increase by 50 per cent between now and 2025. Yet over 1 billion people—one-sixth of the world's population—do not have access to adequate food and nutrition, and furthermore, there is a population increase of 2 billion people expected by 2025, with the growth highest in the poorest parts of the world. Meanwhile, an estimated 33 per cent of the in richer countries is wasted. Nonetheless, the world will have to produce even more food in the future and food of higher protein content. But the ability of the agricultural system to meet current and future production needs is seriously challenged by increasing water scarcity, climate change and volatile energy costs and supplies. Without major reforms and technical and economic changes, the world will be unable to supply the future food needs.

4. There is a "social integration crisis". The dissolution of the patriarchal nuclear family was compensated for, for those with high incomes, mainly by the influx of cheap migrant labour into low-wage and part-time jobs. Many Western societies are deeply split. The necessary support is no longer provided for many children and old people among the poor groups in society. The flexibility of present-day society destroys, even for those with a higher income, the chance for people to determine their own lives, resulting in a lack of meaning to their lives, criminality, drug addiction and dissolution of social cohesion. Worldwide, the decay of the state has already reached a quarter of all countries. The number of refugees is over 20 million. The number of people lacking essentials such as sufficient food, fresh water, minimal sanitary conditions, medical help and education is about 3 billion. In many countries, only a minority is involved in formal work, and the social state or the traditional institutions of social integration are being destroyed.

5. There is a legitimacy crisis in the political system of representative democracy. Democratization after 1945 rested on the fact that the citizens, the overwhelming mass of the population, shared in the welfare state. The contradiction between the economic system and democracy was supposed to be defused at least. This social pact—in any case valid only in a small minority of countries—has been jettisoned. The hopes of many people in the new states freed from colonialism have often not been realized. Even left-wing governments have implemented economic programmes in which global investors have been given priority. Never before have there been so many free elections as today, but the accompanying expectations of social and economic development have been increasingly likely to be disappointed. The fragile progress of democracy around the world is being endangered by major problems of a global nature: as global inequalities increase, so social tensions arise and erstwhile democratic regimes collapse. There are various political and other interest groups that undermine institutions and the sustainability of democratic regimes, especially in the developing world—organized terrorist and criminal groups, and other forces such as neo-Nazis. The current economic crisis shows that many national governments and much domestic regulation are inadequate to deal with the challenges of the global economy. There is also a danger of protectionism and isolationism, which could further undermine democ-

ratic institutions. Nor are these problems confined to developing countries.

6. There is a global security crisis. The crises mentioned already create such great economic, social, cultural and political tensions in and between states and groups of states that violence necessarily increases. The response so far has been a new arms spiral and the growth of a preventative security state. Arms expenditures have risen by about 50 per cent in the last decade, notably in the United States. An important aspect or dimension of the security crisis relates to the global energy sector. Economic development and population growth are expected to bring growth in energy demand that will double it in 30 years, mainly due to developing countries. Reliable and affordable energy systems are essential to a healthy economy. The energy system is also pivotal to other social objectives, such as climate protection. According to current trends, fossil fuels will continue to provide the vast majority of the world's energy for the foreseeable future. There are still abundant fossil resources, although utilizing them depends on extracting, delivering and using them at affordable prices and in manners consistent with sound environmental objectives. These fossil resources are unevenly distributed geographically, which has contributed to an increase in global trading in energy resources that stokes perceived energy insecurity. "Energy security" means reliable, stable and sustainable supplies of energy at affordable prices and social costs. Obtaining these means taking all nations and groups into account—rich and poor, developed and developing, producing and consuming. Energy security and energy independence, however, are two different issues. Energy security can only be achieved efficiently through global cooperation. No single solution to the energy security challenges exists. There is a complex link between energy security and a range of social, environmental, economic and political issues, including food, water and health security, which need to be harmonized through a comprehensive global security policy.

Some authors, even those who are not express critics of the system, view this era in a broader context, as a crisis of global capitalism. Financier George Soros was already predicting such a crisis in a book written long before the present crisis. But by "global capitalist system" Soros does not mean capitalism as a worldwide system of production for profit, but a narrower sphere of present world financial arrangements, which allow more or less free movement of capital throughout the world in which interest rates, exchange rates, and stock prices in various countries are intimately linked, and global financial markets exert huge influence on economic conditions. It is these arrangements—this single world financial market—that he sees as in danger of disintegrating, which is not, of course, the same as the collapse of capitalism. "To put it bluntly, the choice confronting us is whether we will regulate global financial markets internationally or leave it to each individual state to protect its own interests as best it can. The latter course will surely lead to the breakdown of the gigantic circulatory system, which goes under the name of global capitalism."[4]

Another important group of writers talk about a crisis of globalization or multilateralism. The well known US journalist/analyst Fareed Zacharia, for instance, suggested the following: "More broadly, the fundamental crisis we face is of globalization itself. We have globalized the economies of nations. Trade, travel and tourism are bringing people together. Technology has created worldwide supply chains, companies and customers. But our politics remains resolutely national. This tension is at the heart of the many crashes of this era—a mismatch between interconnected economies that are producing global problems but no matching political process that can effect global solutions. Without better international coordination, there will be more crashes, and eventually there may be a retreat from globalization toward the safety—and slow growth—of protected national economies."[5]

As for the current crisis, most analysts have confined their view of the processes

[4] Soros, George: *The crisis of global capitalism.* New York: Public Affairs, 1998, 176.

[5] *Newsweek*, June 22, 2009.

that triggered the crisis to events in the United States. The United States certainly played a major role, but the crisis-producing process was global—the international credit system. The US housing bubble helped to foment the crisis and remains an issue, but the causes and effects are far broader and deeper. The financial crisis was preceded by a mainly debt-financed global boom facilitated by flows of capital round the world. At the centre lay the US boom, but regulated European financial institutions played a critical role in facilitating it and spreading its adverse consequences worldwide. Some European governments, not just the US one, ran relatively irresponsible fiscal policies, later revealed in widespread and costly bailout operations. The US credit-based boom was fuelled also by flows of capital from countries with current-account surpluses, notably China, which effectively constrained its domestic demand in favour of a big current-account surplus. Instead of selling its dollars (which would have depressed the USD exchange rate), China chose to buy heavily into Treasury and agency securities, so increasing the supply of lending to the US economy and pushing down interest rates. A big role was also played by banks in countries without surpluses, in the EU as a whole: that gross flow of capital into risky US ventures was as important as the net flow of capital.

The boom increased system-wide financial vulnerability everywhere. After the Lehman collapse, the credit system was struck by global loss of confidence. There was a rapid fall in the credit supply and a fall in the demand for credit. The private debtors of many countries, households and firms, increased their precautionary savings. In the United States, the household savings rate has climbed from almost nothing to 5 per cent.

Re-evaluation of the reasonable volume and conditions of medium-term borrowing and lending in the credit system has become a more or less global exercise. Bailouts and fiscal stimuli have interrupted the free fall of the economy but they have not addressed the underlying problems.

The reasons why the financial crisis spread rapidly to the real economy lie partly in the crucial role played by credit in financing investments, production and sales in such important industries as transport equipment and consumer electronics.

The crisis has had serious, wide-ranging, yet differentiated impacts across the globe.[6] The negative impacts reported since the crisis began vary by country and region and in development level and severity:

* Rapid increases in unemployment, poverty and hunger.
* Deceleration of growth, economic contraction.
* Deteriorating balances of trade and payments.
* Dwindling foreign direct investment.
* Wide, volatile movements in exchange rates.
* Mounting budget deficits, falling tax revenues, less fiscal room for manœuvre.
* Contraction of world trade.
* Increased volatility of prices for primary commodities, with a falling tendency.
* Declining remittances to developing countries.
* Sharply reduced revenues from tourism.
* Massive reversal of private capital inflows.
* Reduced access to credit and trade financing.
* Reduced public confidence in financial institutions.
* Reduced ability to sustain welfare safety nets and other social
* services, such as health and education.
* Increased infant and maternal mortality.
* A collapse of housing markets.

It is evident from these outcomes of the present crisis that there are long-term dangers in three areas, each itself a specific area of global crisis, real or potential. (1) There is an employment crisis, with a threat of long-term growth in non-

[6] United Nations A/CONF. 214/3.

employment. (2) Unprecedented global indebtedness, particularly in the developed countries, results in a global debt crisis through a strong crowding-out effect on less developed countries. (3) There may well be a global currency crisis affecting particularly the US dollar.

This paper is intended to contribute to important, interesting and multidimensional debates about on the next stage, notably the "state of globalization" in the context of the current crisis. These debates involve not only social scientists in various disciplines, but politicians and business people. It is also intended to analyse some of the theoretical and practical problems posed by the changes in the world system consequent on this first global crisis of the 21st century, the worst since the Great Depression.

1) THE ORIGINS OF THE GLOBAL CRISIS AND POSSIBLE CONSEQUENCES FOR THE GLOBALIZATION PROCESS

This first global economic crisis of the 21st century comes in a period when the capitalist system has regained its global dominance, following the collapse of the rival Soviet system. It started as a crisis in the US financial system, almost exactly a hundred years after the major US crisis of 1907 known as the Bankers' Panic. That too was seen as a golden age of capitalism, with strong driving forces towards internationalization. The New York Stock Exchange fell close to 50 per cent from its peak in the previous year. There were numerous runs on banks and trust companies. The 1907 panic eventually spread throughout the United States, leaving many banks and businesses insolvent. The following year, Senator Nelson W. Aldrich chaired a commission to investigate the crisis and propose solutions, leading to the creation of the Federal Reserve system. The story of the panic and crash of 1907 is an instructive example of how a major financial crisis can result from a coincidence of market events that alarm investors and depositors. There had been years of rapid, widespread economic growth and rapid expansion in credit beforehand. Private and public debt had grown significantly, and as stock markets had boomed all over the world, speculators contributed to the rise in debt by borrowing heavily to buy securities. The size and the complexity of the financial system made it hard for anyone at the time to spot the real linkages, but it is always easier to put the blame on persons, institutions and practices once the crisis has struck. The scapegoats in 1907 were the "evil bankers" and the trusts.

Naturally, crises inspire searches for parallels as a way to identify causes and predict consequences and lengths. Data for the United States since the beginning of the 20th century is interesting in this respect.

Table 1
US recessions since 1900

Beginning of recession	Length of recession (months)
September 1902	23
May 1907	13
January 1910	24
January 1913	23
August 1918	7
January 1920	18
May 1923	14
October 1926	13
August 1929	43
May 1937	13
February 1945	8
November 1948	11
July 1953	10
August 1957	8
April 1960	10
December 1969	11
November 1973	16
January 1980	6
July 1981	16
July 1990	8
March 2001	8
December 2007	Unknown

Source: National Bureau of Economic Research 2008.

These figures yield a mean duration of 14.43 months, with the longest being the Great Depression of 1929.

While it is too early to draw firm conclusions, there are structural reasons for saying that the duration of the global crisis that started in 2007 will be different in America, Asia and Europe than in the developing countries of Africa and Latin America. The consequences will also be more devastating in the latter group, which are weaker and more dependent on external markets and resources.

Although the present crisis will have serious, multiple, global economic and social consequences, it may not match the scale of the 1929–33 crisis or produce the political shocks that ensued in the 1930s. The world itself has changed since in many respects. Globalization and the level of it probably explain how the current crisis—the most severe financial and economic crisis since the Great Depression—having originated in the sub-prime mortgage market in the United States, managed to spread to Europe and the rest of the world at unprecedented speed. Furthermore, the policymakers of major states have played an activist role in 2008–9, making a policy response much different from the one in the early 1930s, when authorities allowed the contraction to run its course, taking the view that the unprofitable portions of the economy should be trimmed. The multilateral cooperation system present today may also be an important asset for collective management of the measures necessary. No such system was up and running in the 1930s. Yet the global economic system, particularly the financial system, is the least transparent and most complex area of global interconnectedness. It is more vulnerable than at any time since World War II and a major factor in the risks and uncertainties in the world economy. There are a number of difficult, long-term problems behind the difficult, uncertain present-day world.

The crisis in the era of multiple transformations

The present crisis hit a global system undergoing multiple transformations with a number of adverse consequences, Some, such as the polarization of population trends, super-urbanization, changes in global power structure and consequences of the global ecological crisis are rooted in the legacy of the 20th century.[7] Their interactions with the new factors and forces have resulted in the 21st century in a complex, diverse and turbulent world. Coincidences of such major transformations within a given era are rare in human history. So the last phase of the 20th century and the first of this comprise a historically more or less unprecedented environment, which will make its mark on the next two or three decades at least.

Will the global economic crisis tend to increase these problems or do the opposite,

[7] The 20th century has been one of the most controversial eras of human history, encompassing nationalism and internationalism under various flags and ideologies, by peaceful or violent means. It was a century of decolonization and disintegration of great empires. It included some of the worst dictatorships in human history and unprecedented broadening of freedom and democracy, as well as revolutions and counter-revolutions, world wars, national liberation wars, and religious, class, ideological and ethnic conflicts. Civil society do-gooders preached human solidarity, while dogmatic and violent fundamentalists advanced movements that were declared to be terrorist and later became leaders of new countries. Political leaders responsible the mass murder of millions are still seen as heroes by certain groups, global organizations of criminals, and other strange, violent or non-violent groups. Ninety per cent of the scholars who lived and worked in human history helped to shape and develop the rapid progress of science and technology, as embodied in new products, processes, consumer goods and ghastly weapon systems. Other aspects were a radical improvement in the quality of life for many millions, mass poverty and misery, expectations, and disappointments and despair for billions.

[7] The character and consequences of this were analysed in a special issue of *The Third World Quarterly* 2004 25[1].

so that the shocks and the losses stimulate the main actors to take actions that presage greater global security? Will it bring a new phase of multilateral cooperation or new problems to "derail" the existing system?

The complex problems of the new era, particularly the search for policy answers to the questions raised in the Introduction, present major challenges also to the social sciences.[8] Alternative interpretations are offered and alternative solutions proposed. As the international system itself undergoes flux, this may overwhelm some of the multilateral institutions charged with managing global problems. There may be a more pervasive sense of insecurity, based not only on the changes, but on psychological perceptions as physical threats grow. But it has been recognized increasingly that the changes have not had and will not have a common meaning for the various actors in the international system and many of their long-term consequences—positive and negative—may differ greatly, not only for North and the South, but for individual developed or developing countries.

Social scientists have been fond of predicting "ends": of history, poverty, geography or the nation-state. The latest such notion is the end of globalization. It has become fashionable to note the observation of Stiglitz (2002) that the central tenet of neo-liberal economics—the invisible hand of unfettered international competition—is theoretical nonsense. Now many academics reject the neo-liberal prophets in favour of Schumpeter, Keynes, or even Marx as they look to the future of the capitalist system.

In theory, a system is conceived as a sum total of interdependent variables (elements and blocs). The structure of a system is the cumulative totality of the functional interdependent variables. The conceptual background to the research on which this paper rests is the global system.[9]

The global system can be seen in various ways and dimensions. One dimension is basically functional—it covers political, economic and ecological sub-systems and the entirety of relations among the actors that influence processes and changes beyond national frontiers, motivated by individual or common interest. The chief actor in the system is still the state, through governments. Other major actors are intergovernmental organizations assigned responsibility for managing cooperation and lessening the destabilizing forces and risks. The role of non-governmental institutions and organizations has also gained importance in a variety of fields in all of these functional areas. The other dimension of the global system is social. The global system is by its nature embedded in social, ideological and cultural structures. The role of social formations in systemic processes is especially important, as it influences virtually all of the system's components. In economic terms, social forma-

[8] The author analysed the implications of these transformations for global governance in Simai (1994).

[9] The concept of systems is widely used in various sciences and in daily life. Systems theory was born as an interdisciplinary approach on the frontiers of logics and cybernetics, with "system" defined as the entirety of interdependent variables, elements or blocs. A system can be seen and analysed in a static way or in a process of transformation. In theory, there can be isolated, open, interdependent systems. Research into a system may look at its structure, functions, hierarchies and outcomes, and its various processes, particularly those crucial to its functioning. See Arrow, K. J. (1951): *Social choice and individual values*. New York: Wiley, and Beer, S.: *Decision and control. The meaning of operational research and managements in cybernetics*. London: Wiley, 1966.

There are many different understandings of the "global", "world", or "international" system. For instance, Wallerstein posited its foundation in the capitalist world economy, whereas Ougaard emphasized the system's connection to social formations. See Sorensen, Georg: A revised paradigm for international relations: The "old" images and the postmodernist challenge. *Cooperation and Conflict* 26 (1991):85–116. A more recent and comprehensive definition is offered by Stanley Hoffman, who sees today's world as a complex game played on three levels: a world economy that creates its own rewards and punishments and provides opportunities and constraints for the players (not all of them states); the states themselves; and increasingly, the peoples who intervene insofar as they are unhappy with the effects, inequalities and inefficiencies of the world market, or with the inadequacy of established borders or the nature of their governments. See Hoffman, Stanley: Balance, concert, anarchy, or none of the above. In: Treverton, Gregory F., ed., 1991: *The shape of the new Europe*. New York: Council on Foreign Relations.

tions are defined as the structures of property, motivation, information and institutions—all structures through which power is concentrated, diffused and transferred. Internationalization and globalization have had major influences on political processes via integration and disintegration of the state and the cumulative effects of competitive and cooperative relations between the main global centres of power, which have created a high level of interdependence among the actors in the system. By the 21st century, the global capitalist system had regained its dominance after the collapse of the Soviet-style socialist system. In this respect too there are important new issues that require further analysis. I have dubbed, for example, the capitalist system of the 21st century as a stage of "super-capitalism", as the world economy—the economic basis of the global capitalist system—is larger than ever in terms of global product, accumulated capital existing and Functioning in various forms, and volume of global consumption. The most important non-state actors in the system, the transnational corporations (TNCs), play a dominant role in practically all sectors of the world economy. Their interests and values influence state policies and the system of multilateral cooperation in a decisive way. A crisis presents more than an immediate challenge. It also provides a chance to address long-term problems at a time when people are willing to question established conventions. How will the system of super-capitalism be able to deal with the various challenges?

While a relatively high level of market liberalism is a fundamental trait of the "reborn" global capitalist system of the 21st century, it differs in many respects from the capitalism whose universal character was broken by the Russian Revolution of 1917. First, it is a dynamic, hierarchical, multicoloured system. At the top of the hierarchy is still the United States, the only multidimensional global power. States whose power lies in several factors—a developed economy, a strong army, influential policies and diplomacy, and an efficient information sphere—gain considerable advantages. The system is more diverse than it was in the 19th and early 20th centuries. This is not the capitalism of the "territorial empires". Some analysts discern in it economic empires, but even those who use that concept have to recognize that the role of these is different from that of political empires. One major difference is in the political structure of the world capitalist system. It is composed of 193 mostly micro, mini or small states at the mercy of global economic forces. For these, globalization may be a blessing or a source of insurmountable problems, depending on their level of development and their economic and political structure. [10]

The first evaluation of capitalism, after the collapse of the socialist regimes, was offered by John Paul II in his Encyclical *Centesimus Annus* in 1991:[11]

"Can it perhaps be said that, after the failure of Communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is this the model which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress?

"The answer is obviously complex. If by 'capitalism' is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a 'business economy', 'market economy' or simply 'free economy'. But if by 'capitalism' is meant a system in which freedom in the

[10] At present there are about 2500 ethnic groups are living in 150 multinational states, and exercise of their right to self-determination would create a chaos in international relations, as has already been shown in the Balkans, the Caucasus, the Middle East, Central Asia and other regions where armed conflicts have been going on for twenty years, destabilizing the situation in the world. Such seats of instability interfere with the stable communication through which resources and goods travel (or would travel), and interfere with globalization.

[11] John Paul II (1991): *On the hundredth anniversary of Rerum Novarum Centesimus Annus, Encyclical Letter*. Washington, D. C.: United States Catholic Conference Publication No. 436–8, 81–2.

economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative.

"The Marxist solution has failed, but the realities of marginalization and exploitation remain in the world, especially the Third World, as does the reality of human alienation, especially in the more advanced countries. Against these phenomena the Church strongly raises her voice. Vast multitudes are still living in conditions of great material and moral poverty. The collapse of the Communist system in so many countries certainly removes an obstacle to facing these problems in an appropriate and realistic way, but it is not enough to bring about their solution. Indeed, there is a risk that a radical capitalistic ideology could spread which refuses even to consider these problems, in the *a priori* belief that any attempt to solve them is doomed to failure, and which blindly entrusts their solution to the free development of market forces."

In the world market of the 21st century, four main systemic models of capitalism influence the ways the crisis is "managed" or are influenced in turn by the crisis. The ways by which the different models of capitalism have contributed to economic growth, increasing inequality and instability, have depended much on country-specific factors. The inherent dynamism and characteristics of the system may result in instability, crashes and major social problems. The present global crisis erupted in the United States, whose system is marked by a regulated, liberal free market. While in principle, most of the necessary regulations were "available", in practice they have not been implemented. The other model of capitalism, the various configurations of the welfare state in Europe, with relatively high levels of welfare spending. These economies—deeply integrated into the global economy, and particularly with the United States through the global financial conglomerates and TNCs—have been especially hit by the crisis. The cooperative/coordinative model in Japan and other Asian countries has also proved vulnerable through its dependence on world markets. The influences of the crisis on the various systemic hybrids in the developing world and the former socialist countries depend on their interconnectedness with the developed world, the volume of their reserves, and the abilities of the government to protect the economy or implement domestic stimulating measures.

The characteristics and structural background of economic crises

To put the present crisis into systemic perspective involves differentiating types and influences on the functioning of the economic system. Three types can be identified in principle.

1. The first can be considered a cyclical crisis. One or several factors in the financial system or the real economy may create problems for the system, which slow economic growth, reduce GDP, cause financial disturbances, and produce runs on banks, unemployment and pronounced industrial overcapacity. This type of crisis can be dubbed as a recession if it satisfies the definition adopted by the IMF or other organizations. There have been several crises of cyclical nature and even with some structural characteristics in the past 25–30 years. The US stock-market crash of 1987, when the Dow Jones Index lost 23 per cent on October 19, was the product of increasingly uncontrolled computer trading, contributing to a rapidly growing bubble that necessarily burst. Robert J. Shiller, in a famous book on what he called "irrational exuberance", analysed the so-called Ponzi Process involving the work of various feedback loops, when investors with irrational expectations buoyed by past price increases bid up stock prices further.[12]

2. More dangerous are structural crises. These derive mainly from market failures. In a structural crisis a major fall in output and consumption result in long-term prob-

[12] Shiller, Robert, J., 2000: *Irrational exuberance*. Princeton N. J.: Princeton University Press, 44–5.

lems for the whole economy or for several countries simultaneously, such as a major decline in GDP, mass unemployment, or insolvencies. Several sectors may be involved: finance, industry, agriculture, services, *etc.*, and the economy can only be directed back onto the path of economic growth by fundamental structural transformations. The Great Depression of the 1930s was such a crisis, which only massive state interventions in the form of public investment and the beginnings of a war economy could resolve. Another structural crisis was that of Japan in 1990, which was followed by a depression of almost ten years. The process that began in 2007 can likewise be seen as a major global structural crisis. A systemic crisis occurs only when the system itself runs out of options: it confronts problems that cannot be resolved within the framework of the system itself and its very foundations are ruined. But what distinguishes a structural crisis from a systemic one is that the former leaves the system with options for restructuring itself to restore profitability and growth. Has contemporary capitalism entered into an era of systemic crisis? Some authors consider the present crisis "systemic" and expect major economic, political and social shocks. In my view, however, this is not a systemic crisis. The history of capitalism shows that even a systemic crisis need not imply the collapse or "replacement" of a system. Management of the crisis requires, however, major reforms that create new conditions and improve its functioning in several ways. This applied particularly during the years of global competition between the two systems.

The character and consequences of the structural crisis are determined by the structure of the economic system. The structure of the global economy changed radically over the second half of the 20th century. Of the sectoral shifts directly related to the crisis, the most important change was fast expansion of the financial sector and of the paper economy—the part of the national or global economic system where there is no material production, and it is dominated by the movements of money, stocks, bonds and other financial instruments. The growth of the paper economy has been hectic in the last 25–30 years—three times faster than that of the "real" economy: industry, agriculture, related services, transport, communications and commerce. It stimulated unprecedented growth of global financial centres. City states emerged in the medieval period as trade centres, and similarly in the 20th century, the important centres of global money trading concentrated the stock and commodity exchanges and private financial institutions, making them global concentrations of the paper economy, with financial conglomerates, investment and commercial banks, insurance companies, underwriters, broker houses, *etc.* as their main actors. Such centres as London, New York, Tokyo, Hong Kong, Shanghai, Singapore, Frankfurt, Paris, Amsterdam, Geneva, Dubai, *etc.* are connected by mobility of capital and through their 24-hour stock exchanges. They play a crucial role in speculation and the rapid spread of panics. London exemplifies their importance to their national economies, generating 15 per cent of UK GDP.

These changes promoted an unprecedented degree of speculation. A speculative market can be defined as one in which prices move in response to the balance of opinion on future movements of prices, rather than responding to changes in the supply and demand for the item priced. The financial markets displayed a voracious appetite for resources, and the markets responded with various financial innovations, the most important of which are derivatives and securitization. The main types of derivatives—financial instruments whose value depends on that of other, underlying financial instruments—are futures, forwards, options and swaps.[13] They

[13] Derivatives are as old as commerce and finance, under various names. The first recorded derivative contract dates back to ancient Mesopotamia, while options contracts are quoted in the Bible. Derivatives contracts are tailored to customers' needs and represent a natural evolution of financial markets, where players seek new profitable opportunities and better resource allocation (Greenspan 2000). The turnover in exchange-traded derivatives (futures and options contracts) in December 2007 reached USD 2289 trillion (Bank for International Settlements [BIS] 2008); over-the-counter (OTC) contracts involve USD 595 trillion (notional amount outstanding), corresponding to USD 15 trillion of gross market value in the same period.

can be based on various types of assets such as commodities, equities (stocks), residential mortgages, commercial real estate loans, bonds, interest rates, exchange rates, or indices such as a stock market index or a consumer price index (CPI, inflation derivatives), or even an index of weather conditions. The performance of the index may determine the amount and the timing of pay-offs. An increasingly prominent part is played by credit derivatives.

Securitization is a structured finance process that involves pooling and repackaging cash flow-producing financial assets into securities to sell on to investors. All assets can be securitized so long as they are associated with cash flow. Hence the securities that are the outcome of securitization processes are termed asset-backed securities.

While the paper economy and real economy are interconnected in the national and international frameworks, the vitality of the real economy, on which most people depend for their livelihood, has been undermined. Market participants in a period of strong global growth, growing capital flows and prolonged stability sought higher yields without fully gauging the risks and failed to exercise proper due diligence. For vulnerabilities were appearing in the system, due to weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage. Policy-makers, regulators and supervisors in some advanced countries did not adequately address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions.

Among the main factors underlying the current situation are inconsistent, insufficiently coordinated macroeconomic policies and inadequate structural reforms, leading to unsustainable macroeconomic outcomes. These developments have contributed to excesses and ultimately caused severe market disruption.

Integration of local and national financial markets into a more unified international financial market accelerated in the final decades of the 20th century. One important accelerator in this respect was the demise of the Soviet bloc. By the 21st century, the opportunities to raise finance and invest capital had become truly global. Cross-border investment has been further encouraged by the substantial number of bilateral investment treaties and the liberalization of capital accounts. In the 1970s, over 80 per cent of all countries restricted access to foreign capital, but today only 60 per cent of developing and no industrialized countries have capital accounts that are more or less closed. In the 1970s, worldwide cross-border holdings of assets amounted to only one-tenth of world GDP, but since then, cross-border capital flows have steadily increased and countries have now built up foreign assets to an amount three times the world's annual GDP. Global GDP had reached USD 45 trillion by 2007, and global financial investment had surpassed USD 140 trillion, of which some USD trillion was invested in stocks, bonds and FDI. The share of the US was 36 per cent, more than its share of global GDP. In 2006, global money trading was USD 370 trillion. The growth of the paper economy can be explained partly by the limited real-economy opportunities with the same profit expectations.

The paper economy is linked to the real economy mainly through investments, loans and the flow of profits or incomes from the real economy to the paper economy. Globally, the most important links are FDIs. Over the past 30 years, annual FDI worldwide grew from around €8.5 billion (USD 10 billion) to almost €1000 billion (about USD 1200 billion). The aggregate world value of investment in foreign firms—the stock of FDI—is equal to the annual GDP of the Euro area or the United States.

The instability and volatility of the paper economy can devalue the economic base of real lives, or in more macro scenarios lead to rapid collapse of national and regional economies. Susan Strange calls

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These represent approximately 11 times global GDP. The strength of derivatives lies in their liquidity, marketability, and ability to circumvent regulation from national or international bodies.

this instability "casino capitalism",[14] for as in a casino, the world of high finance offers players a choice of games—not roulette, blackjack or poker, but dealing on the foreign-exchange market and all its variations, or in bonds, government securities or shares. In all these markets players may place bets on the future by dealing forward and by buying or selling options and other recondite financial inventions. Some players—banks especially—play for very high stakes, but there are plenty of quite small operators too, not to mention tipsters selling advice and pedlars of systems to the gullible. The croupiers in this global finance casino are the big bankers and brokers. They play, as it were, "for the house", and in the long run make the best living. Strange goes on to observe that the big difference between ordinary kinds of gambling and speculation in financial markets is that one can choose not to gamble at roulette or poker, whereas "casino capitalism" affects us all. What goes on in the back offices of banks and hedge funds is apt to have sudden, unpredictable and unavoidable consequences for individual lives.

The power of brokerage houses, money traders, investment banks, mutual funds and hedge fund operators and some other financial actors is based in part on a complicated "process of multiplication" of loans, assets and transactions. Many investors in financial markets buy financial instruments on very thin margins, based on loans obtained by pledging the assets as collateral. This is called "leverage" in the parlance of financial markets. In turn, the borrowed funds are invested in other financial assets, multiplying the demand for credit and financial assets. As demand rises, more sophisticated financial assets are invented, including many forms of financial derivatives. A major portion of the accumulated debt remains serviceable only as long as the prices of most assets rise or at least remain relatively stable. If prices turn down, they easily lead to a chain reaction. If investors respond like a herd, they will bring a far-reaching collapse that constitutes a crisis. The recession in 2007 proved again that banking crises are extremely dangerous. Once a banking crisis starts, it may spread very fast. If problems in one bank are made public, small depositors take fright and withdraw their money. This may result a massive run on the banks. Banking-sector capital could be depleted due to loan losses, at huge expense. A banking crisis may go on to disrupt the real economy. Internationalization of the banking sector connects directly banks in different countries and the affiliates of large financial conglomerates across the borders A home-grown financial storm can rapidly turn into a regional or global typhoon.

[14] The concept was developed by the Polish economist M. Kaleczky. Keynes also referred to the casino character of modern financial institutions.

2) Globalization and prospects for it in the post-crisis world

Given the magnitude of the crisis, its residue is likely to linger for quite a while. The developed world in particular may be slow to recover, with slow growth or stagnation for some years to come. Japan's stagnation after its crisis in the early 1990s—and a period of very high growth—is an important antecedent. It is hard to predict how far the United States or Europe will undergo the same patterns of slow growth or stagnation, but it cannot be ruled out. The implications of slower growth in the developed countries for the rest of the world would be direct and indirect. Most of the direct effects would be through FDI, the indirect ones through international trade and finance: (1) reduced propensity for cross-border lending, (2) slower world trade growth, and (3) less tolerance of large external trade deficits.

It is realistic to expect the crisis to end eventually, financial stability in the United States and other advanced countries to be restored, and growth in the world economy to resume. Answering some of the questions raised in the introduction about the "derailing" or ending of globalization calls for analysis of where the process stands in the early 21st century, along with the predictive relevance of various approaches.

The "expansion" of the concepts of globalization in the social sciences

Internationalization and interdependence have been the categories used to describe the changes occurring in the global system in the era that has come to be known as the age of globalization. It is important to state that the fuzzy concept of globalization was not invented or introduced by the social sciences. Though other pioneers of the concept have been mentioned, it was actually introduced in its present sense by Harry S. Truman, the US president (1945–53) and some leading business figures, and immediately picked up by the press. What the social sciences had to do was fill out the "intellectual vacuum" around the concept and this they are still doing.

The current crisis is being seen as the first global economic crisis not only in the 21st century, but in the whole new, post-Cold War phase of globalization. Four main features of the globalization process have to be taken into account when explaining the longer-term consequences of the crisis for the foundations of globalization. (1) It involves extending social, political and economic activities across frontiers, regions and continents. (2) It is marked by intensification or expansion of interconnectedness and flows of trade, investment, finance, technology, migration, culture, *etc.*[15] (3) It ties in with an acceleration of global interactions and processes, as the development of worldwide systems of transport and communications speeds up the diffusion of ideas, goods, information, capital and people. (4) The mounting extensity, intensity and velocity of global interactions is associated with a deepening of their impact, so that the effects of distant events may become highly significant elsewhere and some local developments can have marked global consequences; in this sense, the boundaries between domestic and global affairs have become increasingly permeable.[16]

[15] Mass communications produce images that cross and re-cross linguistic frontiers more rapidly and easily than goods and services, and speak across languages in an immediate way. Global mass culture is dominated by the ways in which the visual and graphic arts have entered directly into the reconstitution of popular life, entertainment and leisure with the imagery and style of mass advertising. This is dominated by Western cultural values and techniques. The process is homogenizing but also absorptive of techniques and practices.

[16] Economics depends increasingly on quantification. Various international organizations, particularly UNCTAD, have developed statistical data and indices to characterize trade intensities of economic growth, the share of trade in output, the importance of FDI in global development and in national gross domestic investment, *etc.* UNCTAD's transnationalization index expressed the dependence of countries on TNCs, and an other indicator the internationalization of the firms. The question of whether the globalization process can be measured and its degree expressed in quantitative terms has become an interesting and important dimension of its analysis. There have been many attempts to quantify the degree of globalization, on a global level and on a level of countries. One was the Kerney index, which covers 72 countries representing 97 per cent of world GNP and 88 per cent of world production. The 12 variables are grouped in 4 categories: economic integration, personal contact, technological connectivity, and political engagement.

The Swiss Institute for Business Cycle Research has developed the most complete globalization index (the KOF index), which measures the economic, social and political dimensions of globalization. This enables comparison of degree and changes in globalization over a large number of countries and over 30 years. The KOF index of globalization 2007 is available for 122 countries over the period 1970–2005, and is calculated on a basis of 25 variables. The economic dimension of the KOF index measures long-distance flows of goods, capital and services, and of the information and perceptions that accompany market exchanges. It also captures the degree to which a specific country restricts capital and trade flows. The social dimension measures the spread of ideas, information, images and people, while the political dimension captures diffusion of government policies. The index of globalization measures globalization on a scale of 1–100, where the underlying variables enter in percentiles. According to the index in 1970, the degree of globalization on a global level was 33; in 2005 it was 58. Economic globalization rose during the same period from 39 to 63, and political globalization from 32 to 59. In 2005, the most globalized continent was Europe, where the index was 76, and the least globalized Africa (43).

Since the 1960s, which may be seen as initiating the intensification in the post-World War II globalization process, the concept has entered into practically all social science disciplines: history, economics, international law, cultural studies, geography, sociology, psychology, anthropology, political science, communications, and so on. Of these, economics and economists proved better at choosing means than ends or goals in complex analysis. Economic policy analysis, however, calls for application of criteria that facilitate the choice of the best alternatives. This immediately ties it into the realm of political science, moral philosophy, and sociology. Yet the assumption that sociology provides a better guide to understanding the complex globalized systems and the progress toward global social ethics proved to be misplaced. Political science, economics, geography and social anthropology became indispensable to developing ideas and looking at the consequences, and in all those disciplines, there was a need for history in understanding the sources of the problems and the risk factors that may undermine or reverse the process. Cooperation with the natural sciences is also needed when considering the consequences of technological progress and the various ecological problems, notably the links between globalization and the sustainability of the biological life. So an interdisciplinary approach has proved indispensable to developing a long-term vision and theoretical models, and to selecting relevant quantitative and qualitative information for studying globalization, and facilitating an understanding of its dynamics, causality, opportunities, threats and risks. In any discipline, there are two points of departure for a theory: a hypothesis or empirical realities.

Empirical realities or theoretical confusions

Some of the main issues that the social sciences have been dealing with may enshrine both these points of departure:

* The concept or concepts of globalization.
* The historical origins of the process.
* The functioning of a globalized world system.
* The future of the process.

Mention was made in the introduction of Fareed Zacharia's view that the present crisis is one of globalization. He probably related the concept of the crisis to a definition of the process that reduced globalization to international interconnectedness.

Globalization can be conceptualized in two main dimensions. The first is as an expansion of flows or transformation of human patterns (or stocks) that involves transforming the spatial organization of social relations and transactions, in terms of extent, intensity, velocity and impact, generating transcontinental or interregional flows and networks of activity, interaction and exercise of power. Thus it extends social, political and economic activities across frontiers, regions and continents. Secondly, it is marked by intensification or extensive growth of interconnectedness and flows of trade, investment, finance, migration and culture. Globalization can also be linked to acceleration of global interactions and processes, as a development of worldwide systems of transport and communications that increases the diffusion speed of ideas, goods, information, capital and people. The growing extension, intensity and velocity of global interactions can be associated with a deepening impact, such the local effects of distant events or global consequences of local events, so that the boundaries between domestic and global affairs become increasingly permeable. The concept of globalization is also used in a descriptive and a

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The fastest increase in index values was in Asia (from 28 in 1970 to 56 in 2005). One problem, however, is that such indices require proper definition. They tend to combine things that are conceptually distinct, or even unrelated to each other. However, the long time series makes them useful for indicating changes.

normative sense. On the one hand it claims to describe the developments noted: it is a process of international integration that has led or is leading to a point where national boundaries and authorities become increasingly irrelevant to the decisions taken by economic agents. So the normative programme is to achieve these objectives by giving as full a rein as possible to market forces and minimizing the role of the state or any other interference with market forces. In this normative mode, the globalization agenda turns out to be a traditional neoclassical, neo-liberal one, updated for a world where geographical distance is supposed to have little significance for business activity. The pursuit of this agenda by the United States and other developed countries was greatly assisted by the collapse of the communist regimes in 1989 and the early 1990s, which weakened political and intellectual resistance to the enlarged programme of liberalization exemplified by the Uruguay Round of 1986–94 and the creation of the WTO. Now opposition to this normative agenda has been increased by the global economic crisis. So it is important to consider whether emphasis on the need for "globalization with human face" and suggestions that the crisis marks the end of neo-liberalism will cause the pendulum to swing back.

Though globalization as a concept, a process, a paradigm, or an old trend is currently a buzzword in politics, the media, and scholarly and political debates, there is still no accepted definition of it. Some look to gradual interconnection over a long period, portrayed on maps by lines of movement, migration, translation, communication, exchange, *etc.*[17] Others stress the increase in the scale and volume of global flows and the increasing impact of global forces on local life. Time and space factors have been especially important in searching for a definition, relating to the origins of the concept and the process, and the forces shaping its future. Here the two main issues are when the process began, and when and how fast it can be reversed. The space factor is indispensable to analysing its prospects: will the evolving global economic landscape yield new trends and new interests and values in the globalization process of the 21st century? The process has been embedded into a global capitalist system from the outset, determined by private ownership as the dominant form of wealth, the profit motive, the market's role as the main source of information and field of competition, and the character of the institutions. Democratic states have been more "globalized" or internationalized than dictatorial ones. After the collapse of the main pillars of the étatist-socialist system, capitalism again became global in the last phase of the 20th century. Restoring the global dominance of capitalism marked a new stage in the globalization process itself.

Tracing the sources of new concepts, categories or ideas is often difficult. Globalization as a concept has a relatively short history in the social sciences. It is almost impossible to say who used the term first in its present meaning. It could have been in politics, business or the media. Little academic attention has been paid to its intellectual origins. The various disciplines dealing with international relations, world history, international law, foreign trade *etc.* developed and used many other concepts for the description of international processes before what some has been

[17] See for example the following description "Some notable turning points in the history of globalization include the following, although this is by no means an exclusive list: the migration of *Homo erectus* from Africa some 500,000 to 1,000,000 years ago; the domestication of horses and the invention of stout watercraft about 4000 B. C. E.; the invention of the wheel about 3500 B.C.E.; the domestication of camels after 3000 B.C.E.; the establishment of well travelled sea lanes in the Indian Ocean after 500 B.C.E.; the opening of the silk roads about 200 B.C.E.; the spread of epidemic diseases throughout the eastern hemisphere after 200 C.E.; the establishment of permanent contacts between the eastern hemisphere, the western hemisphere, and Oceania after 1492; the founding of global trading companies after 1600; the development of modern transportation and communication technologies after industrialization; and the emergence of transnational corporations and an integrated global economy in the twentieth century." Bentley, J. H.: contribution to the World Sociology Congress. Montreal; idem (1996): AHR forum—cross-cultural interaction and periodization in world history. *American Historical Review* 101, 749–70.

called the "hideous and obscure"[18] expression appeared: internationalization, interdependence, interconnectedness, interactions, transnationalization, transnational society.[19] Interactions implied also tensions and warfare. These words, and also globalization, may be used in an analytical sense for describing the increasing integration with the world system, economic, political, ecological, or in a normative sense for prescribing strategies for states and firms. Here is one of the fullest definitions, developed by McGrew around the main aspects of the globalization concept: "Globalization refers to the multiplicity of linkages and interconnections between the states and the societies which make up the present world system. It describes the process by which events, decisions, and activities in one part of the world come to have significant consequences for individuals and communities in quite distant parts of the globe. Globalization has two distinct phenomena: scope (or stretching) and intensity (or deepening). On the one hand, it defines a set of processes which embrace most of the globe or which operate worldwide; the concept therefore has a spatial connotation… On the other it also implies an intensification in the levels of interaction, interconnectedness or interdependence between the states which constitute the world community."[20]

There are of course many other definitions, either similar or emphasizing one or other of the dimensions of the process.

The analytical foundations of globalization can be related in economics to various theoretical models, but the neo-liberal model has probably been the most appropriate for describing the conditions that resulted in the development of market-based globalization, especially the dismantling of barriers to economic transactions in the second half of the 20th century. Several theoretical approaches have become important in other disciplines to studying the various dimensions of globalization: global systems analysis, realism, Marxism, modernization theory, dependency theory, world-system theory, communitarian theory, *etc.* As studies of globalization have proliferated, so research perspectives have become increasingly fragmented not only among disciplines, but among schools of thoughts and regions. US academics in the US take a more theoretical approach, while the Europeans, particularly those in the developing countries, build their analyses more on empirical experience. Some schools of thoughts are more popular in Europe or in Asia and Africa than they are in the US. While most of the immense literature on globalization reflects the views of the developed world, increasingly important contributions are also coming from the South and the former socialist countries. There are advocates and critics of globalization in social sciences worldwide. Some critics view globalization as the spread of universal Westernization, an expression of domination by global capitalism, or a replacement for imperialism.[21] But it is more or less general among many social scientists to consider globalization, with its pervasive transformative role and multi-dimensional, multi-level consequences, as a new paradigm to replace the traditional approach of viewing the state as the exclusive unit of analysis. The "paradigm" approach shows an interesting

[18] Wolf (2005), 13.

[19] Raymond Aron was among the first scholars to introduce the concept of transnational society for describing commercial interchanges, migration of persons, common beliefs, ceremonials and institutions that cross frontiers. Raymond, A. (1966): Peace and war: *A theory of international relations*. Garden City, N. Y.: Doubleday &. Co, 105.

[20] McGrew, A. G. (1992): Conceptualizing global politics. In: McGrew, A. G., Lewis P. G., et al., eds: *Global politics: Globalization and the nation state*. Cambridge: Polity Press, 22.

[21] Douglas Kellner, an important contributor to theoretical studies on globalization, noted in one of his papers that in a sense there is no such thing as globalization *per se*. The term may be used to describe several heterogeneous processes. According to his view, the term is "not innocent or neutral," particularly where used instead of "imperialism" or "modernization". "As a replacement for imperialism, it could displace focus on domination of developing countries by the overdeveloped ones, or of national and local economies by transnational corporations." The critics of globalization also use it for the devastating effects of the process. They include those who fear destructive ecological effects of unchecked globalization and conservatives for whom globalization threatens national and local cultures and the sanctity of tradition. "Globalization and the post-modern turn."
www.gseis.ucla.edu/faculty/Kellner.

theoretical convergence between neo-Marxists, functionalists, post-modernists, and many other schools. While the state as the only actor approach is inadequate, the national, regional and global levels and actors are increasingly interlinked, but new "paradigm" approach may be too early or too one sided to be useful.

In economic history, the period 1870–1914 can be seen as a first golden age of globalization, as imperial systems, the gold standard, low barriers to international trade, free international movement of long and short-term capital, and unparalleled inter-continental migration produced rapid world economic growth of output, trade and foreign investment. This was cut short and reversed by World War I and the Russian Revolution of 1917, after which the world split into competing blocs. World economic development since the World War II has tended to show a steady increase in economic integration among Western states, but at various speeds. Of the main channels of integration, trade has expanded the fastest, followed by volume of capital flows and international money markets, global diffusion of technology, and movements of people. Globalization under the twin systems occurred in the part of the world that was dominated by market forces. Its development was strongest in relations between economically advanced states, and sustained by their governments, large financial institutions, and multinational corporations. The process spread more slowly to the developing world and the last group of countries, integrated into the world market was the former socialist states.

A new stage of globalization began in the final decades of the 20th century, when relations between the various actors in the global system became more complex and ambivalent. Some were integrative; others resulted in disintegration and fragmentation. Some influenced only the sphere of economics, others went well beyond it. While some problems were of a global nature, the fact that the requirements of internationalization and the survival of the state framework could not be harmonized remained major sources of conflict under the capitalist system and even more in the socialist bloc. Other problems remained specific, influencing only one region or a few countries. The "embedded liberalization" in the post Second World War market system, based on the Bretton Woods institutions and liberal free-market policies in the main centres of capitalism, has been indispensable to the development of globalization.

The main characteristics of globalization in economic terms are well expressed in a simple definition as a quantitatively and qualitatively more advanced stage of internationalization of national economies. Internationalization implied a world economy characterized by the deepening of relations among more or less autonomous and sovereign states. Economic internationalization of these states took two main directions: inwards and outwards. The inward direction increased the domestic penetration of outside goods, capital, services, technology, ideas, information *etc.*, the outward direction, on the firm level, brought global expansion of trade, investment and other transactions. Globalization, as a new stage, is more complex and comprehensive. It has evolved under the influence of new forces, such as universalization and transnationalization. It is promoted by the information revolution and its consequences are deeper, for instance the emergence of global problems whose management demands a more developed stage of global cooperation.[22] On the level of the global system, the globalization process has to be seen also as a fundamental reconfiguration of economic and political development within and between states, enterprises, political entities, capital, space and time.

It is particularly important at this stage to take historical approach to the concept. Some authors, discussed below, consider globalization as an irreversible process with ancient roots and future prospects culminating in world government. Others connect the process with the traits of a specific political and economic era, which implies its termination.

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[22] Simai M. (2001): *The age of global transformations: The human dimension.* Budapest: Akadémiai Kiadó, 20–26.

It would have been logical to start this chapter with the views of historians, but it has to be added that they have been tardy in treating the problem of globalization. Many of them trace it back to exchange activities between communities and to the empires of ancient times. Some argue that globalization stretches back several centuries or even millennia. The American history professor J. H. Bentley stated, for example, that even before 1500, "trade networks reached almost all regions of Eurasia and sub-Saharan Africa and large volumes of commerce encouraged specialization of agricultural and industrial production."[23] A relatively recent World Bank study went back even further: "Globalization has been present since the dawn of modern humans nearly 50,000 years ago in Africa… The Roman Empire stretched from Great Britain to the Middle East 2,000 years ago."[24] All the ancient empires—Chinese, Persian, Egyptian, Sumerian, Indian, Greek or Roman—serve as interesting examples of how to organize functioning systems that unite a variety of people and states. But they remained insular in the sense that they equated the area included in their political and cultural ambit with the civilized world, beyond which there was nothing, or only barbarians. The early political economists offered a realistic and scientific answer to the international environment in which there occurred the changes that can be considered as the origins of globalization. This was the epoch which followed the great discoveries, the beginnings of the modern state, modern industrial development and transport, and the development of the world market, all adding up to the development of modern capitalism. Not surprisingly, the defenders of capitalism, such as Adam Smith, saw the process mainly positively, while Marx and Engels were more critical. These approaches are also appropriate for identifying the various factors behind the unfolding of the globalization process in the second half of the 19th century, with the historical transnational expansion of industrial and finance capitalism in Europe.

Some scholars from the developing world have also offered historical perspectives, but they differ in many ways from those just mentioned. Ali Mazrui, important scholar from Senegal, argues, "Four forces have been major engines behind globalization across the time… religion, technology, economy and empire. For example, globalization of Christianity started with the conversion of Constantine I of Rome in 313." This, according to Mazrui, started the process by which Christianity became the dominant religion not only in Europe but also in societies thousands of miles from where the religion started. Mazrui agrees with many other social scientists in considering the Roman Catholic Church centred in Rome as the oldest global actor, with a fundamentally important norm-setting and coordinating role through a basically hierarchical global structure.[25] A contrasting example given by Mazrui is the globalization of Islam, which began not by converting a ready-made empire, but by building empires almost from scratch, so creating a new civilization. Mazrui stresses how the globalizing role of religions preceded the globalizing impact on the economy.[26]

Some writers from the developed and developing worlds relate the process of globalization to Western imperialism. Colonial rule was often justified in 19th century Europe as performing a civilising mission to "uncivilised societies". Traditional civilizations were not only influenced, but radically transformed by the external technological, economic (production, consumption, distribution) forces of modernization (globalization). J. M. Roberts, in *The Triumph of the West*,[27] noted how modern history was dominated initially by European then the Western civilization. Domi-

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[23] Bentley, J. H. (1999): Asia in World History. *Education about Asia* 4:5–9.

[24] World Bank (2007): *Global economic prospects. Managing the next wave of globalization.* Washington, D. C.

[25] See, for example, Tucek, J (1962): *The Holy See at work: How the Catholic Church is governed.* New York: Hawthorn Books.

[26] Mazrui, Prof. A.: *Pretender to universalism: Western culture in the globalization age.* Keynote speech for the Royal Society of Art and the BBC, London, June 15. 2000. BBC Online Network.

[27] Roberts, J. M. (1985): *The triumph of the west.* New York: Little Brown and Co., 287.

nation, according to him, implied that the history of the other parts of the world changed in an eternal and irreversible way as the result of Western actions. The disseminators of Western civilization included missionaries, merchants, teachers, soldiers and administrators. The change was in a single direction, with other cultures incorporating Western ideas, purposes and values, but not in turn implanting theirs in the West. So interests, values and way of life were transformed ubiquitously by the evolving modern state system, differentiation of societies, the decline of the rural sector, growth of modern economic activities, and global process of urbanization. Processes and trends are always mixed. There have always been cultures resistant to the outside world and its influences, but if the countries embodying them were weak, oppressed or colonized, their resistance was less effective.

Former President Benjamin William Mkapa of Tanzania expressed somewhat similar views: "In today's world of globalization, the economic ideas and foundation underpinning the then colonial policy still determine the extent and nature of Africa's integration into the global economy—basically as a supplier of raw materials and extractive industry commodities, mostly unprocessed. If we want a better future for our continent and its future generations, we must be sufficiently agitated to robustly fight the manifestly unjust economic relations in a globalizing world."[28]

One historian and linguist from Pakistan has expressed a dominant view in the academic world as follows: "We keep hearing of globalization, deregulation, market, freedom and privatization. They evoke the image of a world without borders where one does not have to stand in long queues to get state-regulated foreign exchange, an era of the rollback of the state and of people empowerment. In short, a brave new world is conjured up. The central magic word that appeared with globalization was privatization. The reality, however, is that the state has a coercive arm which is becoming stronger while its caring side (the one which gave unemployment and pension benefits, free schools and hospitals, *etc.*) is being rolled back."[29]

Most studies from the former socialist countries have taken a mainstream theoretical approach, in some cases underlining more strongly the adverse factors and forces. A recent Russian textbook, for example, comments, "The growing interdependence of the countries and peoples of the world, regardless of all the differences in development levels, culture, religion, historical traditions, reached such a stage which could be called 'globalization'. This understanding became in our days a fashionable political slogan… In many countries, however, globalization is considered as a bitter gift, a threat to their national interest and autonomous decision-making. For Russia, globalization has on the one hand opened up opportunities and on the other dangers with serious consequences."[30]

Turning to analysis by church groups, it is worth quoting the World Council of Churches, itself a global organization of non-Catholic Christian churches: "The process of globalization is more complex and is impelled by more powerful forces than anything we have had to face in our time. It is pervasive, systemic and often faceless. It reveals a profound moral, ethical and even spiritual breakdown in society. It lays bare the inadequacy of many of our customary tools of analysis… A dominant feature of the post-Cold-War 'disorder' has been the imposition on global society of the neo-liberal form of 'free market' economy. In the name of the 'market,' the power of weak states to defend the sovereignty and national interests of their own peoples has been severely eroded, and in some cases destroyed. Fundamental principles of justice and fairness in international

[28] Mkapa, B. W. (2005): Globalization rocks, but African leaders fail to understand it: A rejoinder. *The Independent Institute E. Newsletter*, December 7, 2005.

[29] Rahman, Dr. T.: Globalization and the demise of private education in Pakistan. *OneWorld SouthAsia*, Home. November 25, 2005.

[30] Bogomolov, O. T. (2007): Mirovaia Ekonomika b Vek Globalizacii. Moscow: *Economizdat*, 7.

relations give way under the onslaught of profit-seekers."[31]

Islamist scholars in their analysis of the globalization process and the market system focus mainly on relations between the modernization process based on Western values and the doctrines and traditions of Islam. There are five areas of particular interest in this context: the future of relations between the West and Islam in general and in the globalization context, the character of the present Muslim societies, their understanding of human rights and democracy, the problems of *jihad* in the modern world, and relations to other churches and their believers.[32] Many scholars from Islamic universities consider globalization as an effort by the West to extend its rule over the rest of the world, by new, mainly economic instruments. One social scientist goes even further, to include Christianity: "the concept and implementation of globalization has a specific Christian flavour. During the colonial era, the colonizing powers had been marching in the company of evangelizers. The advocates of the market system are influenced by the Christian principles and institutions also today…. The process of globalization and modernization and the economic development itself got into conflict with Islam."[33]

Islamist academics are split more widely than those of other religions between modernizing or reformist groups and the politically burgeoning fundamentalists. Many of the latter claim the modern secular state breaches the principles of Islam and is a legacy of the colonial system while external influences such as globalization damage basic Islamic values, so that society needs protecting from them.[34] Some analyses by traditional Asian religious groups and institutions, particularly Buddhists, also reflect the problems of conflicts between their values and Western market ideas and modernization. The "marriage between technology and the free market has given birth to a ravenous consumerist culture grounded on the premise that material affluence and sensual enjoyment are the only worthwhile goals in life. At the present time it is perhaps this culture of consumerism, stimulated by the advertising and the popular media, that poses the single biggest challenge to spirituality as an effective force in people's lives. In the cities, this culture enfolds the affluent elite in clouds of hedonistic self indulgence. For the urban and rural poor… it breeds envy, resentment and despair."[35]

It is important to note that the process of globalization has been accepted and considered as reconcilable with the interests of the local communities in some states where the traditions of Confucianism are still strong. However, they underline the role of the state and government in protecting national interests.[36]

One global debate about the nature and consequences of globalization concerns the role and future of the state. This has been intensified by the crisis, which has reopened an old dimension: if "deglobalization" is a real possibility, then the role of the state—declared by many political scientists to be an outdated institution—will regain importance.

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[31] World Council of Churches (1992): Documents of the Central Committee. Geneva.

[32] See, for example, Maazrui, A.: Islam and the end of history. *American Journal of Islamic Social Sciences*, 10:4 (Winter 1993); Larijani, Mohammad Javad: Islamic society and modernism. *Iranian Journal of International Affairs* VII:1 (Spring 1995).

[33] Quoted by Naipaul, V. S. (1998): *Beyond belief.* New Delhi: Viking, 26.

[34] Khalil, Mohamed Ibrahim: *Islam, fundamentalism and democracy.* Washington, D. C.: US Institute of Peace, 1999. Ms.

[35] A Buddhist approach to economic and social development. Paper presented at the International Buddhist Conference, Colombo, November 10, 1998, 64.

[36] Mushakoji, K., ed. (1992): *The Asia-Pacific in search of a new order.* Tokyo: Kokusai Seiji Nihon, 32–7.

3) THE EFFECT OF THE CRISIS ON THE STATE IN THE GLOBALIZATION ERA

The states are still the key actors in the global system, the causes of the crisis originate within them, or within certain states as economic units or markets. The effects of the crisis then spread to other states mainly through flows of money, capital, trade and information. It is important, but also difficult to know which of the 192 UN member-states have been hit harder by the crisis, and which have shown greater immunity to it. In seeking answers, this study examines the concept of the state as an institution and as an organization, as differentiated by the formula offered by the increasingly fashionable theory of institutional economics. Institutions are the rules and organizations the players or actors. The state here is the institution, within which the government is the player. In most cases when the state is referred to it denotes the actor, the government. A distinction is drawn here between government and governance, according to a formula developed by the US political scientist James Rosenau: governance is not synonymous with government, though both refer to purposive behaviour, goal-oriented activities and systems of rule. Government denotes activities backed by formal authority and police powers to insure implementation of duly constituted policies, while governance refers to activities backed by shared goals whether or not derived from legal, formally prescribed responsibilities or necessarily reliant on police powers to overcome defiance and attain compliance.[37] Such important categories as international interdependence, vulnerability (including the origins and consequences of the crisis) or abilities to influence the global system directly or indirectly, must be related to different dimensions of the state as an economic or political unit.

The present global crisis has returned the concept of interdependence to the centre of international debate in various dimensions, old and new. So it is necessary to offer here a broader perspective of the concept, as it developed historically and as it is being formulated today.

In theoretical terms, economics and political science since the 1960s have shown a predilection for the concept of "interdependence" to denote on the one hand the progress of internationalization and on the other the mounting mutual impact of states through various channels. This is most evident in the pluralist school of political science, which focuses on international developments between states in the Western world. In economics, interdependence occurs in the school of international political economy, mainly in terms of the outcome of interstate distributive relations.

The concept of interdependence was welcomed by many authors as a new discovery in economics, becoming extremely popular in the "golden age" of the 1960s and recurring in the new framework of the 1970s amidst the problems and crises of the world economy. But it was not a new notion at all, as it had been used more than a century before in Marxist political economy to illuminate the factors behind the internationalization of economic development under the conditions of capitalism at that time. The 1848 *Communist Manifesto* of Marx and Engels stated that by exploiting the world market the bourgeoisie had internationalized the production and consumption of all countries. They pointed to the role in this process of modern industry, using raw materials imported from the remotest areas to create products that were consumed all over the world, so that national seclusion and self-sufficiency were being replaced by a "universal interdependence of nations". They added that the process was taking place not only in material but in intellectual production and that the intellectual products of individual nations were becoming the common treasury

[37] Rosenau, James (1992): Governance without government. In: Rosenau, J. N., and E. O. Czempiel, eds: *Governance without government: Order and change in world politics*. New York: Cambridge University Press, 1–29.

of humankind. After the formulation of those ideas in the 19th century, the process advanced further, albeit with many distortions and disruptions.

While the literature on interdependence has made for a better understanding of the various processes in the world system, it has also created confusion and often reduced the concept to pseudo-scientific platitudes. To understand the implications, scholars in various disciplines offered clarifications and definitions. The most comprehensive were developed by academics in peace and conflict research in the 1970s, one of whom, the Japanese Yoshikazu Sakamoto (1976), offered this framework:

First: interdependence may be classified as negative and positive. The former refers to interactions that arise from mutual withdrawals and mutual denials, and the latter those from expectations connected with mutual benefits. Secondly: interdependence may he symmetrical or asymmetrical. The former indicates that interdependence takes place on equal terms, while the latter denotes disproportionate interdependence. The combination of these two criteria leads to the following possible sub-notions: 1. Negative symmetrical interdependence, exemplified by nuclear deterrence existing between the United States and the Soviet Union. 2. Negative asymmetrical interdependence represented by the colonial system. 3. Positive symmetrical interdependence based on equitable partnership relations, *e.g.* horizontal division of labour among the developing countries. 4. Positive asymmetrical interdependence.

The pioneers of the notion of interdependence in US political science, Keohane and Nye (1977), offered another definition: "Interdependence, defined in the simplest way, means mutual dependence. Interdependence in world politics refers to a situation characterized by interactions among states of agents [of world politics] in the different countries… We do not confine interdependence to mutual utility. Such a definition would presuppose that a policy concept is useful only where... threat by military power is rare and the level of conflicts is low." Not far from that was the concept expressed by Henry Kissinger, who noted that "the traditional themes of foreign affairs-power relations among the leading countries, the security of states, no longer define out dangers and possibilities. We are entering a new era. The traditional international structure is decaying. The world has become interdependent in the fields of economy, telecommunications and human endeavours."[38] Kissinger, in fact, also put the emphasis on growing internationalization of national politics. Stanley Hoffman, in his important *Primacy or World Order*, drew the attention to the gains and losses from interdependence: "Interdependence results not merely from the interpenetration of societies, but from the way in which this interpenetration concerns and constrains the actors. It is 'policy interdependence' that matters, and it results from both the very scope of 'societal interdependence' which cannot fail to affect the actors."[39]

In the international economic, financial, political, technological and scientific, ecological and many other areas of relations between state and non-state actors in the 21st century there exist and develop constantly immeasurable linkages between states, which extend to the production and consumption of material goods. The global crisis proves that national policies can often be nullified by global processes and transactions over which decision-makers have no control. It offers strong evidence that interdependence also means mutual vulnerability. The ways different countries interact may become a source of chaotic international relations and loss of control over many areas of national life. Interdependence may give many countries an incentive to be less dependent, but also stimulate collective policies and actions. Some countries such as the United States and China are examining the effects of interdependence on their security.

The international consequences of interdependence are particularly important in global problems, which not only created new interactions between states, but made

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[38] A new national partnership. News release, January 24, 1975, US Department of State, 1.

[39] Hoffman, S. (1980): *Primacy or world order. American foreign policy since the Cold War.* New York: McGraw-Hill, 116.

their cooperation indispensable. Interdependence of national economies in a world of rules-based regimes for international economic relations has meant that the space for national economic policy—the scope for domestic policies, especially in the areas of trade, investment and international development—is now often framed by international disciplines and commitments and global market considerations. These regimes, disciplines, commitments and considerations present challenges to many countries in developing their national response to the crisis.

The state in the post-crisis era

Of the various quantifiable factors on whose basis the influence of the crisis can be identified in different states, the most important are the level of development, the size of the market, the degree of internalization of the given economy, and the role of the different sectors. The crisis started in the financial sector of the largest and most developed country, the United States. This was the "detonator" that set off the crisis in the other sectors of the US economy, and then communicated it to other developed countries. It was also the financial crisis that spread to the rest of the world. The main structural factors promoting and accelerating the spread of the crisis were:

* The size and character of the financial sector in each economy.
* The degree of interconnectedness of the national financial institutions with the US and some major financial centres.
* The degree of indebtedness in each country and the relative magnitude of external, public, government, municipal, household and corporate debt.

The degree of relative immunity was promoted mainly by the following factors:

* The quality of the management of government finances and private financial institutions.
* The size of national reserves of gold and currency (US dollars, euros, yen) and the way these were invested.
* The size and relative stability of external revenues and domestic savings in relation to various obligations.

The spread of the crisis to the "real" economy has been particularly fast and widespread in countries where the factors of relative immunity have been non-existent or weak. From mid-2008, however, many other factors entered the picture: the rise in unemployment, the slowdown and decline of consumer expenditure, *etc.*

The role of governments in the management of the crisis has also become an important factor, with major long-term consequences far beyond its short or medium-term implications.

It was stated in the Introduction that the long-term consequences may include rising indebtedness of countries and a global debt crisis. But it is necessary, as a theoretical and a practical issue, to look at the relations between the state and the market as institutions in the post-crisis world.

The conflict between the two approaches, with its politico-ideological and pragmatic dimensions, was present in the last century. The motivations, content and character of the debate (pragmatic or ideological) changed many times. Some authors spied a return to Keynesian policies when discussing the bailouts, partial nationalizations of banks or firms in some larger states. These debates are not new, of course.

The debates in the Cold War were influenced by two extreme utopias. One was the Soviet model, which urged a development process managed by the state, subordinated to the collective will, and allegedly expressed by a "visible hand", central government. Here it is interesting to note that Marx in his writings never denied the historical role of the market. In his analysis, the market was the solvent that would brake down traditional rigidities in society and allow development. The other extreme was the liberal utopia, where the master was the "invisible hand" of the market. Here the developmental role of the state was at best limited to ensuring property rights and eliminating obstacles to the emergence of efficient markets. The advocates of this ideology suggested that the consequences of strong state intervention were market failures. It is interesting to add that Adam Smith, a father of classical economics, saw the market as a good servant but a bad master. The increase in state intervention in 2008 was based on pragmatic, not ideologically motivated decision-making. One cannot exclude the possibility that the social sciences will fail to come up with ideological justifications for the new étatism or for a return to some hybrids.

Three "holes" and the lessons of history

It should not be forgotten that the state has not been static either in formulating new tasks or in changing the character of some of its traditional economic role. The globalization process had important influence on most states. The state as an institution had to face three major holes on its walls. First it started to leak from above. The international role of the state changed with the establishment of many different multinational organizations. International agencies and cooperation regimes now fulfil many rule-setting functions previously performed by the state. The state is increasingly subject to legislation, binding decisions and compulsory procedures determined by multilateral entities. Secondly, it started to leak from below: various social operators grouped into the broad category of civil society are challenging many of the earlier functions of government. Thirdly, the state had to face important challenges from the growing international interdependence and interaction of countries, resulting in a much broader interface between governments. The abilities of governments to manage their domestic problems are declining in the face of the serious internal and external economic and social challenges.

A number of distinguished political economists have suggested that the state has been permanently weakening in relation to other institutions. Susan Strange, in her book *The Retreat of the State* wrote, "Impersonal forces of the world markets... are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong."[40] Other authors also suggest that markets are replacing or superseding the state. The process of change in the power and role of the state is not unidirectional. The methodological approach of modern political economy may also lead to somewhat different conclusions than the "surrender of the state". The Swedish political economist Bjorn Hettne noted, "The state becomes the spokesman of global economic forces, rather than protecting its population against these forces."[41] This all points to the need to analyse in a comprehensive framework the factors that have brought about changes in the role of government.

a) The state and the market exist only as abstract textbook categories. In practice there are no static market systems with universal traits in the Western world, let alone in developing countries. There have been major systemic differences even between developed industrial countries, especially in the role of the state, ownership patterns, and incentives. While the central institution in the abstract model of the system was a liberal and free market, an "invisible hand", that set-up could not in the real life solve the problems and conflicts in the production and distribution process. Self-interest had to cede to public interest in several areas. The role of price signals in guiding production and consumer sovereignty was "distorted" by complex interplay of manipulations, subsidies and various other factors. The competition on which a free market system depended in principle for institutional control and consumer protection changed and was gradually curtailed in several ways. Even the US

[40] Susan Strange (1996): *The retreat of the state: The diffusion of power in the world economy.* Cambridge: Cambridge University Press, 4.

[41] UNRISD (1997): Globalization and citizenship. Geneva, 8.

free-market model, often raised as an exemplarily efficient manifestation of the market system, became regulated by political forces and economic factors in key areas. On a global level, the market system became meanwhile increasingly plural in features and functioning. This has brought a continuing increase in inequalities between and within the countries, sustained or increased poverty, and social exclusion. At the same time, various models of the market system developed in response to differences in the respective allocation roles of the visible and invisible hands (state and market), allocation of resources, distribution and redistribution of incomes, protection of the weak, and long-term commitments to society. Each represents specific patterns of development resulting in differences in capacity for innovation, in production and consumption structures, in international competitiveness, and in attitudes to social problems. While the global interconnectedness of economies brings similarities in organizational forms and policies, the national historical, cultural, social, and institutional environment has a major influence on economic development and performance. Hybrid economies show greater variety in various developing countries in Africa, Latin America and Asia. Central and Eastern Europe, the CIS and China show different hybrids, composed of elements of a centrally planned economy and of features from various market-economy models. The hybrids are not static institutions. They change under the influence of domestic and international pressures and processes. They are also influenced by socio-economic challenges. Empirical evidence has proved the advantages of various hybrids, or as they were called earlier in development literature, mixed economies. The outcome of the debates underlines the mutually reinforcing, non-exclusive role of the state and market. The three main postulates of the development process—economic growth, macroeconomic stability and distributive justice—cannot be achieved without an appropriate balance between state and market forces. Hybrid solutions imply at the end of the 20th century a redefinition, or as some US economists put it in the early 1990s, reinvention of the state. Relatively successful hybrids serve as proofs that the visible and invisible hands are mutually reinforcing, not exclusive. Optimal hybrid solutions (which may exist only in economic theory) imply market-oriented regulations wherever feasible, to fulfil traditional and new government functions cheaply and efficiently: support for basic research, socially indispensable R and D, basic social services, education, and environmental measures, while costs and benefits become more transparent. It implies decentralization and downsizing of central government in areas such as direct participation in production and distribution.

b) Any state is embedded in the society it governs and linked to and penetrated by social forces. Countries are embedded in an international environment, in which their relations to other states may be governed by unilateral actions, reciprocities and various degrees of interdependence, friendship or animosity. No state exists in a political or power vacuum within its country. It reflects a balance of power within its society. These environs influence the state in defining and fulfilling its functions. The role of the state grew in the 19th and 20th centuries due to a number of factors such as colonial conquest, warfare and preparations for it, revolutions, and efforts to increase national competitive power. The Cold War was another encouragement to a "strong state" in external relations. But by the end of the century, several of the factors eliciting a "strong state" had faded or gone. Governments spearheading reformulation of the state's role in the last 25 years have looked to liberalization, reduction of the state, and privatization, following a course dictated by the strong stake in the globalization process felt by some groups in society. These states were "price-makers" in the global economy. The majority of states, weak and dependent, could not sustain a "strong state" as an instrument of their policies for several international or domestic reasons. Yet more controversial was the stance in the transition economies where the active involvement of the state was enlisted for the economic transformation, including the liberalization process, privatization and the building of markets.

c) The issue of the "retreat of the state" has an important dimension related to the process, tasks and attained level of economic development. It is a basic task in every modern society to devise social institutions that can mobilize human energy for productive purposes. It is not possible to imagine, for instance, socialist étatist regimes emerging in isolation from the modernization efforts of a large, backward country like imperial Russia. Historically, the system of central planning offered in principle solutions to twin problems of production growth and distribution, via a development process managed by the state and subordinated to a collective will, ostensibly represented by the "visible hand" of the ruling party and its instrument, central government. Nor can the failure of the Soviet Union and the Central and Eastern European countries to establish an efficient and competitive economy be understood in isolation from political factors or forces: the totalitarian bureaucratic state, the one party system and the politicization and bureaucratization of the economic processes.[42] The transition economies had to face the tasks of restructuring their external economic relations, initiating cooperation with old and new partners on new bases, making the transition to a market system, and re-establishing their nation-state. This has brought unprecedented economic difficulties on a number of countries, whose tasks have resembled in many ways those of the newly developing countries a few decades before. The entrepreneurs of the weaker countries used the state as a source of capital or as an instrument for creating markets protected from foreign competition, because of their weak position in the global economy. State enterprises often served also as training grounds for private firms, including entrepreneurs. The state helped in a number of countries in the development of large and competitive private companies (Korea, Brazil). This component of state involvement was not unknown in the industrial countries either and may not disappear fast. The developing countries, with the help of the state, wanted to reconstruct their economy and ensure themselves a better position in global trade. The developmental state has been redefined in various ways: a government, in whose policies the goals of economic development is top priority, a state that is simultaneously redistributive and repressive, and a state that adopts a policy of development with a human face: struggling against poverty, emphasizing social goals, able to resist social and personal pressures, and emphasizing international competitiveness.

d) The external challenges ascribed to forces of globalization create a complex situation, obliging states to take actions

[42] The "centrally planned" economies were able to achieve important goals at a relatively early stage of development, later characterized by Soviet economists as the era of extensive growth, as it was based on greater factor inputs, not increases in productivity and efficiency or fast technical change. Even so, the costs of the achievements were high. The ability to make fast and efficient structural adjustments became a necessary condition of economic growth. The need to reform the system was recognized in the Soviet Union and other countries in the region at various stages. While some such measures were introduced in all countries, they left the foundations unchanged. In the Soviet Union, the reforms were either "aborted" after resistance from the bureaucracy to giving up their privileges, or because of their partial and irrational nature, resulting in economic chaos, stagnation and decline. Central and Eastern Europe had its specific problems. The post-World War II political landslide in the region resulted in the introduction of the Soviet model regardless of the historical characteristics or development level of the countries concerned. The political changes were also responsible for isolating them from traditional Western trading partners, which had also been the main sources of modern technology. They were tied to the Soviet economy, which was less developed than some of the countries in Central and Eastern Europe and could not provide the technologies and managerial expertise needed for modernization. Countries like Czechoslovakia, East Germany and Hungary were locked into a given development level, but their technological capabilities were downgraded in relative terms in an era of fast global technological changes. The Central and Eastern European countries also became dependent on Soviet supplies of raw materials and energy and on the Soviet market. While these conditions facilitated full employment and offered some security of supplies and sales, it helped to instate relatively outdated, globally uncompetitive economic structures. Some Central and Eastern European countries experimented also with political and economic reforms after Stalin's death in 1953. The most important and far reaching measures were introduced in Hungary, as an indirect consequence of the 1956 Revolution, but these too proved insufficient.

that may involve retreats, attacks and institutional changes. Internationally integrated global production by TNCs, capital movements, greater dependence on trade in goods and services, and international information flows all demand public involvement to provide a smooth framework of laws, and invest in infrastructure and education. Strata whose positions are weakened or undermined by these changes seek protective measures and disruption or regulation of the competitive pressures from outside. The state has a responsibility to protect its citizens from external dangers and to help them take advantage of external opportunities. In principle it has the power to close its frontiers and interrupt the processes of globalization, but in most cases the domestic cost of doing so would be too high. The high degree of dependence on external factors and actors means it has less power to deal with unpredictable, adverse internal effects of exchange-rate fluctuations, speculative capital movements and other calamities attributed to the outside environment. Moreover, it has to find an optimal balance and perform in a world of intense competition and perform the duty of enhancing the competitiveness of the country and its firms and its citizens. Economics disagree about who really compete in an international economy: states or micro-actors? The main global competitors are clearly firms, but states also compete, especially in areas such as welfare, effectiveness of institutions, and ways to empower citizens on the global market. So firms and economies compete in a global economy, but not the same way. The competitiveness of an economy is shaped by interrelated activities, undertaken at various levels by several actors: macroeconomic policies and national institution building by government, specific sectoral policies, notably to do with infrastructure, science and technology, education and trade, and microeconomic activities by firms, depending on managerial skills and correct strategies towards innovations, production, marketing, sourcing and sales.

e) The role of the state and its changing tasks extend beyond the realms of external politics or economics. For instance, there has been an important change in the state's role over the global spread of democratization, which brings a highly diverse system of governance, opens up opportunities for hundreds of millions of people to govern their own lives, but at the same time opens up political struggles—within the country along ethnic, tribal, or socio-economic lines. These struggles appear increasingly round such issues as poverty, exclusion, and income distribution. Here it is central to know what the role of the state should be. One thing to examine is the historical evidence. The role and sustainability of a democratic state cannot be whittled down to elections and competing political parties. It must include honouring civil and political rights, economic and social rights, and measures for implementing these. Participation is another important postulate of democratic governance that also has a micro-policy perspective. The micro-processes of the globe cannot be controlled and managed from global centres or by regional and national bureaucracies. The importance of grassroots institutions, organizations and activities is growing. Some ideologists of globalization, such as John Naisbitt,[43] suggest globalization increases the chances for small groups or firms, as they are more flexible than their larger rivals. Thus the essence of the global paradox is, that the more global or universal humanity becomes, the more "tribally" people act. This reduces the traditional role and changes the functions of the state. "Now, with the electronics revolution, both representative democracy and economies of scale are obsolete. Now everyone can have efficient direct democracy."[44] But the fragmentation process is not just ascribable to the "new tribalism", but also of the fact, that it constantly results in marginalization and exclusion, due to its highly unequal character.

f) The problems faced by many countries in recent decades due to domestic imbalances, debt crises and shocks brought about by structural adjustment programmes mean that the postulates for a better quality of governance, and the characteristics of good governance itself, have

[43] Naisbitt, John (1995): *Global paradox*. New York: Avon Books, 25.

[44] *Ibid.*, 47.

been formulated by various international intergovernmental organizations. The IMF has been particularly active, though confining its work to developing countries and to some extent to transition economies. This is how its managing director defined good governance: "Governments must be accountable and participatory, laws must be transparent, non-essential regulations eliminated, and the competence and impartiality ensured."[45] These are important postulates, but they do not include governments' critical responsibilities for the welfare of the people and the state of the country. The debate about the quality of governance and the role of the state and the market has certainly been influenced in recent years by the collapse of the Central and Eastern European socialist regimes and the former Soviet Union. These changes have had also an interesting influence. The dominant view is that a better state is needed, but not necessarily less state, which calls for a definition of what a better state is. Another interesting conclusion is that the quality of economic agents is important, as economic development is the sum total of economic activities by economic agents, government, business and individuals, and the role of governments may be indispensable. The government is more than an actor, as the state is a market instrument for the main private economic actors. This has been clear in the transition economies, where the tasks of market-building could not have been done without active governmental involvement. The tasks of the transition have in some cases given governments greater power than hitherto, especially in redistributing wealth and incomes. They have had to face qualitatively new and greater challenges, with the increase in the crime rate, corruption, and the pressure of new economic and social problems. Unfortunately these changes and new demands contrast sharply with the level of expertise in the new civil service and the lack of improvement of governance.

g) The current crisis will probably intensify many structural and managerial reforms. Errors and shortcomings of public bureaucracy, the inefficiency, incompetence, unresponsiveness and tunnel vision have been blamed in many countries as factors contributing to the worst crisis in the period since World War II.. There are recommendations for major reforms that will bring a more performance-oriented culture in governance—a closer focus on results in terms of costs, efficiency and quality of public services, while introducing more control and regulation for sustaining the competitive environment. There are also moves to replace the traditional, centralized hierarchical structures with more decentralized management, where the decisions on allocations are made closer to the point of delivery. The national motives and style of the reforms also vary. Some experts suggest that such reforms may increase the power of the "public managers" over democratic institutions in such important areas as allocation of resources or selection of priorities.

"Globophobes", critics and reformers

Has the crisis increased active opposition to the globalization process? Active "globophobes" blame most of the world's ills on globalization, while advocates see globalization as a process that may help to ameliorate or eliminate many of the world's troubles. They also stress that the alternatives to globalization would be global disintegration, a new nationalism, competitive regionalism, and new conflicts.

The most active globophobes—the various anti-globalization movements that appeared first in the context of protests against certain agreements in the World Trade Organization—have developed into a relatively heterogeneous force embracing various radical left and right-wing groups, ultra nationalist, populists, farmers' organizations, trade unions, and so on. They are concerned not only with the consequences of the globalization process but with the global institutions that decide the conditionalities or represent the ideals of market liberalization. Their contention is

[45] *IMF Survey* 24:14 (July 17, 1995), 219.

that these institutions, while representing the interests of the developed countries and the TNCs, are undemocratic and non-transparent in their decision-making. Rejections of globalization and its ostensible negative consequences have become especially strident in the United States, Western Europe, and some industrializing economies. In many developing countries, globalization has been blamed for everything from growing income inequality to chronic high levels of unemployment and even the oppression of women.[46]

Anti-globalization ideas are also represented in the academic world. This and the global NGO community display a split between those who advocate deglobalization and those who support new or reformed institutions of democratic global governance. Some critics emphasize the erosion of independent policy-making capacity in economic, social, cultural and technological areas, mainly due to liberalization of markets and the unbridled power of big players of the global system in capital and technology flows and setting the rules and norms of the international economy. The majority of critics focus on the adverse welfare effects of the process, as a creator of inequality and poverty. "Globophobe" approaches often show an anti-capitalist and anti-corporations frame of mind.

The charges against market-driven globalization have been summed up by Martin Wolf, a prominent US advocates of the globalization process:

"The critics make the following more or less specific charges against the market driven globalization.

* It destroys the ability of states to regulate their national economies, raise taxes and spend money on public goods and social welfare.
* In the process, it undermines democracy, imposing in its place the rule of unaccountable bureaucrats, corporations and markets.
* It amounts to an abdication of power by benevolent democratic governments in favour of predatory private corporations.
* It has caused and is causing mass destitution and increased inequality within and between nations.
* It is destroying the livelihood of peasant farmers.
* It is depriving the poor of affordable medicines.
* It is also lowering real wages and labour standards and increasing economic insecurity everywhere.
* It is destroying the environment, eliminating species and harming animal welfare.
* It is causing… a global race to the bottom, in which low taxes, low regulatory standards and low wages are imposed on every country.
* It is permitting global financial markets to generate crises that impose heavy costs particularly on the less advanced economies.
* It enshrines greed as a motive force for human behaviour.
* And it is destroying the variety of human cultures."[47]

It should be conceded that there are winners and losers by globalization, but there are no aggregates on any of the above problems that could pin exclusive, worldwide responsibility for them of glob-

[46] According to an American professor, Manfred B. Steger, these represent new patterns: "The new movements differ in important ways from those that characterized the earlier wave of resistance to colonialism and imperialism…. Unlike the traditional armed revolutionary movements, with their focus on taking state power, and the traditional left parties, with their too often typical hierarchical discipline and single ideologies, the new movements do not seek violent revolution or the capture of state power to this end. There is now a much more diffuse pattern of ideas and organization that characterizes many of the new movements, and there is a higher participation by women and other previously marginalized groups. The diverse and often ad hoc nature of these social movements and their spontaneity and autonomy can make them appear somewhat disorganized. However, the movements themselves recognize this situation but are not prepared to attempt to unify all the movements under a single ideology." Steger, M. B. (2005): Ideologies of globalization. *Journal of Political Ideologies*, February 2005, 11–30.

[47] Wolf, M (2004): *Why globalization works*. New Haven/London: Yale University Press, 8.

alization. The influence of globalizing economic forces depends on many internal and external, historical, social, economic and systemic factors, of great complexity in the 21st century. Trade dependence and the dependence of national economic growth on foreign investments are well measured and documented. Studies of liberalization have shown its effects on employment, unemployment and income distribution, so exacerbating inequalities in primary incomes in countries with weak competitive power.[48] While globalization is often blamed for the increase of poverty, the culprit is more often domestic policies. Experts of the World Bank state that globalization can contribute decisively to eradicating poverty and building a more equal world. Wolf compared 24 relatively globalized and 49 less globalized developing countries and concluded that the per capita GDP growth rates of the relatively globalized countries were faster in 1980–2000, and that they had been more successful in reducing poverty, increasing employment, *etc*.[49] But other studies had shown that the process must be managed correctly to do that; the right balance between market forces and government intervention must be attained in national and global governance.

4) Will globalization be reversed after the crisis?

One of the main issues in the debate about the crisis and the post-crisis world concerns the future of globalization. Wolf offers this perspective: "In the very long run, where the long run consists of many centuries, the trend toward globalization—or integration of markets for goods, services and factors of production—is almost irreversible. The proviso is that we avoid blowing up the planet. But in the 'short' run—where that run may be a century or even more—it is not inevitable at all."[50] Even before the crisis, some experts warned that globalization was stalling or going into reverse due to economic crises, inter-capitalist rivalries and wars.[51] A different view has been expressed by World Bank staff, who see an unfolding wave of new globalization[52] driven by the evolving international economic and political power structure, the deepening of trade and financial integration, and the transition to a knowledge-based society. They also see of future dangers that will lay new burdens on the shoulders of national policymakers: the management of globalization, or the risks of being run over by it: "Deepening economic interdependence also places a new burden on the collective actions of the international community… Multilateral cooperation will be even more important in the integrating world of tomorrow than it is today. The way the international community, acting together, manages the process of integration will determine whether the world of 2030 will realize its potential."[53]

Wolf suggests the globalization processes should in strictly economic terms culminate in a truly global world economy, where states dismantle all economic frontiers and all economic actors operate in a single market. But the world market and its trends cannot be understood or dealt with in isolation from the societies that ultimately determine basic interests, values and policies.

It has been noted that the state-centred nature of the international political system, in whose framework a very large number of micro units exist, is at increasing variance with the transnational nature of the global economy. This is aggravated by the dual-track nature of the international economic system, with growing technological and income gaps and inequalities between richer

[48] See Berg, Janine, and Lance Taylor (2000): *External liberalization, economic performance and social policy*. New School for Social Research, Working Paper Series. February 2000. New York.

[49] Wolf, M., op. cit., 141–4.

[50] *Ibid*., 96.

[51] Bello, Walden (2006): The capitalist conjuncture: Over-accumulation, financial crises, and the retreat from globalization. *Third World Quarterly* 27:8.

[52] See World Bank (2007), 30.

[53] *Ibid*. xxiv.

and poorer countries. As consumer numbers approach seven billion, there exist immense inequalities and quality-of-life differences. The aged technologies that dominate the tools of production used in poorer regions coexist with highly productive modern technologies—sometimes within the same country. Famine and poverty coincide with untold levels of prosperity.

The political dimension came to include the global consequences of the arms race and related dangers, and the concept of global security as an essential ingredient of the international system. Security, in fact, was not a new concept, but the dominant interpretation of it had been state-centred, extending support and legitimacy to instruments of states and upholding the principle of state sovereignty. It emphasized military solutions to security issues. Though the UN system was set up to protect the security of humans, the UN principle for security was initially focused on how the structures and practices of the modern state might address threats to its sovereignty. The concept of collective security related directly to events in international relations. Political security in a universal sense was understood as global security, absence of major wars, particularly world war. A general concept of human security emerged over the decades and poverty and inequality gained importance in this context, often in direct relation to globalization.

After the 1990s, there was more discussion based on factual analysis of the process, notably on the issues related to identifying the winners and the losers by globalization. Greater effort also went into identifying global action needed to protect the losers. The 1995 Social Summit in Copenhagen was the first occasion on which globalization-related social-development issues were raised, discussed and treated in a comprehensive, coherent framework. Among the priorities agreed there was for the political response to the socio-economic challenges of globalization to come through social development within countries. This was to be also supported by the international community. A more comprehensive global programme was adopted at the Millennium Summit of the UN in 2000, formulated as the Millennium Development Goals.[54] These mark a collective, long-term effort to manage two crucial global problems: poverty/inequality, and the global environment.

The casual links between globalization and global inequality are far from clear. It is not easy to isolate the globalization factor or gauge its contribution to reducing or increasing inequality between and within countries. In the market system in general, there are strong forces related to economic growth, skills, competitiveness, and government policies, political struggles *etc.* that may contribute to reducing or increasing inequality, and globalization may also influence them, of course. There are countries where globalization has had favourable welfare effects, but even in these it has become increasingly apparent that the consequences of globalization cut across traditional social classes. A World Bank study[55] using the global inequality approach disaggregated the world population into three categories: rich, poor, and new middle class. These relate not only to the unequal income distribution, but to other consequences of globalization, such as changes in the distribution of wealth, access to modern education and health

[54] The secretary-general of the United Nations, in a report to the Millennium Assembly "We the People", noted that the 20th century ended without liberating humanity from dramatic inequality: "For the United Nations' success in meeting the challenges of globalization ultimately comes down to meeting the needs of peoples. It is in their name that the Charter was written; realizing their aspirations remains our vision for the 21st century. But who are we, the peoples? And what are our common concerns?... Let us imagine, for a moment, that the world really is a 'global village'—taking seriously the metaphor that is often invoked to depict global interdependence. Say this village has 1000 individuals, with all the characteristics of today's human race distributed in exactly the same proportions. What would it look like? What would we see as its main challenges?… Some 150 of the inhabitants live in an affluent area of the village, about 780 in poorer districts. Another 70 or so live in a neighbourhood that is in transition. The average income per person is $6000 a year, and there are more middle-income families than in the past. But just 200 people dispose of 86 per cent of all the wealth, while nearly half of the villagers are eking out an existence on less than $2 per day."

[55] World Bank (2007), 72.

care, and the character and participatory level of society.

The most globalized segment of society is a diverse group topped by the world's "super-rich". Two-thirds of these are citizens of industrial countries, while the remainder come from the Third World and former socialist countries. The most important and influential section of the group commands the hierarchies of the major institutions that influence decision-making in the political, economic and military processes of globalization. The wealth and/or executive position of these people makes them powerful enough to implement their decisions. They are not solitary actors but surrounded by specialists, advisers, consultants, scholars and institutions, and influential personalities in the media. Their power derives from personal wealth, the scale of their human, financial, and material resources, and the political and military influence of their decisions on their home country. Gustave Speth, a former UNDP administrator, observed, "An emerging global elite, mostly urban based and interconnected in a variety of ways, is amassing great wealth and power, while over half of humanity is left out."[56] The global profiteers and speculators often mentioned by critics of globalization comprise only a small part of this "global power elite".[57] Beyond the owners and managers of the 60,000–65,000 TNCs, there are 100–120 large international banks, auditing and consultancy firms, whose core executives also belong to the globalized group of society. According to UN statistics, the TNCs employ about 75 million people.[58] Many work in sweatshops and cannot be counted as part of the globalized society, but their managers and those of associated small and medium-sized subcontractors belong to this group.

The globalized group can also be said to embrace the global political elite, itself diverse and hierarchical. Especially important are the roles of the executive and legislative elites of the US, Japan, main European countries, Russia and China. The hierarchical position of leading politicians in different countries and their evaluation by the world can be proxied by such indicators such as presence in the General Assembly Hall during the speeches by heads of state at the UN Millennium Summit of the UN. Furthermore, the globalized group can be considered to include most leading members of the civil service, top military elite and the academic community, as well as media figures and leading personalities in "global" religious denominations. Naturally, the benefits are shared by family members. The segment can be estimated to include 15–20 per cent of the population in the industrial countries, but far fewer in the developing world. There are great differences in income, power and influence among them, but they share common interests in the globalization process, as well as common values and convictions, even a common language. They form the most mobile part of their society. They project an image and concept of success measured in power and financial gains. There is also a poorer part, whose livelihoods still depend on the success of the globalized sectors, so that they share interests in this context. In the World Bank classification, many in this group also belong to the new global middle class.[59]

These globalized groups suffered major losses in some countries in the recent financial crisis. Many wealthy individuals lost a high proportion of the wealth they

[56] *New York Times*, July 15, 1996, 55.

[57] Mills (1956) provides an authoritative account of the American ruling elite. It could still offer an interesting starting point for analysing the global power elite, which is an important task awaiting sociologists.

[58] UNCTAD (2007): *World Investment Report*, 2007. Geneva, 9.

[59] The middle class in poor countries is the fastest-growing segment of the world's population. While the total population of the planet will increase by about 1 billion people in the next 12 years, the ranks of the middle class will swell by as many as 1.8 billion. Of these new members of the middle class, 600 million will be in China. Homi Kharas, a researcher at the Brookings Institution, estimates that by 2020 the world's middle class will grow to include a staggering 52 percent of the global population, up from 30 percent now. The middle class will almost double in the poor countries where sustained economic growth is lifting people above the poverty line fast. For example, by 2025, China will have the world's largest middle class, while India's will be 10 times larger than it is today. *Foreign Policy*, March/April 2008.

had invested in stocks and bonds. This and reduced revenues may have been as high as USD 30 trillion. Some of this will have been recovered as stock prices rise again, as will some losses of pension funds and unit or investment funds. The safest haven for investment during the crisis was government or "sovereign"' paper backed by government treasuries; such investment has performed better.

At the opposite social extreme stand a much greater number of people who are mainly losers. These are not just excluded from the globalization process or marginalized by it, but often (and increasingly) placed at risk by the new ideology of global mass consumption and culture. They include the vast majority of the agricultural population. Although the agricultural sector and agricultural population are divided, only a small minority are engaged in industrial-scale agriculture. The vast majority, including the masses of rural poor, belong to the informal economy. But there are some interactions between the two types. The tens of millions who have been squeezed out of agriculture by technological and economic changes can only find an alternative livelihood by migrating to urban areas. The large, diverse non-globalized group in society consists of unskilled, mostly small entrepreneurs (especially the "barefoot capitalists" of the informal sector), the urban poor, the unemployed, some ethnic minorities and the victims of social exclusion. Many in this group are functionally illiterate, even in industrial countries. They form a far higher proportion of the population in the developing countries. According to estimates by the author based on UN population data, the group excluded from the globalization process may comprise about 50 per cent of the world population in 2008. This crisis, even more than previous ones, hits the poorest and most vulnerable groups hardest. It will be a further setback in the struggle against poverty, pushing more into penury and malnutrition. Current World Bank estimates suggest that a one per cent decline in developing-country growth rates traps an additional 20 million people in poverty. The poorest households may have to lower the quantity and/or quality of food, schooling, and basic services they consume, causing irreparable damage to the health and education of millions of children. Poor households forced to switch from dearer to cheaper, less nutritious foodstuffs, or cut back on total caloric intake altogether, face weight loss and severe malnutrition.

The third group consists of those between or on the frontiers of the two previous groups. They are exposed to chances and losses connected with the globalization process, and will tend to split. The well-educated and wealthier will probably join the first group, as the knowledge-based economies open up opportunities for them. The remainder will progressively experience the full disadvantages of the globalization process. The concept of the "new global middle class" cannot be applied to this third group. It is more relevant to the first, globalized.

The crisis has intensified most of the contrasting trends in the system. The reactions against globalization in a number of countries as a "source of the crisis" are driven more by a new outlook than by a clear understanding of economic realities or a precise cost-benefit analysis of globalization. The crisis also gives rise to conspiracy theories, often directed against foreigners or foreign countries. Many people in the United States argue that China's surpluses are to blame. Likewise, many people in other countries that they are being hit by an American crisis made in the United States. There are not just small measures of trade protectionism at work, but massive and powerful xenophobic sentiments.

Will all these influence the future of globalization? The rise in unemployment will increase curbs on outsourcing deals and immigration. Measures that conflict with the doctrine of free movement of labour across borders may even become a political necessity. But the effect will be temporary. The competitive advantages of sourcing goods from low-cost manufacturing units in China, textile exports from Bangladesh and India, and of outsourcing processes to the back-offices of technology parks in India, the Philippines *etc.* are too large to ignore in the long term. The scale of the crisis justifies government control, more from the point of view that there does not seem to be an alternative in sight. But policies of allowing the weaker to fail and relatively stronger to survive may create dangerous social and political problems and conflicts. Though the recovery from the current economic crisis will be long and in many countries painful, the advantages and benefits of globalization have been too evident and the alternatives too dangerous and costly to derail the globalization process for long.

However, there will be a contrasting trend which may slow down the pace of internationalization for an extended period of time. Global trade flows have fallen sharply. For the year 2009, the volume of world trade is expected to fall by 11 per cent, the largest annual decline since the Great Depression of the 1930s. The impact of falling global demand is being compounded by a drying up of trade finance and a rise in protectionism. Yet globalization will not disappear due to the world financial crises. The present deglobalization scenario is transitory, like other economic events that have their peaks and troughs. Some governments will be tempted to adopt trade-impairing policies, imposing rules that inhibit global financial integration, or taking measures to curb immigration. These policies will work for a while, but their costs will make them hard to sustain. The slowdown of globalization may not be the only consequence of the crisis. It has added new dimensions to such problems as the ecological crisis, energy, migration, *etc*. that cannot be solved in a single country and call for a multilateral framework. While the world's multilateral institutions are more often described as irrelevant, some have proved to be indispensable. The decisions of the G20 about the future role of the IMF are direct consequences of the financial crisis for the future global financial governance. Globalization will not eliminate global power politics, in which the crisis may also open a new, rather uncertain phase. It is not yet clear to what extent and for how long the crisis will influence the global position of the US dollar. China and Russia, for example, have suggested a new global reserve currency and may cooperate to offset the US global role in the future management of multilateral cooperation. But China holds more than a trillion dollars of US debt and no other country may be able and ready to replace the United States as the main buyer for China's exports.

5) Drivers, actors and mechanisms in the post-crisis world system

It has been generally recognized that globalization is multi-dimensional, enshrining economic, political, military and cultural dimensions. The centre of the process has been and will be the world economy or the international economic system. It is important to examine such questions as how the main actors in the system will consider it in the post-crisis world, and what the main engines and the main outcomes of the process will be.[60]

A cardinal issue is the future of the liberal or neo-liberal model of the world economy. Since the 1980s, liberalization policies have been extended on the basis of prescriptions from the IMF and World Bank during the developing world's debt crisis in the 1980s, and after the collapse of the socialist regimes and emergence of the transition states. These policies have evolved into an intricate web of expected behaviours. Before they could expect private business and financial interests to invest in them and booth their growth potential, they had to drop the "outdated and inefficient" statist policies dominated by development strategies or central planning.

The list of liberalization measures has been long:

* Make the private sector the primary engine of economic growth,
* Keep inflation low and prices stable.

[60] Smith, Steve (1995): The self-image of a discipline. In: Booth, Ken and Steve Smith, eds: *International relations theory today*. University Park, P. A.: Pennsylvania State University Press.

* Shrink the state bureaucracy.
* Keep public finance near equilibrium, if not in surplus.
* Eliminate or lower tariffs on imported goods.
* Remove restrictions on foreign investment.
* Get rid of quotas and domestic monopolies.
* Increase exports.
* Privatize state-owned industries and utilities.
* Deregulate capital markets.
* Make the currency convertible.
* Open industry and the stock and bond markets to direct foreign ownership.
* Deregulate the economy to promote domestic competition.
* Eliminate government corruption, subsidies and kickbacks.
* Open the banking and telecommunications systems to private ownership and competition.
* Allow citizens to choose from an array of competing pension options and foreign-run pension and mutual funds.

The "Washington Consensus" introduced by the World Bank and IMF has also been based on these policy recommendations.

Francis Fukuyama suggested, in *The End of History* and *The Last Man*, that the ideas of political liberalism and democracy would dominate international political discourse and spread to authoritarian states. Samuel Huntington's *Clash of Civilizations* presented a darker image of the world, dividing along fault lines based on cultural, religious, and historical ties, and ultimately leading to conflict between these groups. But it was the economic dimension that seemed to best capture global change in the 1990s. In part, it described the attempts by former communist countries in Eastern Europe, the former Soviet Union, and especially China. In *Jihad vs. McWorld*, Lionel Barber argued that economic globalization and religious and tribal fundamentalism had become the dominant forces in global affairs. The homogenizing effects of capitalism, along with the fragmenting forces of ethnic, religious, and racial hatreds, were having the effect of undermining the nation-state and democracy. In *The Lexus and the Olive Tree*, Thomas Friedman tried to explain why some people around the world were embracing the economic benefits of globalization, especially increasing consumerism, while others were threatened by the negative dimensions of the process, including its effects on the environment and local communities. In *The Work of Nations*, a former US secretary of labour, Robert Reich, argued that in an era when companies are no longer as committed to their home country, public policies need to focus on enhancing education, skills, and training in an effort to make their country an attractive location for investment by either domestic or foreign companies. A well-known Japanese management consultant, Kenichi Ohmae, contended that the forces of globalization were making it less useful to talk about national economies and the rise of industrial clusters would make regional economies a more accurate tool for mapping global economic development. In his 2005 best-seller *The World is Flat*, Thomas Friedman argues that the information technology revolution has reduced (perhaps even flattened) the advantages of the industrialized countries. An increasing number of bright and educated workers, particularly in China and India, require only an internet connection to "plug and play" on the global economy. The way forward, according to Friedman, is to equip more Americans with skills that will keep them ahead of foreign competitors. Business strategists like Michael Porter contend that countries still have key location advantages, and that they should use these "diamonds" of national advantage to enhance economic competitiveness. Others such as David Baron argue that the rise of other actors has made it prudent for firms to develop non-market strategies to engage with governments, NGOs, international organizations, and other entities whose actions and decisions impact companies.

Fareed Zacharia, in his "Capitalist Manifesto" published in *Newsweek,* offered a new perspective on the post-crisis world, taking issue with those who expect the end of the neo-liberal era: "A few years from now, strange as it may sound, we might all find that we are hungry for more capitalism, not less. An economic crisis slows growth, and when countries need growth, they turn to markets. After the Mexican and East Asian currency crises—which were far more painful in those countries than the current downturn has been in America—we saw the pace of market-oriented reform speed up. If, in the years ahead, the American consumer remains reluctant to spend, if federal and state governments groan under their debt loads, if government-owned companies remain expensive burdens, then private-sector activity will become the only path to create jobs. The simple truth is that with all its flaws, capitalism remains the most productive economic engine we have yet invented. Like Churchill's line about democracy, it is the worst of all economic systems, except for the others. Its chief vindication today has come halfway across the world, in countries like China and India, which have been able to grow and pull hundreds of millions of people out of poverty by supporting markets and free trade. Last month India held elections during the worst of this crisis. Its powerful left-wing parties campaigned against liberalization and got their worst drubbing at the polls in 40 years."[61]

Fareed Zacharia, of course, did not exclude important changes in the functioning of the global capitalist system. On the contrary, for the sake of the future of the system, the "Capitalist Manifesto" considered regulation of the system indispensable for stabilizing it, while preserving its momentum. The suggested regulatory reforms (which basically summarize the different views in the US and many European countries) enshrine a great number of measures, starting with changing the incentives for bank executives, so as not to encourage reckless risk-taking with other people's money, including the introduction of efficient counter-cyclical government actions. Another set of measures of a global nature would be more difficult to implement, but are even more necessary: restoration of the balance between production and consumption, for individuals and even more for governments. This can be done only by raising taxes or cutting expenditure. The experiences of countries facing this task through economic and structural weaknesses have been adverse, due to economic, political and social problems. The "moral dimension" of the measures is important, but also hard to manage. It is an open question who will offer a moral compass and who will be ready to use it. Will it be the "international community" or the national political process? The moral issues cannot be treated in isolation from the realities of "super-competition" that may become even more intense in the post-crisis world. The urge to greater competitiveness will remain one of the strongest forces behind globalization. Laggards and bystanders are at risk of being wiped out. They will be the first victims of the post-crisis market with its incessant interconnections between trade flows, capital movements, inward and outward FDI, technology flows and international migration.

The transnational corporations in the post-crisis world

The crisis has also been a major challenge to the TNCs. These globally integrated companies were first put to the test early on in the crisis, with the collapse of international financial conglomerates. Many of the latter were suddenly in a difficult position and had to seek government support. In some cases, governments responded cooperatively—individual governments also had to support international institutions in banking and insurance. This was not the end of the process of transnationalization, but it made it clear that ultimately, only national governments had the budgetary resources necessary to bail out financial institutions. Public resources were also needed for many international manufacturers. The importance of the TNCs as global actors will increase in the post-crisis world due to their financial, technological,

[61] *Newsweek*, June 23, 2009.

organizational strength and managerial capabilities. Their basic interests are tied to an open, liberal global economic system. General liberalization of trade and financial flows coupled with breakthroughs in telecommunications and information technologies have opened up new possibilities for them. Their activities relate especially closely to the future of financial globalization.

Some large TNCs have been among the victims of the crisis, such as General Motors or Lehman Brothers. Others have become much more mobile than they used to be, as some of their old competitors have vanished or abandoned certain sectors. The strongest TNCs from a few developing countries were able to exploit their ability during the crisis to purchase important firms in developed countries at depressed prices. They were able to strengthen their position in global branding, trademarks, marketing techniques, pricing, client base, stakeholders, and to some extent stockholders. They increased their role in R and D, innovative capacity, and development of technology in service/product relations. Chinese TNCs, for example, also had the advantage of easier access to finance.

As for the coming decade, there is no global legal or regulatory framework to match the increasingly global nature of business. The rules adopted in international organizations are rudimentary and have been developed for a different age. Trade issues are partly subject to global agreement but environmental issues, investment protection and questions of intellectual property are not fully agreed. All this does not imply that the TNCs will not have to adapt under the conditions of the post-crisis world. They will need even more a capacity to deal with multiple systems of regulation. They will have to develop more flexible organizational models, as the approach of "command and control" will not work effectively on a global scale, with operations in hundreds of jurisdictions and a requirement of local management to respond to unexpected events. This requires a "new combination of corporate culture, values, and standards—all of which establish an aligned intent within which people can make the day to day decisions and judgements which are required." For the strength of the TNCs will also be related to the structural changes. One of the most important facts is and will remain the shift from the traditional branches that rely on low-cost factor inputs, towards knowledge-based systems, in which new knowledge and technologies are incorporated in the manufacturing process, and its products restructure the global industrial division of labour, and redraw the map of global industry.[62] TNCs have developed a wide variety of cooperation patterns with small and medium-sized enterprises (SMEs) as subcontractors, sources of technology, or consumers and distributors of their products or services. Through these relations they have developed a degree of control over the SMEs, especially in high technology sectors.

The role of TNCs will remain important in the most globalized sector of the world economy: financial services. The crisis revealed all the risks of financial globalization. As the financial markets around the world become increasingly interconnected via capital-account liberalization, the creation and widespread use of a range of new financial instruments such as short-term portfolio capital, bank and corporate bonds, stocks, equities, private and government securities, mutual funds, pension funds, hedge funds and derivatives increased the vulnerability of many countries dramatically. The fast global spread of the crisis, which started in the financial sector of the United States in 2007, was a consequence of the high level of globalization in the sector. Technological innovation, liberalization of national financial markets and removal of legal and trade barriers between countries have encouraged the development of diversified international financial conglomerates with complex management and corporate structures. Many are organized along global business lines and still more manage some or all of their major risks across the various entities within the group, in a manner that cuts across jurisdictions. The rapid evolution of

[62] The process is analysed in detail in Dicken, P. (2003): *Global shift: Reshaping the global economic map of the 21st century.* New York: The Guilford Press.

diversified financial conglomerates that offer globally a comprehensive range of financial services, including banking, securities and insurance services, presents significant challenges to management and to supervisors with responsibility for regulating entities within the conglomerate. These conglomerates play an important role in the global stock and commodity exchanges, in money markets, and naturally in high-risk, high-profit security and money trading. Financial markets will be influenced still more strongly by the large financial conglomerates, whose domination will return as the sector consolidates.

The labour markets in the post-crisis world

While the labour markets still lag behind the capital and goods markets in globalization, they too have been influenced by the crisis, directly and indirectly. Job losses and stagnating real wages due to redeployment of economic activity to low-wage countries are increasingly felt in the developed parts of the world, and even more in developing countries. In earlier crises, employment returned to pre-crisis levels only four or five years after economic recovery, but four years after the Asian crisis of 1997–8, unemployment rates were still above their pre-crisis level. Jobless growth has become an important problem for many countries. In the United States, 35 months elapsed before employment returned to its previous level. Following the 1990–91 recession in Finland, it took 18 years for employment to return to its pre-crisis level. The IMF announced in April 2009 that the global recession would be long and deep, with a slow recovery. Several observers forecast that unemployment would continue to rise globally well into 2011. The world may face even a longer job crisis. The ILO estimates that compared to 2007, there could be an increase in global unemployment by the end of 2009 of more than 50 million, and that some 200 million workers could be pushed back into extreme poverty. According to a recent ILO report,[63] the situation is fraught with dangers, while the IMF, the World Bank and the OECD expect global job losses to continue to rise until at least the end of 2010 or into 2011, swelling the ranks of the informal economy, the unemployed and the poor.

The ILO has warned that without bold action, employment will stay depressed well after stock markets recover, world economic growth resumes and media attention shifts away. There is a real danger of victory being declared prematurely and a blind eye turned to a lingering jobs crisis.

If left unchecked, the global jobs and welfare crisis affecting working families and local communities will become a much larger political crisis. The simmering ferment of a social recession is here. These tensions add to existing anxieties caused by persistently high food prices, wide income differentials, and weakened middle classes. Issues related to employment will be particularly difficult to handle in the coming 25–30 years also due to global demographic trends. About 90 per cent of the growth in the world population will take place outside the developed world. The number of those of economically active age. Many will not be able to find jobs at home. The push and pull factors of international migration will be more intense.

An additional important issue is the implications of the crisis for migrant workers. The officially short-term measures to curb migration may have long-term implications for labour markets globally. The mounting unemployment in most rich countries is resulting in cuts in the quotas for official immigrants. Several countries have reduced drastically the lists of occupations where a shortage of domestic labour has facilitated the entry of foreigners with appropriate skills on a basis of preferential treatment, and made it generally harder for employers to hire foreigners. In the United States, renewal of work permits has become more difficult. The Employ American Workers Act attached to the fiscal stimulus bill puts stricter conditions on any company that receives government

[63] International Labour Conference 2009. 98 IA. Geneva.

bailout money and wants to hire skilled foreigners. As a result, some American banks and other financial services firms have cut job offers to foreign-born graduates of American universities and post-graduate programmes Many countries are encouraging foreign workers to go home. The Czech government is promising to provide the air fare and €500 (USD 704) to workers from Mongolia who become unemployed. An OECD analysis warned countries that there may be important long-term implications in these anti-migrant measures. It is far easier to tighten the rules, as countries are doing now, than to loosen them when the economy starts growing. There are also genuine shortages of labour in some occupations, such as medicine and technical jobs such as engineering, for which locals cannot easily re-train.[64]

6) NEW PROBLEMS AND POSSIBILITIES FOR THE SYSTEM OF MULTILATERAL COOPERATION IN A POST-CRISIS WORLD

The global impact of the most severe financial and economic crisis since.

World War II, both in scope and depth, poses a significant threat to long-term economic and social development worldwide. Unless there is concerted global policy action, the global system may be undermined by a prolonged period of slower growth, stagnation, unemployment and financial destabilization.

The multilateral system and the crisis

This all poses an unprecedented, if not unexpected challenge to the system of multilateral cooperation.

The discussions and debates among politicians, government and academic experts about radical reform or major overhaul of the multilateral cooperation system, in the context of the global financial and economic crisis, have emphasized that the international community needs to develop a whole new logic for multilateralism to address the current crisis and avoid similar ones in the future. Fast and radical reform of the multilateral system, however, is unlikely. There are no clear or shared ideas, no major state actors that might offer a clear vision, a strong commitment, or financial instruments, or take the initiative and bear the responsibility. So the coming decade is likely to bring a slow, gradual, disorderly set of changes.

A frequent factor of the projections prepared by academics and others involved in developing scenarios for the 21st century in the last stage of the “second millennium” was “the coming age of uncertainties”. This factor has proved to be correct so far. The prospects for the new century have become more controversial, not only because the first global crisis of the 21st century, but because of the accumulation of unsolved global problems, which have prepared the ground for the current crisis. All these swept away the post-Cold War expectations of various politicians of a new global era of progress and happiness. When it came to the present crisis, neither national nor international institutional arrangements could prevent the current crisis from developing. Some institutions actually promoted arrangements that helped to transmit the crisis across international borders. Global economic integration has outpaced the development of the multilateral institutions.

The current crisis has made it clear that to avoid derailing globalization of trade and finance and to protect the globe from neo-fragmentation and protectionism call for enhanced global cooperation and a new, flexible system of global regulation. The world has moved into a less certain phase of global interconnectedness, mutual vulnerabilities and unforeseen risks. The international community faces multiple, interrelated global challenges that have undermined many national economies.

[64] *The Economist*, July 1, 2009.

There may also be a need for major reforms to cope with the severe political, structural and managerial weaknesses in the existing structure of global economic governance, including the lack of incentives for coherent, coordinated global collective action. Managing global threats in an interconnected world depends critically on cross-sector and cross-institutional action, to assure system-wide coherence in norms, policy frameworks and operational standards, based also on a proper understanding of complex inter-issue linkages, thereby facilitating a fair allocation of costs and benefits over a wide range of global concerns.

It would be a mistake to see the current global financial and economic crisis as the source of all the factors necessitating the reform of multilateral institutions, but it is important to understand the lessons of the crisis for future action.

It is reasonable to expect the multilateral institutions important to global economic governance to draw attention to emerging dangers that may lead to global crisis. They should also possess the power to introduce measures that can hinder the outbreak of such a financial and economic crisis. But once the crisis is upon us, they should be able to assist national efforts at crisis management and limitation of its adverse consequences. There are also important tasks in the post-crisis era, in which multilateral organizations should play a role. Global efforts have been focused largely on the crisis in hand, but the reforms in progress are aimed equally at the post-crisis world. It would be unrealistic to expect any set of institutional changes to eliminate business cycles, but it is reasonable to hope that major reform measures can reduce the frequency and depth of future crises.

Future needs and realities

Sustainable progress in managing global economic governance requires a comprehensive, systemic effort oriented towards the long term. Collective and cooperative action and institutional arrangements cannot rest on rigid systems. They require a network of regimes, bilateral and multilateral treaties, international organizations and shared practices, which embody common expectations, reciprocity and equivalence of benefits. But it is a far from easy task to meet these oft-mentioned requirements, which depend on many factors. The crisis also showed that there are international challenges requiring associated cooperation on different scales. Certain problems require urgent coordinated action by a small number of very important states. This number varies by issue area, but it can be as few as two or three. This is sometimes called "mini-lateral" cooperation. The arrangements of the states involved will be a net gain for all states if they are not detrimental to the interests of others. There are and there will be major differences between states in their interests over specific issues and arrangements, and in their political and economic power to influence trends and processes. To understand future potentials, possibilities and forms of multilateral cooperation, it is necessary to look at the evolving global power structure. It is not possible here to analyse this in depth, but only to glance at geopolitics.

Many politicians and academics, not to speak of the media, declared that the global crisis is an indicator of the decline of American power, a sign that America's global leadership is coming to an end. Crises often strip away conventional wisdom, and this one has revealed that the underlying strength of the American economy remains impressive. The poor performance of Wall Street institutions and Washington regulators has cost New York a good deal in terms of its soft power—the attractiveness of its economic model—but the blow need not be fatal if Washington, unlike Japan in the 1990s, moves quickly to absorb the losses and limit the damage. The larger question is the long term future of American power. A fairly new forecast from the National Intelligence Council projects that American dominance will be "much diminished" in the coming decades. The only key area of continued American superiority—its military predominance—will be less significant in the increasingly competitive world of the future.

Power has always depended on context in the international system. In the coming decades of the 21st century the power structure will not be identical in its various dimensions. Military power is largely unipolar and likely to remain so for some time. Economic power is already multipolar, with the US, Europe, Japan and China as the major players, partners and competitors, and other states are also gaining in importance, like India, Brazil and the Russian Federation. Scientific and technological capabilities, which are playing an increasing role in the global distribution of power, are also becoming multipolar. But for many years to come, the United States will retain its lead in the global knowledge system.

There are also the non-governmental actors in the power structure to take into account. The most important are the transnational financial conglomerates and the transnationals in industry, services and retail. The political effects are and will be quite different for the world of nation-states and for the world of non-state actors. In inter-state politics, the most important factor will be a continuing increase in the importance of Asia. It is too early to say to what extent the outcome of the ongoing shifts in power and influence will be an increase in instability or new, more balanced multilateral cooperation. It is already evident that the United States acting alone cannot achieve many of its international goals. The crisis has given important evidence that international financial stability is vital to the prosperity of Americans, but the United States needs the cooperation of others. The same is true in global climate change. It is not only the United States that must mobilize international coalitions to address the shared threats and challenges, but its role will remain crucial. The conditions for efficient multilateral cooperation after the crisis will not be a rise or fall in American power, but the intensions and abilities of the main states working together. There is also the emergence of a new "Seven Sisters", a term once used for the seven Anglo-American firms that controlled oil in the Middle East after World War II. Today it is not Exxon-Mobil or Royal Dutch Shell that does this, but Russia's Gazprom, CNPC of China, Venezuela's PDVSA, Brazil's Petrobras, the Saudi Aramco, and Petronas of Malaysia. They are the seven giant producers. Resource nationalism is likely to grow in importance as these state-owned companies force the Anglo-American companies into further concessions. The politics of the new Seven Sisters is diverse; the Saudis, staunch US allies, are the most powerful. But the control over Venezuelan oil by the Chávez regime, which is trying to lead the nation toward a 21st century socialism, is an important development, as are the new nationalization moves in Ecuador, Peru, and Bolivia.

The global, synchronized nature of the crisis means that no country can hope to "export its way out" of the crisis by finding a "locomotive" market or solve its problems through capital imports. Measures to rekindle growth must include national fiscal and monetary moves to arrest falling demand in a globally and regionally harmonized way, which implies a big improvement in multilateral cooperation.

One key issue in the post-crisis world will be the future of multilateral cooperation—crucial to preventing and managing future crises and dealing with the consequences and lessons of crises. It is still unclear how the current crisis will affect this. One possible scenario is a major improvement in its structure and effectiveness. Another is an increase on protectionism, isolationism and deglobalization, and a weakening of the multilateral institutions. A third possibility may be gradual implementation of the measures suggested by the G20, the G8 and the special conference in the UN. While there may be big difficulties in implementing the various commitments made by politicians during the worst period of the crisis, this scenario still offers greater opportunities for compromise and harmonization of interests and policies.

Cooperation in any instance will depend on a number of factors that go beyond the power structure. One question is the extent to which different countries share a common conception of the nature of the policy challenge, to say nothing of how to cope with it. Although the United Nations has distinct advantages, through its perceived international legitimacy and universal membership, it will not be the instrument of choice in many complex issues. The IMF, the World Bank or regional organizations have usually been preferred in the past, where leading Western states wanted to circumvent the East. After the collapse of the socialist regimes and with the relative importance of North/South issues in trade and capital flows, the preferred institutions have become the WTO or narrower, club-like affinity groups sharing common purposes, like the G3, G7 or G8.

Countries may continue to need a diverse set of frameworks: bilateral cooperation, "minilateralism", or omnilateralism. The importance of formal and informal, universal and regional, general and functional multilateral cooperation will remain for specific tasks. With some, effective governance may require public/private partnerships involving a range of stakeholders, including private corporations and non-governmental organizations.

Multilateral cooperation in the global system will need to focus on strengthening comprehensive global security. It will also have to deal with the dangers related to preventing the development and manufacture of weapons of mass destruction and international terrorism, and undertaking peace-keeping, peace-making and many other political issues.

Multilateral cooperation will be indispensable to managing the post-crisis global economy in five areas: the international financial system, international trade, international investment, global development policy, and global ecological cooperation. It is not yet clear how the role of existing regimes and organizations will change.[65] Various factors—the character and complexity of the issues, the mandate of each system, the normative and analytical capabilities of secretariats, the positive and adverse experiences, what the most important states gained by their chances, from agenda setting to implementation—may not help to decide which organizations will play more or less important roles. It must also be considered that mandates overlap. The multilateral system is not transparent enough, in the absence of clear hierarchies or norms. Still more important are the major differences between states in their commitments to multilateralism. While the major powers have stressed the need for collective action in managing the crisis, more unilateral steps than multilateral ones have actually been taken.

The most important collective decisions have been adopted within the G8 and G20, where the main participant states decided who was to sit round the table. Compared with the role and importance of the "Gs", the authority and relevance of the other global multilateral institutions have declined. Even such bodies as the IMF, the World Bank and the WTO have become "subordinated" to these informal club-like groups, whose members have been concentrating on improving their internal regimes, and looking with internal perspectives at the tasks of reforming the institutions to be responsible for global supervision and regulatory measures, and strengthening the stability of the global trading and financial system.

Towards reforming the system

The global crisis has posed a big challenge to practically all the institutions of multilateral cooperation. It has given convincing evidence that globalization without effective global or regional institutions leads the world into chaos. There is little discussion on the implications of the crisis for the global trading system. The WTO, the cen-

[65] The UN "family" includes 16 specialized agencies and several global funds and programmes. The Bretton Woods Institutions—the World Bank and the IMF—are formally part of the UN system as well, but they and some of the specialized agencies have wide autonomy. Another group of such institutions consists of functional organizations such as the World Trade Organization, with a number of cooperation regimes, the OECD, and the Bank of International Settlements under which there are several federations of some financial institutions. There are also some smaller organizations and several international regimes, with or without institutions. Another group of international multilateral bodies consists of informal clubs such as G20 and G8. Coordinating this complex system is very difficult, even within the UN system.

tral multilateral organization in the trade regime, is still under the influence of the collapsed Doha round.

Political and academic debate at various international conferences has produced a consensus on the main areas that need reforming. In the international financial system, fundamental changes are needed to overcome the systemic flaws that caused the crisis and to guard against future crises. These reforms should deal first with major weaknesses in regulation and supervision. Existing mechanisms are now generally seen as insufficient to mitigate the inherently cyclical proclivities of the international of the financial system, which tend to foster asset price bubbles. A macro-prudential regulatory system needs to be created, based on counter-cyclical capital provisioning, to develop institutions to supervise the market segments where the systemic risk is concentrated, including the hedge funds and cross-border flows. A critical element of the more effective global system of financial regulation required is stronger tax cooperation. This should help reduce tax evasion, which is often linked with money laundering, corruption, financing of terrorism, and drug trafficking. And as it is so pervasive, improved tax coordination should also help to boost the fiscal capacity of governments worldwide. A new framework for global economic governance in line with early 21st century realities needs to be created. This should include deep reform of the governance structure of the Bretton Woods institutions, to make them more responsive to current and future challenges and to strengthen their legitimacy and effectiveness. There has been much debate, but only a partial consensus on creating a new global reserve system no longer reliant on national or regional currencies.

Reform and the "trio" in the financial system

Three of the major global multilateral financial organizations—the IMF, the World Bank and the Bank of International Settlements—have been the most important in analysing the problems, managing the crisis and developing ideas for reforms necessary in the post-crisis world.

The G20 has assigned a central role to the IMF in global management of the financial and economic crisis, despite grave shortcomings in its mandate, policies, resources and governance. Initially, the IMF was largely sidelined in the handling of the present crisis; on its own admission, it had not performed well in identifying systemic vulnerabilities or anticipating the crisis. The culture of the IMF had long embraced an economic philosophy and economic models that resulted in serious shocks and contributed to the crisis. Yet in the international economic financial architecture, the IMF had a mandate to ensure global financial and economic stability. It was a natural candidate for managing the crisis in view of its authority to survey the economic performance of its member-countries, alert them of economic dangers, provide policy advice and financing to those facing balance-of-payments difficulties, and help developing countries to achieve macroeconomic stability and support employment.

The problems with and in the IMF have impaired its ability to take adequate crisis-prevention action or respond to a crisis. Its ability to safeguard the stability of the global economy has been undermined by the vastly greater resources and volatility of globally integrated private financial institutions, by uncoordinated national policy responses, and by the mounting influence of non-inclusive arrangements, including those introduced by G7 and the OECD. Nor has the IMF sufficiently large or attractive precautionary facilities, which meant that countries could request IMF funds only after a crisis had struck, so limiting the IMF role to providing financing to smooth over sometimes painful adjustment. This raised the ultimate cost of macroeconomic shock to member-countries and meant the IMF was often associated with politically suicidal austerity programmes with strict conditions. In fact there were several discussions and efforts by some members to have the IMF introduce a precautionary facility, but the current crisis was what prompted the main stakeholders of IMF to act. In March 2009, a Flexible Credit Line (FCL) was introduced, granting access to large amounts of rapid financing—with no ex post IMF policy conditions—for countries with very strong economic policies and a proven track record. This may be the biggest change in IMF/member relations since the end of Bretton Woods. The facility is not available to all countries. For some, conditionality will remain critical, to ensure necessary policy adjustments are made and the revolving nature of IMF credit is preserved, while policy frameworks may still need strengthening. For these, the IMF has devised High Access Precautionary Arrangements (HAPA)s, which again provide insurance cover, but in return for necessary policy measures. The IMF itself needed a fund increase before it could perform its new function and increase its lending. The G20 leaders, meeting in London, agreed to triple the IMF lending capacity to an unprecedented USD 750 billion and at least double its capacity for concessionary lending to low-income countries. They also mandated it to agree a new general allocation of Special Drawing Rights (SDRs), to add USD 250 billion in global liquidity.

Among other new measures is a hitherto unprecedented IMF initiative, at G20 request, to develop an Early Warning Exercise, in collaboration with the Financial Stability Board (FSB). The aim is to support global policy initiatives for developing a more systematic view of risks and problems caused by global linkages. Another measure is to accelerate governance reform, whose declared aim is "to represent all countries in a fair manner," and ensure a decision-making structure that reflects current global realities.[66] Completion of a second round of quota reform is scheduled for January 2011 at the latest, and emerging and low-income countries will be given a greater say.

Debate in the IMF on reform of the international monetary system has been going on for some time. The vulnerability of the global financial system was described for several years by some economists as "stable disequilibrium", in which fast-growing emerging economies (especially China) were exporting more and more to the rest of the world and using the proceeds to buy more and more US dollar-denominated financial assets. This allowed the US to enjoy "unusually" low interest rates, a "surprisingly" strong dollar, and an "unprecedented" deficit on the current account, by importing much more than it is exported to the rest of the world.

The sustainability of this "stable disequilibrium" in global finance is likely also to influence the outcome of the global financial and economic crisis. Protectionism and nationalism and the future of key currencies will be central issues in policy debates. They will be also influenced not only old-style populist anger against banks, businesses, high executive pay, and layoffs, but by the emergence of authoritarian populist movements in a number of countries. In professional discussions, the intensity of calls for fundamental rethinking of the role of multilateral institutions in macro-economic, monetary and financial policies may lessen as the crisis slowly recedes. Although demands for structural reforms in the international financial architecture and an enhanced degree of coordination among regulators will not cease, the restructuring may be gradual and prolonged.

An important measure of restructuring was the establishment of the Financial Stability Board[67] in April 2009, to replace the

[66] When the IMF was set up in 1944, the basic votes were set at 250 votes per member and represented 11.3 per cent of total voting power when it had 44 members. But with the increase in quotas over the years, the share of basic votes has fallen considerably, with a trough of 2.1 per cent of total voting power for 184 members in mid-decade. An April 2008 decision of the IMF Board of Governors reversed this trend by tripling basic votes, but only increased the total share of basic votes to 5.5 per cent of current voting power, which falls far short of restoring the share, let alone the weight of the basic votes.

[67] The Financial Stability Board (FSB) formed in April 2009 re-established the Financial Stability Forum (FSF), which had existed since 1999. The mandate is to assess vulnerabilities affecting the financial system, identify and oversee action to address them, and promote cooperation and information sharing among authorities responsible for financial stability. The membership of the FSB (wider than of the FSF) consists of the following countries and international organizations (countries marked

Financial Stability Forum created to promote international financial stability, improve the functioning of financial markets, reduce the spread of financial shocks from country to country, and enhance the institutional framework to support global financial stability, in the aftermath of the 1997–8 financial crisis. It is now clear that the reforms it proposed, though important, have not sufficed to avert major global financial instability. For the FSB to take on the role as a global authority in identifying systemic risk for the financial system calls for an international capability beyond the mandates and capabilities of the Financial Stability Forum and the Bank for International Settlements (BIS). International financial regulation will require coordination beyond central bank authorities (a major concern of the BIS). It must include securities and corporate regulators as well as accounting standards among its priorities.

The role and reform of the World Bank in the international financial system has received far less attention during the crisis than that of the IMF has. Some of the measures of managerial reform in the IMF could be applied to the World Bank as well. The crisis has also revealed that the World Bank's financial capabilities (and the regional development institutions) are insufficient to provide counter-cyclical financing. There could prove to be a need for additional facilities within their respective mandates and for a fast-track mode of project preparation. The World Bank will also review its approach to financial sector policies in the light of experience in the crisis and thereafter increase its support for financial sector development, notably financial regulation. Many important recommendations have come out of the debates on World Bank reform, such as strengthening national banking and financial market oversight, establishing a multi-country system of management to respond to financial crises, developing national credit registers, and setting standards for responsible, fair, transparent banking transactions that meet the requirements of responsible finance.

The restructuring of the global financial institutions will also influence the role of the Bank of International Settlements (BIS), where the representation of countries is still very limited. As the organization of central banks, the BIS is an important forum for ongoing debate on the systemic reform, the introduction of macro-prudential regulations, and early identification of systemic risks such as the appearance of asset bubbles, and extending regulation to all important institutions, markets and instruments. The current global crisis has shown that while many of the large complex financial institutions are global, regulation of them remains national. There is much discussion as to how international regulatory cooperation can be enhanced. Hitherto there was little such international discussion on dealing with excess liquidity, which will remain a challenge. One BIS problem is with the significant remaining challenges of implementation that will arise as the move into a global regime occurs, though considerable progress has been made on the principles governing this regulatory overhaul.[68]

A further BIS problem is that is the umbrella for the standard-setting institutions. The Basle Committee of the Bank for International Settlements (BIS) and the FSF/FSB set important global economic standards in areas such as data dissemination, bank supervision, financial regulation and corporate governance. But inadequate representation of developing countries in these ad hoc bodies makes their analysis and recommendations incomplete and biased in crucial aspects, as recently demonstrated

* were original members of the Forum): Argentina,* Australia,* Brazil,* Canada,* China,* France,* Germany,* Hong Kong,* India,* Italy,* Japan,* the World Bank,* Korea, Mexico, the Netherlands,* Russia, Saudi Arabia, Singapore,* South Africa, Spain Switzerland,* Turkey, the United Kingdom,* and the United States of America.* Also the Bank for International Settlements, the Basel Committee on Banking Supervision, the Committee on the Global Financial System, the Committee on Payment and Settlement Systems, the European Central Bank, the European Commission, the International Association of Insurance Supervisors, the International Accounting Standards Board, the International Monetary Fund, the Indonesia International Organization of Securities Commissions, and the OECD

68 Mohan, Rakesh: Emerging contours of financial regulation—challenges and dynamics. *Financial Stability Review of Bank of France*, June 10, 2009.

by the Basel II capital adequacy criteria. A major obstacle to global acceptance and universal and effective implementation of standards and codes developed by these committees is the fact that countries in different stages of economic development have varying financial and institutional capacities. Standard-setters may invite experts from developing and transition economies for periodic consultations, but they are not partners in the decision-making. An additional concern is the lack of accountability of important semi-private standard-setting bodies. Private entities such as the International Accounting Standards Board (IASB) and the International Organization of Securities Commissions (IOSCO) develop, for instance, standards for cross-border regulation that influence the international financial system, but are exempt from political accountability. This is particularly important in the light of the development of large financial conglomerates, acting not only as global banks, but expanding their operations into security markets and wholly-owned or controlled brokerage and security firms.

The crisis and the trade regime

The international trade regime is particularly important to the system of multilateral cooperation. One major consequence of the crisis in 2009 has been a sharp decline in world trade. Protectionism has increased throughout the world. The G20 warned of these dangers in its initial communiqué and members committed themselves not to indulge in protectionism. Yet the pressures to do so have been hard to resist. Trade contraction represents a far more serious risk to the global economy now than it did in the Great Depression, as trade today is so far more important to many economies and directly related to the global investment, production and sales activities of the transnational corporations. The small countries, most of the total, are particularly hard hit by trade contraction. The only universal body for setting trade rules and resolving trade disputes is the WTO, the one universal intergovernmental institution that does not have an institutional agreement with the UN (Arrangements for Effective Cooperation with other Intergovernmental Organizations—Relations between the WTO and the United Nations, which appeared on November 15, 1995, provides only for informational exchange), though it has separately acceded to coherence commitments with the Bretton Woods institutions.

Although international agreements contain the same rules for each country, seemingly symmetric provisions can have markedly asymmetric effects due to very different economic and social points of departure. World markets have been distorted by the trade restrictions, special bail-outs, subsidies, guarantees and domestic restrictions on procurement contained in some stimulus packages and crisis management measures. These were implemented mainly in rich countries that could afford subsidies. Firms in poorer countries simply cannot compete against those more developed countries, receiving massive assistance from their governments. The problems with the crisis-related subsidies coincided with those of the stalled Doha trade round. The current state of the Doha negotiations on multilateral trade risk has a “one-size-fits-all approach, with a narrow focus on market access to all countries, irrespective of their existing share of global trade and their economic potential. This has caused endless bargaining between industrialized countries and emerging markets about market access for industrial goods. Various studies suggest that the conclusion of the round, regardless of its symbolic value, would not make much difference to low-income countries and still less to developing countries unless all forms of export subsidies can be eliminated by the end of 2013 (as agreed to during the Hong Kong Ministerial Conference of December 2005).

The impact of the financial crisis on trade goes beyond the issues related to the Doha negotiations, but is related to them in certain respects. The oft-raised argument that WTO rules can resolve the crisis by preventing beggar-my-neighbour “protectionist measures” and policies that led to the Great Depression of the 1930s and consequent wars has been widely criticized, particularly by developing countries. The Doha Round asks developing countries to open their markets on a scale that would, in their view, ruin their weak, smaller producers. In a global economy with many unequal players, liberalization does not yield the claimed benefits of open trade, as argued in the comparison with the 1930s. The transnationals would be the winners in the increased competition game. Another argument in the crisis context is that the Doha Round would reinforce the model of laissez-faire, based on a belief that markets can be left alone, that the common good will come out of leaving everybody to look to self-interest. The financial crisis has shown how the free market is based on this model. It is also argued that the impact of broad liberalization and deregulation of financial services, capital movements and the international financial institutions has been largely responsible for the crisis, the ultimate major losses, and the first case of a decline in world trade since the Second World War. It is beyond the scope of this paper to discuss the future of the multilateral trading regime in detail. But there are major problems related to regulation of the financial system and the WTO rules. The EU and other industrialized countries will have difficulties in radically reforming and regulating their financial markets. They have liberalized according to a GATS model called "Understanding on Commitments in Financial Services", which calls for foreign financial service providers to be allowed to provide any new financial service. Although GATS permits the authorities to take prudential measures to protect customers and avoid financial instability, the question remains as to what prudential measures are seen as acceptable. GATS stipulates that prudential measures should not be seen to undermine the GATS commitments, which are a difficult to assess and may have prevented some governments from taking certain prudential measures at all.

There are a number of other problems in the international trading system, which may only be indirectly related to the present state of the global economy or the Doha round. These include reform of the WTO. There is a strong need to differentiate between countries according to criteria such as national income, economic power and trading potential and to develop a scheme for clustering developing countries adequately. Rules, transition periods, asymmetric liberalization and burden sharing can then be designed systematically, while ensuring incentive compatibility, alongside economic power and development prospects. Major reports on the future of the WTO, such as the Sutherland[69] and the Warwick report point into this direction and make specific proposals.[70]

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[69] One of the main messages of the Sutherland Commission Report has been that trade liberalization alone will not yield the positive results expected. Liberalization must be set in a society with certain other attributes: an educated and innovative workforce, transport and communication infrastructure, reasonably efficient and non-corrupt government structures, and of course, civil internal peace. Without those, trade liberalization will not achieve much. It also emphasizes the importance of adjustment mechanisms to helping those harmed by trade liberalization in the short run. In the history of trade liberalization, the idea of adjustment has largely been left to the nation-state, particularly since GATT. Each state is responsible for mechanisms such as a welfare net for workers who lose their jobs. But there is an absence of attention to this problem by international institutions. The Commission recommended that international institutions give explicit attention to the adjustment processes. That could mean implementing mechanisms as part of the existing trade policy review of the WTO, to focus on asking governments what they are doing to assist those who are harmed. In addition, there are problems of market failure through monopolistic practices, lack of sufficient and adequate information for market participants (asymmetries of information), and problems of public goods and free riders.

[70] The Warwick report focused on how the multilateral trade regime could better serve the global community. According to the report, five challenges must be met in the early 21st century, arising from several sources: national political dynamics, global economic developments and inter-state diplomacy. The first challenge is to counter the growing opposition in industrialized countries to further multilateral trade liberalization, which has been weakening international economic co-operation. The second is rooted in the fact that the global trade regime, dominated primarily by the United States and Western Europe, has given way to a multipolar alternative. This implies a new configuration, which may result in stalemate in the longer term, or even disengagement by established and emerging powers in the global trade system. The third

The UN system's role and the global non-summit on the crisis

The majority of multilateral bodies form part of the UN system. The UN has the broadest mandate to deal with issues in the global system, at least on a level of comprehensive analysis, discussions and recommendations. The UN system was the first multilateral context in which the potential social dangers of the crisis were raised.

The first of the special UN agencies to draw attention to the worst social consequences of the crisis, the rapid increase in unemployment, and the dangers of a long employment crisis was the ILO. In June 2009, the tripartite International Labour Conference unanimously adopted a Global Jobs Pact negotiated by national representatives of governments, business and trade unions of the ILO member-states.

The Pact is not an internationally binding legal commitment, but an agreement on common policy approaches, eventually leading to national and international programmes and stronger multilateral coordination.

It makes an urgent appeal to put employment and social protection at the heart of recovery policies. Historical data and experience of past crises point to at least a four to five-year lag between the resumption of economic growth and employment recovery. "Jobless growth" is an even greater danger in the 21st century. If countries and the international community do not act decisively, there will be socially damaging jobs crisis for many years to come. The urgency of the problem is indicated by the fact that unemployment may reach 50 million jobs by 2009 and continue to grow in 2010.

The Global Jobs Pact proposes immediate action—nationally and internationally—in the following areas:

* Tripartite consultations on recovery policies in the ILO and on national level.
* Reinforcement of active labour market policies.
* Safeguarding viable jobs.
* Supporting job-seekers through training and skills development, and expanding employment guarantee schemes.
* Special attention to young people and vulnerable groups.
* Support for sustainable firms, especially small and medium-sized ones.
* Protecting workers' rights, acting against discrimination at work, and promoting international labour standards, especially collective bargaining to address wage deflation.
* Job-intensive investment in infrastructure and public goods, among them health, education and social services.
* Investing in tomorrow's green economy.
* Investing in food security and rural development.
* Extending social protection and supporting pensions systems.
* Restructuring enterprises through social dialogue.
* Dealing fairly with migrant workers.

The ILO has also offered detailed analysis of the crisis implications for global employment, in its Global Employment Trend report.[71] Issued in May 2009, this revised upwards the ILO unemployment projections to the 210–239 million range in 2009, *i.e.* a global unemployment rate of 6.5–7.4 per cent. The report projected an

challenge is to redefine the "boundaries of the WTO by forging a broad-based agreement among the membership about the institution's objectives and functions." The fourth challenge is to ensure that the WTO's many agreements and procedures result in benefits for its weakest members. This calls for WTO members to reconcile current trade rules with issues of fairness, justice and development. The fifth challenge relates to the proliferation of preferential trading agreements and the steps required to ensure that the momentum behind these initiatives is eventually channelled to advance the long-standing principles of non-discrimination and transparency in international commerce.

71 *Global Employment Trends, May 2009 Update.* Geneva: ILO.

increase of 39–59 million unemployed people from 2007. The outcome will depend on the effectiveness of the fiscal measures decided by governments and on the functioning of the financial sector. Updated projections of working poverty across the world pointed to 200 million workers being at risk of joining those living on less than USD 2 per day between 2007 and 2009.The ILO noted that the crisis is hitting youth hard: youth unemployment is expected to rise by 11–17 million in 2008–9, and the youth unemployment rate from around 12 per cent in 2008 to 14–15 per cent in 2009.The ILO report said 2009 will have the worst global performance on record in terms of employment creation: an expansion at an average rate of 1.6 per cent, equivalent to about 45 million new entrants a year, while global employment growth decreased to 1.4 per cent in 2008 and was expected to fall further to 0–1 per cent in 2009.

While the Secretariat of ECOSOC, the Department of Economic and Social Affairs, UNCTAD and other bodies within the UN published important analytical reports on the economic aspects of the crisis and the President of the General Assembly initiated broad dialogue with the NGO world, it took more than a year for governments to agree that a special Global Summit of the General Assembly should be convened to reform the institutions of global economic governance. But the efforts of the president of the General Assembly and of the states that supported the initiatives did not yield a high-level global summit. It was a "regular" UN conference on "The World Financial and Economic Crisis and Its Impact on Development". This reflected from the outset the fact that the majority of governments in the developed countries prefer the Gs, IMF, the World Bank and the WTO as forums dealing with multilateral measures. Still, the final outcome document of the UN conference reflects on the issues on which there seems to be global consensus. It reaffirms, for example, the UN mandate to coordinate the actions of nations in attaining their common ends. It takes issue with those who do not want the UN to play a role in the reform process, stating that the United Nations, based on its universal membership and legitimacy, is well positioned to participate in various reform processes aimed at improving and strengthening the functioning of the international financial system and architecture. The document states, "We have set forth our global consensus on the responses to this crisis, prioritized required actions and defined a clear role for the United Nations. We are doing so in the interest of all nations, in order to achieve a more inclusive, equitable, balanced, development-oriented and sustainable economic development to help overcome poverty and inequality". It also recognizes, however, that the UN conference needs to build on and contribute to "what is already being undertaken by diverse actors and in various forums, and is intended to support, inform and provide political impetus to future actions."

The closing document of the UN meeting incorporated some recommendations of important earlier conferences, notably the London G20 summit. While the emphasis was on expanding and improving regulation and supervision of all major financial centres, instruments and actors, including financial institutions, credit rating agencies and hedge funds, and the need to tighten and coordinate better the regulation of incentives and derivatives and trading of in standardized contracts , participants rejected some regulatory requirements that were seen as needlessly onerous. The conference called for modernization of international financial institutions to enable them to respond better to the financial and economic challenges and the needs of member states, equip them to strengthen existing monitoring, surveillance, technical assistance and coordination roles, and to help forestall similar future crises, in accordance with their mandates. Another call was for even-handed, effective IMF surveillance of major financial centres, international capital flows and financial markets. The responsiveness and development orientation received greater emphasis in the closing document than it did in the G 20 resolutions, reaffirming the need to address the oft-expressed concern about under-representation of developing countries in the major standard-setting bodies, including the need to expand the membership of the Financial Stability

Board and the Basel Committee on Banking Supervision.

The closing document devoted special attention to strengthening the capacity, effectiveness and efficiency of the United Nations, through measures to develop the comprehensive crisis response of the United Nations development system, in support of national development strategies, and through a coordinated approach by UN funds and programmes, agencies and international financial institutions at country level.

The document laid much greater emphasis on global responsibilities to alleviate the social consequences of the crisis, on migration issues, and on the need to strengthen global solidarity. It recommended to the General Assembly (which will have to approve the conference recommendations) the establishment of an ad hoc panel of experts on the crisis and its impact on development, to provide independent technical expertise and analysis that would contribute information for international action and political decision-making and foster constructive dialogue and exchanges among policymakers, academics, institutions and civil society.

Finally, the conference devoted special attention to the Global Jobs Pact adopted at the recent International Labour Conference, and recommended that it be discussed at the substantive session of the Economic and Social Council in July, which intends to promote job-intensive recovery from the crisis, drawing on the decent-work agenda, and to shape a pattern for sustainable growth.

CONCLUSIONS

Multilateral cooperation in the 21st century is becoming increasingly important several reasons The global financial and economic crisis, with its major social dimensions, has provided an important indication that the abilities of states to manage their domestic problems is declining in many fields, including finance, trade. employment, environmental degradation, terrorism, rising crime, urban decay, drug abuse, and so forth. The existence and the growing importance of global problems is another factor behind the need for global cooperation and collective action. The sustainability of the system depends increasingly on countries' ability to keep the world together through some form and structure of global governance.

The international agenda is filled with old and new problems, each one complex and interrelated with many others. Some problems are rooted in the unpredictable results of the new global power structure that is evolving. Others are connected with the globalization of particular issues. An example of such an acute problem is population growth, which endangers the ecological, political, and economic systems of the world. Similarly, increasing social tensions, unemployment, and poverty are not merely domestic problems, but reach across borders in a myriad of different ways, affecting the global system as a whole. Ethnic tensions and human rights violations can provoke wars that engulf nations and disrupt the political and economic stability of entire regions. The post-crisis global economy will become even more competitive, and there will be new challengers contending with old for dominance in various segments of the world market. So the world may be split by trade wars into hostile regional blocs. Though such problems remain manageable, they will certainly come to threaten the future of humanity they are not treated promptly, appropriately, and jointly by the members of the international community.

As in other fields, the formulation and implementation of policies in international political and economic systems calls for anticipating, gauging, managing, and seeking to eliminate risk factors. Transnational firms, banks, international organizations and governments have been employing in recent decades highly sophisticated scientific methodologies for risk assessment when taking major decisions. Yet they failed to predict the global crisis.

There are no universally shared definitions or concepts of international risk or crisis management. The interests and goals of governments and other international actors are to minimize risks or avoid risk factors altogether. Risk management, however, implies that the complex world of the 21st century will be unable to eliminate the risk factors altogether. It will have to coexist with them and in doing so, seek to reduce the potential damage they may cause, using methods that may include unilateral adjustment or international cooperation within bilateral or multilateral frameworks.

It is a fundamentally important long term issue to know the extent to which collective efforts at multilateral cooperation, related to the adverse and favourable experiences of the global crisis, will bring an improvement in the effectiveness of the existing regimes and organizations. The efforts may be undermined by government policies aimed at the maximizing gains and minimizing losses, based on the specific interests of the countries. Many new conflicts may evolve in the post-crisis world if the efforts fail and unilateralism, neo-nationalism and neo-protectionism gain momentum on a global or regional level. Even if the various reform proposals for managing the crisis are implemented, major problems on the international agenda will remain unresolved .The future of the global system, and the process of globalization to a large extent, depend on the collective wisdom and capacity of countries to manage it. As happened in the 20th century, globalization may be stalled, derailed or even reversed. Its discontinuity, resulting in disintegration and fragmentation, would be even more devastating than before. The system needs to implement the changes in a flexible way. It should be considered that the management and solution of certain problems requires coordinated action only by a small number of states—"minilateral arrangements very important states"—and should also act as a confidence-building measure. Such action should be transparent and convincing for others, so that the "minilateral" contributes to solving problems to the advantage of the system as a whole. The future of multilateral cooperation depends also on progress in the international legal system, which plays an important role in addressing current challenges, from the environment (climate, water) to financial services and markets, from security to terror and international crime, from torture to trade. The international legal system is fragmented and decentralized; linkages between various areas are limited and in some cases non-existent.

It is also important that the strengthening of global security should not be subordinated to the self-seeking competitive efforts of states, great or small. The global crisis has given a strong warning that improvement of the management of multilateral organizations is indispensable as well. Nor can multilateral organizations function effectively in the absence of financial, political and institutional support from member-states. And it cannot fulfil its tasks without qualified, expert leadership and management that displays vision, professional integrity and courage.

The first global financial and economic crisis in the 21st century has been a milestone also in the prolonged, global process of adjustment to a new global economy. Globalization has already turned "adjustment" into a universal postulate for rich and poor countries alike. The nature of the problems and solutions may vary from region to region, but no country or region will remain untouched. It is hard to anticipate and identify the specific sources of the outcomes. Multilateral institutions must act as a catalyst for new policies and actions. Changing policy objectives and instruments is always difficult, even in a framework of national governance, but in this era of interdependence and interactivity, with information highways crisscrossing the globe, qualitatively new solutions must be found to problems in an increasing number of areas. Research into preferred paths of development, humane ways of dealing with crises and emergencies, solutions and alternatives that take into account the survival and progress of humankind and assist the development of a harmonized policy framework will be prime tasks also for social scientists in the decades to come.

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