CHAPTER 19

Global Governance and the Bretton Woods System

'The market is a good servant but a bad master.'

Economics maxim (sometimes applied to money)

PREVIEW

The issue of global governance has received growing attention, particularly since the 1990s. This has occurred for a number of reasons. The end of the Cold War meant that increased expectations fell on international organizations in general and on the United Nations in particular. Accelerated globalization stimulated discussions about the relationship between trends in the world economy and the institutional frameworks through which it is supposedly regulated. And there has been a general recognition that a growing number of worldwide problems are beyond the capacity of individual states to solve on their own. However, hovering somewhere between a Westphalian world of sovereign states and the fanciful idea of world government, global governance is profoundly difficult to analyze and assess. How is global governance best understood? Does it actually exist, or is global governance merely an aspiration? The arena in which global governance is most advanced is nevertheless the field of economic policy-making. This stems from the 1944 Bretton Woods agreement, which sought to establish the architecture for the postwar international economic order by creating three new bodies: the IMF, the World Bank and GATT (later replaced by the World Trade Organization), collectively known as 'the Bretton Woods system'. This system, however, has evolved significantly over time, as it has adapted to the changing pressures generated by the world economy. From an initial concern with postwar reconstruction in Europe and later development in the Third World, its key institutions were drawn into deeper controversy from the early 1970s onwards as they were converted to an agenda of economic liberalization and became inextricably linked to the forces of neoliberal globalization. What factors lie behind the creation of the Bretton Woods system, and how did its mission subsequently change? Have the Bretton Wood institutions been a force for good or for ill?

KEY ISSUES

- What is global governance?
- Is global governance a myth or a reality?
- How and why was the Bretton Woods system established
- How were the Bretton Woods institutions converted to economic liberalization?
- Why have the Bretton Woods institutions attracted so much criticism?
- What does the 2007–09 global crisis tell us about the need for global economic governance?

CONCEPT

Global governance

Global governance is a broad, dynamic and complex process of interactive decision-making at the global level that involves formal and informal mechanisms as well as governmental and non-governmental bodies. States and governments remain the primary institution for articulating public interests and those of the global community as a whole, but global governance also involves intergovernmental and, sometimes, supranational bodies. Global policy is made by a system of horizontal and vertical interactions in which officials in different branches of government work with counterparts in other countries as well as with activists, scientists, bankers and others outside government. The term global governance is sometimes used more narrowly to refer to the institutions through which these interactions takes place.

GLOBAL GOVERNANCE

Global governance has been described as the 'collection of governance-related activities, rules and mechanisms, formal and informal, existing at a variety of levels in the world today' (Karns and Mingst 2009). As such, it refers to a wide variety of cooperative problem-solving arrangements whose common characteristic is that they facilitate 'governance' (see p. 125), in the sense of the *coordination* of social life, rather than 'government', meaning ordered rule operating through a system of enforceable decisions. Such arrangements have become an increasingly prominent feature of global politics since the end of the Cold War, particularly in response to, but also, to some extent, in an attempt to shape, the process of globalization (see p. 9). Global governance is nevertheless a complex phenomenon that defies simple definitions or explanations. In the first place, it is commonly confused with international organization (see p. 433), to such an extent that global governance is sometimes in effect used as a collective term to describe the international organizations currently in existence. Although global governance and international organization are not synonyms, an important aspect of the emergence of global governance has been the growth in the number and importance of international organizations. Furthermore, as a set of processes through which states cooperate without, it seems, abandoning sovereignty (see p. 3), global governance is a difficult phenomenon to categorize. In particular, how can global governance be distinguished from other models of world politics?

What global governance is, and is not

Global governance can be understood as a broad, dynamic and complex process of interactive decision-making at the global level. But what does this mean? What are the characteristic features of global governance? Perhaps the best way to define global governance is to highlight similarities and differences between it and alternative configurations of world politics, notably:

- International anarchy
- Global hegemony
- World government

International anarchy

International anarchy has been the conventional model for understanding international politics, its origins dating back to the emergence of the Westphalian state-system in the seventeenth century. It is also one of the core assumptions of realist theory. From this perspective, the central feature of the international system is the *absence* of a supranational authority capable of regulating the behaviour of states. States are thus sovereign entities, forced to rely on self-help for survival and security. The international system thus tends to be dynamic and prone to conflict, especially as a result of the fear and uncertainty that derive from the security dilemma (see p. 19). However, international anarchy is not necessarily characterized by unending chaos and disorder. Rather, periods of peace and at least relative order may develop, particularly when a balance of power (see p. 256) emerges that discourages states from pursuing their aggressive ambitions. Moreover, the prospect of war is diminished to the extent that states seek to maximize security (the avoidance of war) rather than to maximize power (gains made through conquest and expansion) (see Offensive or defensive realism? p. 234).

Does international anarchy still reign? The main weakness of this model is that since 1945 countries in various parts of the world have, with the help of international organizations, demonstrated a capacity for sustainable cooperative behaviour based on norms and rules that increase levels of trust and reciprocity (see p. 338). The level of cooperation achieved by the European Union, for instance, defies the assumptions of realist theory. It is widely argued, therefore, that the international system hasdeveloped into an international society (see p. 10), meaning that international anarchy has developed into what Bull ([1977] 2002) called an 'anarchical society'. Yet self-help and power politics have not been banished altogether. For instance, international relations across much of the Middle East are still best understood in balance-of-power terms, with 9/11 widely being interpreted as marking a return to traditional geopolitics (see p. 406). Realist theorists, moreover, challenge the idea that an international order can be constructed that permanently transcends the logic of power politics.

Global hegemony

Realists have always acknowledged that some measure of organization is imposed on the state system by the fact that there is a hierarchy of states. Although states are formally equal in terms of their entitlement to sovereign jurisdiction, they are highly unequal in terms of their resources and capacities. Powerful states therefore impose their will on weak states, not least through imperialism (see p. 28). The notion of global hegemony merely takes this idea of international order imposed 'from above' one step further. A hegemonic power is one that possesses pre-eminent military, economic and ideological resources and so is able to impose its will within a region (a regional hegemon) or worldwide (a global hegemon). Such a strongly asymmetrical distribution of power may lead to hostility and resentment but, more commonly, will encourage weaker states to 'bandwagon' in the hope of gaining security and other rewards. Global hegemony may therefore be consistent with international order, particularly when the hegemon is able to deliver collective goods such as a stable financial system, a dependable international currency and, acting as the 'world's police officer', the ability to resolve regional and other conflicts.

Many have argued that hegemony (see p. 221) provides the key to understanding modern global politics. The USA, having displaced the UK as the hegemonic power in the western hemisphere in 1945, became a global hegemon as a result of the end of the Cold War and the demise of the Soviet Union. Such a view also suggests that the growth of international organizations since 1945 was less a reflection of a greater willingness amongst states generally to cooperate, but more a manifestation of the USA's ability to accumulate 'structural' power. However, although the USA played a pivotal role in the construction of the leading institutions of global governance (the UN (see p. 449), the World Bank (see p. 373), the International Monetary Fund (IMF) (see p. 469) and the World

CONCEPT

World government

World government is the idea of all of humankind united under one common political authority. It is an underlying vision of some cosmopolitan arguments (although most cosmopolitans reject it). All conceptions of world government are based on the centralization of authority in a supranational body which would possess legislative and executive power. However, there are two quite different models of world government. In the *unitary* model, a 'cosmopolis', or world state, would enjoy a monopoly of the legitimate use of force and establish a strictly hierarchical world order. In the *federal* model, a central authority would be vested with autonomous authority over the rule of law and the maintenance of order, while the constituent units (previously states) retained control over local and domestic matters.

Trade Organization (see p. 511)), and has also given consistent encouragement to the process of European integration, it is simplistic to see international institutions at large as nothing more than a mechanism through which the USA pursues its national interests. This, for example, can be seen in the often difficult relationship the USA has with the UN. Moreover, the USA's global dominance, as well as its leadership over the institutions of global governance, may well be fading through the emergence of a multipolar world order, as discussed in Chapter 9.

World government

Of all the models of global politics considered here, world government corresponds least well to the structures and processes of the modern global system. Global governance could even be described as international cooperation in the absence of world government. The idea of world government has, indeed, become distinctly unfashionable. However, this was not always the case. The notion of world government has featured large in the history of international relations thought, dating back to Zeno and Marcus Aurelius in ancient Greece and Rome. Hugo Grotius (see p. 234) argued in favour of a system of law that would be binding on all peoples and all nations, while Immanuel Kant (see p. 16) asserted that 'perpetual peace' could be delivered through a federation of free states bound together by the conditions of universal hospitality (although this by no means constituted a simple plan for world government). The founding visions of both the League of Nations (1919–46) and the UN were constructed around a world government ideal, while support for federal world government has been expressed by people as varied as Albert Einstein (1879–1955), Winston Churchill (1874–1965), Bertrand Russell (1872–1970) and Mahatma Gandhi (see p. 261). The logic behind the idea of world government is the same as that which underlies the classic liberal justification for the state – social contract theory. Just as the only means of ensuring order and stability amongst individuals with differing interests is the establishment of a sovereign state, the only way of preventing conflict between self-interested states is to create a supreme world power (Yunker 2007). However, such a prospect is now widely considered to be both unrealistic and undesirable.

World government is unrealistic because there are no discernable indications that states, or peoples, are willing to give up their sovereignty to a global state or world federation. As even within one continent, as the European experience demonstrates (examined in Chapter 20), the emergence of transnational political identities is always likely to lag well behind progress in transnational institution-building. This suggests that if world government were ever to be established, it would be likely to take the form of a world empire (the clearest example perhaps being the Roman Empire), an extreme and institutionalized form of global hegemony. World government has been deemed to be undesirable for at least four reasons. First, it creates the prospect of unchecked – and uncheckable – power, meaning that it would degenerate into global despotism. Second, in view of the cultural, language, religious and other differences, it is likely that local or regional political allegiances will always remain stronger than global ones. Third, it is difficult to see how effective democratic accountability could operate within a system of world government. Fourth, many liberal theorists have aban-

> CONCEPT
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> **Supranationalism**
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> Supranationalism is the existence of an authority that is higher than that of the nation-state and capable of imposing its will on it. Supranationalism thus transfers sovereignty and decision-making authority from constituent states to an international or regional organization. This can occur through the establishment of an international federation, in which sovereignty is shared between central and peripheral bodies, a process often referred to as pooling sovereignty. The advance of supranationalism is seen as part of the general integrative trend within global politics. However, critics of supranationalism, especially realists, claim that it represents a threat not only to sovereignty but also to national identity and democracy, perhaps even containing the seeds of world government.

doned the idea of world government on the grounds that the success of global governance and the spread of moral cosmopolitanism (as opposed to world state cosmopolitanism) show how problems such as war, global poverty and environmental degradation can be tackled without the need for a global state. However, although world government is now rarely deemed to be a meaningful political project, the principle of supranationalism that underpins it has undoubtedly acquired growing significance. For instance, the supranational authority that is vested in the UN Security Council (through its powers in relation to peace and security matters under Article 25 of the UN Charter), the International Court of Justice (see p. 342) and the International Criminal Court, and in certain EU institutions (see p. 499), contains at least some world government features.

Contours of global governance

While world government has increasingly been viewed as an outmoded, if not a deeply unattractive idea, the alternative notion of global governance has attracted growing attention. Global governance is more a *field* than an object of study: although it can be associated with particular institutions and identifiable actors, it is essentially a process or a complex of processes. Simply put, global governance is the management of global policies in the absence of a central government. As such, it differs from international anarchy in that it involves a level of sustained cooperation and a preference for collective action which is impossible in a self-help system. States in a global governance system cooperate voluntarily, recognizing that it is in their interest to do so. Global governance has therefore emerged out of an acceptance by states that in a growing number of policy areas the problems they confront cannot be effectively addressed by individual states acting alone. Global governance differs from global hegemony and world government in that each of the latter presupposed the existence of a supranational authority. It can therefore be described as a system of 'cooperation under anarchy' (Oye 1986). Global governance thus implies that international anarchy can be overcome without founding a world government or having to endure a world hegemonic order (see Table 19.1). The key features of global governance include the following:

- *Polycentrism* – Despite the UN's overarching role within the modern global governance system, global governance is multiple rather than singular, having different institutional frameworks and decision-making mechanisms in different issue areas.
- *Intergovernmentalism* – States and national governments retain considerable influence within the global governance system, reflecting international organizations' general disposition towards consensual decision-making and their weak powers of enforcement.
- *Mixed actor involvement* – In addition to states and international organizations, global governance embraces NGOs, TNCs and other institutions of global civil society (see p. 152), the blurring of the public/private divide meaning that the distinction between the state and civil society in domestic politics is absent in global decision-making.
- *Multilevel processes* – Global governance operates through interaction between groups and institutions at various levels (municipal, provincial,

CONCEPT

Inter-governmentalism

Intergovernmentalism refers to interaction among states which takes place on the basis of sovereign independence. Intergovernmentalism is therefore usually distinguished from supranationalism, in which there is an authority that is higher than the nation-state. The most common form of intergovernmentalism is treaties or alliances, the simplest of which involve bilateral agreements between states. The other main form of intergovernmentalism is leagues or confederations, such as the League of Nations, the Organization of Petroleum Exporting Countries (OPEC) and the Organization for Economic Cooperation and Development (OECD). In such bodies, state sovereignty is preserved through a process of unanimous decision-making in which each member state has a veto, at least over matters of vital national importance.

national, regional and global), with no single level enjoying predominance over the others.

- *Deformalization* – Global governance tends to operate through norm-based and informal international regimes (see p. 67) rather than through formal and legally constituted bodies.

Global governance: myth or reality?

How far does modern world politics conform to the features of a global governance system? Liberal theorists in particular have argued that there is an unmistakable, and perhaps irresistible, trend in favour of global governance. The growth of international organizations provides both evidence of a greater willingness amongst states to cooperate and engage in collective action, and fosters further cooperation by strengthening trust amongst states, accustoming them to rule-governed behaviour. In the sense that global governance is closely linked to globalization, its salience may fluctuate, but is likely to grow over time as the tendency towards interdependence (see p. 8) and interconnectedness, once established, is difficult to reverse. This is demonstrated by developments ranging from international migration and global terrorism to transnational criminal organizations and global pandemics. However, the extent to which the world as a whole has become orderly and norm-governed should not be exaggerated. It is more accurate to refer to an emerging global governance *process* rather than an established global governance system. Moreover, the norms and rules of global governance are much better established in some parts of the world than in others. For instance, Europe has been portrayed by Cooper (2004) as the heart of the so-called 'postmodern' world by virtue of the EU's success in pooling sovereignty and banishing balance-of-power politics. Europe, nevertheless, is an exception and many parts of the world are still little affected by international norms and rules, as demonstrated by the existence of 'rogue' states (see p. 224) and pariah states.

GLOBAL ECONOMIC GOVERNANCE: THE EVOLUTION OF THE BRETTON WOODS SYSTEM

The trend towards global governance has been particularly evident in the sphere of economic policy-making. This is because economics is the most obvious area of interdependence amongst states, and the area where the failure of international cooperation can cause the clearest damage. Since 1945, a system of global economic governance has emerged through a thickening web of multilateral agreements, formal institutions and informal networks, with the most important institutions being those established by the Bretton Woods agreement, negotiated just before the end of World War II. The major factor behind the agreement was the desire not to return to the economic instability and sometimes chaos of the interwar period. Such concerns were made especially pressing by the recognition of the role that unemployment and economic insecurity had played in the rise of fascism and the circumstances that had led to WWII (as

CONCEPT

Multilateralism

Multilateralism can broadly be defined as a process that coordinates behaviour among three or more countries on the basis of generalized principles of conduct (Ruggie 1992). For a process to be genuinely multilateral, it must conform to three principles. These principles are non-discrimination (all participating countries must be treated alike), indivisibility (participating countries must behave as if they were a single entity, as in collective security (see p. 440)) and diffuse reciprocity (obligations among countries must have a general and enduring character, rather than being examples of one-off cooperation). Multilateralism may be informal, reflecting the acceptance of common norms and rules by three or more countries, but more commonly it is formal, in which case multilateralism equals institutionalism.

Table 19.1 Competing models of global politics

	No supranational authority	Supranational authority
No binding norms and rules	International anarchy	Global hegemony
Binding norms and rules	Global governance	World government

Source: Adapted from Rittberger and Zangl (2006).

discussed in Chapter 2). The chief lesson of the Great Depression of the 1930s was therefore that so-called 'beggar-thy-neighbour' policies of **protectionism** were economically self-defeating and politically dangerous. However, such tendencies could only be countered if a framework of norms, rules and understandings could be established that enabled states to cooperate over economic matters and avoid the pitfalls of the 'welfare dilemma'.

Making of the Bretton Woods system

In August 1944, the USA, the UK and 42 other states met at the UN Monetary and Financial Conference at the small resort town of Bretton Woods, New Hampshire, to formulate the institutional architecture for the postwar international financial and monetary system. The most significant outcome of the Bretton Woods process was the establishment of three new bodies, in due course collectively known as the 'Bretton Woods system'. These bodies were:

- The International Monetary Fund (IMF), which came into operation in March 1947.
- The International Bank for Reconstruction and Development (IBRD), better known as the World Bank, which came into operation in June 1946.
- The General Agreement on Tariffs and Trade (GATT), which was replaced by the World Trade Organization (WTO) in 1995. Although GATT is usually seen as part of the Bretton Woods system, it was created by the UN Conference on Trade and Employment and came into operation in January 1948.

The Bretton Woods agreement is a clear example of the multilateralism that was to become increasingly prominent in the post-1945 period. However, it would be a mistake to portray Bretton Woods simply in terms of multilateralism and the recognition of mutual interests. This would be to ignore the crucial role played by the USA, which emerged from WWII as the world's predominant military and economic power. Not only was the conference initiated by the USA and took place on US soil, but the USA was the leading force in the negotiation, effectively dictating some key outcomes. The USA's priorities in relation to Bretton Woods were twofold. First, having massively increased its industrial output

● **Protectionism**: The use of tariffs, quotas and other measures to restrict imports, supposedly to protect domestic industries.

Focus on . . .

A welfare dilemma?

Why is it difficult for states to cooperate over economic matters? Just as the security dilemma (see p. 19) helps to explain why and how security issues tend to breed distrust, fear and conflict among states, the welfare dilemma shows how this can also apply to welfare and economic relations. The welfare dilemma arises in an international economy in which each country can, without the intervention of a central authority, decide its own trade and monetary policies (Rittberger and Zangl 2006). In this context, each country may try to increase its share of the economic pie by, for example, raising tariffs (taxes on imports), imposing import restrictions, or devaluing its currency (making its exports cheaper and imports more expensive). Such attempts to prosper by 'beggaring-thy-neighbour' are nevertheless likely to have long-term costs, as other states reciprocate in kind, reducing the size of the overall economic cake. In highlighting the clash between the interests of individual states and the well-being of the community of states collectively, the welfare dilemma resembles the thinking behind the 'tragedy of the commons' (see p. 388), which explains obstacles to international cooperation over environmental matters.

However, the challenges implied by the welfare dilemma are, in some senses, less severe than those posed by the security dilemma or the 'tragedy of the commons'. This helps to explain why, since 1945, international cooperation has often progressed further and faster in economic areas than in any other area. Why does this happen? In the first place, states are usually more concerned in economic matters with absolute gains rather than relative gains (see Relative or absolute gains? p. 436). This applies because, unlike growing military disparities, widening economic disparities generally do not pose a threat to the survival of a state. Second, trust and transparency are easier to develop in matters of economic cooperation, where tariffs and other forms of protectionism are more difficult to conceal than the development of new weapons systems. Third, the costs involved in economic cooperation are relatively small (foregoing the opportunity to 'beggar-thy-neighbour'), particularly by comparison with some forms of environmental cooperation, notably those linked to climate change, as discussed in Chapter 16.

through rearmament and the expansion of exports in the run-up to, and during, the war years, re-establishing full employment in a way that Roosevelt's New Deal had failed to do, the USA needed to ensure that domestic growth levels could be sustained in the postwar period. This required the construction of an open and stable international economic system. Second, US thinking was shaped by a growing awareness of the threat posed by the Soviet Union and the need to contain the spread of communism. This encouraged the USA to seek ways of promoting reconstruction and recovery in war-ravaged Europe, as well as, over time, in defeated Germany and Japan.

At the centre of the Bretton Woods system was a new monetary order, overseen by the IMF, which sought to maintain stable **exchange rates**. This was achieved by fixing all currencies to the value of the US dollar, which acted as a 'currency anchor', with the US dollar being convertible to gold at a rate of $35 per ounce. The World Bank and GATT complemented the new international monetary order, by establishing, respectively, a new international financial order and a new international trading order. The main responsibility of the World Bank was to provided loans for countries in need of reconstruction and devel-

● **Exchange rate**: The price at which one currency is exchanged for another.

opment, while GATT, which existed more as a multilateral agreement than as an international organization, sought to advance the cause of **free trade** by bringing down tariff levels. Between them, these bodies established a form of proto-global economic governance, based on a framework of norms and rules that would guide the future economic relationships among states.

But what was the thinking behind the Bretton Woods system? Bretton Woods certainly reflected an underpinning faith in liberal economic theories, notably about the virtues of an open and competitive international economy. However, the fact that the institutional arrangements had to be put in place to, in a sense, 'police' the international economy and ensure stability reflected grave doubts about classical political economy and especially the doctrine of *laissez-faire* (see p. 103). The key idea of classical political economy is the belief that unregulated market competition tends towards long-term equilibrium. The economy thus works best when left alone by government, and this supposedly applies at the international level as well as at the national level. Bretton Woods, on the other hand, was shaped by the fear that an unregulated international economy is inherently unstable and crisis-prone, tendencies most dramatically demonstrated by the Great Depression itself. In line with the ideas of J. M. Keynes (see p. 105), markets therefore had to be 'managed'. The growing influence of such thinking in domestic politics was reflected in the postwar period in the gradual adoption by all industrialized states of Keynesian techniques of economic management, in which fiscal policy (government spending and taxation) was used to deliver growth and keep unemployment low. Bretton Woods reflected an attempt to establish a Keynesian-style regulative framework for the international economy. In that this acknowledged only the limited benefits of market competition, it has been described as a form of **embedded liberalism**, as opposed to 'pure' liberalism (Ruggie 1998).

Nevertheless, the exact form of the institutional framework agreed at Bretton Woods was also crucially shaped by the priorities and concerns of the USA. This was particularly evident in the defeat of Keynes' proposals, as head of the UK negotiating team at Bretton Woods, for a radical change in international monetary and financial arrangements. Keynes, rather misleadingly dubbed 'the intellectual godfather of the IMF', proposed the construction of a global bank, called the International Clearing Union, which would issue its own currency, known as the bancor. The radical aspect of these proposals was that the Clearing Union would have been able permanently to alter the **terms of trade** between creditor countries and debtor countries in the international economy, by imposing conditions on the former as well as the latter. Countries with a trade surplus would have to increase the value of their currencies, thereby boosting imports and making exports less competitive. In addition, Keynes proposed that capital should be allowed to flow into, but not out of, countries with a trade deficit, in the hope of stimulating growth and increasing the value of their exports. The rejection of these proposals for a more egalitarian international economic order by the USA, the world's leading creditor country, meant that no limits were placed on the surpluses that successful exporters could accumulate and that the entire burden for addressing **balance-of-payments** deficits was placed on debtor countries. Critics of global economic governance have argued that this introduced structural inequalities and imbalances into the management of the world economy.

- **Free trade**: A system of trading between states that is unrestricted by tariffs or other forms of protectionism.

- **Embedded liberalism**: A form of liberalism that seeks to reconcile the efficiency of markets with the broader values of social community.

- **Terms of trade**: The balance between import prices and export prices.

- **Balance of payments**: The balance of transactions conducted between a country and other countries, taking account of visible trade (exports and imports), invisible trade (services) and capital flows in the form of investments and loans.

APPROACHES TO . . .

GLOBAL ECONOMIC GOVERNANCE

Realist view

The realist stance on global economic governance is shaped by mercantilism and the belief that the world economy is essentially an arena of competition amongst states, each seeking to maximize its wealth and relative power. Economics is therefore largely explained in political terms. For realists, the combination of state egoism and international anarchy ensure that, in most circumstances, the scope for cooperation amongst states in economic affairs is very limited. This only alters, however, with the emergence of a hegemonic power, a state whose dominant military and economic position means that its interests are inextricably linked to those of the liberal world economy itself. As explained by hegemonic stability theory (see p. 229), a hegemon is necessary for the creation and full development of a liberal world economy because it is the only power that is willing and able to establish and enforce its basic rules. The Great Depression of the 1930s thus persisted as long as it did largely because the UK, as a fading hegemon, was no longer willing or able to re-establish economic stability (Kindleberger 1973). By the same token, the establishment of the Bretton Woods system marked the emergence of the USA as a hegemonic power. From the realist perspective, the breakdown of the system in the early 1970s reflected either the decline of US hegemony, or the emergence of the USA as a 'predatory hegemon'.

Liberal view

The liberal position on global economic governance is based on faith in the market and in untrammelled competition. As the workings of impersonal market forces draw resources towards their most profitable use and establish conditions of long-run equilibrium, it follows that any obstacle to the unfettered operation of markets should be ruled out. Such a stance could imply hostility towards any form of economic governance, whether operating on a national or global level. Nevertheless, most liberals accept the need for economic governance so long as it promotes, rather than restricts, openness and free competition. The emergence of a framework of global economic governance therefore reflected a recognition that, in conditions of economic interdependence, states have a mutual interest in upholding agreed norms and rules. The nature of these norms and rules is crucial, however. From the perspective of economic liberalism, the Bretton Woods system was defective from the outset, because it set out to regulate a liberal economic order, not least though fixed exchange rates, that works best when it is free and unregulated. The breakdown of the Bretton Woods system thus reflected not the decline in US hegemony but fundamental flaws in the architecture of the Bretton Woods system itself. By comparison, the shift towards neoliberalism brought about by the emergence of the Washington consensus from the 1980s onwards marked the triumph of liberalism over the quasi-mercantilism of Bretton Woods.

Critical views

The two main critical approaches to global economic governance have been advanced from the perspectives, respectively, of social constructivism and neo-Marxist or post-Marxist theory. Social constructivists, such as Ruggie (1998, 2008), have emphasized the extent to which policies and institutional frameworks designed to regulate the world economy have been shaped by historical and sociological factors. The Bretton Woods system, thus, did not merely reflect a reconfiguration of state power and interests, but also a changing pattern of social expectations, norms and economic ideas in the form of 'embedded liberalism', which had come to be widely shared amongst industrialized states. Similarly, the later adoption of the Washington consensus owed a great deal to the growing hegemonic influence of neoliberal ideology, which helped to embed a belief in global markets. Neo-Marxists, such as world-systems theorists, and post-Marxist critical theorists have, for their part, challenged the liberal assumption that the institutions of global economic governance are neutral in the sense that they reflect the interests of all groups and all states (Soederberg 2006). Instead, they are constructed in line with the dominant interests in the global capitalist system: the USA as the leading capitalist state, transnational corporations (TNCs) (see p. 99) and banking conglomerates, and so on. For world-system theorists, the institutions of global economic governance have presided over a significant transfer of wealth and resources from 'peripheral' areas of the world economy to 'core' areas (Wallerstein 1984).

Fate of the Bretton Woods system

For at least two decades the Bretton Woods system appeared to be a remarkable success. Instead of the end of WWII and the consequent drop in military expenditure bringing back, as some had feared, the dark days of the Great Depression, it heralded the onset of the 'long boom' of the postwar period, the longest period of sustained economic growth the world economy had ever experienced. During the 'golden age' of the 1950s and 1960s, OECD member states consistently achieved average growth rates of four to five per cent a year. For many, this was a testament to the new stability in the world economy ushered in by Bretton Woods and the benefits of its mixture of free trade, free capital movement and stable currencies. How far Bretton Woods contributed to the economic boom of the postwar period is, however, a matter of debate. Many, for example, have argued that 'national' Keynesianism, through which governments stimulated domestic growth by running permanent budget deficits, had a greater impact than 'international' Keynesianism (Skidelsky 2009). Radical theorists, for their part, linked the long boom to the establishment of a 'permanent arms economy', a kind of 'military Keynesianism', in which the principal motor for growth was high and sustained military expenditure, legitimized by the Cold War (Oakes 1944). On the other hand, the economic stability of the period was perhaps not so much a product of a new era of multilateral governance, but, rather, of the overwhelming economic dominance of the USA and the dollar. The USA contained, in 1950, some 60 per cent of all the capital stock across the industrialized world and was responsible for about 60 per cent of all industrial output. What thus made the Golden Age unusual was the USA's capacity to manage the world economy in its own interests. The Bretton Woods system has therefore been seen as an expression of US hegemony.

However, the long boom of the postwar period started to peter out in the late 1960s, leading to the 'stagflation' of the 1970s, in which economic stagnation and rising unemployment was linked to high inflation. The US economy was especially troubled by these difficulties, attempting to cope with spiralling spending at home and abroad, and, for the first time since 1945, facing increasingly stiff foreign competition. In 1971, the USA abandoned the system of fixed exchange rates, signalling, in effect, the end of the Bretton Woods system in its original form (see p. 466). The institutions set up as part of the Bretton Woods agreement nevertheless survived the transition from fixed to floating exchange rates, although their role and future policy focus initially remained unclear. In this context, the leaders and finance ministers of the major industrialized countries started to meet on a regular basis to discuss monetary issues and other matters related to the world economy. By 1975, this had led to the formation of the Group of Seven, or G-7 (see p. 465). The economic slowdown in the 1970s also weakened and in some cases reversed GATT's progress in reducing trade barriers, with industrialized countries in particular pushing-up so-called **non-tariff barriers**. The resentment that this generated amongst developing countries, combined with recession, lead to growing support for a **'New International Economic Order'** (NIEO). Attempts to establish a NIEO nevertheless made little headway, a clear demonstration of where the balance of power in the world economy lay. Instead, during the 1980s, the institutions of global economic governance were reorientated around the ideas of the so-called 'Washington consensus' (see p. 92). This, in effect, meant that a system based on embedded liberalism finally gave way to one based on neoliberalism (see p. 90).

● **Non-tariff barriers**: Rules, regulations or practices that hinder imports through, for instance, the procurement policies of governments, systematic border delays, or complex health and national standards.

● **New International Economic Order**: Proposals for the reform of the world economy to provide better protection for developing countries by, amongst other things, altering the terms of trade, strengthening regulation and nationalizing foreign enterprises.

Focus on . . .

The G-7/8: an abandoned project?

What has been the role and significance of the G-7/8, and why has it declined in importance? The Group of Seven (G-7) emerged out of a series of informal meetings of the finance ministers of the world's leading industrialized states (USA, France, Germany, the UK, Japan, Italy and Canada) that began in 1973. These took place against the backdrop of the collapse of the Bretton Woods system and the oil crisis of 1973. In 1975, the meetings were formalized and were expanded to include annual summit meetings of heads of government. When Russia was included in the heads of government meetings in 1997, the G-7 became the Group of Eight (G-8), although the G-7 framework survived for the finance ministers' meetings, as Russia was never included in these. The principal role of the G-7/8 was to ensure the overall coordination of the system of global economic governance. In this respect, the G-7/8 had some noted successes. For example, in the late 1970s, it persuaded West Germany and Japan to reflate their economies in return for US commitments to tighten fiscal policy to reduce inflation; it helped to break a log-jam that was threatening the Uruguay Round of WTO negotiations; and, in 2005, the G-8 agreed a bold scheme for debt relief for the world's poorest countries (see The 'year of Africa', p. 380).

Nevertheless, over time, the G-7/8 served as a less and less effective mechanism for coordinating the system of global economic governance. In large part, this occurred because the advent of accelerated globalization in the 1980s, coupled with the shift in economic orthodoxy away from Keynesian managerialism and towards free-market thinking, left little scope or purpose for global macroeconomic policy. The perception that the G-7/8 was unable or unwilling to deal effectively with issues such as poverty and global inequality, trade policy and climate change, meant that G-8 summits in particular became an increasing focus of anti-globalization protest, especially at Genoa in 2001. Its effectiveness was further restricted by disagreements among G-8 leaders and its need to rely on consensus-building. However, the most serious limitation of the G-7/8 was that as the distribution of power within the global economy shifted towards emerging economies, its legitimacy was fatally compromised. Despite attempts to broaden the G-8 by including the so-called Outreach Five (China, Brazil, India, Mexico and South Africa), the use of the G-20 (see p. 117) as the principal vehicle for addressing the 2007–09 global financial crisis confirmed that G-7/8 had been replaced as the leading forum for global economic decision-making.

EVALUATING GLOBAL ECONOMIC GOVERNANCE

The International Monetary Fund

The IMF was set up to oversee the new monetary order that had been established by the Bretton Woods agreement. Its chief purpose was to encourage international cooperation in the monetary field by removing foreign exchange restrictions, stabilizing exchange rates and facilitating a multilateral payment system between member countries. Member countries were committed to a system of fixed, but adaptable, exchange rates, with the IMF acting as a kind of 'currency buffer', granting loans to countries experiencing temporary balance-of-

GLOBAL POLITICS IN ACTION . . .

The collapse of Bretton Woods

Events: On 15 August 1971, US President Richard Nixon launched a New Economic Policy, sometimes called the 'Nixon shock'. Among other things this suspended the convertibility of the dollar to gold at the established rate. This last measure effectively sounded the death knell of the Bretton Woods system, paving the way for major currencies to float instead of staying fixed. Nixon's decision was made in the context of emerging difficulties in the US economy. Increased government spending due to the Vietnam War and President Johnson's Great Society programme of public education and urban redevelopment had led to rampant inflation, which, in turn, worsened the USA's balance-of-trade position. In addition, the USA was facing stiffer competition from export-orientated economies such as Japan and Germany as well as newly industrializing states such as Korea and Taiwan. The relative decline of the US economy was reflected in the fact that, having been responsible for almost 50 per cent of world industrial output in 1945, this had fallen to about 20 per cent by the early 1970s. Ultimately, the decision to end the Bretton Woods system was determined by the USA's declining gold stocks and therefore its inability to maintain the value of the dollar. By 1970, US gold stocks were worth $10 billion compared with $25 billion in 1945.

Significance: Debate about the significance of the collapse of Bretton Woods focuses on two main issues: why it happened and what it led to. For many commentators, the end of Bretton Woods reflected a decline in US hegemony (Gilpin 1987). For hegemonic stability theorists, a hegemonic power is one that is willing and able to act in ways that allow other states to make relative gains, so long as these help to sustain the liberal economic order. However, confronted by the rise of Japan and Western Europe and facing a growing balance-of-payments deficit, the USA opted to place its national interests before those of the liberal world economy. Others, nevertheless, argue that the end of Bretton Woods was not so much an example of declining hegemony but an exercise of audacious hegemonic power in its own right. In this view, the USA had become a 'predatory hegemon', willing to dismantle a system of global governance that no longer served its interest. This process was completed in the 1980s by the establishment of the 'Washington consensus'. For economic liberals, however, these changes had less to do with hegemonic power and more to do with the futility of trying to regulate a market capitalist system. From this perspective, Bretton Woods was doomed to collapse, sooner or later, under the weight of its economic contradictions: markets and regulation are simply not compatible.

Whatever its cause, the collapse of Bretton Woods has been widely viewed as a decisive moment in the development of the world economy. Bretton Woods had been based on a model of economic 'internationalization', which assumed the existence of a collection of separate and distinct national economies. Its purpose, then, was to provide a more stable and predictable framework within which these national economies could interact. The end of a system of fixed exchange rates contributed, over the following decade or two, to 'globalizing' tendencies in the world economy, particularly through the emergence of interlocking currency and financial markets. Once currencies were allowed to float, other controls on finance and capital movements became unsustainable. The triumph of neoliberalism in the 1980s can therefore be traced back to the 1971 'Nixon shock'. In that sense, the end of Bretton Woods was a decisive moment in the emergence of accelerated globalization. Nevertheless, the end of Bretton Woods may have been more a consequence of that process than its cause. This can be seen, for instance, in the emergence in the 1960s of Eurocurrency, mainly consisting of Eurodollars, free-floating dollars that were traded in an entirely uncontrolled global market, making the task of maintaining stable exchange rates difficult and ultimately impossible. Emerging global markets may therefore have killed off Bretton Woods.

payments deficits. The system of fixed exchange rates established by Bretton Woods was based on the **gold exchange standard**, with the US dollar acting as an anchor. Its supposed advantage was that international business would flourish in conditions of stability, safe from the fear of currency fluctuations which would, in turn, alter the value of imports and exports. An element of flexibility was nevertheless introduced to this system by the fact that currency values could deviate from the rate fixed in relation to the US dollar by up to 1 per cent, meaning that in relation to other countries there could be deviations of up to 2 per cent. In the case of severe balance-of-payments instability, however, currencies could be **devalued**, although members of the IMF accepted that this was a strategy of the last resort.

The transition in the early 1970s from fixed to floating exchange rates fundamentally altered the function of the IMF. Abandoning its role as a 'currency buffer', the IMF increasingly focused on lending to the developing world and, after the end of the Cold War, to post-communist states, or **transition countries**. A particular concern of the IMF was to prevent financial crises, such as those in Mexico in 1982, Brazil in 1987, East Asia in 1997–98 and Russia in 1998, from spreading and threatening the entire global financial and currency system. The most controversial aspect of the loans that the IMF provided was that 'conditionalities' were attached to them. From the 1980s onwards these conditions were shaped in line with the thinking of the Washington consensus, which required recipient countries to introduce 'structural adjustment' programmes (see p. 371) shaped by a faith in market fundamentalism. This led to a 'one size fits all' application of a neoliberal template based on the control of inflation ahead of other economic objectives, the immediate removal of barriers to trade and the flow of capital, the liberalization of the banking system, the reduction of government spending on everything except debt repayment, and the privatization of assets that could be sold to foreign investors.

Although structural adjustment programmes sometimes produced the required benefits, as in the case of South Korea, they often inflicted more harm than good on developing and transition countries. This occurred because of the destabilizing impact of 'shock therapy' market reforms, which by reducing government spending and rolling back welfare provision increased poverty and unemployment, while economic openness exposed fragile economies to intensified foreign competition and expanded the influence of foreign banking and corporate interests. IMF-led structural adjustment thus often deepened, rather than reduced, economic crises in Asia, Russia and elsewhere, and, according to Joseph Stiglitz (see p. 468), it did so because the IMF responded, at heart, to the 'interests and ideology of the Western financial community'. The IMF, indeed, has been a focus of the wider criticism of global economic governance that it is an instrument of powerful economic interests in Northern economies, such as TNCs and international banking conglomerates, especially those linked to the USA, meaning that it is systematically biased against the interests of the developing world. The IMF's close relationship with the US government is illustrated not only by its location in Washington DC and the fact that its deputy head, the First Deputy Managing Director, is always an American, but also by the allocation of voting rights on its Board of Governors in line with the size of a country's economy, which gives the USA an effective veto as most decisions require an 85 per cent majority.

● **Gold exchange standard**: A payments system in which currencies are valued in terms of a currency that is itself on the 'gold standard' (its currency can be exchanged for gold).

● **Devaluation**: The reduction in the official rate at which one currency is exchanged for another.

● **Transition countries**: Former Soviet bloc countries that are in the process of transition from central planning to market capitalism.

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Joseph Stiglitz (born 1943)

Nobel Prize-winning US economist. The chair of President Clinton's Council of Economic Advisors, 1995–97, and chief economist of the World Bank, 1997–2000, Stiglitz is best known for his critical views on global economic governance and on globalization. In *Globalization and its Discontents* (2002), Stiglitz argued that the IMF had imposed policies on developing countries that often exacerbated, rather than relieved, balance-of-payments crises, being designed more to help banking and financial interests in the developed world than to alleviate poverty. In *Making Globalization Work* (2006), he linked globalization to 'Americanization', environmental degradation, a 'roll-back' of democracy and a widening of development disparities, calling instead for stronger and more transparent international institutions to expand economic opportunities and prevent financial crises. Stiglitz's other main works include *Whither Socialism?* (1996), *The Roaring Nineties* (2003) and *Freefall* (2010).

The IMF, by general agreement, has been slower to respond to criticism than its partner in promoting development, the World Bank. Nevertheless, in 2006 the IMF changed its governance to enhance the role of developing countries in its decision-making processes, a trend that was taken further in 2008 in the wake of the global financial crisis (see p. 108). The 2007–09 crisis, indeed, has effectively reformulated the mission of the IMF, making it less the arbiter of fiscal and macroeconomic rectitude in the developing world and more an instrument of global financial surveillance, designed to prevent crises rather than merely containing them. To be effective in this new role, however, the IMF would need to be significantly reformed, as discussed in the final section of this chapter.

The World Bank

The World Bank is, in a sense, the partner organization of the IMF. Both organizations were created by the Bretton Woods agreement, are housed in the same building in Washington DC, have very similar weighted voting systems that take account of countries' strength in the global economy, and, particularly in the 1980s and 1990s, they shared a common neoliberal ideological orientation, shaped by the Washington consensus. Nevertheless, while the IMF and, for that matter, GATT/WTO have been primarily concerned to establish a regulative framework for international economic relations, the World Bank has an essentially redistributive function. This initially concentrated on assisting postwar recovery in Europe, but, from the 1960s onwards, increasingly focused on the developing world and, after the collapse of communism, transition countries. It does this by providing low interest loans to support major investment projects, as well as by providing technical assistance. How it has done this has changed significantly over time, however. During its early phase of so-called 'modernization without worry', it mainly supported large infrastructure projects in areas such as energy, telecommunications and transport. However, following the appointment in 1968 of Robert McNamara, a former US Secretary of Defence, as president of the World Bank, its priorities shifted towards projects dealing with basic needs

GLOBAL ACTORS . . .

INTERNATIONAL MONETARY FUND

Type: Intergovernmental organization • **Established:** 1947 • **Location:** Washington, DC
Membership: 186 states

The International Monetary Fund (IMF) was created as part of the 1944 Bretton Woods agreement. It was charged with overseeing the international monetary system to ensure exchange rate stability and encouraging members to eliminate restrictions on trade and currency exchange. This role ended with the collapse of the Bretton Woods system in 1971, with the IMF's role switching in the following decade to helping countries deal with the consequences of floating exchange rates and the oil crises of 1973 and 1979. From the early 1980s onwards, the IMF increasingly focused on supporting developing countries afflicted with debt crises and, in due course, transition countries. In its wider role, the IMF is responsible for managing financial crises and helping to ensure that national or regional crises do not develop into global crises. The IMF is a specialized agency of the United Nations (see p. 449), but has its own charter, governing structure and finances. Its highest decision-making body is the Board of Governors, on which voting rights reflect the relative economic strength of member states.

Significance: In its initial mission as the guarantor of exchange rate stability, the IMF was highly successful for at least two decades, helping to contribute to the sustained economic growth that the industrialized world experienced in the early post-1945 period. Moreover, the collapse of this system with the transition, in the early 1970s, from fixed to floating exchange rates had little to do with the ineffectiveness of the IMF as a body, although it may have reflected the long-term unsustainability of its initial mission. The IMF, nevertheless, became an increasingly controversial institution from the 1980s onwards. This was because it linked the provision of loans to developing and transition countries to conditions for 'structural adjustment' that reflected an unqualified faith in free markets and free trade. Supporters of the IMF argue that, despite short-term instability and insecurities, an adjustment to an open and market-based economy is the only reliable road to long-term economic success. Other strengths of the IMF are that it will often provide loans to countries that can find no other source of finance, and that its interest rates may be more competitive than those otherwise available. The IMF also provides extensive information services, not least reviewing and making recommendations about the economic health and stability of member states.

However, the IMF has been subject to often severe criticism. Radicals and many sympathetic to the anti-capitalist movement (see p. 70) have seen the IMF, and global economic governance generally, as the political arm of neoliberal globalization, forcing poor and vulnerable countries to accept a US business model that better caters to the needs of western banks and corporations than it does to long-term development needs. The fact that IMF intervention has often caused more problems that it has solved stems, critics argue, from its flawed development model, which fails to recognize the possibility of market failure or the drawbacks of economic openness. The IMF has also been viewed as an enemy of democracy and human rights (see p. 304), on the grounds that it has often provided support for military dictatorships, especially ones that were politically close to the USA or linked to western interests. Free-market economists have criticized the IMF, both on the grounds that 'structural adjustment' programmes are artificial and do not take account of the need for the development of an entrepreneurial culture and values, and on the grounds that particular 'remedies', such as devaluation and tax increases, may undermine market responsiveness. In the wake of the 2007–09 global financial crisis, the IMF was roundly criticized for not having prevented the crisis by highlighting the instabilities and imbalances that led to it. This led to calls for the reform of the IMF, particularly to strengthen its ability to regulate the global financial system. However, this has so far resulted in little more than a minor adjustment of voting rights in favour of developing states.

and what were perceived as the underlying causes of poverty, which drove the bank into areas such as population control, education and human rights.

However, the replacement of McNamara by A. W. Clausen in 1980 and the appointment of Ann Krueger as chief economist of the Bank in 1982, both critics of established approaches to development funding and more sympathetic towards market-orientated thinking, led, over the following decade, to a narrowly-focused concern with IMF-style structural adjustment policies. An emphasis on deregulation and privatization, and a stress on export-led growth rather than protectionism, often led to an increase, not a reduction, in poverty in Latin America, Asia and sub-Saharan Africa. World Bank adjustment programmes were usually wider in scope than those promoted by the IMF, having a more long-term development focus. However, in emphasizing the need to promote growth by expanding trade, particularly through the export of cash crops, the World Bank helped to maintain dependency and poverty. Development disparities thus became entrenched, and during the 1990s even widened, through a structural imbalance in trade that allowed developed countries to grow rich by selling high-price, capital-intensive goods, while developing countries sold low-price, labour-intensive goods, often in highly volatile markets. In this way, the World Bank, together with the IMF, presided over a substantial transfer of wealth from peripheral areas of the world economy to its industrialized core (Thurow 1996).

However, although the World Bank has remained faithful to the neoliberal paradigm that underpinned the Washington consensus, since the early 1990s it has responded to criticism from both without and within and accepted the need for reform. This has involved a greater awareness of the environmental costs of industrialization, urbanization and major infrastructure projects, helping to convert the Bank to the idea of sustainable development (see p. 390). A growing emphasis on good governance and anti-corruption policies also reflects a repudiation of the dogma of minimal government, based on the recognition that the state plays an essential role not only in ensuring civil order and containing criminal violence but also in providing at least basic social protections. Furthermore, World Bank poverty reduction programmes have, since 2002, been increasingly formulated through negotiations with recipient countries, accepting the need for higher levels of local control and accountability and for projects to be better tailored to local needs. This has been reflected in a growing emphasis on 'partnership'. The desire to demonstrate a greater willingness to take on board the ideas of the developing world, particularly in the light of the 2007–09 global crisis, led the Bank in the spring of 2010 to boost its capital by $86 billion, the first increase in 20 years, and to allocate an additional seat on its Board of Directors to sub-Saharan Africa. The voting power of developing countries was also increased to 47 per cent, with the aim of increasing it to 50 per cent over time.

The World Trade Organization

The World Trade Organization was formed in 1995 as a replacement for GATT, established in 1947. However, GATT only emerged as the basis of the postwar international trading order as a result of the failure to establish the International Trade Organization (ITO). The ITO had been proposed in 1945 by the UN Economic and Social Council, and would have constituted a fully-fledged international organization, comparable to the IMF and the World Bank, with powers more in line with those of the later WTO. Its implementation was nevertheless abandoned once President Truman failed to submit its founding treaty, the Havana Charter (1948), to the US Senate for approval, fearing that the Senate would regard the organization as a threat to US sovereignty. In essence, GATT was an agreement amongst member countries to apply the multilateral principles of non-discrimination and reciprocity to matters of trade. This was guaranteed by the requirement that each country had to concede **most favoured nation** status to all trading partners. No trading partner could therefore be treated more favourably than any other.

The GATT trade regime was nevertheless limited in a number of ways. In the first place, GATT existed only as a set of norms and rules, acquiring the semblance of an institutional character only with the establishment in 1960 of the GATT Council. Its focus, moreover, was restricted to the reduction of tariff barriers against imported manufactured goods. Not only did this mean that agriculture and the growing service sector of the economy were largely off the agenda as far as GATT was concerned, but it also meant that GATT had a limited capacity to check the growth of 'non-tariff barriers'. GATT's procedures for settling disputes between trading partners were also weak. Nevertheless, within these parameters, GATT was highly successful. During its fifth, sixth and seventh rounds of negotiation in particular – the Kennedy Round, the Tokyo Round and the Uruguay Round – tariffs on manufactured goods were brought down so substantially that, in practical terms, they had almost been eradicated. Whereas average tariffs on the import value of goods in 1947 had stood at 40 per cent, this had been reduced to about 3 per cent by 2000. The final three GATT negotiating rounds had, further, made some progress in tackling non-tariff barriers, such as 'dumping' (flooding a market with large quantities of cheap exports in order to weaken the domestic industry), and had started to deal with a wider range of subjects, such as services, intellectual property, textiles and agriculture.

Nevertheless, the overall limitations of GATT became increasingly apparent during the Uruguay Round, which concluded in 1993 with the proposal to establish the WTO. In many ways, the emergence of the WTO was a response to the changing imperatives of the international trading system in the 1980s, linked to the wider triumph of neoliberalism and the acceleration of globalization. This created stronger pressure to advance the cause of free trade through a more powerful trade organization with broader responsibilities, something akin to the ILO that never was. The broader responsibilities of the WTO were achieved through incorporation not merely of a renegotiated GATT (sometimes called GATT 1994, as opposed to the original GATT 1947), and its framework of agreements concerning manufactured goods, but also agreements on the trade in services (GATS) and on the protection of intellectual property (TRIPS). This broadening was also evident in the formal recognition of 'new' or hidden protectionism in the form of non-tariff barriers that had particularly bedevilled international trade since the 1970s. The WTO is stronger than GATT, particularly in the field of dispute settlement. Under GATT, the settlement of disputes required the agreement of all members of a disputes panel, which comprised the members of the GATT Council, as well as the parties to the dispute itself. Under the WTO, by contrast, settlement judgements in the case of disputes can only be rejected if they are opposed by *all* members of the Dispute Settlement Body, to

● **Most favoured nation**: A designation given to a country which is thereby entitled to all and any favourable trading terms that apply to other countries.

KEY EVENTS . . .

GATT/WTO negotiating rounds

1947	23 countries sign the GATT treaty, which comes into force on 1 January 1948.
1949	Second GATT round held at Annecy, France.
1950	Third GATT round held at Torquay, the UK.
1955–56	Fourth GATT round held at Geneva, Switzerland
1960–62	Fifth GATT round, called the Dillon Round after US Secretary of Treasury Douglas Dillon.
1964–67	Kennedy Round – achieves tariff cuts worth $40 billion of world trade.
1973–79	Tokyo Round – achieves tariff reductions worth more than $300 billion and reductions in non-tariff barriers
1986–93	Uruguay Round – trading system extended into areas such as services and intellectual property; rules covering agriculture and textiles reformed; and agreement to create the World Trade Organization, established in 1995.
2001	Doha Round launched by the WTO.

which *all* member states belong. In effect, this has made the WTO the primary instrument of international law (see p. 332) in the area of trade.

However, the rules of the new organization were also shaped by the interests of key parties to the Uruguay Round negotiations. The decision to include agriculture and textiles within the WTO's responsibilities was a concession made to developing countries, which were also in the forefront of campaigning to bring non-tariff barriers within the regime, particularly as these had often been erected by developed countries. On the other hand, developed countries had been particularly keen to extend the trading regime to include services, as their economies were becoming increasingly service-orientated, with manufacturing being increasingly transferred from the developed world to the developing world. Furthermore, although agriculture was formally brought into the WTO regime, the agreement on agriculture was weak and allowed considerable scope for continued agricultural protection, a matter of particular concern for the USA and European Union. In some respects, the WTO appears to be a more democratic body than the IMF or the World Bank. Decisions are made within the WTO on a 'one country, one vote' basis, and usually require only a simple majority. These rules, in theory, give considerable weight to the views of developing countries, which constitute more than two-thirds of the WTO's members. However, the WTO is a highly controversial organization, which has often been the primary target of anti-globalization or anti-capitalist protests, as in the case of the 1999 Battle of Seattle.

Critics of the WTO argue that subtle biases operate within the decision-making structures that systematically favour developed countries over developing ones. These include a general emphasis on consensus-based decision-making, which tends to disadvantage developing countries which may have no permanent representation at the WTO's Geneva headquarters or have delegations much smaller then those of developed countries, or they may be excluded from the club-like meetings that are usually dominated by developed countries. Similarly, developed countries are much more likely to bring issues before the dispute settlement panel, and are more likely to offer to serve as 'third parties', able to influence the dispute settlement process, whereas the bulk of allegations of unfair trading practices are made against developing countries. Such subtle biases and the general lack of transparency and accountability in its decision-making processes have led to the WTO being described as a 'rich man's club'. However, the economic rise of China, which became a WTO member in 2001, and the growing influence of emerging economies such as India, Brazil, Egypt and South Africa, has started to alter balances within the WTO. This has been demonstrated in particular by the stalling of the Doha Round of negotiations, which were initiated in 2001 but which were suspended in 2009, largely due to disagreement over agriculture and textiles, where the USA and the EU were unwilling to abandon protectionism. Nevertheless, the main ideological debate about the benefits or otherwise of the WTO centres on its underpinning philosophy of free trade. While some argue that free trade brings prosperity to all and, in the process, makes war less likely, others view fair trade as blatantly unfair and a cause of structural inequality.

REFORMING THE BRETTON WOODS SYSTEM?

Global economic governance and the 2007–09 crisis

There is nothing new about concern over the performance of global economic governance. The institutional architecture was put in place to address the problems exposed by the economic turmoil of the 1930s, and yet financial and economic crises have occurred on a fairly regular basis since the 1960s, and, indeed, have become increasingly frequent and more serious since the 1980s. After both the Asian financial crisis of 1997–98 and the dot.com crisis of 2000 in particular, criticisms were voiced about the failure of the global economic governance system to provide adequate warnings by highlighting, in advance, key instabilities and crisis tendencies. In the case of the Asian crisis, IMF intervention was seen by some to have made the crisis more severe, not less severe. Moreover, intellectual and academic arguments about the growing and uncontained instabilities in the global economy had been gathering strength for some time. For instance, Susan Strange (1986, 1998) had highlighted the dangers of what she called 'casino capitalism', in which the unregulated dynamics of global capital movements allowed what she called 'mad money' to surge around the world in speculative bursts, creating unsustainable 'bubbles' and dramatic crises (see Chapter 4 for a discussion of the crises of modern global capitalism). Similarly, a string of high profile economic commentators, including Joseph

Debating . . .

Does free trade ensure prosperity and peace?

Although free trade has been an issue of debate since the nineteenth century, in modern global politics it is largely associated with the WTO's commitment to a *laissez-faire* paradigm of free trade. Does free trade bring prosperity for all and reduce the likelihood of war, or does it lead to unfairness and put national security at risk?

YES

Benefits of specialization. The key economic argument in favour of free trade, which can be traced back to the ideas of Adam Smith (see p. 85) and David Ricardo (1772–1823), is the theory of comparative advantage (sometimes known as comparative costs). This suggests that international trade benefits all countries because it allows each country to specialize in the production of the goods and services that it is best suited to produce (in view of its natural resources, climate, skills, size of population and so on). Free trade thus draws economic resources, at the international level, to their most profitable use, and so delivers general prosperity.

Efficiency and choice. Free trade brings further economic advantages. These include that specialization enables production to be carried out on a larger scale and therefore offers the prospect of greater efficiency. Economies of scale, for instance, can be gained through the greater use of the division of labour, the ability to buy raw materials or components more cheaply and the lower cost of overheads. In addition, consumers benefit both because they have a wider choice of goods, including foreign-produced goods as well as domestically produced goods, and because more intense competition, particularly from more efficient and low-cost producers, tends to keep prices down.

Peace and cosmopolitanism. The central political argument in favour of free trade is that it helps to underpin international peace and harmony. This occurs for two reasons. First, in leading to greater economic interdependence, it pushes up the material cost of international conflict and makes warfare between trading partners virtually unthinkable. Second, economic links and intercourse between countries cannot but lead to greater understanding between them and strengthened respect for each other's distinctive cultures and national traditions. Protectionism, by contrast, is associated with war, because countries that seek resources but cannot acquire them through trade are inclined to resort to expansionism and conquest.

NO

Free trade as neo-colonialism. Free trade benefits industrialized and economically advanced countries at the expense of poor and developing ones. This is why the cause of free trade has been advanced most forcefully by dominant powers within the world economy, notably the UK in the nineteenth century and the USA since the mid-twentieth century. Such countries benefit from the reduction of trade barriers because it gives them access to larger markets for their goods whilst, at the same time, keeping the price of raw materials and other imported goods low. Developing countries, for their part, are disadvantaged by being forced to serve the needs of the world economy. This locks them in to the production of food and raw materials, thereby preventing them from making further economic progress.

Development through protectionism. Without rejecting the wider advantages of international trade, there are clearly a number of circumstances in which protectionism is economically beneficial. The most obvious of these is in the early stages of economic development, which can be distorted or stunted by unfair competition from stronger economies. Exposing fragile economies and so-called 'infant' industries to the full force of international competition simply ensures that they never develop, hence the need for the strategic use of protectionist measures to create a domestic economic environment more favourable to growth.

National security protectionism. The core political argument against free trade is that not all industries are alike in terms of their strategic significance. In short, national security trumps economic efficiency. This applies most obviously in the case of agriculture, where states have been anxious to avoid a dependency on other states for the supply of foodstuffs in case such supplies are curtailed through international crises or war. The same argument also applies in the case of vital natural resources, with a growing emphasis being placed on the need for protectionism to ensure 'energy security'.

Stiglitz, Paul Krugman (see p. 107) and George Soros (see p. 107), have highlighted the dangers implicit in the dogma of market fundamentalism that underpinned neoliberal globalization and helped to shape the Washington consensus. Nevertheless, nothing came of these warnings and criticisms, largely because they occurred against the backdrop of three decades of growth in the global economy and because the crises that had occurred predominantly affected emerging or transition economies, rather than those at the core of the world economy.

However, the global financial crisis of 2007–09 posed a series of deeper and more challenging problems. In the first place, it was deeper than the previous crises of modern global capitalism (see p. 106), amounting to the most severe downturn in the world economy since the 1930s. According to the World Bank, global GDP fell in 2009 by 1.7 per cent, the first decline in world output on record, and the volume of world trade dropped by 6.1 per cent (World Bank 2010). Second, although its severity varied from country to country and from region to region, its impact was genuinely global, in that it affected virtually every country in the world. Third, instead of occurring in emerging or transition economies, it originated within the beating heart of finance capitalism, the USA (Seabrooke and Tsingou 2010). In this light, and especially after the remarkable events of September 2008, when stock markets around the world plummeted and global capitalism appeared to be on the brink of collapse, it is not surprising that the 2007–09 crisis led to calls for the urgent reform of the architecture of global economic governance. Initially at least, this was often expressed in calls for a 'new Bretton Woods'.

But what would a new Bretton Woods look like? There is no single model of reformed global economic governance, but rather a number of models. Indeed, perhaps the only thing these competing models have in common is that none of them envisages a fully-fledged return to Bretton Woods. None of them, in other words, proposes the re-establishment of a dollar-based gold exchange standard, if only because a return to fixed exchange rates is widely deemed to be unfeasible in modern, globalized economic circumstances. From the market fundamentalist perspective, moreover, the most appropriate response to the crisis has been, in effect, to do nothing. In this view, financial and economic crises are a small price to pay for roughly thirty years of sustained growth in the world economy, and, anyway, any attempt to strengthen national or global regulation will only make matters worse not better. On the other hand, for regulatory liberals, who draw on Keynesian or other insights about the fallibility of markets, what is needed is specific reforms of the global financial architecture, as well as new regulatory regimes at the domestic level (Gamble 2009). From this perspective, reform has to focus on curbing the excesses of neoliberalism, something that is impossible while the Washington consensus, even in its modified form, remains dominant. A variety of reforms have therefore been proposed, particularly in relation to the IMF and the World Bank. These include changing voting allocations and decision-making processes to increase the political influence of developing countries and weaken links between these bodies and Northern countries and interests; strengthening their ability to support countries adversely affected by debt and crises; and bolstering their capacity to oversee and regulate the world economy, with a view to preventing, rather than merely responding to, future crises.

More radical proposals for reform have also been advanced, however. Cosmopolitan liberals have called not for the reform of the existing architecture of global economic governance but for an entirely new form of global governance to replace deeply flawed bodies such as the IMF, the World Bank and the WTO. New global architecture would have to be constructed on a more inclusive basis, taking much fuller account of the views and ideas of global civil society (see p. 152), and it would need to be orientated around the principle of 'cosmopolitan democracy' (Held 1995). For anti-capitalists, however, the problems exposed by the 2007–09 crisis go deeper still. Rather than highlighting flaws or failings in the framework of global economic governance, they reflected the imbalances and inequalities of the global economy itself. What is required, from this perspective, is therefore a substantial redistribution of wealth and power both within national societies and within the global economy (Monbiot 2004).

However, apart from the rising significance of the G-20, and the declining importance of the G-7/8, as a mechanism for developing and coordinating strategy related to the world economy, the institutional response to the 2007–09 crisis, particularly at the global level, has been modest. The three pillars of global economic governance have survived the crisis, just as they survived the end of the Bretton Woods system, and although there has been some adjustment in the allocation of voting rights within the IMF and World Bank in favour of developing countries, fundamental power balances within these bodies remain substantially unchanged. The chief institutional development has been the establishment in April 2009 of the Financial Stability Board (FSB) as the successor to the Financial Stability Forum, a proposal that came out of the 2009 G-20 London summit. The purpose of the FSB is to coordinate at the global level the work of national financial authorities and international standard-setting bodies and to promote the implementation of effective regulatory, supervisory and other financial sector policies. The creation of the FSB as potentially the fourth pillar of the architecture of global economic governance is, in effect, an acknowledgement that even a reformed IMF is unlikely to be an effective mechanism for alerting policy-makers at national, regional and global levels to structural instabilities in their economies, helping thereby to prevent future crises. Nevertheless, although FSB member countries include all the G-20 major economies, as well as other developed or emerging economies, it affords the mass of the world's developing countries no representation whatsoever.

Obstacles to reform

It may not be possible for some time to make a judgement about how the architecture of global economic governance has responded to the 2007–09 global crisis. After all, in the case of both the Great Depression of the 1930s and the stagflation crisis of the 1970s, about a decade elapsed before an institutional response emerged, in the form of Bretton Woods and the Washington consensus respectively. Nevertheless, the predominant response to date has been: 'business as usual'. How can this be explained? In the first place, the initial management of the crisis by the G-20, coordinating swift action at the domestic level to salvage the banking system and push though Keynesian-style reflationary policies,

Focus on . . .

The BRICs: the 'rise of the rest'?

How influential are the BRICs group of countries? Does the rise of the BRICs mark a decisive shift in the global balance of power and the end of US hegemony? The term 'BRICs' was coined in 2001 in a report by Goldman Sachs, the investment bank, to highlight the growing significance of four large, fast-growing economies – Brazil, Russia, India and China. Initial predictions of the growing economic might of the BRICs suggested that they would exceed the combined strength of the G-7 countries by the middle of the twenty-first century, although this has been repeatedly revised and could occur as early as 2021. In addition to highlighting a shift in the power balances of the global economy, with most of the growth in world output now coming from developing, transitional and emerging economies, the so-called 'rise of the rest' (Zakaria 2009) has a growing political dimension. Initiated by Russia, BRICs foreign ministers' meetings, and sometimes heads of states' meetings have been occurring since 2006. The main goals of these BRICs meetings have been to counter-balance the USA by ensuring better representation for themselves – through, for instance, the G-20 and the Financial Stability Board – and by expanding the influence of the global South, allowing the BRICs to be portrayed as the 'guardian of the interests of developing countries'. Some, therefore, view the rise of the BRICs as a major challenge to the US-dominated liberal western order.

However, the significance of the rise of the BRICs may have been overstated. In the first place, no concrete agenda for changing the global economic governance system has emerged from BRICs meetings, still less a vision of what a post-western economic order might look like. Indeed, far from overthrowing the established order, the BRICs appear to be more intent on strengthening their position within it, enabling them to establish a partnership with the USA rather than indulging in 'hard' balancing. Second, the capacity of the BRICs to act as a single entity is severely restricted by political, ideological and economic differences amongst its members. Brazil and India are democracies, while China and Russia are authoritarian and practise a form of state capitalism. Similarly, while Brazil and Russia are commodity exporters, specializing, respectively, in agriculture and natural resources, India, which specializes in services, and China, which specializes in manufacturing, are both commodity importers. Frictions from persistent Sino-Russian and Sino-Indian rivalry are likely significantly to impede the construction of an anti-US alliance, even if one were thought to be desirable. Third, the BRICs is a forum with highly unequal members. Although Russia may be its most assertive political voice, China is easily its dominant economic force. The principal significance of the BRICs may be less that it reflects the common interests of 'the rest' and more that it is a device through which China can engage in 'soft' balancing with the USA without risking direct confrontation.

appeared to be effective. In particular, G-20 action managed to counter pressure for a resort to national protectionism, creating optimism that the global downturn, though severe, may be shorter than some had feared at the outset. A further but crucial factor has been the changing balance of power within the world economy. The decisive moments in the development of global economic governance – the making of Bretton Woods in 1944 and the transition to the Washington consensus in the mid 1980s – were both expressions of the USA's hegemonic power. Although the USA, under Obama, took a leading role in formulating the G-20's response to the crisis, and also shouldered significant responsibility for promoting domestic reflation, the USA no longer has the ability to re-orientate, still less reformulate, the global economic governance system at will (always assuming that it had the desire to do so). Any such development would in future be significantly influenced by the views, interests and requirements of new powers, especially China, but also India, Russia and Brazil, sometimes collectively referred to as the BRICs group of countries (see p. 477). Emerging economic multipolarity (see p. 230) is likely to ensure that any change to global economic governance will be gradual and incremental, effectively ruling out the kind of comprehensive and radical restructuring that can only be brought about through the existence of a global hegemon.

SUMMARY

- Global governance is a broad, dynamic and complex process of interactive decision-making at the global level. It hovers somewhere between the Westphalian state-system and the fanciful idea of world government. Although it involves binding norms and rules, these are not enforced by a supranational authority.
- Liberal theorists argue that there is an unmistakable, and perhaps irresistible, trend in favour of global governance, reflecting the growing interdependence and a greater willingness of states to engage in collective action. However, global governance is more an emerging process than an established system.
- The trend towards global governance has been particularly prominent in the economic sphere, where it has been associated with the Bretton Woods system that emerged in the aftermath of WWII. This system was based on three bodies: the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade, replaced by the World Trade Organization in 1995.
- The Bretton Woods system initially supervised the world economy largely though the maintenance of stable exchange rates. This system nevertheless broke down in the early 1970s as floating exchange rates replaced fixed exchange rates, starting the process through which the Bretton Woods institutions were converted to the cause of economic liberalization.
- The IMF, the World Bank and the World Trade Organization have each, in their different ways, been drawn into controversy through their association with the processes of neoliberal globalization. Although supporters argue that they have contributed to a remarkable expansion of the global economy, critics claim that they have deepened global disparities and helped to produce an inherently unstable financial order.
- The 2007–09 global financial crisis has raised pressing concerns about the effectiveness of global economic governance, leading to calls for reform. However, major obstacles stand in the way of reform, not least the continuing dominance, in many countries, of neoliberal principles and the more diffuse location of global power.

Questions for discussion

- How, and to what extent, does global governance differ from international anarchy?
- Could global governance ever lead to world government?
- How does global governance blur the public/private divide?
- How far does modern world politics operate as a functioning global governance system?
- Why is global governance most advanced in the economic sphere?
- What was the thinking behind the creation of the Bretton Woods system?
- Is the IMF merely an instrument of powerful economic interests in Northern economies?
- How successful has the World Bank been in helping the world's poor?
- Is the global trading system crated by the WTO fair and effective?
- How has the 2007–09 crisis affected the processes of global economic governance?

Further reading

Karns, M. and K. Mingst *International Organizations: The Politics and Processes of Global Governance* (2009). An authoritative introduction to the challenges of global governance and the role and performance of international organizations.

Peet, R. *Unholy Trinity: The IMF, World Bank and WTO* (2009). A critical examination of the birth, development and performance of the key Bretton Woods organizations.

Whitman, J. (ed.) *Global Governance* (2009). A very useful collection of essays that examine the nature and implications of global governance.

Woods, N. *The Globalizers: The IMF, the World Bank, and their Borrowers* (2006). An analysis of the IMF and World Bank that focuses particularly on their impact in Mexico, Russia and Africa.

www.palgrave.com Companion Website

Links to relevant web resources can be found on the *Global Politics* website