

## THE GLOBAL ECONOMIC CRISIS AND G20 SUMMIT OF APRIL 2009: A STEP FORWARD TOWARDS BETTER GLOBAL GOVERNANCE OR GLOBAL GOVERNMENT?

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**Abstract.** *The paper analyzes the implications of the current global economic crisis for the decision-making mechanisms and interactions among the major players. The analysis explores the possibility that the changes implied and required by the economic crisis may lead either to better global governance or even a step closer to a possible, virtual, global government. The latter hypothesis is approached in a different way as compared to similar topic papers in the sense that a possible global government is seen as a long term objective result of the various reactions and solutions taken by individual entities.*

**Keywords:** *global economic crisis, global governance, global government.*

### A philosophical perspective of the crisis

The world economy is witnessing starting the second half of 2008 the beginning of one of those significant moments in its history when long term, structural changes are becoming more and more evident. This phenomenon started as a financial crisis in the United States but, driven inexorably by the intertwined forces of globalization, it soon became a global financial crisis and then, almost by the book, it became a world economic crisis.

A lot has been already written about the causes and consequences of this crisis but we want to deal here with a different perspective: that of the structural changes in the institutions, decision making mechanisms and balance of power at a

global level.

Before going any further maybe it is worthwhile to reflect upon the term "crisis" itself. Coming from the Greek "*krinein*" – meaning "*to decide*", it means "an unstable or crucial time or state of affairs in which a decisive change is impending" or "a turning point for better or for worse".<sup>1</sup> Therefore a first important observation is that a crisis is a moment in time, it cannot be an era, a long period of time, or a permanent state of fact. Secondly, a crisis refers to a decisive change; it is not about a temporary problem to be solved after which the things return to their previous state of affairs. Thirdly, the crisis implies almost intrinsically a decision; the crisis is not the decision itself, though the decision is unavoidable because of the crisis.

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<sup>1</sup> [www.merriam-webster.com](http://www.merriam-webster.com)

To sum up, if one speaks about a global economic crisis, then the meaning of that has in view:

- a moment of instability, of threat, involving fundamental aspects;
- in this context a decision is necessary, even if it is desirable or not;
- the post-crisis state of the economic system will be different in comparison with the initial one;
- all of the above refer to a global economic context.

### **The global economic crisis of today and the post-war economic paradigm**

After the Second World War and particularly after the '80s, the developed countries adopted more or less consciously a paradigm of development based on a fast replacement of goods and ever larger use of services, sometimes even beyond current needs (the so-called consumer society). The paradigm itself became a sort of model for other countries, especially after 1990, as in the case of Central and Eastern Europe, or in other parts of the globe, even if at a lower and limited scale (like in Russian Federation, China, India).

The paradigm was based on the consumerist approach but enlarged at an unprecedented scale. The mechanism was simple: people obtained easy money from credits and they bought more products and services than they needed or replaced the existing ones much faster than physical or moral depreciation. It was not unusual to see people change their mobile phone or laptop every 6 – 8 months, to replace the TV sets or DVDs every year and their cars every 3 – 4

years.

The surge in demand generated a good opportunity for the supply side to work at full speed which, in turn, meant more jobs, higher salaries and more creditworthiness for the respective employees who, in turn, could obtain more credits, buy more goods and services, create or maintain jobs, and so on.

This economic process appeared as a real virtuous circle. But, for how long? And on what scale, that is for how many people? Or, to combine the two questions, for how many people, for how long?

The first problem with that model was that it was not sustainable for several reasons related on a fundamental level to the second law of thermodynamics.<sup>2</sup>

In a simple way, this second law of thermodynamics deals with entropy which is a measure of unavailable energy (so called bound energy, for instance energy heat, energy contained in soil or sea water, an energy we cannot normally use). If human society wants to put to use in its interest the unavailable energy, other free energy from outside its system has to be used. As result, the total quantity of unavailable energy in the universe increases.

The above considerations may seem a bit abstract but they had a significant impact on economics and particularly led to the concept of bio-economy, or, if we use a widely-known concept, to sustainable development.

If one applies the entropy concept to the economic process described above the following results. The paradigm that described the economic processes in the

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<sup>2</sup> Nicholas-Georgescu ROEGEN, *The Entropy Law and the Economic Process*, Harvard University Press, 1971

first decades after the Second World War implied the ever larger use of energy and raw materials for more and more goods and services to be used primarily in the developed countries and to less but growing extent in the developing ones. The result of this process implied more entropy, that is more unavailable energy, more pollution and, in the end, even climate change.

At the same time, this economic process required the “import” of available energy from outside the initial system (represented by the developed countries).

From this perspective, globalization has been an objective phenomenon, as a high development or maintenance of high living standards in already developed countries could not be obtained without the “import” of available energy from other parts of the world which, in this way, became themselves parts of the system.

The functioning of such a system requires to “bring in” more and more parts of the world into the process and thus the system (the economic system) becomes larger and larger. In current terms we can speak in fact about a more integrated system rather than a larger system. This in fact is true because basically at the beginning of the 20th century most parts of the world had been already discovered and included in a system of economic relations but, most of these parts were very loosely connected with the main economic centers. Globalization meant the significant increase in the intensity of these economic relations at a global

scale.

The question is what happens when all parts of the globe are integrated to a high intensity level of consumption of available energy. From the point of view of a physicist the answer is simple: the system either stops, because all energy is bound, and free energy becomes unavailable, or, the system expands even further, that is outside this planet. One may think this is pure science fiction. But it is not, and anyone can check the existence of such plans for the past 30 years with the main economic and scientific players like United States, Russia, Germany, Japan or China.

This theoretical approach can be converted to the real situation. The economic system cannot continue like that. If it was not for the financial crisis, it would have been the global climate change to stop the process. Or the fact is that new countries started to consume as much as the developed ones. And humankind became, once more, aware that, at a given technological level, it is simply unsustainable to have the same consumption for all human beings on the surface of the Earth.<sup>3</sup>

Conclusion is that the existing paradigm led to a growing instability in the economic system and that led to a crisis. The answer to the crisis is represented by a new technological paradigm which, in turn, requires new organizations and new processes. Such an answer is currently looked for by OECD under the scope of the project “The Bioeconomy to 2030: Designing a policy agenda”.<sup>4</sup>

<sup>3</sup> Donella H. MEADOWS, Jorgen RANDERS, Dennis L. MEADOWS, *Limits to Growth: The 30-Year Update*, Chelsea Green, 2004.

<sup>4</sup> OECD International Futures Programme, *The Bioeconomy to 2030: Designing a policy agenda*, Paris, 2006

### Dealing with the current crisis

In the process of dealing with this crisis there could be some danger of carrying out this analysis in the wrong frame of mind:

- The first risk is that the analysis is done from a partial point of view, not a systemic one. The main idea is that this is not just a financial crisis, or just energy and raw materials crisis or just a climate change crisis. It comprises all of them and more. The point here is to consider the crisis as a complex and systemic one.

- The second risk is to oversee the paradigm crisis. It is not about how we produce and how we consume, but why we do it in the first place. In order to design a more sustainable paradigm we have to re-think what is good, what is fashionable, what is the mark of success in society. Such changes are difficult and on a long term, maybe comparable with the changes brought about in the Western world by the Enlightenment.

- A third risk is to look only for immediate problems and therefore for immediate answers. If all we do is to save a bank, or the automobile industry or the jobs in one industry or the other, or if we just want to preserve the status-quo of the world balance of power then we do not see the real problem. And we shall think about answers to other questions than the real one. **And the real question is how to redesign the world economy in such a way that economic globalization is matched by global institutions and mechanisms that are able to make global decisions that solve global problems.**

The complexity of the current crisis and the long term implications of any

possible solutions require unprecedented communication and coordination among many transnational actors.

While various debates already took place on various issues (like trade in World Trade Organization or climate in IPCC – Intergovernmental Panel on Climate Change of the United Nations) or Summits were organized on global issues (like G – 8 or more recently G – 20 or World Economic Forum) this crisis requires a true global governance in the sense of permanent collective efforts to identify, understand and address global issues that go beyond the capacity of individual states or actors to solve.

### Global governance – the need to better manage global issues

Global governance can be defined in a common sense format as “the political interaction of transnational actors aimed at solving problems that affect more than one state or region when there is no power of enforcing compliance”.<sup>5</sup> In the past decades, globalization itself required more and more such interactions and raised issues which could not be settled within the nation state centered government system. In the past United Nations Organization has acted on a global level on various issues, among its significant actions being the design and implementation of the Millennium Development Goals Programmes which obtained nowadays a new impulse. But UN has been often forgotten by the large corporations or even by governments, despite the fact that it was a sort of blueprint of the future ways of solving global problems.

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<sup>5</sup> [www.wikipedia.org](http://www.wikipedia.org)

Coming back to the realities of 2009 one can say that what is different now is the scale of the problems and their solutions. No single actor can solve this crisis because the solution requires a new paradigm which has to be widely accepted. No single summit of the 20 largest actors can solve the problem either.

Maybe for the first time ever the solution requires very large competing actors like United States, Russian Federation, China and India, or new comers at that global stage like Brazil to really decide together and accept a new reality.

The *G20 Leaders Summit on Financial Markets and the World Economy* which took place on November 14–15, 2008 in Washington, D.C. carried in itself a two parts message: United States is still an important actor on the global scale. But the world of today is more and more a multi-polar world. The G20 Summit in London on April 2 2009 further stressed this idea<sup>6</sup>.

Maybe the significance of the G20 Leaders Summit on Financial Markets and the World Economy is that in the world economy of today is no longer significant who owns the car, but rather who has the steering wheel. Or who advises the one who has the steering wheel.

Anyway, this economic crisis is a significant catalyst for a serious consideration of better global governance and for its true operationalization that is for accepting it openly and creating a true

operational mechanism for it.

The fact that global governance is a serious issue can be proved by the serious institutions dealing with it like:

- The Center for the Study of Global Governance at the London School of Economics<sup>7</sup> established in 1992;
- Global Governance Project established in 2001<sup>8</sup>;
- Global Governance Watch<sup>9</sup>;
- The Centre for International Governance Innovation (CIGI) established in 2002<sup>10</sup>, to name only a few.

One of the most comprehensive approaches to global governance is to be found with the Global Governance Project which has a three tier approach<sup>11</sup>:

Firstly, global governance is characterized by the increasing participation of actors other than states, ranging from private actors such as multinational corporations and (networks of) scientists and environmentalists to intergovernmental organizations ('multi-actor governance').

Secondly, global governance is marked by new mechanisms of organization such as public-private and private-private partnerships, alongside the traditional system of legal treaties negotiated by states.

Thirdly, global governance is characterized by different layers and clusters of rule-making and rule-implementation, both vertically between supranational, international, national and sub national layers of authority ('multi-level governance') and horizontally

<sup>6</sup> Joe LYNAM, G20 make or break, *BBC News*

<sup>7</sup> <http://www.lse.ac.uk/Depts/global/>

<sup>8</sup> <http://www.glogov.org/?pageid=2>

<sup>9</sup> <http://www.globalgovernancewatch.org/about/>

<sup>10</sup> <http://www.cigionline.org/>

<sup>11</sup> Idem ref 6.

between different parallel rule-making systems.

In view of the above, we may conclude that the current crisis has generated a lot of dialogue and reflection and that global consultation among all relevant actors is a must, it is already happening and by mere repetition will lead to a certain form of institutionalization.

With reference to the subtitle of this section one can say that more consultations among all global stakeholders is a reality, therefore global governance is a reality and its quality is constantly improving in the past months.

### **Global economic crisis – a step closer towards global government?**

Besides global governance, we may go even further with the analysis and ask ourselves if the magnitude of the current crisis may even lead to more favorable conditions for a global government.

We have to stress quite seriously that in our perception a global government is not to be seen in the near future. The strengthening of global governance is not a direct step towards global government because it happens exactly due to the lack of a global government.

What happens anyway due to the increase of the number and magnitude of issues that require consultations is the fact that sovereign actors took more and more part in decision making processes regarding global issues and thus transfer a part of their sovereignty into that interaction. The network of decision-makers has as result of the crisis more participants and the intensity and frequency of interactions has increased substantially. In the short run, due to pressures from general public and from industrialists it is even possible that politicians at the

national level be more active, at least in large and developed countries.

In this process the resulting interaction is not imposed in any way by one entity but it is required by the state of fact, it is a necessity. The increased interaction is, in fact, the answer to a logical question: do the global economic relations and activities require global institutions to provide global reference frameworks and global regulations? Putting things this way the answer is yes for the simple reason that it is impossible to reach consensus among the nations of the Earth on major issues on a daily basis by a voting mechanism.

If we analyze the mechanism of *G20 Summit of April 2, 2009* we can see that numerous trips on a global scale preceded the meeting and to the extent possible leaders of other countries that the G20 have been consulted. It is a time consuming mechanism and completely un-operational in case fast reaction is needed.

The idea of a global government as result of more and more intense consultations among states and other entities can be seen as more realistic if we look at development of summits on global issues.

These evolved like this:

- 1975: G6 (with the participation of France, Germany, Great Britain, Italy, Japan, United States);
- 1976: G7 (adding Canada);
- 1977: G7 plus invitation of European Commission President;
- 1996: G7 plus United Nations, World Bank, International Monetary Fund and the World Trade Organization
- 1997: G8 (adding Russia),
- 1999: G20 (adding Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South

Africa, South Korea, Turkey).

A side comment to the above may refer to the decreasing role of Europe in a global decision mechanism in which the share of the others is ever increasing<sup>12</sup>.

The institutionalization of consultations among significant countries and organizations can be regarded as a gradual transition towards a different decision making mechanism that will raise integration to a new, global, level. Such a level may be a sort of one world government in the making which may delegate to a secondary tier continental or regional integration.

If such a case would be, then that can be a lesson that history does not move in a uniform way, with a uniform speed, but rather jumps from one level to another when circumstances so require.

### **Conclusions – Towards a new paradigm**

The inner significance of this crisis is not its magnitude and/or implications but rather its fundamental character: it is a crisis determined by the existing development paradigm and also by the evolution of the “new economy”, based on information, which gradually made obsolete the existing institutions and regulations<sup>13</sup>.

The real challenge for the world leaders and for humankind as a whole is to define a paradigm that will allow increase of consumption, at a global scale, in a sustainable way.

Such a paradigm may appear and be accepted in stages and its birth may witness the pains of several successive crises if the approach is more centered on treating the effects rather than the causes.

Such a paradigm will involve a correlation of institutions, regulations and access to money with the information based economy and with the large scale participation of an ever greater number of people of the world to the economic processes. The mission now is not to design a perfect framework for global economic activities; it is just about designing a sustainable framework that will not leave anyone outside.

The solution to this crisis is not to be found with more or less state intervention in the economy, but rather with the acceptance and participation to what Schumpeter called “creative destruction.”<sup>14</sup>

The answer is to be found, maybe more than ever before, in cooperation and not in confrontation as this is the only way on which the ones who have been less exposed to crisis will be of help to those that were more exposed<sup>15</sup>.

At the same time, the key, the new development model is to be found in a holistic approach that will search not only for economic solutions, but also to answers for new challenges: global governance, climate change, the energy revolution, and the rise of a multi-polar order<sup>16</sup>.

<sup>12</sup> Leif PAGROTSKY, Europe must swallow its bitter economic medicine, *Europe's World*, Spring 2009

<sup>13</sup> Mary KALDOR, *Crisis as a Prelude to a new Golden Age*, [www.opendemocracy.net](http://www.opendemocracy.net), 31.10.2008

<sup>14</sup> Joseph SCHUMPETER, *Capitalism, Socialism, Democracy*, Harper, New York, 1975.

<sup>15</sup> George SOROS, The Worst Market Crisis in 60 Years, *Financial Times*, January 23, 2008

<sup>16</sup> Andre WILKENS, *The global financial crisis: opportunities for change*, [www.opendemocracy.net](http://www.opendemocracy.net), 10.11.2008

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