

Governing the Global Economy

IN HIS PIONEERING *Economics of Interdependence* (1968), Richard Cooper argued that the most serious problem of the postwar international economy was the intensifying clash between the economic and technological forces unifying the globe and the world's continuing political fragmentation.¹ Trade, investment, and financial flows, Cooper pointed out, were creating an increasingly integrated and highly interdependent global economy. Yet nation-states through such means as trade protection, subsidies, and industrial policies were resisting these integrating forces and, in doing so, were undermining the world economy. Tension between the evolving global economy and political fragmentation, Cooper argued, was causing economic instability and threatening to undermine the openness and efficiency of the world economy.

Cooper went on to evaluate various solutions that had been proposed to the clash between the "irresistible force" of economics and the "immovable object" of politics. He concluded that the ideal solution was some type of international governance of the global economy.² However, he doubted that nations would be willing to sacrifice national sovereignty and political/economic autonomy for the sake of a well-functioning international economy.

Since Cooper's 1968 advocacy of improved international governance of the world economy, a number of significant developments have increased the relevance of his diagnosis but made his solution even more difficult to attain. When Cooper published his book, the relevant world economy (reflected in the book's subtitle, *Economic Policy in the Atlantic Community*) was composed primarily of Western Europe, North America, and a weak periphery. Since that time, industry and economic power have diffused from the North Atlantic to Japan, the industrializing countries of Pacific Asia, and other industrializing powers in Latin America and elsewhere. In 1968, despite

¹ Richard N. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (New York: McGraw-Hill, 1968). Although Cooper's book is obviously dated, its analytical and theoretical framework continues to be important for anyone interested in international political economy.

² *Ibid.*, 262.

important differences between the continental European tradition of stakeholder/corporatist capitalism and Anglo-Saxon shareholder/free market capitalism, the North Atlantic economies have shared a market-oriented concept of capitalism with modest state intervention. Today, Japan and most industrializing economies have very different cultural traditions and national systems of political economy; these differences include extensive state interventionism and close government-business ties. In 1968, the level of economic interdependence among national economies was still rather modest. Now, more than thirty years later, the forces of economic globalization have created a more integrated global economy.

Cooper's analysis strongly emphasized the necessary political foundations of international economic cooperation. Cooper argued that international cooperation in economic matters was unlikely unless there was political support from the major economic powers. At that time, he believed that the political foundation for improved cooperative management of the international economy could be found within the Atlantic Community. He suggested, however, that if the American/West European political alliance should prove unable to provide the political glue for economic policy cooperation, then it would be preferable to break up the North Atlantic countries into smaller units that could cooperate closely and more easily.³ Cooper's words have proved prescient. Economic regionalism has made governance of the global economy both more necessary and more difficult to attain. Today, the North Atlantic region is divided into the European Union and the North American Free Trade Agreement areas, and their future relationships cannot be predicted. Throughout the global economy other regional blocs have been emerging.

Three decades after publication of Cooper's book setting forth the great need for international governance, the rapid globalization of the world economy has elevated the governance issue to the top of the international economic agenda.⁴ Neither domestic economies nor the increasingly integrated world economy can rely on markets alone to police themselves. An international governance mechanism is needed to assume several functions in the new global economy; in particular, it must provide certain public goods and resolve market failures. Pro-

³ Ibid., 77-78.

⁴ A useful and wide-ranging exploration of the governance issue is James N. Rosenau and Ernst-Otto Czempiel, eds., *Governance without Government: Order and Change in World Politics* (New York: Cambridge University Press, 1992). Another valuable writing on the subject is Raimo V. Vayrynen, ed., *Globalization and Global Governance* (London: Rowman and Littlefield, 1999).

vision of international public goods must include maintaining the rule of law (and especially provide for the settlement of disputes in trade, FDI, and other areas), ensuring monetary and financial stability, setting common standards and regulations for business, managing global communication and transportation, and solving environmental problems.

Although many neoclassical economists and some liberal thinkers believe that only minimal rules are necessary, many scholars of international political economy argue that extensive rules or formal regimes are needed. There are three predominant positions regarding governance: neoliberal institutionalism, new medievalism, and transgovernmentalism.⁵ Neoliberal institutionalism, based on the continued importance of the state, believes that formal international regimes and institutions are necessary. Whereas state-realism emphasizes the ever-present problem of interstate conflict and rivalry, neoliberal institutionalism stresses interstate cooperation. The new medievalism is based on the assumption that the state and the state-system have been undermined by economic, technological, and other developments and are being eclipsed by nongovernmental actors and the emergence of an international civil society. New medievalists believe that the end of national sovereignty and the resulting diffusion of power will enable selfless nongovernmental organizations (NGOs) to solve the world's pressing environmental and other problems. Transgovernmentalism argues that international cooperation by domestic government agencies in specific functional areas is rapidly replacing the decision-making functions of centralized national governments in the management of the global economy.

NEOLIBERAL INSTITUTIONALISM

Like realism, neoliberal institutionalism accepts the continued existence and importance of the nation-state in international affairs; however, it generally assumes that the state is a liberal, market-oriented state in the American sense, more interested in cooperation and absolute gains than in conflicts over relative gains. Neoliberal institutionalists believe that international institutions have become sufficiently strong to meet the challenges of a globalized international economy. Moreover, if existing regimes are found deficient, new ones can be created or easily modified, as they have been in the past. An impor-

⁵ These useful categories are based on Anne-Marie Slaughter, "The Real New World Order," *Foreign Affairs* 76, no. 5 (September/October 1997): 183-97.

One example of a substantial reform of an international institution is found in the 1995 replacement of the General Agreement on Tariffs and Trade (GATT) by the World Trade Organization (WTO); the latter has greater authority over trade matters, more resources, and more power to enforce its decisions. The World Bank and the International Monetary Fund are being reformed as the twenty-first century opens. New international conventions on environmental and other important matters have been implemented.

The types of international regimes and institutions advocated by neoliberal institutionalism have achieved considerable success. Despite some failings, the IMF, WB, and GATT/WTO have improved significantly the ways in which the international economy functions. However, this approach to international governance has a number of limitations. As the world has become more integrated and complex new issues have arisen, a number of existing regimes have proven to be quite inadequate to fulfill the tasks assigned to them. For example, the regimes governing the areas of finance and money have proved seriously deficient. The increased integration and instability of financial markets and exchange rate fluctuations pose a serious threat to the stability of the global economy. Efforts to create an international regime for multinational corporations, such as the Multilateral Investment Agreement, have reached stalemate because of strong opposition from many countries and powerful interest groups. There is no regime for economic development, one of the most pressing issues in the world. Although Article XXIV of the GATT/WTO was intended to regulate formation of regional economic arrangements, it is almost totally ineffective. In short, the task of reforming existing regimes and creating new ones is exceptionally difficult.

There are formidable obstacles to achievement of the neoliberal institutionalist ideal of a regime-based international economy, and the issue of compliance is particularly challenging. This problem continues to limit the effectiveness of international organizations; the many books and articles on compliance have not helped very much. There are few generally accepted principles and policy prescriptions upon which regimes can be constructed. The Bretton Woods regimes dealing with trade and monetary affairs, were based on such Western legal and economic ideas as the transparency of commercial dealings and limited state intervention in the economy, and the triumph of neoliberalism in the 1980s reinforced such liberal principles. However, as economic integration spread among many and more diverse economies and also deepened, fundamental differences among national systems of political economy regarding economic principles

and legitimate policy have challenged Western ideals. American and Japanese notions of what is fair in international economic competition are particularly divergent. Increasing regionalization of the global economy has proved to be a popular way of dealing with the problems created by such national differences.

The clash between different national systems of political economy has intensified, but most American economists and public officials expect that the process of convergence will eventually lead to worldwide acceptance of the policy prescriptions of neoclassical economics and a free market following the American model. Some aspects of the Asian model were certainly discredited by the 1997 financial crisis, and some states have retreated from prior aggressive government intervention in the economy. Yet, in many countries there is strong resistance to permitting the whims of the market to determine a society's welfare and/or the nation's position in the global system. Many national leaders bitterly resent the constraints that the emphasis on the "market" imposes on economic policy; notable examples of such resentment have appeared in Malaysia and South Korea. In defiance of free market ideology, Malaysia in the 1990s imposed capital controls and South Korea strongly resisted American demands to liquidate the *chaebol*. There have also been serious revolts against trade liberalization in the West, including the U.S. congressional defeat in 1997 of "fast track" legislation. Furthermore, the American and British model of shareholder capitalism (Anglo-Saxon capitalism) is rejected by Japan, continental Europe, and many other nations. Although important changes are taking place in these countries, they still consider a corporation to be a community with social responsibilities and resist thinking of corporations as bundles of contracts and commodities to be bought and sold. It is noteworthy that in Japan, East Asia, and other countries, corporations are important providers of social insurance and other forms of social welfare. As this role becomes threatened by global competition, resentment against the Anglo-Saxon model is likely to increase.

At the opening of the twenty-first century, international institutions are faced with a number of immediate issues whose outcome will determine their future. A pressing issue, given public prominence in 1999 by the Seattle protestors against the World Trade Organization, is what scholars call the "democratic deficit"; international economic institutions are criticized because they are not accountable to any democratic electorate. Closely tied to this issue is the gap between the authority of existing institutions and the changing distribution of power in the international system. Despite the significant shift in eco-

conomic power that occurred in the last half of the twentieth century, decision-making authority and responsibility in the IMF, WTO, and World Bank continue to be disproportionately accorded to the United States and, to a lesser extent, Western Europe. Still another issue is the question of institutional reform; this is especially relevant for the IMF because of intense criticism of the organization by both the political left and right in the United States.

Democratic Deficit

In the interest of efficient decision-making and in deference to member governments' desires to keep their national affairs confidential, every important international organization—including the WTO, IMF, and World Bank—operates largely in secrecy. The predilection toward secrecy is reinforced by the fear that negotiations on trade, monetary, and other important economic matters could roil and seriously destabilize global markets; a proposed change in exchange rates, for example, could wreak havoc in markets. Nevertheless, more and more people are coming to believe that their daily lives, cultures, and social well-being are subject to secret decisions by faceless international bureaucrats. These growing concerns contribute to a backlash against globalization and threaten the foundations of the global economy managed by international institutions.

The 1999 Seattle meeting of the World Trade Organization illustrated the difficulties encountered in the search for a solution to the democratic deficit. In addition to launching the Millennium Round of trade negotiations, the Seattle conclave of trade ministers was expected to begin a concerted effort to reform the organization and strengthen the WTO's authority over trade-dispute settlement and other matters. The WTO has more authority over national policies than any other international economic organization. Although the IMF and the World Bank do have significant influence over less developed countries needing financial and other forms of assistance, the WTO's authority over trade matters extends to every one of its members, including the United States, the European Union, and Japan. Unlike every other international organization, the WTO has the authority to penalize and impose a monetary fine on any country that defies the decisions of its dispute settlement panels. The WTO's judicial and regulatory powers are unprecedented for an international organization. It approaches the neoliberal institutionalist ideal of an effective supranational institution.

Moreover, despite the beliefs of many Seattle protesters, the World Trade Organization is the most democratic of the important international institutions, with the possible exception of the United Nations

General Assembly. In the World Trade Organization, each of the 130 or so members has only one vote; the major economic powers have no formal privileged position. Both the World Bank and the International Monetary Fund, on the other hand, have a system of weighted voting that greatly favors the United States, Western Europe, and, to a lesser extent, Japan. Despite its more democratic nature, the WTO's legitimacy is still questioned.

One of the most important demands of the Seattle protestors was that decisions of the World Trade Organization and, by implication, other international institutions as well, be made transparent to the public. In addition to openness, they demanded that nongovernmental organizations (NGOs), including those dealing with the subjects of human rights, labor, and environmental problems, should be permitted to participate in the decision-making process of the WTO and other international organizations; they should be permitted, for example, to submit briefs and provide testimony, regarding matters under consideration. Superficially, these demands for greater democratic accountability appear reasonable. If the international institutions and their decisions are to be accepted by the larger public as legitimate, then greater openness and accountability may be necessary. Yet, there are formidable obstacles to achievement of increased openness. Some international organizations are notoriously inefficient and inclusion of more participants would significantly complicate decision-making. In addition, the decisions of international organizations involve sovereign nations. Making the WTO's dispute-settlement mechanism more transparent, for example, would mean that the states who are the parties to these disputes would have to reveal sensitive information that they and powerful domestic constituents would prefer to keep secret. In such a situation, member governments could lose confidence in the WTO and be tempted to move outside the organization to resolve their differences.

Although a serious effort must be made to solve the democratic deficit, achieving a solution will not be easy. How does one achieve both increased efficiency and greater transparency, two seemingly contradictory goals set forth by EU Trade Commissioner Pascal Lamy following the Seattle debacle? The WTO is indeed undemocratic in the sense that it is not *directly* accountable to any electorate. However, it is difficult to envisage an electorate to which it and other international institutions could be made accountable. Although the NGOs at Seattle asserted that international institutions be made accountable to them, they themselves are not accountable to any general electorate. Who elected Ralph Nader to speak on behalf of all consumers? After all, nearly every international, regional, and even na-

... organization responsible for managing our highly complex and integrated world is also characterized by a democratic deficit and is not directly accountable to a citizenry; this group includes the Security Council of the United Nations, the International Court of Justice, the World Health Organization, the European Commission, the U.S. Supreme Court, the Federal Reserve, and such American independent regulatory agencies as the Pure Food and Drug Administration and the Security and Exchange Commission. However, these organizations, as well as the WTO and other international organizations, are ultimately accountable to national governments that, at least in democratic systems, are themselves accountable to an electorate. The ultimate responsibility for governing the world has to rest with national governments, at least until the peoples of the world come together in one global society.

Authority and Power

Another important problem confronting neoliberal institutionalism—and other proposals for governing the global economy—is the growing gap between the distribution of authority within existing international institutions and the international distribution of economic power. When the original Bretton Woods institutions—the IMF, World Bank, and GATT/WTO—were established and subsequently modified, authority over these organizations was, in essence, vested in the United States and Western Europe. By custom, the selection of the directorship of the World Bank has been the prerogative of the United States, while selection of the head of the IMF has been the prerogative of Western Europe; moreover, these major powers can block any action that they disapprove. Japan and the LDCs, especially the larger ones such as Brazil and India, as they have developed and gained greater economic strength, have increasingly resented this arrangement and have demanded more authority and more leadership roles. This issue precipitated a crisis in early 2000 regarding appointment of a new director-general of the IMF after the resignation of Michel Camdessus as managing director. Following tradition, the West Europeans proposed their nominee, German finance official Caio Koch-Weser, whom they fully expected would be chosen. Unexpectedly, both Japan and an unusual coalition of LDCs nominated alternative candidates.⁶ Although the United States did not contest

⁶ The candidate of the coalition of African and Arab states was Stanley Fischer, a distinguished American economist and highly experienced IMF official. The Japanese, supported by some East Asian countries, nominated Eisuke Sakakibara, a former high official in the Ministry of Finance, colloquially known as “Mr. Yen,” in part because of his strong and outspoken criticisms of American policy.

the “right” of the Europeans to choose the head of the IMF, it raised serious questions about Koch-Weser’s qualifications. Eventually, the dispute was settled by the selection of an “acceptable” German nominee, Horst Kohler.

Underlying this seemingly minor dispute was the more fundamental question of which nation or nations will control or predominate in those institutions responsible for managing the global economy.⁷ This issue has long divided the United States and Western Europe. In this instance, even though many Europeans had reservations about Mr. Koch-Weser, they, especially the French, regarded his candidacy as a means to prevent growing American domination of the IMF and other international institutions. West Europeans have become very concerned about their diminishing position in the international economic and political system. German insistence that it was their turn to select the IMF head reflected their desire to be recognized again as a great power. National pride is still very much with us.

In practice, the United States has been the dominant power in the International Monetary Fund as well as the World Bank and the General Agreement on Tariffs and Trade/World Trade Organization. In the several financial crises that have afflicted the international economy, including the 1994–1995 Mexican crisis and the post-1997 East Asian crisis, the United States in effect dictated IMF responses. In the realm of trade, the United States has initiated every round of trade negotiations and has largely set their agendas. The United States has frequently performed this leadership role against the opposition of Western Europe, Japan, and other powers; the United States had to put considerable pressure on Europeans even to participate in the Uruguay Round. West Europeans have also exercised inordinate influence in both the GATT and the WTO. It is not excessive to say that the United States and Western Europe, because of historical precedents and their sheer economic strength, have been and continue to be the dominant players in the international trading economy.

Continuing American and West European dominance in the WTO, IMF, and World Bank has become increasingly noxious to the Japanese, and Japan is very unhappy about its subordinate role in these institutions. Although Japan is the second-largest donor to international institutions like the OECD and the IMF, no Japanese has ever been chosen head of, or even been seriously considered for, any important international economic institution other than the Asian De-

⁷ Votes in the IMF are based on a country’s financial contribution. On this basis, the United States has 17 percent of the votes; the combined vote of the fifteen EU members is 37 percent. Thus, the United States and the European Union together control just over a majority of the votes.

development bank. In addition, Japan is very resentful over the IMF's handling of the 1997 Asian financial crisis and the way in which the IMF has operated in the region. The Japanese, as well as other East Asians, believe that the IMF is too much under American influence. In response to these concerns, in 1999 Japan for the first time proposed its own candidate to be the next director-general of the IMF and sought support for that candidate from other Asian nations. Japan's new assertiveness highlights the fact that leadership of the international institutions responsible for managing the global economy continues to reside with the West, despite the shift in the global balance of economic power toward non-Western powers. This discontinuity between authority and power must one day be rectified if these institutions are to survive.

The longer-term significance of the Seattle meeting is that Western dominance of this international institution was successfully challenged by the less developed countries for the first time when they blocked major items on the agenda developed by the Americans and Europeans. The Seattle conclave witnessed a new and potentially important development in WTO governance. Led by Brazil, Egypt, and India, the less developed countries, who possess an overwhelming majority of the votes in the WTO, were successfully mobilized. Although they were not able to achieve their own agenda, they did thwart the efforts of the United States to incorporate labor standards and environmental protection into the trade regime. The less developed countries discovered at Seattle that they could influence the rules governing the international economy and at least prevent adoption of new rules contrary to their interests. How the LDCs will choose to exercise this new-found power in the future remains unclear. The significance of the change that has taken place in the role of the LDCs in governance of the world economy may be illuminated by a brief history.

Throughout much of the postwar era, the less developed countries have sought to achieve greater influence in international economic institutions and to make these institutions serve their interests. Their first attempt to achieve such goals was a proposal at the Bretton Woods Conference to create an international development regime that would benefit the less developed countries directly. This effort was spurned by the United States and the other major powers. Believing that the world economy worked to their disadvantage, many LDCs chose protectionism and began to pursue import-substitution policies. They generally left management of the international economy to the Bretton Woods institutions and the major economic powers. This attitude of resignation changed dramatically following the

first oil crisis (1973) and the resultant recognition that the less developed countries could translate their commodity exports into political power. Less developed countries then began a concerted effort to increase their influence over the international economy.

The LDC revolt in the mid-1970s against the major economic powers and their dominant position in the Bretton Woods institutions was led by the Group of 77, which demanded a New International Economic Order (NIEO).³ In addition to a long list of specific economic demands, such as debt relief and greater access to ADC markets, the Group of 77 wanted the Bretton Woods institutions to be placed under the authority of the UN General Assembly where the LDCs have a voting majority and could force the World Bank and other international organizations to implement their own economic agenda. This assault on international liberalism, to use Stephen Krasner's formulation, was eventually defeated by the United States and other major economic powers. Subsequently, in the late 1970s and early 1980s, the huge debt crisis of many LDCs led to another revolt, but the LDCs were eventually forced to accept the dictates of the major powers.

The third—and this time more successful—attempt of the LDCs to increase their authority in governance of international economic affairs took place at Seattle in late 1999. Whereas earlier efforts to achieve the New International Economic Order and/or massive debt relief had failed, the less developed countries were now inside the system and had the votes needed to successfully oppose any decisions contrary to their interests, including President Clinton's proposal regarding labor standards. One can look at this development as a victory for the underdog, and of course it was. However, this "victory" could make management of the trading regime much more difficult. One lesson of Seattle was that the WTO with its more than 130 members has become a very cumbersome institution indeed. The great economic powers will at least have to pay much greater attention to the concerns of the less developed countries.

Developments at the 1999 Seattle meeting could cause the major economic powers to forsake the WTO's multilateral approach to lowering trade barriers and to conduct trade negotiations on a unilateral or bilateral basis on terms highly favorable to the major economic powers. Abandonment of multilateral trade negotiations would be

³ The Group of 77 and its demands are discussed in Stephen D. Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985).

LDCs. The protesters in Seattle believed that the WTO is a prisoner of corporate interests, yet they forget that the weak, and not the strong, benefit most from the rule of law. If unilateralism and bilateralism replace the WTO's multilateralism, regional trading arrangements would undoubtedly increase and eclipse the postwar effort to achieve a multilateral trading system based on accepted rules.

A liberal international order requires strong leadership and cooperation among the major economic powers, and the United States is still the only nation capable of providing such leadership, even though American leadership of the world economy in the last decades of the twentieth century was anything but inspiring. Moreover, the United States cannot lead alone. Cooperation among the major economic powers is necessary, and the rising economic powers of South and East Asia will need to be included. Unfortunately, the United States and its Cold War allies are drifting in different directions, and clashes among them have increased since the end of the Cold War. Many observers dismiss such concerns and argue that mutual economic interests will ensure continuing international cooperation. It is certain that the United States, Western Europe, and Japan do have a strong political and economic interest in cooperating with one another. It is also certain that obstacles to cooperation, such as attacks on globalization and intensifying economic competition, are increasing. This situation could become very serious in the event of economic adversity. Meanwhile, American leadership and interstate cooperation constitute the only possible foundation for an open and stable global economy.

In effect, a four-way contest has arisen concerning "who governs" those international institutions responsible for managing the global economy. With the waning of Cold War alliances and the increasing assertion by the United States of its superpower status, both the Japanese and the West Europeans have become more and more determined to counter American power in the IMF and other international economic agencies.⁹ Demands have also increased from a coalition of LDCs and industrializing countries who believe their interests must be better served by the IMF, World Bank, and WTO. These countries have been energized because, in recent years, the IMF and other institutions have increased their power over these nations, and this was

⁹ In addition to lacking influence comparable to their economic might and financial contribution to the IMF and World Bank, the Japanese were particularly incensed over the American-dominated IMF approach to the 1997 East Asian financial crisis.

dramatically witnessed in the role of the IMF in the East Asian and other financial crises.

As the authority of international institutions has grown, so have the demands of more and more nations for a greater say in these institutions. In addition, groups and individuals with widely divergent and conflicting opinions at both ends of the political spectrum have increasingly demanded that wide-ranging reforms be instituted.

Institutional Reform

Many believe that the IMF, WTO, and other international institutions must be reformed in response to the changed nature of the global economy. An important demand for reform has come from the United States, where the IMF has been strongly attacked by both political left and right. The most serious demand came in the late 1990s from the conservative-dominated House of Representatives, where the IMF was singled out for attack for, among other charges, being wasteful and antimarket. In response to these concerns and as a precondition for agreement to a 1998 replenishment of IMF funds, the House established the International Financial Institutions Advisory Commission to propose changes in the IMF. Under the chairmanship of Alan Meltzer, a respected conservative economist, the Commission's report recommended to the Congress that the IMF and World Bank should be radically reformed and restructured, because, in its opinion, these agencies frequently do more harm than good in the developing world and waste billions by making loans to middle-income countries that could rely on the market instead.¹⁰

The principal recommendation of the Commission was that the IMF should curtail its lending programs to developed countries and cease intervening in the politics and economics of these countries. In an era of huge international financial flows, the private sector should have the responsibility to supply capital to the industrializing countries. The majority members of the Commission argued that IMF interventionism in developing countries to relieve poverty, and especially IMF's implicit guarantee to assist in the event of financial trouble, encouraged "moral hazard" and overborrowing. They urged that the IMF should restrict itself to helping the very poor and those less developed countries with temporary liquidity problems; moreover, the IMF should make only short-term loans at market or above interest rates in order to discourage irresponsible financial behavior; that is, the IMF's activities should be limited to those of a lender of

¹⁰ *New York Times*, 8 March 2000, C4.

also recommended that the World Bank, which makes \$50 billion of development loans a year, should be renamed the World Development Agency, and that it too should refrain from competing against the private sector.

The report's critics maintain that its unstated purpose was to destroy the effectiveness of the IMF and, to a lesser extent, the World Bank, rather than to reform them.¹¹ The report assumed that, most of the time, in a market-oriented global economy, only minimal intervention by any form of government would be required except in unusual restricted circumstances and that any intervention would be likely to be counterproductive. Thus, the report questions whether or not international institutions that began in the early Cold War period are appropriate to the globalized economy of the twenty-first century. In the world of huge private international financial flows, what role can these international institutions usefully play? Is governance really necessary, or can matters be left up to the self-regulating market of neoclassical economic theory? These are issues that proponents of neoliberal institutionalism, as well as all other scholars of international political economy, must address.

THE NEW MEDIEVALISM

The "new medievalism," based on the belief that the world is experiencing the end of national sovereignty,¹² implicitly rejects the idea of a liberal international economic order based on cooperation among sovereign states. Set forth originally in the Treaty of Westphalia (1648), the doctrine of sovereignty asserts that governments enjoy complete control over the territory and persons within their legal jurisdiction. New medievalists believe that the concept of national sovereignty, which has guided international statecraft for three hundred and fifty years, is breaking down because of both internal and exter-

¹¹ There is a stinging critique of the Report in Barry Eichengreen and Richard Portes, "A Shortsighted Vision for IMF Reform," *Financial Times*, 9 March 2000, 13; also, *The Economist*, 18 March 2000, 80. Treasury Secretary Lawrence Summers, who has set forth his own plans for IMF reform, has also criticized the Report in *The Financial Times*, 23 March 2000, 17.

¹² The term "new medievalism" is attributed to Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (London: Macmillan, 1977). Expressions of this position are David Held, "Democracy, the Nation-state, and the Global System," *Economy and Society* 20, no. 2 (May 1991); and Jessica T. Mathews, "Power Shift," *Foreign Affairs* 76, no. 1 (January/February 1997): 50-66.

nal developments; states are fragmenting into substates as a result of ethnic and regional conflicts and, at the same time, are being eclipsed by rising nonstate and superstate actors such as multinational firms, international organizations, and especially, nongovernmental organizations (NGOs).¹³

New medievalists explain that this historic watershed has been reached because of transnational economic forces (trade, finance, etc.) and because of such contemporary technological developments as the computer, information technologies, and advances in transportation. In the era of the Internet, they allege that governments have lost their monopoly over information and can therefore be successfully challenged by nongovernmental actors. Concluding that these changes erode hierarchical organizations and undermine centralized power structures, they see the once-dominant hierarchic order of nation-states being supplanted by horizontal networks of states, voluntary organizations, and international institutions. This development in turn leads to cooperative problem solving by concerned individuals and groups from around the world. In place of the undivided loyalty formerly owed by the citizen to the sovereign, a world of multiple allegiances and responsibilities is envisioned, a world in which subnational, national, and supranational institutions will share authority over individuals.

The implications of this position for governance of the global economy are not clear.¹⁴ Proponents of the new medievalism assert that something new is on its way to replace the state, but they do not precisely define what that something may be. However, one possibility has been set forth by Wolfgang H. Reinicke in his *Global Public Policy: Governing Without Government?* (1998).¹⁵ The central proposition of Reinicke's interesting book is that government and the functions of governance can be disentangled from one another. In the modern world, "government" has referred to formal institutions that enjoy national sovereignty, possess a monopoly of power over a particular territory, and are not answerable to an external authority. Governments have been able to make domestic public policy and have

¹³ A critique of the "end of sovereignty" position is Stephen D. Krasner, *Sovereignty: Organized Hypocrisy* (Princeton: Princeton University Press, 1999).

¹⁴ A useful review of several ideas for global governance is Marie-Josée Massicotte, "Global Governance and the Global Political Economy: Three Texts in Search of a Synthesis," *Global Governance: A Review of Multilateralism and International Organizations* 5, no. 1 (January/March 1999): 127-48.

¹⁵ Wolfgang H. Reinicke, *Global Public Policy: Governing Without Government?* (Washington: Brookings Institution, 1989).

...independently, mutually independent actors in international affairs. Governance, on the other hand, is a social function that is essential to a market economy at the national or international level, and is not necessarily the same as government.¹⁶ Governance, according to Reinicke, need not be equated with government, but can be achieved through networks of public and private groups or institutions at national, regional, and international levels. In this fashion, a global economy can gain the benefits of government without a formal government.¹⁷

Assessing the feasibility of international governance, Reinicke's analysis concentrates on three case studies in the areas of finance, crime, and dual-use technology that he believes establish the feasibility of international governance as he defines it. One of his case studies directly relevant here is concerned with the negotiation and establishment of the Basle Accord (1988) to develop international regulatory standards for international banks. The principal component of the Accord was specification of minimum capital adequacy requirements; that is, it specified the size of the funds that international banks had to maintain to prevent bank failures and decrease the risk of destabilizing crises. In this case study, Reinicke argues that the Accord resulted from complex and successful negotiations among national governments, private interests, and the Bank for International Settlements. He concludes that the Basle Accord resulted from successful cooperation among governments, NGOs, and international institutions that were able to create an international governance mechanism in this particular area of international finance.

Although Reinicke's example does illustrate that national, private, and international organizations can cooperate and find a solution to an economic problem, his argument does not provide convincing support for the idea that governance (as opposed to government) by itself can deal with the many pressing problems created by increasing integration of the world economy. As Reinicke himself shows, the Basle Accord was achieved largely through strong American pressure. American money-center banks in New York and California had complained to the Federal Reserve that foreign international banks were permitted to maintain bank reserves lower than those required for American banks and that, as a result, the international competitive

position of American international banks had declined. Responding to these concerns, the Federal Reserve put pressures on foreign governments to raise reserve requirements; this resulted in the Basle Accord, which required European and Japanese banks to increase their reserves. Although it was undoubtedly desirable that a universal standard on reserves be established, the United States clearly pressured others to accept its own banking regulations and did so in the interests of U.S. domestic banks.¹⁸ This episode indicates that the problem of governing without government exists, because international governance will not work without power and, unfortunately, Reinicke's governance mechanism lacks the power needed to achieve compliance with its decisions.

A major theme of the new medievalism is that nongovernmental organizations (NGOs) have, or at least should have, a central role in the governance of international, or perhaps I should say "postnational," affairs. Organized primarily around such specific issues as safeguarding the environment, protecting human rights, and promoting a safer world, NGOs are believed to have become a significant force in particular issue areas. The number of nongovernmental organizations has greatly increased in recent decades to approximately 30,000 at the beginning of the twenty-first century.¹⁹ Among the most important of these grass-roots organizations are the Worldwide Fund for Nature with about 5 million members and the Sierra Club with approximately 600,000 members. Most NGOs are located in the United States and, to a lesser extent, in Western Europe, but have become increasingly active in some less developed countries. Japan appears to have few important NGOs. Although NGOs were initially involved primarily with domestic issues, they have become increasingly concerned over the alleged negative consequences of globalization upon various international issues. Moreover, through the Internet, NGOs around the world have greatly improved their ability to communicate with one another. As was demonstrated by the street protests in Seattle against the WTO, these developments have also encouraged and facilitated formation of international NGO alliances that can bring considerable pressure on governmental agencies to change their policies.

¹⁶ For a very different interpretation of the Basle Accord, consult Ethan Kapstein, *Governing the Global Economy: International Finance and the State* (Cambridge: Harvard University Press, 1994).

¹⁷ *The Economist*, 11 December 1999, 21; and 29 January 2000, 25–27. The discussion in this section on NGOs draws heavily from these articles.

¹⁴ Ibid., 87.

¹⁷ Reinicke's idea of Global Public Policy Networks is set forth in greater detail at www.globalpublicpolicy.net.

According to Anne-Marie Slaughter, the increasing importance of nonstate actors is due to several developments.²⁰ The end of the Cold War has lessened security concerns and opened the way for the rise of what she calls "transnational civil society." In addition, the information economy and the Internet have made possible emergence of an international civil society, because they have broken the information monopoly of corporations and governments; the Internet also greatly facilitates communications among nonstate actors. Finally, and perhaps most importantly, the globalization of the economy through integration of financial markets enhances the power of multinational corporations, and they are further integrating national economies.

Although there is some truth in Slaughter's characterization of the present era, several important caveats should be noted. The security environment in Europe has improved since 1989, except for the Balkans. On the other hand, the situation in South Asia has significantly deteriorated, while the increasing threat of war in East Asia, the Middle East, and parts of Africa is worrisome. It is far, far too early to know what impact the Internet and information economy will have on either domestic or international society: Will they have benign or negative consequences? Some experts worry about threats to privacy, improved methods of monitoring and controlling people, and, in light of huge corporate mergers, a massive concentration of economic power. In a provocative article, Joseph Nye and William Owens argue that control over information will be the ultimate source of power in the international politics of the Internet age.²¹ Recognizing this possibility, major military establishments around the world are preparing for cyber warfare; the Nye/Owens prediction and these military activities do not accord with more benign views of the information revolution such as Anne-Marie Slaughter's. Whether these two experienced foreign affairs experts, Nye and Owens, or the advocates of global civil society are correct remains to be seen. Possible future consequences of increasing globalization are unknown. It is a mistake to consider only the benefits of economic and technological change.

NGOs have succeeded impressively in influencing the policies of national governments and international institutions, at least in some areas. One of the most important accomplishments was the Earth Summit (1992) in Rio de Janeiro, where NGOs brought enough pub-

²⁰ Anne-Marie Slaughter, commentary in "The Challenge of Non-State Actors," Proceedings of the 92d Annual Meeting of the American Society of International Law (Washington, D.C., April 1-4, 1998), 20-21.

²¹ Joseph S. Nye Jr. and William A. Owens, "America's Information Edge," *Foreign Affairs* 75, 2 (March/April 1996): 20-36.

lic pressure to bear to achieve a number of agreements to eliminate greenhouse gases. Two years later, NGO protestors besieged the World Bank and forced the latter to reconsider some of its policies. Other examples of successful NGO campaigns were the treaty to eliminate land mines, the agreement to reduce the huge indebtedness of many less developed countries, and the derailment of the American-sponsored Multilateral Agreement on Investment that would have harmonized rules on foreign direct investment. Whatever one may think about the wisdom of one or another of these successes, it is certain that NGOs have become a force in the contemporary world.²²

However, it remains uncertain whether or not NGOs can become the most effective or at least one of the most effective means to govern the global economy. Although NGOs' record is impressive, is it correct to conclude that we are truly witnessing the beginnings of a movement that can transform the world? Certainly, evidence does suggest that in their confrontations with the American government and those of some other nations, NGOs do frequently triumph. NGOs can lobby and pressure national governments to heed their wishes. Undoubtedly responding to their demonstrated power, international institutions such as the World Bank have established close ties with NGOs, especially those possessing technical expertise. In the aftermath of the Seattle debacle, pressures mounted for the World Trade Organization to open its proceedings to interested NGOs. It would require a giant step, however, to move from efforts to increase cooperation between international organizations and non-governmental organizations toward establishment of a global governing mechanism incorporating the growing number of NGOs.²³

Neomedievalists believe that the increasing importance of NGOs in international affairs is a positive factor in the emergence of a global "civil society."²⁴ The idea of a global civil society has been set forth by many proponents of the new medievalism, and a number of writings present it as an alternative to a capitalist, nation-state world or-

²² An attempt to measure the effectiveness of NGOs is Margaret E. Keck and Kathryn Sikkink, *Activists Beyond Borders: Advocacy Networks in International Politics* (Ithaca: Cornell University Press, 1998).

²³ The journal *Global Governance: A Review of Multilateralism and International Organizations* is dedicated to the idea of a governing mechanism based on civil society and incorporating NGOs.

²⁴ A wide-ranging and sympathetic discussion of global civic society is contained in *International Affairs* 75, no. 3 (July 1999.) Also, Adam Watson, *The Evolution of International Society: A Comparative Historical Analysis* (London: Routledge, 1992).

ROBERT COX has argued that civil society is composed of people and groups seeking alternatives to globalization of the capitalist system. He believes that global civil society and social protest movements can provide a basis for an alternative world order.²⁵ Many neomedievalists would agree with Cox's statement. Many of those who accept this concept of a global civil society believe that the nation-state has become a servant of global capitalism and should share with capitalism the responsibility for such economic and social ills as inequality, environmental degradation, and widespread abuses of human rights. Similarly, international regimes and institutions are viewed as following the dictates of powerful multinational firms and the international capitalist elite.

The emerging international civil society is said to be composed of domestic and transnational nongovernmental groups, organized primarily around strong policy concerns, focusing on such subjects as the environment and elimination of nuclear weapons. The nongovernmental organizations (NGOs) and global social movements that constitute global civil society are strongly motivated by opposition to the alleged evils of national governments, multinational firms, and globalization. However, they themselves are a product of globalization. Paradoxically, as was demonstrated at Seattle, they could not have organized, allied with one another, and been politically effective without the revolutionary advances in global media and communications. It is worth noting that these advances are a product of the global capitalist system that many neomedievalists so heartily condemn.

Consideration of the medieval model of governance suggests the magnitude of the problem faced by the neomedievalist agenda. The medieval world of Western Europe, from approximately the fifth to the fifteenth centuries, shared a heritage of Christianity and Roman law. The ruling aristocracy of each major European country shared many similar ideas, norms, and values. Across Western Europe, one found much the same social and political structures: feudalism, the Church, and kingship. Despite its continual political, religious, and social strife, one can reasonably speak of medieval Europe as having possessed a unified civic culture. This thousand-year era before the rise of the modern territorial state was also characterized by fragile and dispersed concentrations of economic and political power. The

²⁵ Robert Cox, "Civil Society at the Turn of the Millennium: Prospects for an Alternative World Order," *Review of International Studies* 25, no. 1 (January 1999): 10-11.

level of technology and the level of organizational skills limited mobilization and effective use of economic and military capabilities.

Although proponents of the new medievalism speak of the emergence of a global civic culture of shared values and understandings that could provide social and political foundations for an NGO-managed world, evidence supporting such a contention is hardly convincing. Insofar as a postnational, global civic culture does exist, it is mainly limited to Western civilization; yet, even in the West, powerful nationalistic, ethnic, and racial conflicts persist. Despite stirrings in the non-Western world regarding the importance of human rights, toleration of religious differences, and Western liberal ideals, these other civilizations do not share the civic culture and/or core values of the West.²⁶ Knowledge of the history of the twentieth century makes it difficult to accept the argument of many human rights advocates that abusers of human rights will be deterred from further abusive activities because they have become subject to international exposure. One need not accept Samuel Huntington's argument in *The Clash of Civilizations* (1996) to appreciate that hundreds of millions of individuals do not subscribe to the West's secular values, nor do they accept the idea of a global civic culture incorporating religious toleration, human rights, and respect for individualism.²⁷ In China, India, and other parts of the less developed world, the state is certainly alive and well. NGOs are very unlikely to become as influential in these cultures as they have in the United States and some other Western countries. One day perhaps, especially as a consequence of economic development and emergence of a strong middle class, these civilizations may gravitate toward Western values of democracy, individualism, and human rights. But this time has not yet arrived.

It is much too soon to know what the long-term impact of NGOs will be on the management of an integrated global economy. At present, the observer should keep in mind that the modern state has been around for over three centuries and that generally effective international institutions have existed for a half century, while the active era of NGO activity on an international level began only two decades ago. If history is any guide, one can anticipate that the highly favorable picture that we have today of NGOs will become quite different in the future. It is the nature of politics—and politics is what we are talking about—for power to beget countervailing power and for the

²⁶ *The Economist*, 5 December 1998, special section, "A Survey of Human-Rights Law."

²⁷ Samuel Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon and Schuster, 1996).

areas of the politically successful to be imitated by others. The "good" NGOs of our time, which in most cases are pursuing noteworthy objectives, may one day be joined by NGOs whose goals are much less praiseworthy. Such a possibility was foreshadowed by the unholy alliance in Seattle between the "good" NGOs seeking to achieve such selfless objectives as human rights and environmental protection with American organized-labor NGOs that cynically exploited the former's goals in its campaign to keep LDC exports out of the American economy. It is sobering to recognize that the National Rifle Association and the Russian Mafia, whose agendas do not coincide at all with the political agenda of the new medievalists, have been among the most successful of all NGOs!

TRANSGOVERNMENTALISM

Transgovernmentalism poses a third possibility for a rule-based international economic and political order. Like liberal internationalism, and unlike the new medievalism, this position accepts the continued existence of nation-states. However, the nature of the state envisioned by this intellectual position is fundamentally different from that in state-centric liberal internationalism and political realism. Like the new medievalism, this position assumes that the governance functions of the state can be divided and delegated to intergovernmental bodies or networks dealing with specific policy issues. As Anne-Marie Slaughter has pointed out, many transgovernmental organizations already exist to deal with such matters as banking regulations (the Basle Accord), antitrust regulation, and judicial matters.²⁸ These transnational networks composed of technical experts, business executives, and lawyers are needed to manage an increasingly complex and integrated world in which extensive technical input is required. Yet, it would be a large leap from transgovernmental mechanisms in specific policy areas to international governance of the globe.

Transgovernmentalism is a quite conscious throwback to what Robert Keohane and Joseph Nye identified in their earlier writings as "transnationalism" and also, although to a lesser extent, as neofunctionalism.²⁹ Like transnationalism and neofunctionalism, transgovernmentalism makes three crucial closely related assumptions regarding national governments. Transgovernmentalism assumes that

nation-states can be divided into their component parts, an idea set forth in 1971 by Graham Allison.³⁰ The divided parts can then deal directly with their counterparts in other governments. Another assumption is that technical and other functional problems can be solved in isolation from larger national concerns and parochial political matters. Thus, like transnationalism and neofunctionalism, transgovernmentalism assumes that technical issues can be separated from politics and solved independently. Regulatory matters, for example, can be isolated from national economic priorities and from the pressures of powerful interests. Finally, transgovernmentalism ignores matters of national security and foreign policy and assumes no hierarchy or priority among the issues of interest to governments. National concern over the proliferation of nuclear weapons or the future of the NATO alliance is treated no differently than regulation of ocean fisheries.

Transgovernmentalism foresees a world stripped of power, national interests, and interstate conflict, a world in which technocrats, bureaucrats, and the like solve issues outside the realm of politics. While stressing the absolute gains from transgovernmental cooperation, transgovernmentalism is silent on the matters of relative gains and distributive questions that arise in almost every serious international discussion of substantive issues. Thus, transgovernmentalism envisions a world nearly devoid of both domestic and international politics.

Transgovernmental networks can be very useful in the solution of the many issues that have arisen and will continue to arise. However, this approach to governance of the global economy is severely limited by the political rivalries and conflicting interests among nation-states and powerful domestic constituencies. As we have already seen, even such a technical matter as the Basle Accord on banking practices, frequently cited as an example of successful intergovernmentalism at work, was laced with intense political and economic conflicts. Bureaucrats in the Japanese Ministry of Finance were acutely aware of the crucial role of American coercive power and economic interest in the outcome of the negotiations over that Accord! Any effort to resolve the governance issue must take into account the fact that we still live in a world of states, power, and national interests.

Each approach to governance of the global economy discussed above offers useful contributions. As proponents of neoliberal institutionalism correctly argue, formal international institutions and agreed-

²⁸ Anne-Marie Slaughter, "The Real New World Order."

²⁹ Robert O. Keohane and Joseph S. Nye, *Transnational Relations and World Politics* (Cambridge: Harvard University Press, 1972). Thomas Risse-Kappen, ed., *Bringing Transnational Relations Back In* (New York: Cambridge University Press, 1995).

³⁰ Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (New York: HarperCollins, 1971).

sovereign nation-states and have been a significant factor in the management of the international economy over half a century. Yet, the continued resistance of states to restrictions on their sovereignty, the limited coverage of international regimes/institutions, and serious problems of compliance mean that neoliberal institutionalism alone cannot govern the global economy. The argument of the new medievalism that NGOs are becoming more important in solving the world's pressing problems is supported by the fact that the strong commitment and concentrated energy of these associations have been, on the whole, positive forces for dealing with many of the world's serious issues. Yet, these groups cannot function without the national governments and international institutions on which they must bring pressure to achieve their goals. It is much too early to know the true long-term significance of the NGOs.

Finally, the approach of transgovernmentalism is an important complement to the other two approaches. Cooperation and information-sharing across national borders and among the agencies and branches of national governments can be effective means of dealing with many complex technical issues at both the domestic and international levels. However, the legalistic and technocratic approach of transgovernmentalism not only suffers from a democratic deficit, but its usefulness declines steeply as issues become more entwined with matters of national security, domestic partisan politics, and issues of distributive economic importance. Although all three approaches can facilitate the governance of the global economy, none of these approaches can fulfill the many demands placed upon international governance. Resolution of the governance issue must confront an even more fundamental issue, however.

GOVERNANCE FOR WHAT?

Governance first and last is about the exercise of power to achieve political, social, and other objectives. Every scheme to govern the global economy, therefore, must confront the fundamental question: Governance for what? The primary purpose to be served by the proposed mechanisms for governance of the global economy is the first issue that must be resolved. During the Cold War, this issue had been resolved; the purpose then was to strengthen the economies of the anti-Soviet alliance and solidify the political unity of the United States with its allies. With the end of the Cold War and the triumph of neoliberalism, the purpose of governance seemed clear again; for

most American officials, business leaders, and professional economists, the purpose of governance was to facilitate free trade, freedom of capital movements, and unrestricted access by multinational firms to markets around the globe. The global economy, according to this position, should be governed in accordance with the policy prescriptions of neoclassical economics, and its rules should be based on market principles.

On April 15–16, 2000, the neoliberal consensus was challenged on two fronts. In Washington, D.C., thousands of protestors gathered in the streets to denounce the alleged evils of economic globalization and to demand that the IMF, WTO, and World Bank be made more accountable to environmental, human, and worker's rights, and to other humanitarian concerns. However misguided some protestors may have been, they represented millions of Americans and others who have grown worried over the alleged negative consequences of economic globalization for wages, job security, the environment, and other concerns. At the time of the Washington protests, several hundred miles to the south, in Havana, the Group of 77, representing the world's less developed countries, was drafting demands for a larger share of the world's wealth and a strengthened voice in the governance of the global economy. Unlike the protestors in Washington, these countries were not opposed to globalization but rather demanded a more equitable distribution of its fruits. Moreover, although both the Washington protestors and the Group of 77 demanded increased control over the global economy, their social, economic, and political purposes were largely in opposition to one another, although on some issues, such as debt relief for poor countries, increased financial assistance to LDCs, and greater control over MNCs, their agendas did coincide. However, with respect to more fundamental issues such as delegating greater authority to the WTO over environmental matters, human rights, and labor standards, the protestors and the Group of 77 could not have been farther apart.

Both the Washington protestors and the Group of 77 demanded fundamental changes in the purposes to be pursued by the governing institutions of the global economy. Making their respective demands, they rejected an international economy based on the principles of neoclassical economics and market principles whose ultimate purpose was maximization of consumer choice and global wealth. In place of the exclusively economic objectives of neoliberalism, they sought to substitute such nonmarket objectives as protecting the environment, safeguarding the jobs of American workers, or redistributing global wealth to less wealthy countries. Thus, the battle was joined once

those who wanted the market subordinated to some higher political authority that would pursue one or another social purpose. Throughout much of modern history, this battle over the ends of economic activity has been fought principally at the domestic level between the representatives of capital and labor. In the increasingly integrated global economy of the twenty-first century, the battleground has become the entire globe, and the types as well as the number of participants have greatly expanded to include states, international organizations, and nongovernmental organizations. This is the new global economic order that those interested in international political economy must confront.

CONCLUSION

Governance at any level, whether national or international, must rest on shared beliefs, cultural values, and, most of all, a common identity. Unfortunately, we do not yet live in a global civic culture, and few common values unite all the peoples of the world. Identity and loyalties are still national or even local, ethnic, and racial. As more and more nations are formed, national identities are becoming more numerous and, in some cases, more intense. The value of human rights appears to be shared by many people throughout the world; all governments—even those who violate human rights—believe that they must at least give it lipservice. Although some notable triumphs of human rights have occurred, nationalistic ideals still prevail. Modern states are highly self-centered and are seldom concerned with the welfare of other peoples. For example, there is little sharing by the rich with the poor. Under such circumstances, talk of substituting global governance for the primacy of nation-states is in vain. The best for which one can hope is that the major powers, in their own self-interest as well as that of the world in general, will cooperate to fashion a more stable and humane international political and economic order.