GLOBAL ECONOMIC GOVERNANCE: IN SEARCH OF A NEW POLICY FRAMEWORK

By Roy Culpeper[1]
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1. Introduction

The system of global economic governance that emerged from the Second World War was more than a set of international institutions. The institutions were created with specific mandates, based on a clear conceptual framework that articulated how nation-states and the world community can work toward the objectives of economic stability and prosperity.

The conceptual framework underlying the system was forged during the Great Depression principally by John Maynard Keynes, and the international architecture was erected at Bretton Woods in 1944. In a sense, the system became a victim of its own success (an unprecedented quarter century of world economic growth). It was also a victim of the Triffin dilemma, which pointed to one of its fundamental flaws, namely, the consequences of anchoring the international monetary system on the currency of one particular country, the United States of America. Such a system must balance precariously between a dollar shortage and a dollar glut, the former leading to deflation and the latter sowing instability and uncertainty.

But when the Bretton Woods fixed exchange rate regime came to end in the early 1970s, more than the Triffin dilemma was at work. Over the next three decades, an alternate conceptual framework emerged, challenging the Keynesian policy assumptions underlying the postwar framework of national and global economic governance. The challenge was manifested at a number of levels. First, the stability of a world of (relatively) fixed exchange rates, created to avoid the competitive devaluations of the 1930s, gave way to one in which the exchange rate must be viewed as just another price to be determined by sometimes erratic and volatile market forces.

Second, at the national level, the scope of macroeconomic policy, and particularly countercyclical demand management, became much narrower. Fiscal policy became discredited and the role of the state in managing aggregate demand diminished. Monetary policy remained as a countercyclical tool, but it became singularly focused on inflation targeting, typically to the neglect of output and unemployment in the real economy. Under the growing influence of the Rational Expectations hypothesis, the presumption was that the macroeconomy does the best it can, absent shocks and market frictions.

[1] Former President, The North-South Institute, Ottawa. Canada-U.S. Visiting Chair, Woodrow Wilson International Center for Scholars, Washington DC (2011).

Moreover, involuntary unemployment is assumed not to exist, and public policy can typically only make things worse, except perhaps by attacking sources of wage and price inflexibility, for example labour unions (see Solow 2010).

Third, extensive financial regulation to constrain the speculative tendencies of the market, prompted by the banking crises of the 1930s, was increasingly questioned. The intellectual foundation for this trend was the "Efficient Markets" hypothesis, which led to financial deregulation in the 1980s and 1990s. Eventually, constraints on international capital flows (embodied in the postwar architecture, notably in the Articles of Agreement of the International Monetary Fund) also came under assault.

But by then the "Tequila" and the Asian Financial Crises (as well as the debt crises of the 1980s) had demonstrated that the new intellectual order had some grave shortcomings illustrated by growing instability and recurrent crisis. However, despite these and other warning signs (for example, the Savings and Loan crash in 1987 and the dot-com bubble in the 1990s), the new intellectual edifice of economic liberalization, characterized by George Soros (1998) as "market fundamentalism," remained paramount.

A decade after the Asian crisis the world has experienced the most serious global economic turmoil since the Great Depression. In order to properly understand its genesis and to seek comprehensive solutions, it is imperative to go beyond simply revisiting the institutional architecture of governance, to the intellectual underpinnings of economic policy, which have become increasingly at odds with what the postwar system was created to do. Indeed, in some ways the current economic policy framework represents a return to that prevailing in the 1920s.

Much of the current debate around global economic governance and its reform does not explicitly take into account the distinction between policy means and ultimate ends. Debates over details of institutional reform, such as representation, accountability or effectiveness of specific organizations, tend to ignore the underlying policy framework which has shifted profoundly since the institutions were created 65 years ago. These institutional issues are certainly important, but their importance is surely of a lower order. Without examining the compatibility of the underlying policy framework with the rationale and aims of the international institutions, such debates may be fruitless in bringing about a more stable and prosperous global economy. Moreover, without such an examination there is a danger that the policies of the last three decades will continue to prevail while viable policy alternatives will not get the consideration they deserve.

The aim of this background note is to bring this distinction into sharper focus as a contribution toward the current debate on global economic governance. The next section briefly describes the evolution of postwar global economic governance, set against the return of policies of economic liberalization. In the third section the role of liberalization policies is put into the context of the current crisis. The fourth section examines the actions taken under the leadership of the G20 leaders to address the crisis and to lay the foundations for a return to stability and growth. The final section, drawing on the lessons of the current and previous crises, suggests the basic policy elements necessary to a fundamental reform of global economic governance. The paper ends with a short conclusion.

2. The Postwar Architecture and the Rise of the Gs

When the United Nations, the International Monetary Fund and the World Bank were formally established in 1945 (and the General Agreement on Tariffs and Trade was established in 1947[2]), these international organizations were considered instruments working towards the specific ends spelled out in their charters. The UN had broader aims, encompassing peace and security, but also including "international cooperation in solving international problems of an economic, social, cultural or humanitarian character" and to be "a centre for harmonizing the actions of nations in the attainment of these common ends."[3] The IMF, Bank and GATT/WTO, on the other hand, were considered the primary instruments of global economic governance.

Today, in 2010, "global economic governance" encompasses not only these multilateral organizations, but a host of other formal multilateral agencies and institutions, including the Bank for International Settlements, the International Labour Organization (both of which predate the UN, IMF and World Bank), and a number of other international financial institutions such as the regional and sub-regional development banks.

Since the 1970s, however, global economic governance has come increasingly to refer to informal groups of member states—the G10, G24, G5, G7 and G8, and latterly the G20[4]. These groupings (the "Gs") materialized in order to address presumed weaknesses in the formal organizations, and to coordinate the positions of their members within and in some cases beyond them. More specifically, with the breakdown of the Bretton Woods fixed exchange rate regime in the 1970s, the G5 and G7 were formed to coordinate their economic policies and in the late 1990s, the G20 (at the level of Finance Ministers) was formed to address responses to the Asian financial crisis.

However, judging by its actions, the more fundamental purpose of the Gs (here meaning principally the G7 and the G20) since the 1970s has been to promote the agenda of economic liberalization on a global scale (i.e. economic globalization)—through multilateral trade negotiations and by pursuing financial and capital account liberalization. The crucial difference between the Gs and those of the formal global economic organizations is that while the formal organizations clearly state their ultimate objectives in their charters, the Gs were formed without any such charters.

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[2] Its successor, the World Trade Organization, was established in 1995.

[3] Article 1, section 3, "Purposes of the United Nations." This is consistent with the proposal by the UN Expert Commission (2009) to create a Global Economic Coordination Council—see below. The IMF's six purposes are set out in Article 1 of its articles of agreement; the five purposes of the International Bank for Reconstruction and Development are set out in Article 1 of its articles of agreement.

[4] This list comprises groupings that have a primarily economic rationale and excludes the political groupings such as the Group of 77 in the United Nations. Similarly, the G8, which includes Russia, is primarily a political rather than an economic grouping. For an analysis of the evolution and implications of the Gs, see Culpeper (2001).

Specifically, the formal organizations' charters are very clear about their ultimate objectives. For example, the IMF's objectives include:-

> "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy" (Article 1, section ii),

and:-

> "To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation" (section iii).

In contrast, as informal organizations the Gs have chosen to pursue policies, rooted in their domestic political economy, through the formal organizations and beyond. The important point is that the agenda of economic liberalization is viewed as an end in itself rather than a means toward "real" objectives such as high levels of employment and real income, or orderly exchange arrangements.

The underlying motivation of the Gs may in fact have been that economic liberalization will help to achieve the objectives of the formal organizations. Or, more likely, it may have rested on a belief that such policies are inherently desirable in themselves on the grounds that they will enhance economic efficiency on a global scale, no matter their impact on real output, incomes or employment.

The distinction is important. If the pursuit of policies of liberalization is the fundamental objective of the Gs, rather than real outcomes such as the standard of living or conditions of labour (to cite the World Bank's charter[5]) it is difficult to hold the Gs accountable for the results of actions that have been taken due to their endorsement or pressure[6].

Moreover, the whole purpose of global economic governance becomes clouded, once policy means are given pre-eminence over the ultimate policy objectives. If undesirable outcomes occur—such as the many episodes of financial crises and instability over the past three decades—they can be attributed to improper or incomplete policy implementation, rather than to shortcomings in the policies themselves, which are deemed desirable in themselves and hence beyond reproach.

3. The Crisis of 2008-9: Liberalization and Its Consequences

While each financial crisis has its own unique features, there are many commonalities going back several decades, indeed, a few centuries. Moreover, each crisis often sows the

[5] Article 1, section iii.

[6] The same argument may be applied to the European Union and its pursuit of Economic Partnership Agreements with developing countries.

seeds for the next one, and the crises of the 1990s and 2008-9 were no different (Kindleberger 1996, Reinhart and Rogoff 2009).

A number of factors combined to precipitate the current crisis: low interest rates in the United States and other industrial countries, prevailing over lengthy periods; financial deregulation and innovation including increasingly exotic instruments; and growing international payments imbalances, particularly China's surpluses. The net impact was to feed increasingly speculative investment, and to inflate asset bubbles and debt to unsustainable levels.

While all these factors played important roles, some observers emphasize growing global imbalances as "the" prime factor (e.g. Krugman and Wells, 2010). This emphasis in turn leads to an over-emphasis on the reduction of "excessive Chinese savings", and to putting considerable weight on revaluation of the renminbi, as key to the restoration of global financial stability.

It is true that widening international payments imbalances have provided considerable fuel for the crisis. A particularly important finding by Reinhart and Rogoff (2009) is that periods of high capital mobility have repeatedly precipitated international banking crises in the 19th and 20th centuries. For example, the banking crises in the 1930s, 1980s and 1990s were all preceded by surges of international capital mobility. (In contrast, the post-Second World War period (1945-70) featured both low international capital mobility and few banking crises.)

There is also no doubt that in the run-up to the 2008-9 crisis international capital mobility played an important role (Wolf 2008). In particular, the accumulation of current account surpluses, not only by China, but also Japan, a number of other emerging market countries in Asia, Germany, and oil exporters, with a corresponding buildup of deficits in the United States, the U.K., and central and eastern Europe, was reflected in a capital outflow from surplus to deficit regions. Much (but not all) of the outflow took the form of accumulating foreign exchange reserves in the surplus countries, much of them invested in U.S. Treasuries.

As Minsky often pointed out, preceding all financial crises there is a buildup of debt during periods of financial stability and economic expansion. The longer are periods of economic stability, the greater the propensity of investors to expand leverage and take increasingly risky positions in the financial market and of borrowers to become over-indebted (Minsky 1992; Kindleberger 1996). When accompanied by periods of low interest rates, these tendencies accelerate, feeding asset bubbles that eventually burst, precipitating the crisis.

In 2004, while Federal Reserve Governor Ben Bernanke was celebrating the "Great Moderation"[7] era of low interest rates, relatively high employment and respectable economic growth, financial markets and households were engaged in a feeding frenzy of

[7] "The Great Moderation". Remarks by Governor Ben S. Bernanke at the meetings of the Eastern Economic Association, Washington, DC, February 20, 2004.

speculative lending and borrowing (particularly for housing), driving up house and asset prices.

Much of the fuel for this frenzy, it is true, was supplied by savings surplus countries, which flowed into US Treasuries, helping to reinforce the historically low interest rate regime of the Federal Reserve. But the capital inflow had important knock-on effects. As other (primarily domestic) investors sought higher yields, they increasingly took to more speculative and risky investments, including sub-prime mortgages repackaged in opaque vehicles and certified by ratings agencies as low-risk.

But it is also critical to put the genesis of increasing surpluses by China and other emerging market countries into historical perspective as an illustration of how each crisis can sow the seeds of the next one. Specifically, the adoption by Asian countries of a strategy aimed at generating increasing surpluses can be clearly linked to the Asian financial crisis in the late 1990s. The lesson was that reliance on foreign creditors can be dangerous and that, in a financial crisis, the IMF can insist on adjustment policies that are politically unacceptable. Accordingly Asian countries concluded that self-insurance, in the form of substantial foreign exchange reserves (notwithstanding the underlying costs), was much to be preferred over the vagaries of the capital markets or the vicissitudes of IMF policy.

A related issue precipitated by an increasingly liberalized trade and investment environment, separate from that of volatile short-term capital surges, is that of longer term capital flight, or to use a less biased term[8], "illicit financial flows". These involve the transfer of money earned through illegal activities such as corruption, transactions involving contraband goods, criminal activities, and efforts to shelter wealth from a country's tax authorities. Recent estimates suggest that the level of such illicit outflows from developing countries is substantial, representing a huge opportunity cost to countries most of which should be destinations rather than sources of capital. To distinguish such flows from *legal* and reported capital flows, they cover only unrecorded private flows that are illegally earned and transferred in contravention of applicable tax laws and regulatory frameworks (including capital controls). In the years preceding the financial crisis, under the most conservative assumptions illicit outflows from developing countries have been estimated at an average of $612 billion per year between 2002 and 2006, rising at a rate of 18.2 percent annually to reach a level of at least $858.6 billion in 2006. Illicit outflows from Africa alone over the 39-year period 1970-2008 have been estimated to be at least $854 billion. For sub-Saharan Africa, illicit outflows amounted to 179 percent of ODA inflows over this period (Kar and Cartwright-Smith, 2008, 2010).

Another factor underlying the crisis is that of growing inequality within countries. Some observers (Jomo K.S. and Baudot, 2007; UN 2009; Stiglitz 2010) point to the clear links

[8] The term "capital flight" puts the onus on the countries of origin—which are responsible for capital outflows due to bad policies, poor business conditions, political instability etc. While such factors are undoubtedly a reality in many countries, they should be captured by legal and recorded outflows. "Illicit flows" on the other hand reflect an intention to evade laws, regulations, and tax liabilities, and involve the complicity of financial institutions that are recipients of such illicit flows, typically in industrial countries.

between rising inequality and policies of economic liberalization. Interestingly from a more conservative perspective, Rajan (2010) also situates increasing inequality among American households as the basis of misguided U.S. macroeconomic policies to provide cheap credit, in an attempt to contain this trend by making home ownership more accessible and by stimulating job creation.

The point is that all these factors—short-term and long—have intersected, and that it is misleading to "blame" particular agents—whether China or other emerging market or developing countries responsible for "the savings glut"; or profligate consumers in the U.S. and elsewhere, ignoring the risks of hyper-indebtedness; or financial deregulation; or greedy bankers; or lax central banks and governments. Instead, as Skidelsky (2009) points out, "…the root of the crisis was not failure of character or competence but a failure of ideas…The present crisis is, to a large extent, the fruit of the intellectual failure of the economics profession." The implications of this line of argument (see also Krugman 2009; Stiglitz 2010) are taken up in the final section.

4. Response to the Crisis: Good News and Bad

As the financial crisis deepened in the course of 2008, it became clear that nothing less than an internationally coordinated response by world leaders was necessary in order to prevent a Second Great Depression. The G20, elevated from a club of Finance Ministers to a club of Heads of Government, met in Washington in November 2008, London in April 2009, Pittsburgh in September 2009, and Toronto in June 2010. The rescue package that emerged from the first two G20 Summits consisted of a massive coordinated fiscal stimulus to thwart a depression, multi-billion dollar bailouts to arrest a widespread collapse of banks, and a program of regulatory reform aimed at checking the speculative excesses of the financial sector.

The good news is that the attempt to thwart a serious depression was (at least until the time of writing) successful. The Washington and London G20 Summits stimulated a rally on financial markets and there was much talk during the spring of 2009 of the "green shoots" of recovery. But this presumed success was also bad news. With the ebbing of the crisis, popular anger over multi-billion dollar bank bailouts subsided. Intense pressures to address the root causes of the crisis, and to carry through on the regulatory reform of the financial sector, began to dissipate while resistance from the financial sector grew. Global imbalances resumed their momentum. The reversion to a business-as-usual agenda, both in the financial sector and in the councils of economic policy-makers (many of whom were part of earlier administrations when deregulation and liberalization were the order of the day—see Stiglitz 2010), seemed too evident.

The bad news went further. Having arrested the crisis before it became a full-blown depression, the G20 then seemed willing to risk undermining the economic recovery. At its Toronto Summit in June 2010, the G20 tried to converge on "growth-friendly fiscal consolidation" plans to reduce the legacy of deficits and debts caused by the crisis. Their declaration aimed at least at halving fiscal deficits by 2013 and stabilizing or reducing government debt to GDP ratios by 2016. Such “fiscal consolidation” is justified on the grounds of restoring the confidence of markets. But it could easily have the opposite effect by triggering a “double dip”.

It remains to be seen whether G20 members will adhere to commitments on fiscal consolidation articulated in the Toronto summit. It is possible that continuing high unemployment and low growth will lead to a postponement of plans for fiscal consolidation. But there are in addition other elements of the G20 reform agenda which are stalling.

Specifically, the agenda on financial regulation risks falling far short of the aims and aspirations of a number of experts from disparate viewpoints, who regard the unreformed financial sector as potentially very dangerous (see, for example, LSE Report 2010). Second, even though financial reform legislation is being enacted at the national level (e.g. the Dodd-Frank Act in the U.S.), major issues (for example on minimum capital standards) can only be resolved at the international level for a “level playing field” among banks of different nationalities. Moreover, the ability of under-resourced regulatory authorities to keep abreast of financial innovation, and the resistance of the financial industry to the appointment zealous regulators[9], do not augur well for the emerging regulatory system.

With regard to capital adequacy standards, the new Basel III framework agreement that emerged in September (presumably to be agreed at the next G20 Summit in Korea in November) has already been vigorously criticized as demanding too little from banks, and to be implemented over too long a time period. Instead of the new 7 percent risk-weighted capital ratio recommended in the framework agreement, experts are calling for ratios as high as 20 to 30 percent in order to bolster the safety of the financial system to withstand a shock of similar magnitude to 2008-9 (Wolf 2010; Johnson 2010).

While higher capital adequacy standards would serve to make the banking system more resilient and less likely to suffer crisis and bank failure, more is needed to contain the “irrational exuberance” of credit expansion which feeds asset bubbles during upswings. This will require the deployment of countercyclical macroprudential tools such as automatic or discretionary variation of capital or liquidity requirements across the cycle (Turner in LSE 2010). Such tools could parallel a more activist countercyclical monetary policy, one that goes beyond inflation targeting to aim at containing the growth of asset bubbles.

Moreover, the agenda for regulatory reform of the financial must reach well beyond the banks to other financial institutions that have come to play an increasingly prominent role in the sector. The focus on bank capital is no longer adequate to manage liquidity and solvency in an increasingly market-based financial system. Central banks have traditionally managed liquidity primarily through banks, but given the significant and growing share of non-deposit taking financial institutions, hedge funds and private pools

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[9] In the case of the U.S., the (non-)appointment of Elizabeth Warren to the Consumer Financial Protection Bureau created by the new legislation.

of capital, it seems crucial that regulation and supervision reach *all* such segments of the financial system (D'Arista and Griffith-Jones, 2009).

However, as the promises of recovery in 2009 gave way to uncertainties and fears of a double dip in 2010 (notwithstanding political pressures for early "fiscal consolidation"), such forward-looking possibilities for regulatory and macroeconomic reform—aimed at preventing the next crisis—seem increasingly remote.

5. Reforming Global Economic Governance: Some Basic Policy Ingredients

Although the G20 has succeeded, at least for the time being, in averting a Second Great Depression, it is clear that it faces major challenges going forward in reaching consensus on managing the recovery, let alone an agenda to reform global economic governance. Within the G20, clear disagreements have emerged between the old "great powers" congregated in the G7, and the emerging market members, particularly the "BRIC" group, no longer content to do their bidding. In analyzing what has been achieved by G20 leaders, Woods (2010) argues that far from giving rise to a "new multilateralism" in which, for example, the IMF will be able to tackle global imbalances through more effective surveillance, what the world is actually witnessing is the "last gasp" of the great powers.

It is possible, but by no means certain, that the crisis is bringing to an end the era of rampant economic liberalization and market fundamentalism. The Washington Consensus may be discredited, but it is not quite dead. The question is, what, if anything, is to take its place? And what should become of the international system created by the "great powers" and prevailing for the last six decades? Given the heterogeneity of the members of the G20, it will not be easy, nor perhaps even possible, to articulate an alternative policy and institutional framework that will command consensus.

The lesson of 2008-9, like the financial crises of the past 30 years, is that collapse averted means crisis forgotten. Absent another Great Depression, more crises are regrettably to be expected rather than prevented—their seeds, no doubt, have already been sown with the anemic regulatory reforms now in motion, not to mention the possibility of premature fiscal consolidation. Therefore, policy and institutional change is more likely to be incremental rather than radical or sweeping. And despite its heterogeneity and internal divisions, the G20 is likely to preside over change, at least in the coming decade if not beyond.

At the end of the day, incremental reform is better than no reform. So what are the most compelling issues that should form the basic elements of an incremental policy reform agenda? The following list, in no particular order, arises from the foregoing discussion. To its great credit, the U.N. (2009), through its Commission of Experts of the President of the General Assembly, has made a critical, and much more comprehensive, list of recommendations. Some of the themes in the Commission's report are reflected both in the above discussion and in the following list.

The first of these issues is the need to attack *growing inequality* in most countries around the world. As the Commission put it these are not only socially unjust but have also contributed to the problem of weak effective demand. The problem is that globalization and increased openness has not only widened inequalities; it has also made government policies of redistribution more difficult (Bertola and Lo Prete 2008). Financial markets can step into the breach with private credit and insurance (Rajan 2010) but when they fail, as they did in 2008-9, they can cause widespread bankruptcy and misery. The policy implication is that if governments are not to resort to protectionism, the international community has to find a better equilibrium between global economic integration, national sovereignty, and a socially acceptable level of distribution (see Rodrik 2007 on "the inescapable trilemma of the world economy").

The second relates to the role of *international capital mobility* in precipitating instability and financial crises, and also in illicit outflows which in many cases deprive developing countries of more resources than they obtain through official flows such as foreign aid. While the move toward official capital account liberalization was checked by the Asian Financial Crisis in the 1990s, it still figures as part of the unofficial agenda of the international financial institutions and among the longer-term objectives of many developing countries. It is time that the regulation of such flows be formally recognized by the international financial institutions as part of the legitimate apparatus of prudential management and crisis prevention (Epstein 2009; Akyüz 2009). An issue pertinent to constraining illicit outflows and facilitating the repatriation of flight capital is ending *bank secrecy*. Greater transparency is in the global public interest, as well as in the interest of national tax authorities in both industrial and developing countries.

Given the dangers for developing countries of excessive reliance on external resources, the third relates to the importance of *enhancing domestic resource mobilization*, both through the public sector and the domestic financial markets. For the most part this calls for improving the integrity, effectiveness and efficiency of developing countries' tax authorities. It equally calls for extending the reach of public and private financial intermediaries so they are able to provide financial services and credit to a greater proportion of the population, the vast majority of which are typically excluded (Culpeper and Bhushan, 2010; Culpeper 2010). But there are also international implications. A practical illustration is the need for better taxation of transnational enterprises, which often seek and receive tax exemptions that deeply erode the revenue base of host countries keen to attract foreign investment. At the international level, this requires greater tax cooperation to reduce tax competition among countries. It also calls for greater transparency and disclosure by transnational companies, for example through country-by-country reporting rather than consolidated global accounting.

A fourth issue relates to the importance of *countercyclical policies.* These must include fiscal and regulatory policies, as well as monetary policy. Prior to the current crisis countercyclical fiscal policy had widely fallen into disuse. The injection of fiscal stimulus coordinated by the G20 to arrest the deepening recession demonstrated that it is still a potent countercyclical instrument. However, the clamour for fiscal consolidation suggests that some governments are still wary of fiscal deficits to the point that it may still not be accepted as a regular instrument of countercyclical management. Countercyclical regulatory or macro-prudential measures are newer than fiscal policy, so whether they emerge intact from the current regulatory reform initiatives remains to be seen.

Fifth, it is obvious that a *new global reserve system* is urgently needed. The "international non-system" that emerged from the dissolution of the Bretton Woods exchange rate regime has provided fertile ground for currency instability, financial crises, and illicit financial flows. Nor is a return to the Bretton Woods regime desirable, even if it were possible, given its deflationary bias, instability and inequity in inducing resource flows from poorer to reserve currency countries (Ocampo 2009). Instead, a new system based on a global reserve such as Special Drawing Rights (recently revived from their moribund status by the G20), makes the most sense, but as the UN Expert Commission (2009) pointed out, there are many alternative designs that may help achieve a number of broader objectives, including social, economic and environmental objectives (Culpeper 2010).

Last but certainly not least, while the G20 can be expected, for the coming years, to continue in its role coordinating economic policy among the "systemically significant" states of the world, it lacks legitimacy. Its exclusion of 172 countries many of which have a profound stake in improving global economic governance, and most of which are poor, limits both the reach and the ability of the G20 to exercise the leadership required to undertake necessary reforms. The UN Expert Commission (2009, Chapter 4) makes a compelling case for a new *Global Economic Coordination Council* under the auspices of the United Nations, if such legitimacy is to transpire, and such international leadership is to be exercised. Such a Council would be far better positioned to preside (for example) over international discussions on a new global reserve system, or new protocols governing international capital movements, or international tax cooperation.

The above list is minimal, and it only begins to address the needs of developing countries (for example, the need to increase their resilience to climate change). However, if any headway is made on these, palpable improvements in global economic governance is likely to result.

6. Conclusion

A new policy framework is urgently needed to supersede the market fundamentalism of the last generation, and to inform global economic governance over the next generation. It needs to retain the positive aspects of economic liberalization—its incentives to innovation and enhanced productivity—while discarding the negative—its vulnerability to recurrent crisis, and its tendency to deepen inequality. Principles of equity and solidarity, and the responsibility to help and protect the vulnerable should be at its core. In many respects such a framework has already been articulated in the report of the UN Expert Commission (2009), along with a host of ideas and recommendations that deserve the serious consideration of the world community—and the G20.

But ultimately actions speak louder, and are more convincing, than words. If incremental rather than sweeping or comprehensive policy change is to be the order of the day, at least until the next crisis arrives, there is much that can be usefully done, even in a piecemeal fashion.

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