

In his latest book published right at the beginning of 2008, George Soros observed that the world was “in the midst of the worst financial crisis since the 1930s”. At one level of course Soros was right. Indeed, as he went on to point out in almost excruciatingly painful detail, the financial crisis of which he spoke could be traced back to one single ‘tipping point’ month - August 2007 - when on the 6th American Home Mortgage filed for bankruptcy, followed on the 7th by the suspension of three investment funds run by the French Bank BNP Paribas, on the 10th and 13th when the European Central Bank pumped over 100 billion Euros into the banking system and money markets, and on the 17th when the Federal Reserve moved fast to cut the discount rate.



Still, even the shrewd Soros (a former student of the LSE) could not have foreseen what followed. In fact, for one so often attacked for being too alarmist in the past, Soros was actually not alarmist enough and managed to get the crisis wrong in at least two very important respects.

First, the world was not - as we have since discovered - in the midst of a crisis as he implied but rather only just at the beginning of one; and a year on from when he wrote, it was fast becoming obvious that it would not just last for a few weeks or months but almost certainly for years.. Secondly, though the crisis itself may have begun in the financial sector - hence its original designation as a ‘credit crunch’ - it rapidly spread to what is sometimes euphemistically termed the ‘real’ world economy, nowhere more catastrophically than in the country where the original crisis had begun: the United States. Here the pace of economic decline, and with it a collapse in confidence in the American economic system was by any measure extraordinary. Nor were things any better across the Pacific. Indeed, for Japan (still the second largest economy in the world in spite of China’s much-vaunted ‘rise’) the outlook was much worse and over a three month period between September 2008 and early 2009 it underwent a slump that set its economy back nearly 25 years - and this after a decade long slowdown during the 1990s that had already put paid to the always exaggerated idea that Japan might one day overtake the West.

The situation was no better in Europe or the UK. If anything things were just as critical, most ominously perhaps in Britain where dependency on the housing market and the financial sector made it especially vulnerable. The prospects for other European economies were not much better; indeed in some like Iceland, Ireland and those of Central and East Europe, they were a good deal worse. Even the so-called BRICs did not escape the storm. Certainly the virus-like character of the crisis has put paid to one myth amongst many others: namely that the emerging economies would remain relatively free of the economic problems facing the rest of the world. With unemployment rising rapidly in China and the collapse in oil prices putting paid to Russia’s ambitions, there were few subscribers any longer to the notion that some parts of the international economy could remain aloof - or in the jargon ‘decoupled’ - from what was unfolding in the United States and Europe.



Michael Cox is Professor of International Relations at the London School of Economics and Director of IDEAS. He has written extensively over the last 20 years on the role of the United States in the international economy, the rise of Asia and the European Union.



The scale, the speed, the geographical spread, and perhaps above all, the almost complete failure of policy-makers and leading economists alike to see the possibility of such a crisis ever taking place – though some very unpopular ‘whistleblowers’ had more than an inkling that the system was not viable – has forced everybody everywhere to rethink old assumptions and cast out traditional truths about the way in which states and the international community do and should ‘do’ economics. But they had better think fast as our three contributors to this forum suggest. With globalisation as described by Danny Quah now under threat, and the stability of a number of countries now in question, there is little time left to prevent the current crisis – whose gravity according to Howard Davies should not be understated – from turning into a slump. We can only hope along with David Held and Kevin Young that the world grasps the nettle and addresses the profound weaknesses that the current crisis have exposed in the structure of global governance. Whether it will, and indeed whether this will prevent things from getting a lot worse, remains to be seen.

Versions of the papers contained in this Special Report were presented at the “New World, New Capitalism” conference held in Paris in January 2009, organized and hosted by the French government. French President Nicholas Sarkozy set the tone for the meeting as he called on Old Europe to lead the discussions on the new world economy as a “narrative of the future”, and to re-found capitalism because “if we don’t do it, others will do it in our place”. It is likely that the “others” he had in mind were those having meetings and working groups in Washington DC and New York; in fact, it was striking that the “American” view of capitalism presented in Paris remained clearly opposed to regulation and state intervention.

Europe did have something different to offer, and three specifically European themes emerged from the debate. First, the state would be the only viable filter and guarantor for social justice. Second, the presence of labour unions in the debate was highly symbolic of the European trend to include “social partners”. Indeed, as this crisis has grown, labour unions and “workers” have reemerged onto the radar of economic and social policy. Third, the future lay with multilateralism.

Indeed, Europe’s new message could be understood as “enough of one-currency domination, would the dollar please make room for the euro”. That the non-Western world was underrepresented in Paris despite the organizers’ efforts to bring Africa, Asia and Latin America to the table is perhaps symptomatic of a response to a crisis that although truly global in scope has yet to embrace globalism.