



Ralph Miliband Series on The Future of Global Capitalism

The Future of Global Capitalism, Convergence or Divergence Across the World

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FUTURE OF CAPITALISM to 2020: MORE FINANCIAL CRISES AHEAD

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CURRENT CRISIS

- Policy proposals focus on new & tighter regulations on financial firms.
- “But we can’t tighten regulation here unless everyone tightens”.

My argument

- (1) Features of post-1970s world financial regime generate chronic financial instability.
- (2) This instability will overwhelm “tighter regulation”, like canoe in ocean storm.
- (3) Need structural reforms.
- (4) Beware the “post-E Asia/Russia/Latin America crisis” response: more voluntary codes of best practice, more talk-shops.

Destabilizing features of present world economy

- (1) Weak & eroding **interstate cooperation** in both finance & trade. The “mismatch” problem (global markets, “national” market regulation) getting worse. One consequence: **Persistent global payments imbalances.**
- (2) High & rising **income inequality**, esp. US. One consequence -- **hobbles US ability to lead** interstate cooperation in trade and finance.

Weak multilat gov: finance

- Since early 1970s IMF etc. no control over key internat fin probms s.a. exchange rate volatility, balance of payments imbalances, short term cap flows > long term.
- IMF can exert discipline only over poor states, yet source of problems often dev'ed c'ies (eg G1) or China.
- VN devaln last week > alarm in SEAsia, danger of competitive devals + protection.

Eroding multilat governance: finance

- Until 2008 IMF en route to irrelevance.
- Global crisis saved it.
- But no sign that G7/G20 states have redefined the IMF's role and its capacities, beyond increasing its lending resources in April 2009.
- Eg: Voting shares: Belgium & Netherlands each >> than China, India, or all Sub-saharan Africa.

Multilat govc:finance (contd)

- G20 (finance ministers)? Ineffectual in build-up to current crisis.
- “Hegemonic incorporation” >> “collectivist cooperation”
- Financial Stability Forum/Board?

Eroding multilat governace: trade

- WTO by-passed as US & EU, also Japan, China & others, go outside it to establish preferential trade agreements (PTAs).
- 2005 marked first year that more trade carried out within PTAs than under “most-favored nation” clause.
- More than 400 PTAs, covering all regions, creating “spaghetti ball” of rules of international trade.
- Reason why PTAs have grown so much: main instruments of choice in competition for economic & political advantage between major states.
- Bush2 led; EU followed; Japan; China (negotiating 27 PTAs)

Why falloff in support for multilateral organizations?

- Changing power balances between states, prompted especially by increasing role in world economy of developing countries like China, India & Brazil, which has **intensified economic & financial rivalry between states.**
- **Weakening support for “globalization” in developed countries.**

Weakening support for “globalization” in developed countries

- FT/Harris, July 2007: US and 5 biggest European economies.
- “Globalization has a **positive** effect in your country”.
- % agreeing: Range: US, UK & Spain, 15-17%; Germany, 36%.
- “Globalization has a **negative** effect in your country”.
- In all six countries, % who said net effects of globalization on their country **negative** was higher than % who said net effects were **positive**.
- Even Germany, 42% -- effects negative.
- In 1990s, more support for globalization.

Erosion of public support for globn



- Policy makers in dev'ed c'ies (esp US) feel freer to **respond in more nationalistic ways** to growing rivalry between states caused by the ascent of China, India, Brazil and some others – more nationalistic ways such as forming PTAs and not doing much to strengthen multilateral governance in finance.

High & rising Y inequal

- High & rising US income inequality hobbles US willingness to lead on global issues:

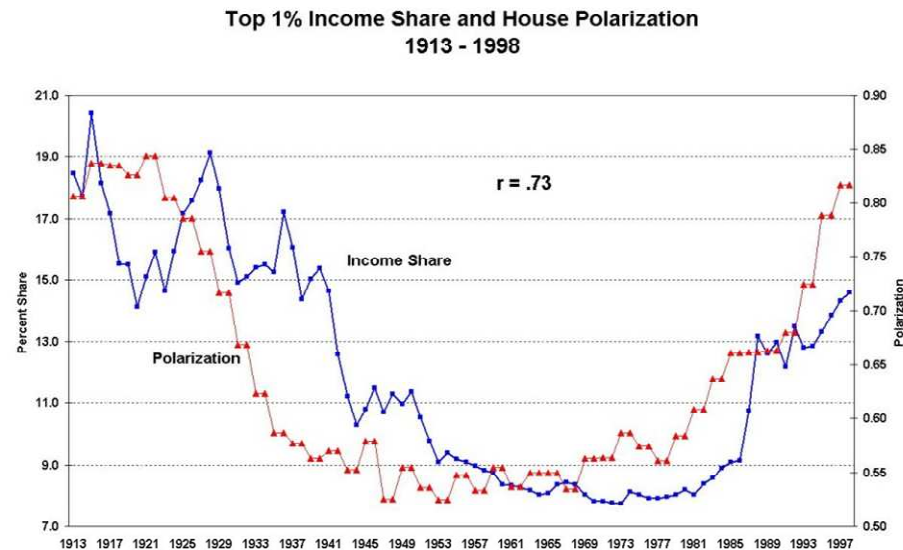
US, share of top 1% in national Y (exc capital gains), 1913- 2007



Effects of high & rising Y inequal

- Asset bubbles.
- Stagnant incomes of bottom 80% generates discontent, directed at “globalization”, raises political scope for nationalistic responses to other states.
- Disables US polity as decision-making system. Clive Crook: America is a “polity blinded by rage”. “In the coming years, the US has enormous challenges to face – not least, like Britain before it, the trauma of relative economic decline. Right now, its polity looks unfit to cope” (2009)

Share of top 1%, & political polarization, US, 1913-1998



CONCLUSIONS

- Nothing much will be done to 2020 to rein in engines of fin instability; therefore more crises.
- Erosion of multilat govc driven by increasing rivalry b/w states. Not reversed any time soon.
- Means no multilat discipline over key internat fin problems, esp. exchange rates.
- Prime Minister Wen: “Some countries, on the one hand, want the renmimbi to appreciate, but on the other hand, engage in brazen trade protectionism against China. This is unfair. In fact, it amounts to restricting China’s development”.

CONCLUSIONS (contd)

- Y distribution – share of top will not be reduced, to 2020.
- Therefore US political polarization will continue.
- US political polarization + relative economic weakening → unwilling & unable to lead in internat econ governance.

WHAT SHD BE DONE?

- Low-orbit: Global surveillance organization, which does not lend & is independent of states.
- (IMF & Iceland)
- Mid-orbit: Capital controls – legitimize in certain circumstances, in absence of exchange rate coordination.
- High-orbit: Replace US\$ as international currency unit.

FURTHER READING

- Wade, “The global slump: deeper causes & harder lessons”, *Challenge*, Sep-Oct 09
- Wade, “From global imbalances to global reorganizations”, *Cambridge J. Econ*, July 09
- Wade, “Iceland as Icarus”, *Challenge*, May-June 2009



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