The Hydra-Headed Crisis

We are living at a time of successive crises – the Haiti earthquake, famine in East Africa, the Taliban attack on Kabul, the collapse of Lehman Brothers, the Boxing Day Tsunami, Hurricane Katrina...No sooner does one crisis disappear from the headlines, than another pops up in a different part of the world. Perhaps this is just because we are more aware of crises in faraway places than in the past. The explosion in information and communications technologies has allowed us to receive and indeed experience images and texts not only from the media but from friends and families and indeed anyone with a camera or a mobile and access to the Internet, and, at the same time, to be able to blog, twitter and comment upon what appears to be instant reportage from whatever crisis zone dominates airwaves at that particular moment.

But there is more to successive crises than growing communication, important though that is. We argue that all these crises are interconnected. They are all, in different ways, the expression of something more fundamental – a transformation of our social, economic and political relations, of which growing communications are just one element – and the failure of our governing institutions to adapt to this transformation. In the twentieth century, the nation state and the bloc were the mechanisms for managing social, economic and political relations; trust in our institutions was in large part based on the fact that we believed that they had the will and the capacity to cope with crises and to manage risk. Now that crises (financial, economic, security, or ecological) transcend borders, we have lost confidence in those traditional mechanisms. Yet the kind of global arrangements that are required have still not been constructed. This is the central paradox of our time: the collective issues we must grapple with are increasingly of global scope and reach and yet the means for addressing them are national, weak and incomplete.

A crisis is an emergency – a moment of extreme peril when time seems to stop, a moment of suspense when no one can be sure what will happen or how the crisis will end. It is also an illumination, a moment of truth, when people are more receptive to alternative ways of seeing the world. Our goal is to investigate and give substance to those new ways of thinking through rigorous conceptual and empirical research and to put forward ideas and proposals that might enable us, at least for a while, to escape what appears to be an ever deepening spiral of crisis.

In developing our argument, we focus on three overlapping categories of crisis: economic and financial, security, and environmental. We will draw
from our analyses of these crises some common threads that have to do with the failures of public provision, the lack of governance and the lack of trust in governance. And in the final section, we put forward some new directions for both policy and research.

**Economic and Financial Crisis**

The financial crisis of 2008 has been widely interpreted as a failure of regulation and the consequence of excessive faith in markets. We agree with this but, at the same time, we argue that there was more to the crisis. As Joseph Stiglitz puts it in a recent book, understanding the crisis is like peeling the layers of an onion.[1] Each explanation raises new questions. Why did the neo-liberal ideology become the dominant ideology in the 1980s and 1990s? Why did it sweep the corridors of power both nationally and internationally? Were there alternatives?

Money and the management of money is an expression of underlying power relations. The dollar became the world’s reserve currency in 1945, replacing sterling in a matter of five years. In fact the US economy had grown to be the largest in the world by 1872. But it took the Great Depression and two world wars to depose sterling. Since then it has been America’s political and economic power that underpinned the role of the dollar. That successful American economic model enjoyed huge increases in productivity based on mass production and the intensive use of energy, especially oil. It was only, however, after the Second World War that the United States was able to boost aggregate demand through increased consumer and military spending, and the spread of the American model to many parts of the world. This was when the United States emerged as a powerful political and military actor; it was able to shape the international monetary system through the Bretton Woods arrangements and to foster worldwide economic growth through the provision of economic and military assistance.

But that model began to run into difficulties by the early 1970s. As other countries caught up with the United States, the trade surplus began to decline; at the same time the American model of growth was coming up against diminishing returns as it became harder to sustain productivity growth. As the US trade balance plunged into deficit in 1971 from increased spending during the Vietnam War, that episode called into question America’s military pre-eminence. The same year saw the end of the system of fixed exchange rates and, two years later, dramatic increases in the price of oil.

It is in this context that the new wave of neo-liberalism has to be understood. The protagonists of supply side economics argued that excessive state interference was the cause of the slowdown in productivity growth. Deregulation and privatisation would release new creative energies. The so-called Washington Consensus (privatisation, liberalisation, and fiscal and monetary discipline) became the dominant set of recipes emanating from the Bretton Woods institutions. These recipes were imposed on indebted countries throughout the developing world and elsewhere. Paradoxically, as a result of the 2008 global financial crisis, the US and the UK emerged as significantly indebted countries but, of course, they have not been made to follow the strict Washington Consensus discipline usually reserved for such behaviour. For nearly two decades, the United States enjoyed strong growth through massive expansion of credit. The consequences were ballooning trade deficits and dramatic increases in overall indebtedness. But because the dollar remained the reserve currency, underpinned by America’s political as well as economic clout, the country was always able to borrow to cover the deficit. The United States was able to use what the former French President de Gaulle called its ‘privilège exhorbitant’ to suck in capital from the rest of the world, allowing capital to flow uphill from poor countries to richer ones.

As this continued through the early years of the twenty-first century, the United States and its supporters saw no immediate difficulties with its economic performance. Instead, many observers blamed so-called Asian Thrift for causing a global savings glut in this time that, had the United States not stood ready to absorb it through increased consumption, would have led even earlier to global recession.
The deregulation of the financial sector led to a series of financial innovations – particularly the growing use of plastic. It also facilitated the mobilisation of capital for new sectors potentially capable of generating new productivity gains – the revolution in information and communications systems. But enthusiasm for the new technologies ran ahead of productive possibilities, which were constrained by the continued emphasis on energy intensive military and consumer products, as well as skewed income distribution. After the bursting of the dot.com bubble in 2000, the financial sector began to develop ever more creative ways of increasing return based on asset inflation, particularly housing, rather than organic improvements in productivity. The financial sector swelled as banks lent to other banks, dealing in increasingly exotic financial instruments. Unnoticed, this massive build-up replicated many times over the risks of the original outlays.

The immediate cause of the 2008 global financial crisis was defaults on excessively-securitised sub-prime mortgage loans. But, of course, US (and UK) indebtedness had also soared due to involvement in costly wars and because of the Bush tax cuts. Indeed, the US defence budget, even excluding the supplemental cost of wars, is roughly equivalent, at $700 billion, to the entire Obama stimulus package. Estimates of US costs of the conflicts in Afghanistan and Iraq vary but some calculate that it could be in excess of a trillion dollars. By 2008, household, banking and corporate debt had reached 350% of US GDP and 300% of UK GDP. Of course, the US deficits did stimulate growth in other parts of the world, particularly China and India since Americans could afford to buy goods made in the rest of the world. Even though the United States remains the largest single national economy, if we were to attempt to plot the world’s economic centre of gravity, we would find that it has moved dramatically towards the East. In 1976, the world’s economic centre of gravity could be located west of London, at a point in the Atlantic ocean somewhere between the US and the UK. Over the last thirty years, the economic centre of gravity has drilled nearly 2000 km, one third of the planet’s radius, eastwards and into the interior towards China and India. On the one hand, this is all to the good: the rise of India and China has lifted millions out of poverty, profoundly re-drawing the map of human welfare. On the other hand, it has been the poorest people in parts of Africa, among others, who were unable to compete in global markets and bore the brunt of the Washington Consensus. Global inequality has increased in the context of deregulation and the lack of global public redistribution. One sixth of the world’s population, roughly a billion people, remain desperately poor.

The policy implications of this explanation for the financial crisis go well beyond improved financial regulation – important though that is. It suggests that what we need is a new global regulatory framework based on a genuine global medium of exchange and unit of account, rather than one based on a single national currency, which then confounds needed adjustments in the international financial and trading system. But above all, it shows that there is a need to transform the pattern of development from the energy, consumer and military intensive model, if there are to be new opportunities for sustainable growth in economic terms, that is to say, growth that yields increases in productivity to match income redistribution.

Security Crisis

The worst security crisis imaginable is an inter-state war like the two world wars or the Cold War. Perhaps because of the horror of that experience, most national security capabilities are designed for that contingency. Yet in the twenty-first century, the risk of inter-state wars seems remote. Indeed, of the 16 major armed conflicts that were active in 15 locations around the world in 2008, not one was a major inter-state conflict. Instead we are facing the spread of insecure spaces where people fear being killed, kidnapped, robbed, tortured, raped or expelled from their homes; where they may lack access to water, food, electricity, or healthcare; or where they are increasingly vulnerable to natural or manmade disasters. Such spaces range from parts of global cities to whole regions. Cité Soleil in Port au Prince in Haiti is one such example, characterised by a toxic mixture of crime and poverty where police and UN peacekeepers dared not enter even before the earthquake. But so is the Horn of Africa, Central Asia, especially Afghanistan...
and its neighbours, and the Caucasus. Into these spaces rush private actors such as warlords, criminal gangs, militias, jihadists, pirates, adventurists and mercenaries, creating a market in violence that transcends borders and reaches into the heart of the developed world through terror, drugs, illegal migration…

Insecure spaces are also described as ungoverned spaces. They are characterised by what are variously described as fragile, weak, failing, failed, collapsed, shadow or quasi-states. This phenomenon is often attributed to backwardness, the incomplete character of the state-building process. But actually it may well be the opposite, the unravelling of the state-building process under the impact of globalisation. Typically, these spaces exist in areas that were formerly governed by authoritarian or totalitarian states. The rise of neoliberalism in the West in the 1980s and 1990s was paralleled by a wave of political and economic liberalisation in the rest of the world for a variety of reasons – disillusion with populist ideologies based on socialism or post-colonial nationalism; declining state revenues either because of the decline in foreign aid as the Cold War came to an end or due to the failures of planned economies and the consequent increase in indebtedness; and growing travel and communications, which opened up the possibilities of alternatives. Samuel Huntington dubbed the spread of democratisation in Latin America, Africa and Eastern Europe the ‘third wave of democratisation’.

During the transition from authoritarianism to democracy the risks of instability are greatest. Political liberalisation was accompanied by economic liberalisation. Perversely this gave rise to a process that is the opposite of state-building. Many countries had already experienced an erosion of the tax revenue base because of declining legitimacy and growing incapacity to collect tax; growing corruption and clientelism under the last years of dictatorship; and declining investment (both public and private) and, consequently, production. Declining tax revenue leads to growing dependence on external and private sources through, for example, rent seeking or criminal activities. Reductions in public expenditure as a result of the shrinking fiscal base as well as pressures from external donors and lenders further erode legitimacy. A growing informal economy associated with increased inequalities, unemployment and rural-urban migration, combined with the loss of legitimacy, weakens the rule of law and may lead to the re-emergence of privatised forms of violence – organised crime and the substitution of ‘protection’ for taxation, vigilantes, private security guards protecting economic facilities, especially international companies, or paramilitary groups associated with particular political factions. In particular, reductions in security expenditure, often encouraged by external donors for the best of motives, may lead to breakaway groups of redundant soldiers and policemen seeking alternative employment.

Of course, the impact of globalisation is positive as well as negative. External donors and outside powers have pressured governments to introduce political reform as a precondition of economic reform, to reduce corruption, increase respect for human rights, and introduce democratic institutions. Support from outside powers and international NGOs for civil society has helped to strengthen domestic pressures for democratisation. It can be argued that where domestic pressures for reform are weak and civil society is least developed the opening up of the state both to the outside world and to increased participation through the democratisation process is most dangerous. In a number of countries, the process of democratisation is largely confined to elections. Many of the essential prerequisites of democratic procedures – rule of law, separation of powers, freedom of association and of expression – are not in place. And even where procedures are more or less in place, decades of authoritarianism may have left the political culture vulnerable to populist ideologies based on the appeal to various forms of exclusive prejudices. Much contemporary political violence can be explained as a form of gerrymandering – expelling people in order to win elections.

These are the circumstances that underlie contemporary insecurity. It is the lack of state authority, the weakness of representation, the loss of confidence that the state is able or willing to respond to public concerns, and the inability and/or unwillingness to regulate the processes of privatisation and informalisation that gives rise to a
combination of political and criminal violence. Moreover, this unravelling process tends to be reinforced by the dynamics of the violence, which has the effect of further reordering political, economic and social relationships in a negative spiral of insecurity – an ongoing crisis of fear which is no longer bounded in either time or space.

It is this pattern of insecurity that is most likely to spread as a consequence of dramatic occurrences like flooding, storms and earthquakes, or shortages of resources such as water, in the context of climate change. Some argue that the conflict in Darfur is the first climate change conflict. The dependence of the global economy on oil and other resources has also been associated with what has come to be known as the ‘resource curse’, as competition for resource rents degenerates into instability and those rents finance further violence.

Yet our security capabilities still consist predominantly of national armed forces, based on the organisational principle of geopolitical state interests. Global military spending, fuelled by such preconceptions, has increased significantly in recent years: global military expenditure in 2008 is estimated to have totalled $1.464 trillion, representing an increase of 4% in real terms compared to 2007, and an increase of 45% over the period 1999–2008.[4] To put this in perspective, it is $217 for every person on the planet, 13 times that spent on all types of development aid, 700 times the amount spent on global health programmes, and roughly the same as the combined GDP of every country in Africa.

The effects of the global financial crisis – in particular, growing government budget deficits and the economic stimulus packages that are aimed at countering the crisis – seem to have had little effect on military spending, with most countries, including the US and China, remaining committed to further increases in the years ahead.

The use of conventional military forces in insecure areas merely results in a worsening of insecurity as we have witnessed in Iraq, Afghanistan, Chechnya or Palestine. What is needed are global security forces, much like emergency forces within a well-governed state – combining medical, fire fighting and policing capacities. The aim would not so much be the security of borders but the safety of human beings wherever they live. Even though a learning process is underway among multilateral institutions like the United Nations and indeed among the military who have experienced contemporary insecurity firsthand, it remains utterly inadequate. At present, for example, total global spending on multilateral operations such as peacekeeping forces was just $8.2 billion, or 0.56% of total global military expenditures.[5] The danger of this growing security gap is only beginning to be grasped.

**Environmental Crisis**

Until the middle of the last century, most known forms of negative environmental impact were largely localised. Since then, the impact and scale of environmental change has dramatically intensified, with problems such as declining biodiversity, deforestation, and a plethora of water resource problems becoming effectively globalised. In particular, climate change is already with us. The Arctic ice cap has been shrinking at 3% a year since 1978. Eleven of the hottest years since 1850 have occurred in the last twenty years, and the last decade is the hottest on record. Global climate change has recently been called a threat more serious than that of international terrorism, and as the greatest market failure the world has ever seen.[6]

Climate change and other human induced damage to the environment are, of course, associated with the spread of the energy intensive model of development. But insecurity is also a cause of environmental degradation. Even though production and energy use often decline, insecure spaces are more prone to deforestation, declining biodiversity, and illegal trading in commodities like ivory, rare animals, or timber. Moreover it is the poorest and most insecure areas that are most vulnerable to natural shocks and have least resilience, as the crisis in Haiti has dramatically illustrated.

Archibishop Desmond Tutu has talked about the prospect of ‘adaptation apartheid’. [7] The asymmetrical costs of climate change stand in great contrast to the massive global asymmetries in carbon footprints. As the UNDP has recently
pointed out, a single standard air-conditioning unit in Florida emits in a year more carbon dioxide than the average person in Cambodia or Afghanistan does in a lifetime; the population of New York State has a higher carbon footprint than the 766 million people living in the 50 least developed countries of the world.[8] And while countries like China and India are increasing their per-capita carbon footprint at a dangerous rate (especially given their large populations and projected level of industrialisation), the historical picture is sobering – with the mass of responsibility lying with already industrialised states such as the United States and Britain.[9]

The challenges to reaching a coherent and effective global deal on climate change are formidable. While democracies by and large have a better record on dealing with environmental degradation than autocracies, they find it extremely difficult to overcome collective action problems which affect future generations. They are hamstrung by a number of structural weaknesses – the short-termism of the electoral cycle, interest group concentration, and a focus on swing voters – which handicap their ability to solve long-term environmental problems. Civil society pressure and enlightened leadership can make a clear difference, yet bringing the domestic policy preferences of diverse countries together is proving hugely difficult, as the UN climate change conference in Copenhagen illustrated recently.

The Governance Problem

All these domains suffer from the same paradox. A global strategy is required and yet power is organised on a national basis whether we are talking about formal authority or informal politics.

Of course, global institutions exist that are supposed to deal with finance, economic development, security and the environment. But these institutions are fragmented and access to power is very unequal. In the economic domain, there is the International Monetary Fund, the World Bank, the World Trade Organization, and the International Labour Organization. There is also the United Nations Development Programme, the United Nations Conference on Trade and Development, a range of regional organisations like the European Union, the North American Free Trade Agreement, and the Association of Southeast Asian Nations, not to mention a host of ad hoc financial institutions like the Basel Committee on Banking Supervision (established in 1974 in direct reaction to the contagious effects of cross-border bank failures) or the Financial Stability Forum (established in 1999 after widespread concerns over the contagion of financial instability following the East Asian financial crises).

In the security field, the United Nations Security Council is the only organisation that can legally authorise the use of force beyond borders but it is dependent on the voluntary provision of security capabilities from individual nations and a range of emerging regional institutions such as NATO, the EU, CIS, OSCE in Europe, or the AU and ECOMOG in Africa. Of course nowadays, security capabilities also include humanitarian organisations like UNHCR, UNICEF, as well as many international NGOs and private security companies. And the current global environmental governance regime features a diverse set of players whose roles are largely uncoordinated among each other: the UN Environment Programme, the Global Environment Facility, the Environment Management Group, the OECD Environment Directorate, the Commission for Sustainable Development, ECOSOC, and the Environmental Chamber of the International Court of Justice, to name the most prominent.[10]

Compounding this institutional fragmentation is the problem that most of these institutions are intergovernmental and accountable to national governments rather than those in need, and they tend to be dominated by the most powerful countries, notably the United States. This is particularly salient in relation to financial governance. Despite the wide membership of the IMF, its voting rules skew decision-making power toward the United States.[11] This has wider implications than is often assumed, especially given the fact that private interests within the United States have been shown to influence IMF policies through the lobbying of Congress.[12] Other governance institutions, however, have operated on a different decision-making basis but still exclude the vast majority of the world’s
population from any representative hand in formal decision making.

For example, the Basel Committee on Banking Supervision, the global institution effectively setting the regulatory standards worldwide, has maintained a highly exclusive approach to its membership. For decades, it did not expand its membership to include formal representation of developing countries, and until 2008 its membership reflected the status of international financial power in the 1970s rather than the 2000s. During this period nothing changed in the Committee’s membership, while countries like Japan, France and Germany experienced a relative decline in the position of their largest banks, and countries like China and Brazil a relative increase.[13] This meant that up to and including the worst of the global financial crisis, many countries without any formal representation in the Basel Committee had a much more prominent role in banking than many of those within it.[14]

In the security field the problem is that the United States accounts for half of world military spending. Other big spenders are France, the UK, China and Russia. But the big spenders are the least adjusted to contemporary security needs and the least committed to multilateral security missions. Most military spending goes towards large sophisticated weapons systems designed for a future world war. Although France and the UK have played active and constructive roles in UN missions, they currently face hard choices between moving towards new types of security capabilities or continuing to buy big systems like aircraft carriers or nuclear weapons.

In the environmental domain where more states have a voice, as became clear in Copenhagen, the dominant players brought enough bargaining power to the table to ensure that no global deal went through that might damage their interests. The Copenhagen Accord is marked by the absence of long-term emission targets, the omission of watertight pledges on new funding, and no clear indications of how to turn the Accord into a legally binding treaty. The big emitters – the US, China, India and the countries of the European Union – will continue to be able to act without a binding framework to enforce emission reductions and speed up the pace of a transition to a low-carbon economy.

But above all, the problem is the national basis of politics. National members of intergovernmental institutions, by and large, are preoccupied with short-term national considerations. Some smaller states recognise that their interests can only be pursued in a safer, greener, more just world, but the larger states still put what they see as the interests of their populations in the next election cycle above the global public interest. And even where national interests could be considered to coincide with global public interest, they are often constrained by entrenched institutional attitudes as well as special interests.

Politics does, of course, spill over borders. People committed to causes like peace, human rights, tackling poverty or the environment, often find their access blocked at national levels by traditional political parties of left and right, and so engage at local and global levels. And this is not only true of progressive causes – Islamists, fundamentalist Christian, and others – also organise on a cross border and local basis. Transnational activism does have an influence on global discourses – climate change for example. And it also means that some of these global issues can be addressed at sub-national levels; global cities like London, Chicago, or Medellin have often been at the forefront of new approaches to reducing carbon emissions, community policing, or reducing inequality.

But the problem of overcoming institutional fragmentation and making global institutions effective and accountable to a global public, as opposed to national and sectoral interests, remains the central challenge of our time.

The Way Forward

The world system we now have is one where global institutions and rules reflect historical patterns in the distribution of economic, political, and cultural power. It is a system that has not been able to adapt rapidly enough to the eastwards shift in the global distribution of economic activity. It is a system that, because of asymmetric obligations
between debtors and creditors, has been unable to adjust in the face of massive global imbalances arising, in turn, from that ongoing shift in economic activity.

Established modes of national governance have the power to tax, subsidise, and provide public goods in ways designed to improve the lot of their societies. Much needed modes of global governance, on the other hand, raise new challenges. What instruments and targets are the legitimate ones to consider in this new world? What authority and legitimacy can be accorded to such systems that they can successfully tackle the problems emerging in the modern global economy and polity?

Some such problems arise from differences in national behaviours: aggregate consumption and savings leading to trade imbalances that do not self-correct. Others arise from the inability of individual countries to internalise global externalities: climate change and environmental degradation or the inappropriateness of national military forces to tackling new global risks. What global consensus can be built on the tools and goals appropriate in each case?

The main point, of course, is that all these crises are connected. They can only be addressed through shifting development away from the energy intensive consumerist model. We can only solve the economic crisis if we can generate sustainable growth and this can only be done through matching potential productivity gains from new technologies with appropriate expenditure on a global low-carbon infrastructure, and the redistribution of resources to the most vulnerable. We can only solve the security crisis if we address the problems of poverty and disease, as well as the instability arising from excessive dependence on commodities like oil, and if we restructure military budgets towards new security needs. And we cannot address climate change without a different model of development and a different model of security. Just as in the 1930s, we need to increase aggregate demand in the context of huge productivity increases brought about by the new economy. But the increase in aggregate demand has to be global rather than national and it has to involve energy saving and other global goods.

This cannot be achieved without representative and effective global institutions that have the capacity to create credible regulatory frameworks and to invest directly in the provision of global public goods and the mitigation of global public bads. It was Max Weber who said that institutions are determined by their sources of revenue. In our judgement, effective global institutions should be funded by new streams of resources, including a financial market transaction tax and a carbon tax.

Whether there is the political will to make this happen is another matter. Can the 1945 multilateral order be reforged and rebuilt, to reflect the changing balance of power in the world and the voices of non-state actors that have emerged with such force and impact over the last few decades? The crucial tests ahead concern the creation of new, effective and just global deals on trade rules, financial market regulation, climate change, the renewal of a nuclear non-proliferation treaty, as well as global investment in a low-carbon future, and in the capabilities to cope with crises. These are tests for the here and now and not some remote future. We face a choice between an effective and accountable rule-based multilateral order, or the fragmentation of the global order into competing regional power blocs pursuing their own sectional interests. Or worse, the spread of ungovernable parts of the world accelerating a vicious downward spiral of global ills – an ongoing Hydra-headed crisis.

Notes


3 According to the SIPRI Yearbook (2009), the most comprehensive open-source account of developments in global conflicts and security, p. 69. Stockholm: SIPRI.
The United States accounts for the majority of the global increase - representing 58% of the global increase over the last 10 years, largely due to the wars in Iraq and Afghanistan. However, the US is far from the only country to pursue such a determined course of militarization. China and Russia have both nearly tripled their military expenditure, while other regional powers - such as Algeria, Brazil, India, Iran, Israel, South Korea, and Saudi Arabia - have also made substantial contributions to the total increase. Of the five permanent members of the UN Security Council, only France has held its spending relatively steady, with a rise of just 3.55 cent over the last decade.

5 SIPRI Multilateral Peace Operations Database. Stockholm: SIPRI. Available at http://www.sipri.org/databases/pko


9 For example, the cumulative estimate of per capita emissions for the United States and Britain’s history has been estimated to be 1,100 tonnes of CO2 per capita, but just 66 tonnes for China and 23 tonnes for India. See UNDP (2007/8) Human Development Report 2007/2008, p. 41. Based on data from World Resources Institute, ‘Climate Analysis Indicators Tool (CAIT)’. Available at http://www.wri.org/climate/project/description2.cfm?pld=93


