

**"Global Governance and the Public Domain: Collective Goods in a 'Post-Washington Consensus' Era"**

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## **Abstract:**

As a consequence of the financial crises of 1997-9, the question of 'global governance' appears to have come into its own as an 'agenda' for thinking about the rules and norms which underpin the present global order. One of the dominant understandings of the public domain, especially in Asian and Latin American countries, is of its essential (re)vitalisation or utilisation as a mechanism for the provision of a range of public goods crucial to the socioeconomic sustainability of markets. This has found its way into the policy debates currently dominating the agendas of the international financial institutions, couched broadly in the emerging language of the 'Post-Washington Consensus'.

However, the extent of the compatibility between the processes of reformulating policy strategies appropriate to specific historical-institutional settings and the mainstream of the 'governance' debates in the corridors of the international financial institutions is over-stated for at least three reasons. First, the globalisation backlash is likely to prevent the emergence of a settled intellectual consensus of what constitute global public goods. Second, the debates have to date largely been conducted in arenas from which 'developing countries' are excluded. Third, the capacities of the states of Asia and Latin America have been seriously eroded by the negative impact of financial crisis. As a result, we argue (a) that the dynamics of multilateral collective action have been altered in important ways under the impact of financial crises in Asia and Latin America, and (b) that the role of national states in Asia and Latin America is concerned less with the provision of public goods than with the minimisation of 'public bads'. This minimisation of 'bads' is, at the end of the twentieth century, an inherent part of the debates about the appropriate role of public authorities, and their relationship with other elements of the state—civil society—market nexus.

Keywords: governance, public domain, public goods, Post-Washington Consensus.

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## **Introduction**

As a consequence of the financial crises of 1997-9, the question of ‘global governance’ appears to have come into its own as an ‘agenda’ for thinking about the rules and norms which underpin the present global order. Emerging understandings of the lessons of the financial crises focus on the need for the provision of a range of public goods, the absence of which is seen both to have fed the socio-economic impact of financial volatility and to have undermined the continuing viability of ‘purist’ versions of the neoliberal policy model. Moreover, there is increasing pressure throughout those regions of the world most affected by financial instability for national governments to redefine policy strategies in ways which provide a range of safety valves against the socio-economic ‘dangers’ of globalisation and liberalisation. The process of rethinking the scope and mechanisms of governance, as well as the concrete policy strategies it might entail, has as one of its central components a re-evaluation of the public domain as a means by which collective goods might be provided. Thinking about public goods questions — their nature, their provision and their management — provides interesting perspectives on a particular element of the emerging notion of the public domain as it relates to nascent governance agendas.

Even in the international financial institutions themselves, and notwithstanding their continuing commitment to the principles of free market economics, there is an understanding that the liberalising and deregulatory urges of global neoliberalism have not generated the demise of national states and their regulatory activities. On the contrary, the extent of ‘convergence’ on a single set of policy principles, on a single pattern of government spending, and on a single conception of institutional organisation, has been far from that

predicted by the ‘purist’ globalisers of the early 1990s.<sup>1</sup> Moreover, the financial crises have been interpreted as dramatic demonstrations of the unsustainability of ‘state-less’ models of market economics incapable of providing safety nets against market failures or structures of domestic compensation for the socially deleterious effects of unfettered competition and extensive liberalisation. In short, one of the dominant understandings of the public domain, especially in Asian and Latin American countries, is of its essential (re)vitalisation or utilisation as a mechanism for the provision of a range of public goods crucial to the socioeconomic sustainability of markets. This has found its way into the policy debates currently dominating the agendas of the international financial institutions, couched broadly in the emerging language of the ‘Post-Washington Consensus’ (PWC).<sup>2</sup>

However, the extent of the compatibility between the processes of reformulating policy strategies appropriate to specific historical-institutional settings (in effect, what is happening ‘on the ground’ in various regions and countries) and the mainstream of the ‘governance’ debates in the corridors of the international financial institutions is often over-stated. While an essentially ‘top-down’ vision of global governance — or more weakly, ‘multilateralism from above’ — prevails within the policy making circles of the major international institutions, this is not the case in the developing regions of the world. Indeed, if the top down view was ever more than a pietistic vision, the financial crises in East Asia, Latin America and elsewhere since 1997 have rendered it redundant, at least for the time being. In the same

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<sup>1</sup> The notion of ‘convergence’ has been conceptually and empirically threadbare for some time, but has been challenged most decisively by the financial crises. See Richard Higgott and Nicola Phillips, ‘Challenging Triumphalism and Convergence: The Limits of Global Liberalisation in Asia and Latin America’, *Review of International Studies*, April 2000, forthcoming. For other recent analyses critical of the convergence ‘hypothesis’, see Robert Boyer and Daniel Drache (eds), *States Against Markets: The Limits of Globalization* (London / New York: Routledge, 1996); Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism* (Ithaca: Cornell, 1996); Paul Doremus, William Keller, Louis Pauly and Simon Reich, *The Myth of the Global Corporation* (Princeton, NJ: Princeton University Press, 1998).

<sup>2</sup> Joseph Stiglitz, ‘More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus’, 1998 WIDER Annual Lecture, Helsinki, 7 January 1998: from <http://www.worldbank.org/html/extdr/extme/js-010798/wider.htm>

way as those analyses with limited area studies knowledge are inclined to play up the unexpectedly swift recovery of the world economy as evidence of the limited nature of financial crises (and the limited collateral damage caused to the dominant policy consensus), those approaching public goods questions from a ‘top-down’ perspective are often excessively optimistic of the prospects for genuine cooperation between states on matters relevant to a revamped global governance agenda.

The financial crises, we will argue, have had a much greater impact than many, flushed with signs of ‘market bounce back’, appear to appreciate or concede. It is undoubtedly true that the development of the PWC to contain impact on the standing of the Washington Consensus (WC) is, at best, moderate reformism in action. But this should not be allowed to obscure the fundamental impacts of the crises in Asian and Latin American countries<sup>3</sup>; most notably in relation to the development of negative attitudes amongst regional policy elites in their attitudes towards IMF-US Treasury style agendas for coping with the crises. The resistive attitudes of regional policy elites — seen for much of the 1990s as supportive of Washington consensus policies on liberalisation, privatisation and de-regulation — represent an insufficiently appreciated added dimension of the ‘globalisation backlash’<sup>4</sup> that has developed throughout the second half of the 1990s.

In this sense, even if there is some consensus on a PWC — an assertion we qualify later in the paper — it is emphatically not the case that Asian and Latin American policy elites in

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<sup>3</sup> Our focus in this paper is on the East Asian and Latin American regions, although Russia was also affected by financial instability. For more on this case, see Nigel Gould-Davies and Ngaire Woods, ‘Russia and the IMF’, *International Affairs* 75:1 (1999).

<sup>4</sup> Eric Helleiner, ‘Post-Globalization: Is the financial liberalization trend likely to be reversed?’ in Boyer and Drache (eds.), *States Against Markets*. Interestingly, as early as 1986 Susan Strange also predicted a political backlash against what she termed ‘casino capitalism’: ‘when a whole generation becomes disillusioned with the economic system and can see no escape from the roller-coaster alternation of deflation and stagflation, there are bound to be political reactions ..... these political consequences must sooner or later spill over into international relations’. (*Casino Capitalism*, Oxford: Blackwell, 1986, pp. 192-3).

particular, or wider political actors in general, will acquiesce in a global governance agenda in a manner to which the international institutions and rich countries aspire. There are at least three reasons for this. The first, we argue, is that the globalisation backlash encompasses a resurgent antipathy to the agents of Western capitalism in Asia (and, we might predict, in Latin America in due course), which is likely to prevent the emergence of a settled intellectual consensus of what constitutes global public goods. Second, the debate over what constitute public goods have to date largely been conducted in arenas from which ‘developing countries’<sup>5</sup> are excluded (notably the G7) or within which their influence over the intellectual debates (as in the erstwhile Bretton Woods institutions) is at best limited. Third, the capacities of the states of Asia and Latin America — and more specifically the willingness of their policy elites to provide public goods or participate in global public goods agendas, while never as developed or as normatively driven as those of the policy elites of OECD countries, have been seriously eroded by the negative impact on their economic well being occasioned by the recent financial instability. The combination of these three conditions appears to militate against the meaningful engagement of Latin American and Asian countries in the debates on the international collaboration for the provision of public goods currently underway in a number of international fora and, moreover, against the engagement of national governments in this sort of public policy in the domestic and regional settings.

As a result, the central arguments of this paper are two-fold. The first is that the dynamics of multilateral collective action that had been seen to be emerging throughout the 1990s at both global and regional levels have been altered in important ways under the impact of financial crises in Asia and Latin America. The financial crises, in the ways that they have played

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<sup>5</sup> We use these terms with a full appreciation of their shortcomings as analytical categories and empirical classifications. For a discussion of approaches to ‘development’ as an area of study, including a full analysis of the inadequacies of conventional terminology, see Anthony Payne, ‘Reframing the Global Politics of

themselves out in the affected countries, challenge some of the dominant assumptions of liberal interdependence theory of the 1970s and, indeed, the dominant assumptions of what we will identify as a school of thought of the late-1990s that is focusing more on the needs of, and prospects for, enhanced governance of the global economy. While we might expect the shared experiences of financial crises to constitute the sorts of ‘common interests’ that Keohane and others deem to be the basis for collective action<sup>6</sup>, we demonstrate that recent events have had an opposite, fragmentary, effect. Cooperation between Asian and Latin American states in their respective regional arenas—and of these states with other state (and non-state actors) in the global political economy—has, in the short term at least, been corroded. Nowhere is this better to be seen than in the paralysis of APEC as an institutional actor capable of meaningful collective response in the wake of the Asian currency crises.<sup>7</sup>

Our second argument is that the role of national states in Asia and Latin America is concerned less with the provision of public goods than with the minimisation of ‘public bads’. The provision of collective goods under conditions of globalisation becomes, for developing countries, an exercise in addressing the collateral damage to national societies and economies arising from financial crises specifically, and by the globalisation of neoliberalism more generally. In this sense we argue that this minimisation of ‘bads’ (here understood principally as financial volatility, market failure and the social costs of global liberalisation) is, at the end of the twentieth century, rooted in the rethinking of neoliberalism that we see as underway among policy elites and societies, and in a growing normative concern to address the inequities generated by global liberalisation. This is an inherent part of the debates about the

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Development’, paper presented to the Working Group on Development Theory at the Ninth General Conference of the EADI, Paris, 22-25 September 1999.

<sup>6</sup> See Robert O. Keohane, *After Hegemony: Collaboration and Discord in the Global Political Economy* (Princeton: Princeton University Press, 1984) and *International Institutions and State Power* (Boulder: Westview, 1989).

appropriate role of public authorities, and their relationship with other elements of the state—civil society—market nexus.

Such a distinction between public ‘goods’ and ‘bads’ is not an exercise in semantics, but it does require clarification. Environmental degradation, for example, is a public ‘bad’, but its management, by (potentially) converting degradation into sustainability, is a public ‘good’. Global environmental policy, in this way, is simultaneously the management of a public bad and the provision of a public good. The same applies to the major examples examined in this paper: financial volatility and the social costs of global liberalisation are the public bads while financial stability and social compensation are the public goods. Our argument, however, is that in Asian and Latin American contexts they are understood principally as public ‘bads’, the effects of which require minimisation in the interests of equity, justice and stability. Social policy agendas, for example, are approached visibly within the debates on globalisation. And public policy is considered in the context of the conditions of globalisation which significantly condition the capacities of policy-makers and the results of policy initiatives themselves.

The pursuit of public goods is invariably understood to be most effectively achieved by positive problem-solving through collective action. By contrast, public policy aimed at the minimisation of public bads tends to be an essentially reactive process which states pursue more often than not on an individualist rather than collective basis. The minimisation of public bads becomes the provision of public goods, but it is the nature of the ‘bads’, as well as the strategies employed to ‘manage’ them, which legitimates our distinction. We argue this case because while state policy making elites of Asia and Latin America have been bruised

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<sup>7</sup> Richard Higgott, ‘The Asian Economic Crisis: A Study of the Politics of Resentment’, *New Political Economy*



and humiliated by the financial crises of the last few years and are clearly conscious of their diminished sovereignty, they remain cognisant of the need to control the ‘public bads’ that emanate not only from the crises but also from the effects of technology on cultures, ecosystems and the international order (especially the spread of drugs, crime, terrorism, disease and pollution). They do not appear willing, however, for the further erosion of sovereignty that would be required to tackle these problems collectively.

In this sense, despite impeccable theoretical arguments (both analytical and normative) in favour of collective action problem solving, the prospects for regular successful international cooperation amongst states must not be exaggerated. The key factor explaining inter-state cooperation — notwithstanding the recognised impacts of globalisation — is still domestic actor preferences.<sup>8</sup> While we would share the view that predominates in the major international institutions that the desired basic public goods for a ‘just’ global era (economic regulation, environmental security, the containment of organised crime and terrorism, and the enhancement of welfare) must be provided collectively, we argue that at present there is a lack of state capacity and normative political will in Asian and Latin American countries to act in this way.

This paper is self-consciously an examination of what we perceive to be the ‘big picture’. This ‘backlash’ in Asia and Latin America and its implications for the development of a consensus on the provision of collective or public goods are the subject of this paper. We locate these discussions within the broader framework of the reconsideration of the public domain, both in the international financial institutions and in specific local and regional settings. In our focus on the response of national policy elites to the limits of global

liberalisation and the failed ‘management’ of the socio-political dislocations occasioned by the ‘globalisation’ of inequity our analysis is avowedly state-centric. This is not, we would stress, the same as being ‘statist’. Rather it is to suggest that state policy elites are but one important group of actors in the development of a more explicit normative concern with equity and justice in the recent intellectual policy debates. These debates — ongoing between civil society, state and market actors (via NGOs and Global Social Movements, governmental and inter-governmental international institutions, corporate actors and Davos style events) — form the basis not only for rethinking neoliberalism in particular, but also for redefining the policy agenda associated with ‘collective goods’ and ‘public domain’ questions in general.

We start from the assumption that despite the variety of arenas in which political activity takes place in the global economy, there are principally three ‘levels’ at which the provision of public goods might be pursued by national states. The first is through engagement in the global policy debate; that is those agendas which seek to maximise collaboration between state and non-state actors for the governance of the global commons and the provision of collective goods and which are being driven by the policy community in the international institutions. The first section of the paper will address this discussion of the prospects for the collective provision of global public goods in the PWC era. In so doing, it argues that ‘top down’ global governance agendas of the kind envisaged in the PWC and the activities of, say, the UNDP to enhance the provision of global public goods, are highly problematic and likely to be limited in their success.

The second ‘level’ is the domestic setting. For reasons that will be elaborated later, we combine our discussion of this with the third, regional, level. Thus the second section of the

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<sup>8</sup> Helen Milner, *Interests, Institutions and Information: Domestic Politics and International Relations*,

paper examines the economic, institutional and socio-political constraints on the capacity of states to engage in public policies for the pursuit of collective goods within and beyond the territorial state. It is argued that the financial crises have sharpened existing limitations on the fiscal and institutional, as well as political, abilities of national states to engage in anything more than a minimal approach to public goods. In addition, financial crises have led to a visible fragmentation of the regional policy making arenas which for a good part of the 1990s were thought to be the most appropriate level for the collective pursuit of public goods. A combination of the limitations of international-global collaboration, the constraints on state capacities at the domestic level, and the splintering of regional alliances support our two arguments: namely, that (i) financial crisis has restructured the dynamics of collective action and (ii) that Asian and Latin American states are concerned principally to minimise public 'bads' rather than engage in the active provision of 'goods'. An implication of this analysis is that 'bottom up' support for the collective provision of public goods is likely to be more constrained than is assumed in the 'top down' strategies evolving in the international institutions.

## (Global) Governance and Public Goods

### *The Search for a Post Washington Consensus*

Following the outbreak of the Asian financial crises in 1997, ‘Western’ triumphalism was difficult to disguise. For many the hubris of the ‘Asian way’ was getting its comeuppance.<sup>9</sup> Policy makers in the US and the international financial institutions initially saw the Asian crisis as a ‘window of opportunity’.<sup>10</sup> Michel Camdessus, managing director of the IMF, saw it as a ‘blessing in disguise’ that would sweep away crony capitalism and free up markets along ‘western’ lines. The neoliberal approach to globalisation was deemed to be vindicated, alternatives such as import substitution and developmental state models were seen to have been demolished, and even the track record on poverty alleviation under conditions of globalisation was celebrated: according to Harvard economist Richard Cooper, late twentieth century achievements in this regard were ‘unambiguously positive’.<sup>11</sup>

The reality, however, was that the window of opportunity had closed and the first real backlash against globalisation was fully in train.<sup>12</sup> In effect, the closing years of the twentieth century are witnessing the first post-Cold War ‘crisis of globalisation’. The events of 1998 represented less the final ideological triumph of Anglo-American neoliberalism than ‘...a historic setback to the advance of Western style capitalism’.<sup>13</sup> At the very least, US and IMF dreams of even more open capital markets had to be put on the back burner, replaced by fears that the anti-globalisation sentiments, strong in many emerging markets and growing in the

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<sup>9</sup> Nowhere is this better exemplified than in Mortimer Zuckerman’s euphoric ‘A Second American Century’, *Foreign Affairs*, 77:3 (1998).

<sup>10</sup> For a discussion see Waldon Bello, ‘East Asia on the Eve of the Great Transformation’, *Review of International Political Economy*, 5:3 (1998).

<sup>11</sup> See Jim Hoagland, ‘Is the global economy widening the income gap?’, *International Herald Tribune*, 27 April 1999.

<sup>12</sup> Higgott and Phillips, ‘Challenging Triumphalism and Convergence’.

USA, could spread to other liberalised OECD countries.<sup>14</sup> And events in Asia and Latin America represent less the victory of global liberalism than a spur to rethinking significant aspects of the neoliberal project.

With the financial crises, the focus in global and local policy debates has shifted back to the notion of ‘market failure’. The globalisation of economic activity and the attendant restructuring of socio-political relationships, in both global and domestic settings, are seen to have produced social and economic dislocations which militate against the emergence of equitable and ‘just’ orders. The mechanisms by which these dislocations are produced are well understood. Globalisation — with the substitution of work forces in one part of the world for those in other parts in an era of increasing mobility of capital and technology — alters employment relationships with the effect of privileging the skilled and the mobile at the expense of the unskilled.<sup>15</sup> These trends, together with industrial restructuring favouring technology-intensive sectors, have generated huge increases in un- and under-employment in various parts of the world, rather than job creation as a result of enhanced competitiveness and efficiency. Further, as it has become more difficult to tax capital, it is more difficult to run welfare states. Thus it is harder for governments, even if they so wish, to provide the compensatory mechanisms that underwrite social cohesion in the face of changing employment structures. And the inability of governments to tax capital calls for a redistribution of tax burdens to other socio-economic groups, the distributive consequences of which have had usually significant political effects.

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<sup>13</sup> Paul Blustein, ‘Financial Crisis May Stall Capitalism’s Global March’, *International Herald Tribune*, 7 September 1998.

<sup>14</sup> Gary Burtless, Robert Z. Lawrence, Robert E. Litan and Robert J. Shapiro, *Globaphobia: Confronting Fears About Open Trade* (Washington: Brookings, 1998).

<sup>15</sup> Marina Wes, *Globalisation: Winners and Losers* (Institute for Public Policy Research, Commission on Public Policy and British Business, 1995).

Liberalisation and deregulation thus cease to be simply sound economic theory. They also become contentious political practice. Rather than being recognised as welfare enhancing overall they are seen to have negative redistributive consequences that disturb prevailing social structures and which the 'invisible hand' of markets is incapable of addressing. The result is the emergence of a genuine debate, in policy and academic circles, on potential means of 'governing' globalisation and of making good the notion of the 'social market'. At the 1999 G7 summit, and even at the 1999 World Economic Forum in Davos, much was made of the apparent trade-off between international competitiveness and the social and political priorities of democratic systems.<sup>16</sup> Privatisation and deregulation in welfare provision, especially, have contributed to rising levels of domestic inequalities and wealth concentration, and the 'logic' of international restructuring similarly has fed into an increasingly painful differentiation between rich and poor countries in the global political economy. Social injustice has come to be associated with the absence of effective economic regulation, or at the very least with the process of deregulation which most countries have been engaged in engineering for much of the 1990s. As a result, the objectives of market economics, as much as the functioning of the market economy itself, are deemed to stand in need of re-evaluation.

There are now a few (still muted) calls, some even emanating from within the discipline of economics itself, to recognise the negative correlation between social stability and 'purist' forms of neoliberal globalisation.<sup>17</sup> The condemnation of the 'stateless market' points to a (re-)recognition (in policy and intellectual circles) of the institutional and social embeddedness of markets as well as the ways in which the functioning of domestic and global markets depends

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<sup>16</sup> 'Paying lip service to reform of a disruptive world system', *International Herald Tribune*, 5 February 1999; 'Third world woes dominate first world summit', *Financial Times* 27 April 1999.

on the generation of political consent.<sup>18</sup> What the financial crises have made clear is that the urge for free markets and small government is socially unworkable in countries not possessed of the sorts of domestic compensatory mechanisms on which Ruggie's post-Second World War 'embedded liberal compromise' was based<sup>19</sup>, and which are found in most industrialised democracies. The Trade Adjustment Assistance Scheme in the US, and active labour policies and the social charter in the European Union, for example, aim to offset the effects of global liberalisation on particular socio-economic groupings. Although these programmes are generally not considered to be of maximum effectiveness<sup>20</sup>, more groups in developing countries are recognising that the fiscal stringency and deregulatory imperatives peddled to them by the international financial community are not consistent with spending patterns in OECD countries<sup>21</sup> and the institutional safeguards that continue to protect these countries from the effects of competition and liberalisation. In combination with the myopic responses of the IMF to the financial crises, the result has been, if not everywhere a 'politics of resentment' as in Asia<sup>22</sup>, then at least the emergence of a recognition of a two-class model, the development of significant sites of resistance to globalisation and a search for alternatives to dominant Anglo-American versions of neoliberal globalisation.

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<sup>17</sup> For example, Dani Rodrik, *Has Globalization Gone Too Far?*, (Washington D.C.: Institute for International Economics, 1997); Paul Krugman, *The Return of Depression Economics* (London: Allen Lane The Penguin Press, 1999).

<sup>18</sup> See Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, (Boston: Beacon Press, 1944); John Gerard Ruggie, 'At Home Abroad, Abroad At Home: International Liberalisation and Domestic Stability in the New World Economy', *Millennium: Journal of International Studies* 24:3 (1995).

<sup>19</sup> Ruggie, 'At Home Abroad, Abroad at Home'. Also see Rodrik, *Has Globalization Gone Too Far?*, and Geoffrey Garrett, 'Global Markets and National Politics: Collision Course or Virtuous Circle' *International Organisation*, 50:3 (1998).

<sup>20</sup> World Trade Organization, *Annual Report 1998* (Geneva).

<sup>21</sup> For a discussion of these patterns see, for example, Garrett, 'Global Markets and National Politics'.

<sup>22</sup> Higgott: 'The Asian Economic Crisis',

In contrast to the Washington Consensus days, as a result, there is a visible awareness among policy communities of a need for a new ‘development paradigm’<sup>23</sup> that is more reflective of the centrality of *politics* in global and domestic processes of economic change. The PWC, therefore, purports to recognise what has long been treated as axiomatic in many developing countries (notwithstanding spectacular examples of Anglo-American neoliberal vehemence, especially in Latin America): that the divorce of politics from the dominant economic understandings of globalisation is both conceptually unsound and socially destructive.<sup>24</sup> The understanding of governance contained in the PWC<sup>25</sup> — especially its emphasis on governance, civil society and safety nets — is underwritten by: (i) a managerialist ideology of effectiveness and efficiency of governmental institutions and (ii) an understanding of civil society based on the mobilisation and management of social capital rather than one of representation and accountability and certainly not, as in Robert Cox’s recent reformulations, as a site of resistance.<sup>26</sup>

While the PWC represents a sharp departure from the narrowly economic and technocratic decision-making models of the WC, they do not reject the latter’s emphasis on open markets. Rather the PWC should be seen as an attempt to institutionally embed, and even maybe humanise, the earlier elements of the WC. This ‘humanising’ project departs from an increasingly explicit normative concern in global (and local) policy debates with questions of equity and justice in the international political economy.<sup>27</sup>

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<sup>23</sup> See, most notably, Joseph Stiglitz, ‘Towards a New Paradigm for Development: Strategies, Policies and Processes’, The 1998 Prebisch Lecture at UNCTAD, Geneva, 19 October 1998.

<sup>24</sup> Richard Higgott, ‘Economics, Politics, and (International) Political Economy: The Need for a Balanced Diet’, *New Political Economy* 4:1 (1999).

<sup>25</sup> For a detailed analysis of the content of the PWC, see the excellent unpublished paper by Kanishka Jayasuriya, ‘Towards a Post Washington Consensus’, Asia Research Centre, Murdoch University, nd.

<sup>26</sup> Robert Cox, ‘Civil Society at the Turn of the Millennium: Prospects for an Alternative World Order’, *Review of International Studies*, 25:1 (1999).

<sup>27</sup> For a discussion see Richard Devetak and Richard Higgott, ‘Justice Unbound? Globalisation, States and the Transformation of the Social Bond’, *International Affairs*, 75:3 (1999).



The dominance of an economic ideology, largely unmatched in its parsimony and unrivalled in its normative poverty, has been nudged over slightly by a newer understanding of ‘governance’. The original buzzwords of the WC were liberalisation, deregulation and privatisation. To these the PWC now adds civil society, capacity building, governance, transparency, a new international economic architecture, institution building and safety nets. Add to the PWC recent UNDP initiatives on ‘governance’ and ‘global public goods’<sup>28</sup> and the UN’s ‘Global Compact’ with the private sector to promote human rights and raise labour and environmental standards — as initially elaborated by Kofi Annan at the 1999 Davos meeting — and we have a new rhetoric of globalism to accompany globalisation as process.<sup>29</sup> In this way, we can usefully identify the notion, if not the words, of ‘global governance’ as the thread, or bridge, between the WC and the PWC. If the WC was an attempt to create a set of global *economic* norms to be accepted by entrants to the global economy under the guidance of the existing international institutions, then the PWC appears to aim to construct support for a new set of *socio-political* norms.

It is precisely for this reason that, despite the self-congratulation of its authors (and the faddish appeal of ‘governance’ to IPE scholars), the PWC is likely to be as unacceptable as the WC has proved to be. While the PWC certainly must be welcomed as a key component of policy debates in the aftermath of the financial crises, it cannot constitute a template for an emerging ‘global governance’ agenda, nor even an emerging policy agenda. It suffers from the same failings as its predecessor. The PWC is no less universalising, and attempts to be no less homogenising, than the WC itself. Global policy debates, in this way, remain reliant on a set of ‘generalisable’ policy prescriptions, although clearly the nature of these prescriptions

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<sup>28</sup> See UNDP, *Governance for Sustainability and Growth* (New York, July 1997); and Inge Kaul, Isabelle Grunberg and Marc A. Stern (eds) *Global Public Goods: International Cooperation in the 21st Century*, (New York: Oxford University Press for the UNDP, 1999).

now offers a more subtle understanding of market dynamics than in the early years of global neoliberalism. National and regional policy responses to financial crisis, which are discussed in the second section of the paper, demonstrate that the notion of ‘convergence’ — on a WC, a PWC or any other of the dominant ‘global’ understandings of a governance agenda — is redundant. The exhaustion of ‘one-size-fits-all’ formulas, at least in developing countries, is not reflected in the substitution of one universalising doctrine with another.

There are several overlapping dimensions to these observations. The ‘universalisation’ of a PWC agenda implies the universalisation of an understanding of governance based on efficiency and effectiveness, in which democratic accountability will be (and is) a secondary variable. Indeed, much of the policy prescriptive work on governance currently being undertaken in or around the international institutions treats governance as a neutral concept in which rationality in decision making and efficiency in outcomes is uppermost.<sup>30</sup> While such work is innovative, certainly by the standards of the international institutions, it is also limiting. To be fair to its exponents, sensitive to the political implications of a ‘top down’ variety, the notion of global governance is a concept too far at this stage. But to deny the governance implications of a strategy to identify and develop a strategy for the collective provision of global public goods is clearly an exercise in semantics. In so doing, the agenda currently under construction by the international institutions has largely stripped questions of power, domination, resistance and accountability from the debate. To the extent that the international institutions recognise that resistance is a legitimate part of the equation, it is something that is to be overcome by governance, not something that is a perpetual part of the process.

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<sup>29</sup> ‘Business Leaders Advocate Stronger UN and Take up Secretary General’s Global Compact’, United Nations Press Release, New York, 5 July 1999.

<sup>30</sup> See Wolfgang H. Reinecke, *Global Public Policy: Governing without Government* (Washington: Brookings, 1998).

In effect, governance — in its effectiveness and efficiency guise — is post-political, in the same ways as the WC represented what we might call ‘the politics of anti-politics’. To-date it has allowed little or no provision for the extension and expansion of ‘democratic’ participation. While civil society is becoming to global governance what international markets are to economic globalisation<sup>31</sup>, for a range of reasons closing the ‘participation gap’ by incorporating non-state or ‘civil society’ actors is not without its own problems. This is for at least three reasons. The first is that despite their visibility, NGOs and other non-state actors cannot approximate the legitimacy of the national state as the repository of sovereignty and policy-making authority, nor its monopoly over the allegiance of the society(ies) it is supposed to represent. Second and related, despite the appeal of expanding the parameters of participation to include these important actors, it is widely recognised that they are often less democratically accountable than the states and inter-state organisations they act to counter and invariably less democratic in their internal organisation than their outward participatory activities would suggest.<sup>32</sup> Third, implementation of resolutions taken in ‘global’ negotiations, or often by international organisations, remains primarily the function of national states, or at the very least depends on their compliance and complementary activity at the national level.

These observations point to significant anomalies in the system. On the one hand, the expansion of participation to non-state actors such as NGOs and GSMs does not solve the problem of the under-representation of developing country states in the more formalised policy processes. ‘Global’ governance issues are dominated by the powerful states and

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<sup>31</sup> For discussions of the ‘rise’ of civil society, see Cox, ‘Civil Society at the Turn of the Millennium’, and Ronnie D. Lipschutz, ‘Reconstructing World Politics: The Emergence of Global Civil Society’, *Millennium: Journal of International Studies* 21:3 (1992).

<sup>32</sup> See Cecilia Lynch, ‘Social Movements and the Problem of Globalisation’, *Alternatives*, 23: 2 (1998); P. J. Simmons, ‘Learning to Live with NGOs’, *Foreign Policy*, 111 (1998); Leon Gordenker and Thomas G. Weiss, ‘NGO Participation in the Global Policy Process’, *Third World Quarterly*, 16:3 (1995); and the essays in Richard Higgott, Geoffrey Underhill and Andreas Bieler (eds) *Non-State Actors and Authority in the Global System*, (London: Routledge, 1999).

alliance constructions and interest representations which feature in the structures of international organisations and groupings such as the G7. Calls for the expansion of the G7 into the G16, or similar<sup>33</sup>, recognise that in order to be effective, global economic leadership needs significant diversification, and that collaboration in the provision of public goods depends on an extended participation. There is a widespread recognition that the institutional constructions of key global policy fora are simply inadequate to the generation of meaningful ‘global’ collaboration on a range of policy issues. Most importantly, the provision of those public goods identified as crucial to the construction of an equitable global order is complicated by the inequitable nature of the negotiation processes themselves.

On the other hand, and in a related vein, what the ‘global governance’ agenda associated with the PWC implies (by definition) is an understanding of governance which transcends the national state. But the rhetoric of the PWC and governance agendas builds, at first sight, on the idea that states have important functions in a market-based economy, especially when the concerns for governance centre on social equity and justice questions. If we accept that states continue to engage in (at least) two-level games<sup>34</sup>, then effectively these conceptions of governance marginalise the international bargaining role of developing states (through the privileging of civil society and the structures of international organisations) while attempting to enhance the position of states as mediators between the forces of global change and the societies they are supposed to represent. As such, the difficulty with the new-found state-friendly rhetoric is that in many ways the World Bank may be seen as ‘disarmed by its own logic’.<sup>35</sup> For many policy elites in the developing world (representative of their populations or otherwise), attempts to introduce a dialogue with non-state actors represents an alternative to

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<sup>33</sup> Jeffrey Sachs, ‘Global Capitalism: Making it work’, *The Economist*, 12 September 1998.

<sup>34</sup> Robert Putnam, ‘Diplomacy and Two Level Games’, *International Organisation* 42 (1988).

<sup>35</sup> Ben Fine, ‘The Developmental State is Dead—Long Live Social Capital?’, *Development and Change*, 30:1 (1999), 11.

giving them a larger voice in the global policy debates.

Thus the international institutions may find themselves on some sort of waste-ground between market economics (in which the state is inactive) and a raging debate about the significance and appropriate functions of state institutions. In the ‘good governance’ and the social capital–state debates, the World Bank is, on the one hand, seeking to plug the ‘developmental gaps’ in civil society and close the ‘participation gaps’ and, on the other, seeking to dictate what states do and how they do it, in an attempt to both downplay the centrality of the state in global bargaining and offset societal opposition to the state’s continued pursuit of neoliberal economic coherence. A similar argument can be extended to the attempts by the WTO to secure greater NGO input into the deliberations on the continued reform of the trading system while at the same time recognising the anarchic effect that any such widening of the deliberative process might have on the traditional structure of trade negotiations.

### ***The Dynamics of Global Collective Action***

This preceding section attempted to review the search for a Post-Washington Consensus. In so doing, it focused largely on the debate within the international public policy community on the ‘global governance’ debate. But the practical and conceptual shortcomings of the PWC and governance agendas are only part of the story. Incentives to participate are maximised by perceptions of the normative fairness and equity of the system itself<sup>36</sup> which, when viewed through the lenses of the developing countries, appear less than optimal. Moreover, quite apart the difficulties more broadly associated with ‘international’ cooperation<sup>37</sup>, Olson’s now classic ‘logic of collective action’ leads to a conclusion that incentives for Asian and Latin

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<sup>36</sup> J. Mohan Rao, ‘Equity in a Global Public Goods Framework’, in Kaul et al (eds.), *Global Public Goods*.

American countries to engage in such collaborative activities are unlikely to be compelling.<sup>38</sup> Olson's logic predicts that, given the free-rider problems inherent in collective action, it is only in the presence of significant 'selective incentives' that the cost-benefit ratio of cooperation will be perceived as favourable to the actors involved.

As a relevant illustration, let us take the case of financial stability as a public good. There is a strong awareness in developing countries of the role played in conditioning the nature and impact of the financial crises by 'moral hazard' considerations on the part of the lenders. While it is certainly the case that the world economy was sustained largely intact by the strength of the US economy over the last couple of years<sup>39</sup>, as a result of moral hazard the 'burden' fell disproportionately on those national markets (and societies) which experienced currency collapse. As a result, the negative externalities of global financial deregulation were shouldered principally by the emerging markets of Asia and Latin America. Conversely, the positive externalities of action by national policy elites to reduce local economic instability accrued to other agents in the world economy. As a result, as well as shouldering the burdens of moral hazard in the crises, there is a perception in developing countries that the free-rider problem applies also to the subsequent process of economic recovery. This is seen in some ways as a reversal of the moral hazard question, in that the inadequacies of regulation at the global level compel state action at the local or regional level, which in turn benefits those industrialised economies which might otherwise be threatened by global recession or be obliged to put together further packages to bail out sinking currencies.

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<sup>37</sup> For discussions see Milner, *Interests, Institutions and Information* and Lisa L. Martin, 'The Political Economy of International Cooperation', in Kaul, *Global Public Goods*.

<sup>38</sup> See Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities*, (New Haven: Yale University Press, 1982).

<sup>39</sup> Krugman, *Depression Economics*; and 'Asia's Economies: On their feet again?', *The Economist*, 21 August 1999.

In an environment characterised by complex interdependence, the positive and negative externalities of any collective action will be felt by agents outside the boundaries of those states directly involved. But conceptions of financial stability as a global public good and talk about constructing a ‘strong network of global participants’<sup>40</sup> fails to take into account *both* the moral hazard question and the absence of selective incentives, both of which will militate against the participation in collective action of developing countries (and especially the more advanced Asian and Latin American states). As a result, the incentives for participation in financial ‘governance’ measures are reduced not only by the constraints on the commitment of the necessary resources but also by the differential nature of the burdens of positive and negative externalities.

Now clearly Olson’s logic of collective action is the classic statement of a rational choice approach to the political economy of cooperation, and as such can be, and has been, criticised for its selective appreciation of the motivations of actors. As is commonly understood, it takes little or no account of a sense of obligation or altruism.<sup>41</sup> Nor, more importantly for our discussion, can it take into account the normative force of calls for an ethical global order, in which the pursuit of equity is as much a question of justice as a simple issue of policy choice. However, our argument is that the impact of the financial crises has altered structures of selective incentives in ways which have led to an atomisation of governance debates.

The initial selective incentives for liberalisation and deregulation in developing countries — seen as necessary passports to credibility and competitiveness in a globalising world economy — were heightened by a number of perceived selective benefits. The most important of these

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<sup>40</sup> Kaul, *Global Public Goods*, p. xxxv.

<sup>41</sup> For a critique of the absence of altruism from rational choice theory see Robert Jervis, ‘Realism, Game Theory and Cooperation’, *World Politics*, 40:3 (1988). On the limits of rationality in general see Amartya Sen, ‘Rational

was the attraction of foreign capital resources necessary, the consensus held, for growth and development. But the failure of neoliberal restructuring to provide *sustainable* growth, the evisceration (or at least polarisation) of society it frequently entailed, and the crisis-generating nature of global financial speculation have generated a situation in which foreign investment flows have negative externalities which cannot be mediated effectively in Asian and Latin American countries.<sup>42</sup> Moral hazard, the failure of the IMF to contain the crises and then its insistence on what are now recognised (even inside the Fund) to be inappropriate sets of policy responses subsequent to massive devaluations have altered perceptions of the selective incentives available to developing countries for their engagement with global financial markets and agents. In short, in substantial quarters of the national policy communities of Asia and Latin America, the negative externalities of liberalisation and deregulation have come to far exceed initial perceptions of potential gains in terms of growth, credibility and competitiveness.

In this way, and as we will see in the next section with respect to regional cooperation in Asia and Latin America, assumptions inherent in the neoliberal institutionalist school that commonalities of interests will enhance collective action between states, is decisively challenged by the present global situation. The universalising rhetoric of the PWC builds on precisely those assumptions and offers a vision of the financial crisis as enhancing the commonality of purpose between state and non-state actors in a variety of global arenas. The PWC and governance agendas associated with it are unable to absorb — conceptually as well as practically — the ‘paradoxically’ fragmentary impact of financial crisis. The attraction of the PWC and its applicability thus becomes largely cosmetic. (The test, as always, is how it

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Fools: A Critique of the Behavioural Foundations of Economic Theory’, *Philosophy and Public Affairs*, 6:4 (1977).



will look in the morning.)

In sum, Asian and Latin American states play only a marginal role in international cooperation for the provision of global public goods. This might suggest that activity in the domestic arena would be strengthened as a result of the structural limitations on their effectiveness at the global level, thus complicating questions of global governance and collective action as they appear to be emerging amongst the policy communities of the international institutions in Washington, New York and Geneva. However, the capacity of Asian and Latin American states to address in meaningful fashion collective goods issues, especially in domestic settings, is also significantly constrained by sets of institutional, political and socio-economic limitations which have been sharpened and supplemented by the fall-out from the financial crises. The priority of Asian and Latin American states, therefore, has become one of minimising public bads rather than supplying public goods. Our understanding of ‘governance’, in this sense, is complicated by the reality that those parts of the world most in need of the provision of public goods are least able to engage in the proactive kinds of public policy required to provide them. ‘Top-down perspectives’ inherent in both the global governance agenda and the PWC fail to capture the ‘bottom up’ complexities of the collective provision of public goods.

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<sup>42</sup> We are not insensitive to the plight of the countries of Africa, but they are not the focus of this paper and the

## State Capacities and the Fragmentation of the Regional Modus Operandi

As we understand from an observation of the growth of the ‘new regionalism’ in both the developed and developing world, the principal arena for collective action in recent years has been regional.<sup>43</sup> Even before the financial crises, the difficulties inherent in international cooperation and the benefits of pursuing liberalisation in the regional agenda led to the primacy of regionalism as a modus operandi for the collective pursuit of public goods.<sup>44</sup> The regionalisation of policy activity in this way corresponds closely to Cox’s ‘internationalisation of the state’ logic, which saw the ‘pooling of sovereignty’ (as in the case of the EU) or the gradual addition of some limited cooperative policy coordination at the regional level as in the case of Asia and Latin America. Given the shortcomings of the multilateral arena and the regionally specific challenges associated with freeing markets, regionalism became widely perceived as an important mechanism by which states could recover a degree of the policy autonomy lost (or sacrificed) to globalisation and could formulate appropriate responses to the pressures of global liberalisation.<sup>45</sup> Furthermore, the ‘internationalisation’ of key policy-making functions, and the interdependence of structures of economic and socio-political activity in a globalising economy, has meant that the ability — and in some cases willingness — of national states to undertake *in isolation* the provision of key public goods has been significantly eroded. Moreover, the neoliberal discourse of

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do not attract FDI of any significance. Indeed, for some African countries, aid is the only source of foreign investment.

<sup>43</sup> The vast body of literature on the ‘new regionalism’ cannot be reviewed here. For a flavour across the analytical spectrum see Andrew Gamble and Anthony Payne (eds.), *Regionalism and World Order*, (London: Macmillan, 1996); and Bjorn Hettne, András Inotai and Osvaldo Sunkel (eds.), *Globalism and the New Regionalism*, (Basingstoke: Macmillan 1999).

<sup>44</sup> See Nicola Phillips, ‘Rethinking Regionalism: Governance after Financial Crisis’, *New Political Economy* 2000, forthcoming; Andrew Mack and John Ravenhill (eds), *Building Economics and Security Regimes in Asia* (Boulder, Lynne Rienner, 1994).

<sup>45</sup> Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance* (Cambridge: Polity, 1996); and Richard Higgott, ‘Globalisation, Regionalisation and Identity in East Asia: Lessons from Recent Economic Experience’, in Peter Dicken et al. (eds.) *The Logic(s) of Globalisation in the Asia Pacific* (London: Routledge, 1998).

globalisation, implicitly if not explicitly, held that it was undesirable to do so.

In this context, the predominant impact of recent instability on regional projects has been fragmentary. In periods of crisis, as we have seen, the dynamics of collective action, regardless of whether the parameters of action happen to cross territorial boundaries, are crucially different. Short-run collective responses to financial crisis only thinly disguise increased regional atomisation as governments formulate responses most suited to particular national situations. In Asia, ASEAN was powerless in the face of the crises and a visible fragmentation of the APEC consensus, that first appeared at the 1997 Vancouver summit, had only widened by the time of the September 1999 Summit in Auckland.<sup>46</sup>

In South America, the tension between Argentina and Brazil and the exigencies of responding to domestic instability (economic *and* political), has pushed the regional agenda onto the back burner. While Argentina has been beating the drum about dollarisation and macroeconomic policy harmonisation, Brazilian elites have been concerned principally with the more specifically national priorities of dealing with the impact on inflation and interest rates, and, no less important, in trying to salvage the fortunes of the beleaguered president, rescue the reform agenda, and bring the belligerence of the provincial governments under some semblance of centralised control. The effect has been to heighten hostility and generate the most profound crisis yet in the Mercosur, to the extent that Brazil threatened to take Argentina to the WTO<sup>47</sup>, and former Argentine Economy Minister Cavallo called for a ‘suspension’ of the Mercosur while countries engage in nationally-defined damage limitation exercises.<sup>48</sup> Despite strategic expressions of steadfast commitment from all governments, and

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<sup>46</sup> See Higgott, ‘The Asian Economic Crisis’.

<sup>47</sup> ‘Brasil va a la OMC por la disputa en torno del calzado’, *La Nación* (Argentina) 3 September 1999.

<sup>48</sup> ‘Mercosul: Cavallo sugere interrupção’, news bulletin from Agência Estado (Brazil), 6 August 1999 — <http://www.agemado.com.br>.

recent efforts to mend fences, the significance of the questioning of the *desirability* of the continued existence of the Mercosur should not be underestimated. Despite some initial calls for unified policy responses from the US government, then, the short-term pattern indicates a fragmentation of the existing consensus, greater dissociation between Mercosur countries and the pursuit of increasingly individualistic policy agendas rather than an enhancement of collective priorities.

If regionalism constitutes a projection of national or domestic agendas to the regional level, and a means of maximising their effectiveness, the *intergovernmental* nature of its operation in Asian and Latin American regionalism should not be ignored. Changes in the capacities and interests of national states impinge directly on the political economy of cooperation at the regional level and the nature of the regional projects themselves. Experiences of financial crisis and the backlash associated with the rethinking of significant aspects of both global and local neoliberalism have led to a splintering of regional projects in both Asia and Latin America as a result of a visible polarisation of state and inter-state interests. The ideas that regional collective action will be strengthened as a result of financial crisis, and that notions of reforming the international ‘architecture’ might involve the articulation of a triad of regional constructions as the basis for global governance, thus overlook important ways in which the pursuit of public goods through regional projects is altered by the impact of financial crisis.<sup>49</sup>

*If* regional splinterings are overcome, the likelihood is that regionalism will be substantially reconfigured. Evidence from recent debates — and, more usefully, from the lineaments of the apparent fragmentation of regional projects — suggests that regionalism is starting to re-

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<sup>49</sup> See Phillips, ‘Rethinking Regionalism’.

emerge with a distinctly sub-regional flavour: the difficulties associated with the construction of an FTAA and the fragmentation of the APEC consensus have been accompanied by identities of a 'South' American and 'East Asian' (for example) flavour. The point in the meantime is that the regionalism as a *modus operandi* for collective action for public goods has been decimated by the impact of financial crisis and the backlashes it propelled.

Let us therefore take a step back and look in more detail at the globalisation backlash within Asian and Latin American countries. At the domestic level, as we have seen, the financial crises have unleashed a process of rethinking significant aspects of the neoliberal and globalisation projects. The search for policy alternatives to date might well be predominantly rhetorical, *but it is real*. The rhetoric of the opening of 'windows of opportunity' and the need for Asian economies to 'toe the line' was common in the immediate aftermaths of devaluations, when appeasing the IMF was crucial for generating the funds necessary to climb out of financial collapse and for reassuring foreign investors. But these short-term strategies only thinly disguise a very significant backlash against globalisation and its attendant economic ideology.

In Asia, governments (most notably Malaysia and Thailand) were quick to abandon the monetary and fiscal dictates of the IMF.<sup>50</sup> Expressed most stridently by Malaysian Prime Minister Mahathir, but also found to varying degrees throughout the region, both policy communities and public opinion favoured a (re)turn to strategies which reflected concerns and priorities indigenous to the Asian region, notwithstanding the indignant foot-stamping of the IMF. And Latin Americans argue that what was (is) needed in their countries is a novel

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<sup>50</sup> 'Malaysia eases fund flows', *International Herald Tribune*, 5 February 1999; 'Malaysia's defiant surrender', *The Economist*, 6 February 1999; 'Price may be high for spurning tough economic reforms', *Financial Times* 24 June 1999; 'Thailand ends IMF-inspired plans and boosts spending', *Financial Times*, 27 March 1999;

approach to economic and social governance, which displays flexibility and imagination: ‘intelligent solutions ... even if they don’t feature in Economics textbooks’.<sup>51</sup> There are considerable echoes in some quarters of pre-globalisation, pre-reform arguments that developing countries are neither ready for nor suited to the rapid processes of liberalisation, privatisation and deregulation that form the core of a neoliberal approach to globalisation.<sup>52</sup>

So although alternative economic strategies have yet to be articulated in concrete form, the evidence thus far suggests — to the extent that generalisation is possible — that the trajectory of policy in Asian and Latin American countries reflects a trend away from structurally-driven ‘automatic pilot’ market strategies towards more active policies of the types enshrined in the Asian ‘developmental state’ model and advocated in Latin America by a growing number of governmental, societal and media voices. The traditional reliance on the state in Latin America as the principal distributory and regulatory mechanism may have been replaced by a reliance on the private sector as the primary motor of capital accumulation, but old reservations have surfaced concerning both the absence of effective regulation of capital and the absence of mechanisms for correcting market failures. Romanticised perceptions in Latin America of the resurgence of a European ‘new Left’, and an increasingly robust defence of developmental statist ideas in Asia both favour a re-empowerment of the state in a ‘globalised’ market environment which has found only inadequate ways of dealing with the social and institutional dislocations it generates. The emphasis, in this way, is on the public domain as mechanism and arena for governing the non-market consequences of market failure and mediating a range of non-market relationships.

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‘Spending boost lifts Malaysian economy’, *Financial Times* 24 June 1999; ‘Asia’s Economies: On their feet again?’, *The Economist*, 21 August 1999.

<sup>51</sup> Mario Rodarte, ‘El FMI en la crisis’, *El Economista* (Mexico), 7 October 1998. Also see ‘Hay que evitar el efecto contagio en la región’, *El Cronista* (Argentina), 25 August 1998.

The ‘dangers’ of openness to globalised finance and the observation of global contagion has revitalised neo-Keynesian ideas — even, pace Krugman, amongst economists — about the role of intervention in domestic economy in producing growth. Long-term growth projects based entirely on the vitalisation of the external sector, particularly in places like Argentina where the external sector still accounts for less than 10% of GDP, are gradually (or not so gradually recently) losing currency among policy elites. While these trends might not translate directly into open protectionism, key departures from the principles of unfettered competition or complete deregulation seem to be strong possibilities. In short, the compulsion to conform with the detail of the neoliberal policy package embodied in the Washington Consensus is increasingly diluted by a concern to find strategies appropriate to specific historical-institutional and economic settings, and to implement policies to offset the economic and political dislocations occasioned by global liberalisation.

There now exists no assumption in those states visited by financial crisis in the latter part of the 1990s that free markets are socially and politically sustainable without appropriate sets of domestic compensatory mechanisms. The provision of social compensation, therefore, has come to form an increasingly important aspect of what a public goods agenda — and the (re)vitalisation of the public domain — might involve in Asian and Latin American countries. But the policy debates over social compensation are framed in terms not of the provision of these collective goods, but rather of state action to minimise two sets of public bads associated with neoliberal globalisation: market failure and social exclusion. The latter of these two bads, however, points us towards a further dimension of state capacity which we can see as eroded by the recent crises. Social exclusion refers not just to the deleterious *domestic* distributional consequences of global neoliberalism and the attendant questions of

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<sup>52</sup> Headlines in *El Nacional* (Venezuela), 8 October 1998 and *Excelsior* (Mexico), 7 October 1998.

inequality. It refers also to the *international* restructuring of political and economic power to produce a sort of 'two-tier' globalisation.

In a more complex sense it also refers to those social interests that are able to participate meaningfully in the social process of global change. Specifically, globalisation has acted to increase the mobility of capital and, as a result, the 'exit option' of the mobile capital asset holders in the domestic economy.<sup>53</sup> The problem, of course, is that the exit option becomes increasingly attractive to these actors in times of economic difficulty. Economic agents are most likely to exercise exit options than 'voice' options. As a result, the tensions between social groups mentioned above as a by-product of globalisation is sharpened and the owners of internationally mobile capital assets become 'disengaged' from their 'national' economic communities.<sup>54</sup> In this way, national economies become fragmented and differentiated as a function of varying ideas concerning economic organisation. Societies become atomised as economic activity concentrates the benefits in the hands of a few detached agents. Apart from the concentration at the domestic level, economic activity becomes concentrated outside territorial borders and economic control is exercised by global financial agents in association with domestic holders of mobile assets. The incentives for these actors to exercise exit options far exceed the ability of national economies to withstand the impact of such choices. The significance of these trends for this paper is to be found in the constraints that economic internationalisation and the primacy of private actors imply for domestic (and regional) state action on the one hand, and debates about the functions of the public domain under conditions of economic globalisation. Meaningful policy change is not easy and doesn't come cheap.

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<sup>53</sup> Helen V. Milner and Robert O. Keohane, 'Internationalization and Domestic Politics: A Conclusion', in Keohane and Milner (eds.), *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press, 1996), p. 245; James E. Mahon, *Mobile Capital and Latin American Development*, (University Park: The Pennsylvania State University Press, 1996), pp. 111-56.

<sup>54</sup> Dani Rodrik, *Has Globalization Gone Too Far?*, (Washington D.C.: Institute for International Economics, 1997), p. 70.



Given the fiscal constraints imposed both by IMF agreements and by the liquidity shortages associated with the effects of devaluation and capital flight, the capacities of states to engage in this sort of public policy are constrained. And despite recent financial turbulence and the accompanying ‘backlashes’, increasingly integrated trade, unregulated financial markets and further technological dynamism are the characteristics of the day in the world economy. Political impetus for policy change in response to globalised inequity has a high price tag, especially in the absence of strong capital inflows or in the presence of strong capital outflows. Therefore, even after the financial crises, the imperative remains for states to structure public policy in ways which interfere little with the mainstream of global economic interchange and the activities of local private agents.

Now clearly this has been the dominant understanding of the role of governments in an era of globalisation. The provision of public goods such as stable exchange rates, adequate taxation systems, macroeconomic conditions conducive to the global competitiveness of private sectors, property rights, the rule of law, and so on, are deemed to be the principal residual role of national states when their regulatory and welfare functions have been eroded by the process of economic globalisation. But the policy challenge has changed in the context of the globalisation backlash. The challenge has become one of how to *combine* the reactivation of the welfare and regulatory roles of states (as essential elements of a ‘public’ domain) with economic models that continue, more or less, to revolve around liberalised private sector activity. The provision of public goods must also be understood as the management of the public bads associated with social exclusion and market failure.

The crisis of free market fundamentalism, then, has highlighted the ‘globalisation of inequity’ inherent in the processes of political and economic restructuring. It has also highlighted the related ‘globalisation of volatility’, around which a major international policy debate has emerged. In Asia and Latin America, government responses to globalised financial instability have also focused on ways to limit the destabilising impact of speculative capital movements on the domestic economy. The most salient debate, of course, has centred around capital controls at national boundaries, and the argument that states have the sovereign right to protect themselves against capital flight. Chile for a long time maintained restrictions on short-term capital inflows (although these have recently been softened), Colombia similarly imposed reserve requirements and Brazil around the time of the Asian crises imposed variable taxes on financial movements.<sup>55</sup>

The major case study of such policies has turned out to be Malaysia, which in the aftermath of its currency crisis introduced a ban on the repatriation of capital for a period of 12 months, a ban on the trading of the ringgit overseas, and a freeze of the dollar-ringgit exchange rate, as well as limitations on the amount of national currency Malaysians could take overseas. In February the first of these controls was softened into an ‘exit tax’ on capital, which has the same effect of discouraging short-term capital flows, but which was designed to make the Malaysian investment regime more investor-friendly than previously. The broad challenge at the national level has thus involved questions of how to maintain necessary capital flows while restricting the less desirable forms of finance, which inevitably reduces incentives for foreign investors across the spectrum.

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<sup>55</sup> Chile imposed a minimum holding period of 12 months for equity investments and a reserve requirement (*encaje*) of 30% of the total value of the loan for foreign loans to Chilean entities as a means of avoiding the accumulation of short-term debt. See John Williamson, ‘The Implications of the East Asian Crisis’, mimeo, 1998 from <http://www.warwick.ac.uk/fac/soc/CSGR/>; ECLAC, *The Impact of the Asian Crisis on Latin America*, (Santiago, 1998), p. 26; ECLAC, *Economic Survey of Latin America and the Caribbean, 1997-8*, (Santiago 1998), summary p. 21.

This intellectual change of heart can also be seen in parts of the international policy community. The espousal of such neoclassically ‘unorthodox’ economic strategies by prominent international economists is much less uncommon than in the pre-Thai devaluation days. The exemplar is, of course, the impeccably credentialled senior economist at the World Bank, Joseph Stiglitz, who has argued that capital account liberalisation needs to be moved back on the policy agenda of emerging market economies.<sup>56</sup> At the very least, as the 1999 *World Development Report* argues, sequencing is now seen to be crucial and capital liberalisation should only follow the establishment of sound supervisory banking procedures and legal infrastructure. Notwithstanding the importance that they place on the partially self-inflicted nature of emerging market problems, even Washington has now recognised that the push for the capital liberalisation, as part of its wider ideological shift in favour of freer markets fostered the vulnerabilities that were the underlying cause of the economic crisis in Asia and that subsequently spread to Russia and Latin America. Senior figures in the first Clinton Administration — Mickey Kantor, the former USTR and Laura Tyson, the former chair of the Council of Economic Advisors — have conceded that they were insensitive to ‘the kind of chaos that financial liberalisation could provoke’. As former Commerce Secretary Ron Brown noted, ‘it is easy in retrospect to see that we probably pushed too far and too fast ... we overshot, and in retrospect there was a certain degree of arrogance’.<sup>57</sup>

The degree of convergence on the substance of these policy debates, however, is usually exaggerated. There are different forces at work ‘on the ground’ in Asian and Latin American countries than at work in the corridors of international organisations and US government offices. Asians and Latin Americans policy elites clearly prefer tighter rather than looser regulation of markets, but preferably not imposed on them by the existing international

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<sup>56</sup> Joseph Stiglitz, ‘Macroeconomic Dimensions of the East Asian Crisis’, in *Financial Crises in Asia*, (Centre

institutions *as they are presently constituted*. The financial crises have generated precisely the sorts of ‘distrust and animosity’ which Inge Kaul *et al* see as detracting from the possibilities for mutually beneficial cooperation at the international level.<sup>58</sup> There is a generalised perception among both the Asian and Latin American policy communities and the populations at large, that they, not the developed world, have shouldered the negative externalities of global liberalisation. The rhetoric in industrialised countries about burden-sharing — the implication being that developing countries do not share the burdens of global public goods — is more than matched by perceptions in developing countries that the burdens of moral hazard, social dislocation and the impact of unfettered competition are unloaded on precisely those economies and societies that are least equipped to deal with them. In an era of deregulated capital movement and the processes of financial change which brought us the hedge fund, pegged exchange rates and precipitous currency collapses, the notion of global burden-sharing is putting the cart before the horse.

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for Economic Policy Research, Conference Report No. 6. 1998).

<sup>57</sup> *International Herald Tribune*, 16 February 1999.

<sup>58</sup> ‘Introduction’ in *Global Public Goods*, p. xxxv.

## Conclusion

This paper has traced the emergence of a policy debate on a global governance agenda that aspires to provide for the collective provision of some global and local public goods. This agenda is enveloped in the language of a Post-Washington Consensus that is clearly a response to the backlash that followed the financial crises that hit the emerging markets of Asia, Latin America and Central Europe from 1997. It stems from a recognition within the international policy community that without the development of a more humanised and equity-driven development strategy for the world's poorer countries, global economic liberalisation may contain within it the seeds of its own demise. While we recognise that this agenda does represent a qualitative change from the pre-crisis days of the Washington Consensus era, we have argued that it is nevertheless likely to be constrained in the successful provision of what it sees as global public goods associated with transparency, safety nets, institutional effectiveness, and so on. Globalist imaginings of governance, encapsulated in the PWC, are likely to be limited in their practical applicability as policy agendas in a range of countries and regions. The homogenising aspirations of the PWC are likely to go the same way as the 'convergence' assumptions inherent in the Washington Consensus, which have been demolished by evidence from both OECD and developing countries.

The debate surrounding collective goods in more specifically domestic and regional settings revolves around the 'public domain'. A central component of the 'globalisation backlash' has been the recognition that the dominance of private sector activity and changes in the nature and role of national states under conditions of economic globalisation have translated into neither the collapse of the state as a manager of the economy nor the redundancy of 'public' arenas of politics. On the contrary, the financial crises demonstrated above all else the ways in

which the divorce of markets from politics and institutions — or of the private from the public — is unsustainable, even under conditions in the global political economy supposed to reinforce such a division. The spotlight in policy and academic debates has thus fallen on the role of public authorities in minimising a raft of public bads associated with market failure, social exclusion and financial volatility, and on the public domain as an arena in which market and non-market social relationships can be effectively mediated.