The G20 and the Politics of International Financial Sector Reform: Robust Regimes or Hegemonic Instability?

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University of Queensland
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Abstract:

In the aftermath of the East Asian crisis of 1997/98, much attention was given to the need for financial sector reform. While little of substance has changed in the intervening years, a number of potentially important new forums were established to facilitate international cooperation in the financial sector. This paper attempts to provide a theoretical context within which to explore one of these institutions – the G20. By drawing on theories of hegemony and regimes, this paper identifies the – potentially competing - political and institutional logics that have driven what change there has been. The key question we address is whether institutions like the G20 are likely to provide genuine mechanisms for the resolution of collective goods problems, or – in the short term, at least - instruments for hegemonic business as usual. Even if the G20 proves incapable of facilitating international cooperation in the short-term, some sort of multilateral cooperation is ultimately necessary, we suggest, if the international financial system is to avoid the potential dangers of hegemonic *in*stability.

Key words: G20; financial sector reform; financial crises; hegemony; international cooperation.

Contact Details:

Mark Beeson
School of Political Science & International Studies
University of Queensland
Queensland 4072
Australia
Email: M.Beeson@uq.edu.au
Tel: (+61 7) 3365 7530
Mob: 042 383 3843
Fax: (+61 7) 3365 1388
Web: http://www.polsis.uq.edu.au/

Stephen Bell
School of Political Science & International Studies
University of Queensland
Queensland 4072
Australia
Email: Stephen.Bell@uq.edu.au
Tel: (+61 7) 3365 3043
Web: http://www.polsis.uq.edu.au/

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Introduction

One of the most striking features of the contemporary international financial system has been an expansion in its size and reach, and a simultaneous increase in its susceptibility to crisis and instability. This is important for a number of reasons. Most obviously, it presents a practical challenge for economic actors and policy-makers as they attempt to cope with seemingly regular and inevitable bouts of economic dislocation, particularly in the 'emerging market' economies. Important as such practical issues are, however, there are other consequences of financial instability that raise important theoretical and even ideological questions: first, is there something about the nature of 'deregulated' financial regimes that makes them more crisis-prone? Is the particular international financial order that has emerged under the auspices of American hegemony in the post-Bretton Woods period especially susceptible to instability as a consequence? More fundamentally, perhaps, is the United States – the hegemonic power of the era – contributing to the instability of international financial system through potentially unsustainable domestic and foreign policies?

As a consequence of such practical, theoretical and, by implication, normative questions, a major debate has developed about the nature and management of international financial relations. The financial crisis that engulfed East Asia in the late 1990s was especially important in highlighting both the practical dangers that flowed from a 'premature' liberalisation of capital accounts, and the political vulnerability of affected countries as a consequence. In the aftermath of the crisis, not only was there a heightened perception of East Asia's exposure to external economic and political forces, but there was greater interest in attempting to develop regional mechanisms with which to ward-off similar future catastrophes. Significantly, however, interest in exploring new regulatory and cooperative arrangements was not confined to either regional players or those most badly affected by crises in East Asia, Latin America or Russia. On the contrary, as a direct consequence of this series of rolling crises, interest in developing a 'new financial architecture' became increasingly widespread. This ultimately led to the development of new institutions like the G20, which were specifically designed to provide a forum in which both the 'north' and the 'south', the creditor and the debtor nations, and the rule-makers and the rule-takers might come together to discuss and possibly manage common systemic problems.

It is important to acknowledge at the outset that this nascent process is still probably too new to have had much practical impact, and that some of the heat has, in any case, gone out of the debate of late. Nevertheless, the G20 process has the potential to cast a revealing light on some of the most important regulatory issues and processes in the contemporary, increasingly global economy. Indeed, the possibility that the G20 might degenerate into something of a talk-shop, or a mechanism with which to provide the veneer of inclusion and cooperation while actually contributing to 'hegemonic' business-as-usual is - from the perspective of students of international political economy, at least - of great importance; even if it may prove disappointing to many of the more marginal participants. To make a judgement about this – whether new institutions like the G20 are institutional fig leafs or more inclusive elements of a new international financial architecture that reflects a wider array of participants – we need a conceptual framework that allows us to identify the political dynamics that are potentially at play in such institutions. This paper is intended to provide such a framework through an historically-informed theoretical analysis that highlights the pivotal role of the United States. Our central contention is that if the new financial architecture is to amount to anything more than a rhetorical flourish and sop to critics of the prevailing America-centric order, then institutions like the G20 will have to provide forums for genuine participation and power-sharing – something that will inevitably diminish American influence and hegemony as a consequence.

The paper is organised in the following way. First we provide a brief discussion of the development of the contemporary international financial governance system (IFGS) that has developed under the auspices of American hegemony and the theoretical debates that have emerged as a consequence. In the second part we explore the development of the G20 and what we argue are the competing functional and political logics that are present within it, and which threaten to fundamentally undermine such organisations as a consequence. It will be extremely difficult, we suggest, for bodies like the G20 to achieve their goal of reflecting a wider array of views and interests about how the IFGS should be managed if the United States remains hostile to multilateral constraints and pursues domestic and foreign policies that threaten the stability of the overall system. Interpolated throughout the paper are examples of the implications of the evolution of the IFGS that are drawn primarily from the East Asia region, which provides a useful illustrative case study because many of the governing ideas and regimes found there are distinctive and not congruent with the dominant neoliberal model, and because the East Asian crisis provided a powerful catalyst for debates about the need for reform of the international financial architecture.

The evolution of the international financial governance system

The contemporary IFGS emerged from a particular set of historical circumstances. There is now a substantial literature that deals with the establishment and operation of the original Bretton Woods institutions (Block 1997; Eichengreen and Kenen 1994), but it is worth briefly spelling out what some of their most important features were as they provide a revealing comparative perspective with the contemporary situation. Two factors were especially distinctive components of the old order: the nature and influence of American hegemony, and the governance of the international financial sector through institutions like the International Monetary Fund (IMF).

Charles Kindleberger's (1973) influential analysis of the Great Depression was instrumental in popularising and legitimating the idea that the international economic system needed a 'hegemonic' power to provide stability through the institutionalisation of a rule-governed economic order. The economic, political and strategic dominance of the United States in the aftermath of World War II meant that only it could fulfill this role. The fact that American hegemony emerged in the context of the Cold War, however, gave a distinctive quality to American dominance, one in which economic liberalism was tempered by the geopolitical imperatives that emerged as a consequence of the Cold War confrontation with the Soviet Union (Latham 1997). It was, according to some observers, a system in which American power was constrained and institutionalised, providing powerful incentives for allies to acquiesce to American dominance (Ikenberry 1998). To some extent, at least, strategic considerations trumped more narrowly cast national or sectional economic goals. This has two further important consequences: on the one hand the influence of financial capital was minimised in the construction of the post-Cold War order. On the other, significantly different types of capitalist organization and development occurred within the overall context of the bipolar strategic stand-off. American hegemony currently operates in a very different set of strategic and ideological circumstances, conditions that facilitate greater unilateralism on the part of the US and which potentially constrain the room for manoeuvre of other states in the international system as a consequence. Indeed, some argue that the growing preference for unilateralism in American foreign policy is an expression of, and underpinned by, America's military dominance and objectives, with the consequence that 'the Bush administration's adoption of unilateral preventative military action undercut the international rules and norms on which commerce depends' (Johnson 2004: 257).

Clearly, the 'securitisation' of US foreign policy, which has seen a (re)privileging of strategic over economic goals (Higgott 2004), has the capacity to profoundly affect the conduct of international financial relations, not least because of the unforeseeable impact geopolitical events may have on market confidence. And yet an overly state-centric analysis of US power may underestimate the other distinctive quality of the post-war international order that is of particular importance for the purposes of this essay: international financial relations under the original Bretton Woods regime were comparatively highly regulated, capital movements were relatively small, and exchange rate movements were managed - largely through the efforts of the IMF. In the early phase of American hegemony, and as a consequence of its perceived role in triggering the inter-war economic crisis, international finance was seen as potentially dangerous, and something that needed close regulation (Helleiner 1993). In the immediate post-war period, the US was prepared to play a stabilising role in a system that revolved around a fixed notional value for the American dollar relative to gold. However, when this policy became increasingly unsustainable because of the US's deteriorating geopolitical and economic position, it was abruptly abandoned, ushering in an era of floating exchange rates and the exponential growth of financial markets.

While this story is by now well known, it merits brief recapitulation, because it is sharply at odds with the current situation. Not only has the role and arguably the legitimacy of the United States as a stabilising force changed as a consequence of events it set in train when it 'closed the gold window' and effectively terminated the old order (Gowa 1983), but the underlying dynamics of the system have changed in important ways, too. The historical development of the IMF, which has seen it evolve from a mainstay of a regulated system of financial relations, to a position in which it is a champion of greater deregulation and market-determined exchange rates, is emblematic of this transformation (Pauly 1997). In effect, the period from the demise of the 'old' Bretton Woods order in the early 1970s until September 11 saw inter-governmental organisations like the IMF become increasingly important elements of the IFGS. Significantly, however, this did not necessarily mark a decline in the power or influence of the United States. On the contrary, American hegemony and the norms and principles associated with the 'Washington consensus', were institutionalised within, and promoted by, a number of key international financial institutions (IFIs) over which the US exercised a disproportionate, but arms-length influence. The recognition that the IFIs were not independent, but closely associated with a particular set of ideological assumptions, policy prescriptions, as well as sectional and national interests (Bhagwati 1998; Woods 2003), generated a undercurrent of opposition to IFI policy, ultimately providing part of the impetus for calls for a new institutional architecture.

Theoretical implications

Paradoxically enough, therefore, there has been a fundamental transformation in the way the IFGS operates during the last fifty years or so, but one that is shot-through with important continuities – the most important of which is the persistence of American hegemony. Conceptualising such changes - especially the crucial role played by the US in either directly shaping or underpinning particular international orders – is, therefore, no simple matter. However, one of the most striking differences between the original Bretton Woods system and the subsequent order that emerged during the 1970s was the degree of intentionality that characterised the first period: the Bretton Woods institutions were the purposeful creations of the victorious capitalist powers and what we might now call policy entrepreneurs like Harry Dexter White and Maynard Keynes (Ikenberry 1992). The post-Bretton Woods order, by contrast, developed in a much more ad hoc, unplanned manner. This basic distinction provides a useful point of departure for making sense of the various phases of American dominance and their impact on the workings of the IFGS, and for thinking about the possible development of institutions like the G20 in the context of a more unilateral exercise of American power.

The two broad phases in the development of the IFGS and in the evolution of American hegemony are important because they highlight the different, inter-linked constitutive dynamics that underpinned them. Whereas the American government played a central role in directly shaping the early post-war order, the latter period has been characterised more by government-at-a-distance,[1] in which both the increasingly powerful inter-governmental institutions established at Bretton Woods and a greatly expanded private sector have played much more prominent parts in the IFGS. There was a certain inevitability about this turn of events: in a system in which the dominant actor had unilaterally abrogated the sort of pivotal role it played in the earlier system, and in which transnational financial interactions and integration were expanding rapidly, there was a systemic, functional necessity for the provision of a regulatory infrastructure to allow cross-border financial relations to expand (Cerny 1995). In the absence of a more directly interventionist system dominated by the US, other forms of regulation needed to be developed. It was not obvious what form this would take, however, nor how American hegemony would operate within this evolving context.

There is a substantial literature that seeks to conceptualise the nature of hegemony from a number of distinct and potentially incompatible perspectives (Beeson forthcoming). For our purposes, however, what is significant about these diverse approaches is that they have the capacity to illustrate different phases in the development of the IFGS, the different dynamics at work within them, and the nature of American power at different historical moments. They also have the potential to highlight the challenges facing emergent organisations like the G20, which must seek to accommodate the potentially incompatible objectives of American foreign policy, the policy preferences of the controllers of mobile financial assets associated largely but not exclusively with the US, and the hitherto neglected and unrepresented interests of the emerging market economies - to say nothing of the world's poor and disenfranchised.

Although 'realist' theorists of hegemony are notoriously deficient in their analyses of the domestic sources of international behaviour generally, foreign policy in particular, and the importance of non-material influences in the operation of the international system, realist analyses do provide a useful reminder that the wider geopolitical system, and narrow calculation of 'national' strategic interests can become the dominant characteristic of hegemonic power at particular moments in history (Mearsheimer 2001). This was plainly the case for much of the Cold War, and has become increasingly important once again in the context of the 'war on terror', which has witnessed a concomitant re-securitisation of American foreign policy.[2] What these sorts of analyses fail to provide, of course, are convincing explanations of the way hegemonic policy preferences are pursued, institutionalised and realised in non-military contexts. Liberal theorists have been at the forefront in developing explanations of America's ideational and cultural hegemony or 'soft power', and the benefits that flow from it as a consequence (Nye 2002). Plainly, if allies and followers can be persuaded of the attractions of American 'leadership', this potentially reduces the transaction costs associated with dominance.

What is generally not apparent in many liberal readings of American power, however, is that it is not necessarily benign, desirable or universally welcomed.

It has been the ability of critical theory to account for America's ideological dominance in the face of potential opposition, as well as doubts about the efficacy and neutrality of the policies it has promoted – either directly or indirectly through the IFIs – that has given it greater analytical purchase. Robert Cox's (1987) influential depiction of the interaction between material, ideational and institutional forces, remains an important starting point in attempting to understand the development of the IFGS. And yet the precise way hegemonic influence is realised is more complex than some of Cox's early formulations imply: the sort of ideational/ideological hegemony implicit in such Gramscian-inspired readings has never been entirely realised in the way we might expect. This is a potentially serious difficulty for critical readings of American hegemony because of the emphasis Cox (1987: 7) placed on elite support of the dominant ideology in both the core and the 'periphery'. It is especially striking that in parts of East Asia, for example, there has been long-standing and continuing opposition to both the Washington and post-Washington consensus (Beeson and Islam 2005), despite the apparent ideational dominance of neoliberal ideas associated with the US and its institutional allies.

One way of conceptualising the inter-play of hegemonic power and acquiescence (or even resistance), is to think about the formation of specific regimes of governance and the role played by particular institutions within them. Specific institutions like the IMF, the World Trade Organisation and the World Bank clearly play a critical role in defining and promoting 'the sets of implicit or explicit principles, norms, rules, and decision making procedures around which actors' expectations converge' (Krasner 1983: 2). The point to emphasise, though, is that some actors clearly have a much greater capacity to shape such rules and principles than others. Not only are some governments rule-takers rather than rule-makers (Beeson and Bell forthcoming), but private sector actors like multinational corporations can cooperate with powerful governments to shape the international regulatory environment to reflect their interests (Sell 2000). Even more importantly for the purposes of this discussion, some areas of the world are seriously under-represented in key institutions like the IMF. Even East Asia, which we might expect to enjoy a prominent position in such institutions on the basis of its increased economic weight alone - to say nothing of compelling demographic considerations - remains remarkably under-represented (Rapkin and Strand 2003).

This inherent institutionally-embedded disparity of power and influence, in which the developed economies of the Untied States, and to a lesser extent Western Europe, dominate the key decision-making bodies of the IFGS is compounded by the explicit, highly influential proselytising and policy-making roles of the IFIs. Again, East Asia illustrates how even a potentially powerful region can be constrained by the actions of other governments and private sector actors. On the one hand the East Asian crisis highlighted just how vulnerable the region was to the new economic dynamics that underpin the international financial system, and the political leverage that could be applied to the region in the context of crisis management (Wade 2001; Beeson 2003). What was equally noteworthy, however, was the way in which the IFIs (with American backing) took the opportunity to attempt the 'discursive demolition of the East Asian development model' (Hall 2003). In other words, despite East Asian elites frequently being unconvinced about either the wholesale adoption of 'Anglo-American' modes of economic organisation, or the complete abandonment of their own alternatives, the combined political and ideological assault on the part of the US-backed IFIs have helped to entrench neoliberal ideas across the region (Ravenhill 2004).

What we have witnessed in the IFGS, therefore, are two broad phases of American hegemony in which the US has moved from directly shaping the institutional architecture and its operational principals, to one in which it has increasingly operated at a distance. In this latter period policy development and institutional evolution has been comparatively ad hoc, and seen a greater array of players becoming part of the decision-making and regulatory processes (see Braithwaite and Drahos 2000; Cutler et al 1999). Crucially, however, the expansion of actors has not necessarily worked to the advantage of the developing world, or even those OECD countries that favour policy reforms that are at odds with Anglo-American orthodoxy promoted by the US and its institutional allies. The key question, therefore, is whether new institutions like the G20 can actually provide a forum in which genuine, open-ended dialogue about policy (see below) and possible reform of the international financial architecture can occur. This is an especially pressing concern given that we may be at the beginning of a third phase of American hegemony, one that shares the preoccupation with geopolitics that distinguished the first period, but which is increasing unilateral, rather than based on the multilateralism that was so distinctive of the immediate post-war period.

The Development of, and Prospects for, the G20

The G20 emerged alongside the Financial Stability Forum (FSF) as a direct consequence of a series of financial crises in the late 1990s. In addition to the members of the G7, the G20 contains a number of 'emerging market' economies that were especially badly affected by the crises,[3] as well as 'middle powers' like Australia, which have been associated with policy innovation in the finance area. From the outset the two organisations had quite distinct roles. The FSF is 'designed to coordinate the interests of industrialised and emerging market economies concerning regulatory issues', while the G20 'seeks to facilitate direct and open debate about architectural issues' (Germain 2001: 416). Germain's formulation is useful as it highlights the quite different logics and political dynamics that potentially inform the two organisations. On the one hand the FSF may be thought of as a mechanism for resolving the seemingly inescapable, functionally necessary 'technical' requirements of coordinating increasingly large scale transnational movements of financial capital. On the other hand, the G20 reflects and gives expression to the more explicitly political considerations that inevitably surround all regulatory issues: the specific membership of the G20 may be somewhat arbitrary and owe something to contingent circumstances, but its make-up primarily reflects a self-conscious desire to make the 'new financial architecture' more politically inclusive and potentially reflect a greater diversity of views. For this reason the G20 provides a particularly useful laboratory within which to examine the dynamics of international cooperation in the context of evolving American hegemony.

Debating the G20

It is worth emphasising at the outset, that the G20 largely owes its existence to intertwined changes in the nature of the IFGS and American hegemony. As we have seen, the IFGS had been moving toward a situation in which intergovernmental organisations played a more important regulatory and proselytising role, and in which – until S11, at least – American power was less overtly interventionist and arguably more institutionally constrained. Two factors provided crucial catalysts for the further consolidation and continuing institutionalisation of international cooperation, of which the G20 is a quintessential expression. First, the East Asian crisis sparked an important and continuing debate about the nature, effectiveness and stability of the international financial architecture. Simply on 'technical' grounds it was clear that there were powerful reasons for questioning whether the liberalisation of capital flows in emerging market economies was beneficial when rapidly changing market sentiment could effectively decimate even comparatively well-run economies virtually overnight. At the very least, events like the East Asian crisis drew widespread attention to the question of 'sequencing' (Caprio et al 2000), or the need to develop sound financial institutions and mechanisms of regulatory oversight before wholesale capital liberalisation occurred.

The second factor that sparked debate about the nature of the international financial architecture was longer-standing, but was given additional impetus by the financial crises of the late 1990s (Kenen 2001). For a number of years critics in the developing world and 'global civil society' had drawn attention to the inequitable impact of decision-making within the key institutions of what were becoming increasingly global processes of governance (O'Brien et al 2000). The East Asian crisis in particular not only had the effect of highlighting the impact of questionable policy initiatives emerging from the IFIs, but expanded the debate significantly to include members of the IFI establishment, like ex-World Bank chief economist, Joseph Stiglitz. Not only did Stiglitz (2002) provide a scathing critique of the World Bank's sister organization, the IMF, but he suggested that its discredited policy prescriptions flowed from its unhealthily close, self-serving relationship with 'Wall Street'. The concomitant championing of capital account liberalisation, no matter how inappropriate it may be for particular countries, was seen as a direct consequence of this political and economic nexus.

This claim about the relationship between supposedly independent inter-governmental agencies and particular economic interests overwhelmingly associated with a specific country is important for a number of reasons. First, some observers have argued that decision-making processes in the emerging international financial architecture have become ‘genuinely intergovernmental’ (Germain 2001: 421). In this context, it is argued, institutions like the G20 are key expressions of, and mechanisms for, the ‘politics of inclusion’, in which ‘emerging market economies are able to affect the way in which the global financial system is governed’ (Germain 2001: 421). Likewise, it is the expectation that the regulatory initiatives of the G20 will reflect a plurality of views and emerge as a consequence of open-ended discussions in which participants have an equal opportunity for policy input that leads Porter to emphasise the potential importance of the G20 as an instrument of discursive legitimation. However, as Porter perceptively observes:

> The FSF and the G20 are not simply the result of powerful states or business actors autonomously pursuing their interest. Nor do they result from a more horizontal process of bargaining in which states collaborate for their mutual benefit. Rather *they were created by powerful states to obtain voluntary compliance of weaker states* (Porter, mimeo – emphasis added).

In this interpretation the politics of inclusion are certainly important, but not because the international financial system throws up technical challenges that can only be resolved through the participation of all affected actors. Rather, the politics of inclusion is crucial to provide an ideological legitimacy for the preferences of the powerful by clothing them in the language of participation. Despite all the rhetoric about the importance of inclusion and participation, therefore, as Armijo (2002: 53) pithily observes, the reality seems to be that ‘the shape of the current debate over reform primarily reflects the distribution of elite opinion within the United States – not in the larger world’. And yet, while the US and particular interests associated with mobile capital may desire to promote a particular neoliberal policy framework based around agendas of capital opening and transparency, the key question to be empirically determined is whether they have the capacity to do so – particularly if there is a functional requirement to include other countries and actors that may have quite different views about the future course of regulatory reform.

The key issues at stake in these competing versions of an IFGS, therefore, essentially revolve around the competing underlying logics regarding what might be called the 'politics of coordination' and the 'politics of inclusion'. Increasingly, the international financial system itself entails heightened levels of integration and greater exposure to shared vulnerabilities regarding financial calamities, whilst the IFGS confronts the problem of multiple national authorities operating in an increasingly integrated global financial system. The corollary of effective governance in such a situation therefore implies collective responses and coordinated activity across countries, particularly in terms of information flows, regulatory cooperation and a broader shared vision of how the system should be managed. Increasingly, this appears as a structural characteristic of the system, entailing as it does a 'strong functional argument' for the politics of coordination (Germain 2001: 414). An apparent functional corollary of this entails the politics of inclusion, in which a range of key stakeholder countries are brought into an institutionalised consensus forming, if not decision making, arena. The aim, of course, is to mobilise effective collective action across countries and to provide a legitimate basis (via inclusion) for joint action. As Paul Martin (2001), Canada's Prime Minister, and a major advocate of the G20 has argued, new rules and policies pertaining to an IFGS 'will work only if the developing countries and emerging markets help shape them, because inclusiveness lies at the heart of legitimacy and effectiveness'. Evidence that there are structural and related functional logics underpinning arguments about how to construct an effective IFGS also come from writers such as Fred Bergsten (2004) and others (Bradford and Linn 2004), who argue that extant policy coordination problems combined with the rapid rise of powerful economies like China and India means that there is little choice (either now or eventually) but to include such actors in the IFGS.

The crucial issue, however, is whether such countries will comply with the sort of agenda that has been promoted by the US and the IFIs, or whether other more 'interventionist' models and policy innovations will be canvassed and possibly adopted. Thus far there is evidence that the US sponsored neoliberal model involves coordinated efforts primarily aimed at promoting policies such as capital liberalisation, as well as joint regulatory and transparency agendas. Yet the neoliberal agenda as primarily promoted by the US (and like-minded allies), is relatively hierarchical, and is essentially a form of hegemonic influence exercised through institutions. In other words, as currently constituted the G7, and perhaps the G20, are venues through which American (or more broadly western alliance) power is exercised and its dominant position maintained. If this reading is correct, the G-20 becomes a forum for 'incorporation' rather than genuine inclusion. Indeed, as Porter (2000: 17) argues, the G-20 should be seen as a forum for selling and 'legitimating G-7 policies', that 'will in the immediate future continue to be a mechanism for upgrading the involvement of non-G-7 countries while maintaining careful limits on their power'.

Yet it is clear that there have already been tensions and conflicts within the G-20, largely between those who advocate continuing neoliberal reform and those who favour greater stabilisation (eg. Agence France Press 1999). As Armijo (2002) has pointed out, there are fundamental and potentially irreconcilable differences between those who advocate policies which are primarily market driven and which reject government 'interference' (laissez-faire liberalisers, in his terms), and those who advocate greater intervention and stabilisation of a system that is judged to be inherently crisis-prone. The crucial point to emphasise in this context is that if the 'stabilization agenda' is taken seriously, it requires the coordinated, cooperative participation of member states to underwrite possible regulatory mechanisms like: Tobin taxes, capital controls, private sector bail-ins, or the establishment of an international lender of last resort (Armijo 2002). The stabilisation agenda thus poses a direct challenge to US-style dominance as it necessitates institutional reform and power sharing on a wider multilateral basis. In this case, the 'politics of inclusion' is not simply a fig leaf for continuing American cum neoliberal dominance, but a genuine, functionally necessary reform that requires more equitable and widespread participation in the IFGS. The G20 is a key site within which these contradictory goals and trends will be debated and perhaps resolved.

The development of the G20

The G20 is essentially a creation of the G7, and its inauguration in 1999 is a reminder of the extant distribution of power in the international system: without the imprimatur and active participation of the dominant powers in the IFGS, it is difficult for new groupings to emerge that will have some realistic prospect of influencing policy debates or actively participating in regulatory processes. The G7 had already begun to pay more attention to issues of financial regulation and management from the mid 1990s, but the G20 emerged as a consequence of the ad hoc activities of the G22, the membership of which was determined partly by policy activism in the area of financial regulation, and partly by the US acting 'unilaterally and peremptorily' (Porter mimeo: 11). The US effectively established the G20 in the same way that it had created the earlier G22 and Willard Group, demonstrating its unique capacity to bypass or create new organisations, and operate unilaterally or multilaterally as it chooses (Foot et al 2003). Despite this potentially inauspicious start in which the nascent organisation owed its existence to an exercise of hegemonic influence, and despite the fact that the G20 has only been existence for a very short time, it has, according to some observers, shown some capacity for an 'autonomous impact' (Kirton 2005: 3).

In this regard the G20 clearly benefited from having Canadian Finance Minister Paul Martin as its inaugural chair. Martin enthusiastically promoted the initial division of labour envisaged for G20 and the FSF, in which the latter would handle the technicalities of coordinating international financial sector regulatory arrangements, whilst the G20 provided a forum for consensus-building and debate about 'big picture' policy issues. The inaugural Ministerial conference in Berlin in 2000 provided precisely the sort of free-ranging discussion that Martin had hoped for, and significantly established the idea of consensus-based approach to decision-making which, according to Kirton (2005: 7) 'eroded any initial hope or fear that the G20 would be a forum for the rapid legitimation of US-bred, G7 approved ideas for IMF and international financial system reform'. In other words, if the G20 debates were truly open-ended and the decisions making process was one which reflected some common ground between all participants, then the ability of a single country to force compliance in particular issue areas would necessarily be constrained. Subsequent meetings, especially the Montreal Ministerial of October 2000, were instrumental in consolidating the G20's wide-ranging and 'progressive' agenda. From the outset, and directly reflecting the G20's diverse membership, the G20 has concerned itself with the sorts of normative and distributional questions that are associated with the negative impacts of global processes, but which have hitherto generally been the subject of pious platitudes, rather than substantive reformist initiatives. Given that the G20 has set itself the ambitious task of attempting to 'manage globalization' in a way that retains the benefits that are expected to flow from increased economic integration and the diffusion of democratic norms, while ameliorating the negative effects of global competition, a fundamental test of its efficacy will be its ability to play a significant role in issues such as debt relief and the achievement of the Millennium Development Goals – topics that have been canvassed at G20 meetings and which enthusiasts consider as indicative of the grouping's distinctive potential role in bridging the gap between various constituencies in the international system.

At this stage, however, and despite the increased frequency with which meetings of members have been held, the expansive nature of its discussions, and suggestions that it should be upgraded to a regular leaders' meeting, even some of its most ardent and persuasive admirers concede that at this stage there are 'few signs that the G20 had become, or was even trending toward becoming, an institution strong enough to replace the G7/8 at the level of either the finance ministers or leaders themselves' (Kirton 2005: 20). Thus far, therefore, the G20 appears to have been useful primarily as an intermediary mechanism for transmitting the basic principles that have informed the G7/8 to a wider and more diverse array of countries. As such, it is not yet clear whether it can develop new regulatory initiatives that are more reflective of the ideas and values of the wider grouping (including those supporting a stabilisation agenda), or whether it has the capacity to implement an agenda that it is at odds with the policy preferences of the hegemon.

The G20 and hegemonic instability

There is one key issue that illuminates both the capacity of the G20 to act in a counter-hegemonic fashion, and the way hegemony itself operates in different circumstances. As Fred Bergsten (2004: 33) notes, one of the most important - but most neglected – policy questions in the contemporary international political economy is the management of exchange rates. It is an issue, Bergsten argues, that the G20's membership makes it possibly uniquely qualified to address. And yet, if it is to do so, it will need to confront a number of issues that are so fundamental to perceived 'American interests' that is doubtful whether, absent a major systemic crisis, institutions like the G20 are likely to have much impact. At the very least, it presents a clear test case of the G20's potential efficacy.

Recognition of the US's dependence upon inflows of foreign capital to underpin domestic consumption and its overall budgetary position is not something that is any longer confined to 'radical' scholars.[4] Despite the fact that the dangers inherent in recent American policy are becoming more widely understood, it is worth briefly spelling out some of their key features as they highlight the possible limits to multilateral cooperation and the different strategies that are open to hegemonic powers. The first point to make is that the US's dependence on foreign capital is not necessarily a sign of vulnerability and weakness: US indebtedness is uniquely also a source of structural power that goes beyond the well-known benefits that flow from controlling the world's reserve currency.[5] The major sources of capital inflows to the US – Japan and increasingly China – are also two countries which depend on continuing access to American markets. Despite the US's apparent vulnerability to changes of sentiment in East Asia about the advisability of holding depreciating American assets, therefore, Japan and China will be reluctant to initiate a large scale diminution of their investments in the US for fear of precipitating the very crisis they fear. In other words, both sides are locked into a symbiotic relationship upon which they all depend, but which looks unsustainable in the long term.

Given the wider geopolitical context in which this set of relationships is embedded, and given the privileging of security concerns under the current Bush administration, it seems unlikely either that the source of this dangerous structural imbalance – American profligacy and indebtedness – will be seriously addressed by American policymakers, or that organisations like the G20 will have sufficient leverage to manage a negotiated outcome that seriously impinges on American autonomy. Indeed, it is significant that some of the key East Asian members of the G20 are moving to diversify their holdings of foreign currency (*The Economist* 2004). Of possibly even greater long term significance is the fact that Japan and China are also exploring regionally-based cooperative currency mechanisms with which to ward off future crises (Henning 2002), rather than rely exclusively on more geographically diverse mechanisms like the G20, which may still be directly or indirectly dominated by the US. Indeed, it is important to recognise that the US is not necessarily viewed as a benign source of hegemonic stability and certainty in East Asia, but – especially in the wake of the financial crisis of 1997/98 - as a country that it is prepared to pursue its perceived national interests directly and through the auspices of the IFIs (Bowles 2002).

In short, the Bush administration has demonstrated a general hostility, or at best, selective support for multilateral institutions. Such behaviour does not suggest that the US will be prepared to abide by any G20 resolutions that constrain its freedom of action in the interests of overall systemic stability. On the contrary, far from being a source of stability, American hegemony is potentially a source of major instability. The demise of the original Bretton Woods regime serves as a salutary reminder that in extremis, American foreign policy is likely to reflect narrowly conceived national interests first and foremost, rather than systemic ones – especially at a time of heightened national insecurity. Crucially, the sort of geopolitical constraint that the confrontation with the Soviet Union provided when the Bretton Woods system was at its most effective and institutionalised no longer applies, and American foreign policy has, in the words of one perceptive observer, become like 'a geostrategic wrecking ball that will destroy America's own half-century old international architecture' (Ikenberry 2004: 7). At a time when the US arguably presents the single greatest threat to the long-term stability of the international financial system, but when it is governed by an administration that has shown itself especially unwilling to be constrained by external agencies and agreements, the prospects for the G20 to act as an agent of reasoned, plurilateral and effective policy advice looks rather bleak.

Concluding remarks

The contemporary IFGS displays some noteworthy paradoxes, some striking echoes of the past, and some enduring tensions between its functional requirements and its circumscribed capacity to deliver meaningful policy initiatives. The paradoxes revolve around the US's highly ambiguous position as the both the central pillar of a highly institutionalized, cooperative, multilateral order, and its simultaneous role as a 'geostrategic wrecking ball'. At the very least this would seem likely to undermine the sort of legitimacy that was such an important part of the effective operation of the earlier Bretton Woods system, and upon which the consensus-oriented operational style of organizations like the G20 would seem to depend. If the principal architect and guarantor or a liberal, rules-based system cannot be relied upon to subscribe to the normative order it has so assiduously championed, then the future of cooperative multilateralism would seem to be in doubt.

And yet, it is also clear that there is a requirement for some degree of international cooperation to ensure the continuing international economic integration and coordination. The question is upon what basis this occurs. What the history of institutional innovation in the post-war period seems to suggest is that the direction and configuration of the international system will inevitably reflect the geopolitical priorities of the hegemon at particular moments, as much as it does any strictly functional requirements. In this context the parallels between American policy in Iraq and Vietnam are not confined to the military sphere: it is important to remember that in the late 1960s and early 1970s the US experienced a similar period of 'fiscal overstretch' that culminated in a major, unilateral shift in foreign policy and a concomitant transformation of the entire IFGS. It is not inconceivable that a similar process may be unfolding as a consequence of current fiscal imbalances, which may produce similarly systemic changes as a consequence (Ferguson and Kotlikoff, 2003).

All this suggests that hegemonic powers do not necessarily act in ways that are inevitably stabilizing, let alone altruistic. Nor is their status as the dominant power of the era necessarily as dependent on legitimacy and the inculcation of a specific normative order as some observers might like to believe (Rues-Smit 2004). On the contrary, the Bush administration finds itself in the remarkable position of unilaterally threatening the stability of a system it effectively created, and which continues to deliver it disproportionate benefits, despite the impact this will have on both its own legitimacy and the legitimacy of the multilateral order with which it is associated. If the institutionalized, multilateral cooperative architecture of the IFGS and the contemporary international order more generally cannot constrain hegemonic power it does not bode well for the ability of organizations like the G20 to generate and implement the sorts of policy innovations that appear to be so badly needed, but which are likely to be resisted by the current hegemonic power, absent a system-changing crisis.

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Endnotes

[1] This formulation has been employed in a number of 'post-structural' accounts of new modes of governance in a number of OECD countries. Government is usefully distinguished from simple 'dominance', and occurs through intervening institutions and practices, producing a form of self-regulation. While the parallels are not exact, this sort of conceptualisation does provide one way of thinking about the less state-dominated forms of control and regulation that characterise the contemporary IFGS. See Rose (1999), and for an interesting attempt top apply notions of 'governmentality' to the international sphere, see Lipschutz (2002).

[2] Paul Wolfiwitz's nomination to head the World Bank is a telling illustration of the way strategic interests and actors can spill-over into other areas in ways that seem likely to make international economic governance subordinate to long-term geopolitical objectives.

[3] Specifically, in addition to the original members of the G7 (the US, Britain, France, Germany, Italy, Canada and Japan), the G20 includes Russia, Turkey, Saudi Arabia, South Africa, China, South Korea, Indonesia, India, Mexico, Argentina, Brazil and Australia.

[4] The implications of the US's increased indebtedness and budget deficits has become a subject of increasingly commonplace speculation and is reflected in the – thus far orderly – decline in the

value of the dollar. For one of the most important recent analyses of the American economy and its long-term structural problems, see Brenner (2002).

[5] For an original interpretation of the paradoxical benefits that accrue to the US as a consequence of its indebtedness, see Seabrooke (2001). On the more conventional benefits associated with 'seigniorage', see Cohen (1998).

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Centre for the Study of Globalisation and Regionalisation

University of Warwick
Coventry CV4 7AL, UK

Tel: +44 (0)24 7657 2533
Fax: +44 (0)24 7657 2548
Email: csgr@warwick.ac.uk
Web address: http://www.csgr.org