

**THE GLOBAL ECONOMIC CRISIS: A STEP FORWARD  
TOWARDS BETTER GLOBAL GOVERNANCE OR GLOBAL  
GOVERNMENT?**

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**Abstract**

*The paper analyzes the implications of the current global economic crisis for the decision making mechanisms and interactions among the major players. The analysis explores the possibility that the changes implied and required by the economic crisis may lead either to a better global governance or even a step closer to a possible, virtual, global government.*

*Keywords: global economic crisis, global governance, global government.*

**A philosophical perspective of the crisis**

The world economy is witnessing for the past months the beginning of one of those significant moments when the only sure thing about its future is the fact it will be different. It all started like a financial crisis in the United States but, driven inexorably by the intertwined forces of globalization it soon became a global financial crisis and then, like by the book, it became an economic crisis.

A lot has been already written about the causes and consequences of this crisis but we want to deal here with a different perspective: that of the structural changes in the institutions, decision making mechanisms and balance of power at a global level.

Before going any further maybe it is worthwhile to reflect a bit on the term “crisis” itself. Coming from the Greek “krinein” – meaning “to decide” it means “an unstable or crucial time or state of affairs in which a decisive change is impending” or “ a turning point for better or for worse”<sup>1</sup>. Therefore a first important thing is that a crisis is moment in time, it is not an era, a long period of time, a state of fact. Second, a crisis a real crisis is about a decisive change, not just about a problem to be solved while the things return to their previous state of affairs. Third, the crisis implies almost intrinsically a decision, the crisis is not the decision itself, but the decision is unavoidable because of the crisis.

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<sup>1</sup> [www.merriam-webster.com](http://www.merriam-webster.com)

To sum up, a global economic crisis means, just by the very analysis of the words meaning:

- a moment of instability, of threat;
- when a decision is to be made even if we like it or not;
- the post crisis state of the economic system will be different in comparison with the initial one;
- and all of the above in a global economic context.

### **The global economic crisis of today and the post-war economic paradigm**

After the second world war and particularly after the '80s, the developed countries adopted more or less consciously a paradigm of development based on a fast replacement of goods and ever larger use of services, beyond current needs. The paradigm itself became a sort of model for other countries, be they in Central and Eastern Europe after 1990 or in other parts of the globe, even if at a lower and limited scale (Russian Federation, China, India).

The paradigm was based on the consumerist approach but enlarged at an unprecedented scale. The mechanism was simple: people obtained easy money from credits and they bought more products and services than they needed or replaced them much faster than physical or moral depreciation. It was not unusual to see people change their mobile phone or laptop very 6 – 8 months, to replace the TV sets or DVDs every year and their cars every 3 – 4 years. The surge in demand generated a good opportunity for the supply side to work at full speed which, in turn, meant more jobs, higher salaries and more creditworthiness for the respective employees who, in turn, could obtain more credits, buy more goods and services, create or maintain jobs, and so on.

A real virtuous circle, it seems.

But, for how long ? And on what scale ? Or for how many people, for how long ?

The first problem with that model was that it was not sustainable for several reasons related on a fundamental level to the second law of thermodynamics<sup>2</sup>. In a simple way, this second law deals with entropy which is a measure of unavailable energy (so called bound energy, for instance energy heat energy contained in soil or sea water, an energy we can not normally use). If human society wants to put to use in its interest the unavailable energy, other free energy from outside its system has to be used. As result, the total quantity of unavailable energy in the universe increases.

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<sup>2</sup> Nicholas-Georgescu Roegen, The Entropy Law and the Economic Process, Harvard University Press, 1971.

The above considerations may seem a bit abstract but they had a significant impact on economics and particularly led to the concept of bio-economy, or in today's jargon, to sustainable development.

And now, let's put to use the entropy concept. The paradigm described above implied the ever larger use of energy and materials for more and more goods and services to be used primarily in the developed countries and to less but growing extent in the developing ones. The result implied more entropy, that is more unavailable energy, more pollution and even climate change.

At the same time, it required the "import" of available energy from outside the initial system (the developed countries). From this perspective, globalization has been an objective phenomenon, as no high development or maintenance of high living standards in already developed countries could not be obtained without the "import" of available energy from other parts of the world which, in this way, became themselves parts of the system. The functioning of such a system requires to "bring in" more and more parts of the world and thus the system (the economic system) becomes larger and larger. In current terms we can speak in fact about a more and more integrated system rather than about a larger and larger system.

The question is what happens when all parts of the globe are integrated to a high intensity level of consumption of available energy. From the point of view of a physicist the answer is simple: the system either stops, because all energy is bound, that is unavailable. Or, we expand the system even further, that is outside this planet. One may think this is pure science fiction. But is not, and anyone can check the existence of such plans for the past 30 years.

Now let's convert this theoretical approach to the real situation. The economic system cannot continue like that. If it was not for the financial crisis, it would have been the global climate change to stop the process. Or the fact that new countries started to consume as much as the developed ones. And humankind became one time again aware that at a given technological level it is simply unsustainable to have the same consumption for all human beings on the surface of the Earth<sup>3</sup>.

Conclusion is that the existing paradigm led to a growing instability in the economic system and that led to a crisis.

### **Dealing with the current crisis**

In dealing with this crisis there are a number of dangers of carrying our the analysis in the wrong frame of mind:

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<sup>3</sup> Donella H. Meadows, Jorgen Randers, Dennis L. Meadows, Limits to Growth: The 30-Year Update, Chelsea Green, 2004 .

- The first risk is that the analysis is done from a partial point of view, not a systemic one. This is not just a financial crisis, or just a energy and raw materials crisis or just a climate change crisis. It's all of them and more.

- The second risk is to oversee the paradigm crisis. It is not about how we produce and how we consume, but why we do it in the first place. In order to design a more sustainable paradigm we have to re-think what is good, what is fashionable, what is the mark of success in society. Such changes are difficult and long term, maybe comparable with the changes brought about by the Enlightenment.

- A third risk is to look only for immediate problems and therefore for immediate answers. If all what we do is to save a bank, or the automobile industry or the jobs in one industry or the other, or if we just want to preserve the status quo of the world balance of power then we do not see the real problem. And we shall think about answers to other questions than the real one.

The complexity of the current crisis and the long term implications of any possible solutions require unprecedented communication and coordination among many transnational actors. While various debates already took place on various issues (like trade in World Trade Organization or climate in IPCC – Intergovernmental Panel on Climate Change of the United Nations) or summits were organized on global issues (like G – 8 or more recently G – 20 or World Economic Forum) this crisis require a true global governance in the sense of permanent collective efforts to identify, understand and address global issues that go beyond the capacity of individual states or actors to solve.

### **Global governance – it's a must**

Global governance can be defined in a common sense as “the political interaction of transnational actors aimed at solving problems that affect more than one state or region when there is no power of enforcing compliance”<sup>4</sup>. In the past decades globalization itself required more and more such interactions and raised issues which could not be settled within the state centered government system.

What is different now is the scale of the problems and of their solutions. No single actor can solve this crisis because the solution requires a new paradigm which has to be widely accepted. No single summit of the 20 largest actors can solve the problem either.

Maybe for the first time ever the solution require very large competing actors like United States, Russian Federation, China and India, or new comers at that global stage like Brazil to really decide together and accept a new reality.

The G 20 Leaders Summit on Financial Markets and the World Economy which took place on November 14–15, 2008 in Washington, D.C. carried in itself

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<sup>4</sup> [www.wikipedia.org](http://www.wikipedia.org)

a two parts message: United States is still an important actor on the global scale. But the world of today is more and more a multi-polar world.

Maybe the significance of the G 20 Leaders Summit on Financial Markets and the World Economy is that in the world economy of today is no longer significant who owns the car, but rather who has the steering wheel. Or who advises the one who has the steering wheel.

Anyway, this economic crisis is a significant catalyst for a serious consideration of global governance and for its operationalization, that is for accepting it openly and creating a true operational mechanism for it. The fact that global governance is a serious issue can be proved by the serious institutions dealing with it like:

- The Center for the Study of Global Governance at the London School of Economics<sup>5</sup> established in 1992;
- Global Governance Project established in 2001<sup>6</sup>;
- Global Governance Watch<sup>7</sup>;
- The Centre for International Governance Innovation (CIGI) established in 2002<sup>8</sup>, to name but a few.

One of the most comprehensive approaches to global governance is to be found with the Global Governance Project which has a three tier approach<sup>9</sup>:

First, global governance as characterized by the increasing participation of actors other than states, ranging from private actors such as multinational corporations and (networks of) scientists and environmentalists to intergovernmental organizations ('multi-actor governance').

Second, global governance as marked by new mechanisms of organization such as public-private and private-private partnerships, alongside the traditional system of legal treaties negotiated by states. Third, global governance as characterized by different layers and clusters of rule-making and rule-implementation, both vertically between supranational, international, national and sub national layers of authority ('multi-level governance') and horizontally between different parallel rule-making systems.

In view of the above, we may conclude that the crisis generated a lot of dialogue and reflection and that global consultation among all relevant actors is a must, it is already happening and by mere repetition will lead to a certain form of institutionalization.

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<sup>5</sup> <http://www.lse.ac.uk/Depts/global/>

<sup>6</sup> <http://www.glogov.org/?pageid=2>

<sup>7</sup> <http://www.globalgovernancewatch.org/about/>

<sup>8</sup> <http://www.cigionline.org/>

<sup>9</sup> Idem, reference 6.

## **Global economic crisis – a step closer to global government ?**

Anyway, we may go even further with the analysis and ask ourselves if the magnitude of the current crisis may even lead to more favorable conditions for a global government.

In our perception a global government is not to be seen in the near future. The strengthening of global governance is not a direct step towards global government because it happens exactly due to the lack of a global government.

What happens anyway due to the increase of the number and magnitude of issues that require consultations is the fact that sovereign actors took more and more part in decision making processes regarding global issues and thus transfer a part of their sovereignty into that inter-action.

The network of decision makers has as result of the crisis more participants and the intensity and frequency of interactions has increased substantially. IN the short run , due to pressures from general public and from industrialists it is even possible that politicians at the national level be more active, at least in large and developed countries.

## **Conclusions – Towards a new paradigm**

The inner significance of this crisis is not its magnitude and/or implications but rather its fundamental character: it is a crisis determined by the existing development paradigm and also by the evolution of the “new economy” which made obsolete the existing institutions and regulations<sup>10</sup>.

The real challenge is to define a paradigm that allow increase of consumption, at a global scale, in a sustainable way. What a task to accomplish !

Such a paradigm may appear and be accepted in stages and its birth may witness the pains of several successive crises if the approach is more centered on treating the effects rather than the causes.

Such a paradigm will involve a correlation of institutions, regulations and access to money with the information based economy and with the large scale participation of an ever greater number of people of the world to economic processes. It is not be Heaven on Earth, it is just about being sustainable.

The solution to this crisis is not be found with more or less state intervention in economy but rather with the acceptance and participation to what Schumpeter called “creative destruction.”<sup>11</sup>

The solution is to be found maybe more than ever before in cooperation and not in confrontation as this is the only way on which the ones which have been less exposed to crisis will be of help to those that were more exposed<sup>12</sup>.

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<sup>10</sup> Mary Kaldor, Crisis as a Prelude to a new Golden Age, [www.opendemocracy.net](http://www.opendemocracy.net), 31.10.2008

<sup>11</sup> Joseph Schumpeter, Capitalism, Socialism, Democracy, Harper, New York, 1975.

<sup>12</sup> George Soros, The Worst Market Crisis in 60 Years, Financial Times, January 23, 2008

At the same time, the solution, the new development model is to be found in a holistic approach that will search not only for economic solutions but also to solutions for new challenges: global governance, climate change, the energy revolution, and the rise of a multi-polar order<sup>13</sup>.

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<sup>13</sup> Andre Wilkens., The global financial crisis: opportunities for change, [www.opendemocracy.net](http://www.opendemocracy.net), 10.11.2008