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Will It Blend?

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Abstract. The Global financial system has suffered a shock since 2008 brought forth the woeful inadequacy of our international governing system. What has the world learned about governance since then? This paper seeks to develop some of operational the issues associated with international governance and why we need stronger institutions now more than ever.

Keywords: G20, WTO, IMF, Governance, International, Regulations, Oversight, Sovereignty, Collaboration, Public Policy, Relations

1. Introduction

The international financial system as it stands is fundamentally altered from the post-war era that saw the creation of the Bretton Woods Institutions. Such bodies as the IMF and World Bank that were international organizations mandated to engender cooperation and global financial stability were the sole leaders for a number of years before challenges mounted that saw the creation of counterparties, such as the FSB and G20, that would fit the changing nature of the financial world. The BWI's inspired the development of international regimes with a decidedly "western" influenced balance on the fact that the United States was the major superpower at the time. The hegemonic leadership of the social and economic order was preserved under its conservatorship.

Today's world is one of collaboration, with many different regulators and sectoral groups in theory working with the big players like the IMF, World Bank, WTO and more recently the growing power of the G20. The big picture is one that sees many overlapping institutional mandates and lack of enforcement measures which in turn lead to weak ability of these supranational bodies to conduct any kind of meaningful supervision of the international financial system. So the question raised by our presentation of "Will It Blend?" is quite apropos in light of the trials and tribulations faced by the fragmented and tenuous relationships these bodies have with one another. This paper asserts that while in the short-run no kind of effective "blending" will take place, in the long-run there will be reforms that see more productive measures of financial governance.

I was tasked with researching the IMF and thus the major thrust of work presented here will be reflected in the particular governance mechanism and role in the international framework that it plays. The IMF is tasked with overseeing the stability of the financial system through its surveillance mechanisms as well as providing emergency loans in times of crisis. The most recent case of such a loan is that of Ireland, which is suffering from a sovereign debt crisis. As an organization whose principal task is technical assistance, surveillance, and coordination of crisis management, there is some debate on whether enough was done during the lead up to the 2008 financial crisis. This is driving a discussion about the future role the IMF should take in leading the financial world, as well as shoring up its reserves so it can deal effectively with any number of situations.

While this is not an outright historical paper, it must be noted that the IMF does not exactly have a rosy history when it comes to doling out policy advice and loans. Its conditional loans in the 1980s and 1990s both in Latin America and Asia left a sour taste in many people's mouths which said that it was too ideological and didn't reflect the needs of the people on the ground. Those who faced major austerity measures, and unemployment due to the sweeping privatization of industry as a major part of said reforms did not perceive any benefit from this institution.

The role of policy advisor is only a fraction of the work that goes on behind the scenes at the IMF. It is not simply a technical institution but rather the path toward which policy advice and matters are taken up is quite political. The typical trajectory of a recommendation of policy towards its enactment is long and involves a number of steps before adoption. The IMF must legitimate its existence by involving its member states, academic economists, and the private sector at the elite level. The various motivations behind so many of these actors already lead to political calculation when giving policy recommendations. For example, a proposal by the IMF could be met with a great majority of support from the member states but could be widely condemned by both the academic and private sector. Therefore apart from the theoretical technical role the IMF plays we can already see that within its own institution there is political squabbling.

Intra-organizational processes are often not brought to the fore of discussion on global financial architecture and I think that is a discussion we need to have. Not stuck with reforming one institution at a time, instead taking the broader view that what happens to one affects many others down the chain. In reference to our presentation please see the appendix for a look at the relationship connections between the various institutional bodies. The visual breakdown is striking in that the sheer number of bodies that interact, just at the international level. To take into account the national level bodies and political systems as well would pose a dilemma for any would be policy operator.

The level of interaction between the institutions is not as deep as it should be. The various bodies pursue their own initiatives and interact when there is a mutual benefit. There is cause for concern as they pursue divergent policy with short-term and long-term vested interests playing a part in the process. For example, the WTO representative to the IMF would be in attendance but they don't actually consult on major reforms regularly, it is more about being *in the know* as to what is going on. The WTO member would simply go back and report on the proceedings to his superiors. Similarly the World Bank delegate would also do this kind of activity.

There is some growing collaboration but not enough. The Joint Management Action Plan (JMAP) is one way that the IMF and World Bank are collaborating aside from the annual board of governors meetings. This JMAP is a good way for both countries' delegates in the IMF and World Bank to go over issues regarding division of labour as well as any pressing macro trends. The reason that this is not enough is because to meet once a year seems like they will have to look at very broad trends indeed. Moreover, the way that they issue joint-statements seems kind of vague in the similar way that the G20 sets guidelines but there is plenty of room to move within those boundaries. The IMF and World Bank in the end will both do what is in their best interest to survive. The IMF has the most pivotal role in this relationship as it can make or break any long-term plans with the short-term emergency financing. In this capacity it is also much more likely to make some kind of impact over the longer-term goals of the World Bank. The notion that one is more important than the other is a sad but true political calculation.

Opening up these institutions like the IMF to genuine participation from emerging markets, as we have seen in the most recent discussions from the G20 meeting in Seoul, will be the key factor in securing their lasting legitimacy. A Beijing Consensus or any other one for that matter need not replace the old-world politics of Washington Consensus. Rather, meaningful dialogue on the technical issues of economics free from political influence should be at the heart and soul of these institutions. They have been clouded with politics for so long, the voting rights remain a very pressing issue in the IMF. The recent G20 meeting has shown that willingness of the big players like the US to move in this regard to give more of share to emerging markets. The Anglo-American norm of financial governance with American hegemony leading the way must shift and *blend* to make room for some of the new actors on the stage, such as the BRIC economies.

Three cases whereby the unequal nature of these institutions is exemplified. The work of the IMF has been affected by the motivations of the most powerful members. Moreover, the transition of economic ideas whether it be market-led liberalization or orderly liberalization are shaped by the needs and uses of each institution. And the bureaucratic forces within the institution such as the role of self-preservation and management pressures/incentives.

Why do we need international financial institutions? We have these types of financial institutions at a national level, what is the purpose of them on the international scene? The quandary is that we will duplicate the existing structures and thus create a kind of “world government”. It is hard for these bodies to have an enforcement mechanism because the issues surrounding sovereignty will creep in. Therefore any discussion relating to the power structure of a body that does not hold direct elections and cannot be held accountable through a democratic process makes national leaders and their people uneasy. Moreover those developing nations are weary of any agenda that is set by a very small number of countries that have a big share of the world’s capital.

As mentioned, these are not purely technical institutions, and thus are run more of a political conglomerate which opens the fact that policy discourse will undoubtedly be colored and influenced by the nature and make up of that particular institution. To deny such facts would be folly in any measure moving forward. Additionally the analysis and subsequent policy implementation should be set out in such a way as to complement and facilitate the existing national institutional structures. Economic prosperity depends on our ability to regulate the shocks such as exchange rate movements, commodity price shifts, and private capital movements to name a few.

There are three main questions in the academic discussion of international political economy. The first is whether or not globalization undermines national economies by making them open to market forces beyond their control. The second is about who wins and loses in this process. And third, who will set the framework or rules that economic actors must observe? The discussion here relates to the issues of sovereignty. Thus when we debate the merits of Bretton Woods Institutions we place them first in the historical context which they were born, i.e. the US was the hegemonic power and drove the world economy as in the realist IPE perspective. Thereafter we can look at the rise of liberal IPE theory that posits that human prosperity is tied to the expansion of capitalism beyond the boundaries of the sovereign state. Finally the neo-Marxist perspective looks at how the global capitalist economy controlled by the wealthy capitalist states is used to impoverish the world’s poor countries.

As the MGPE programme gets it’s name from political economy, it would be remiss to look at the Bretton Woods legacy and its future *blending* without such debate. Instead of simply looking at the world through the political and military lens we see that this whole economic and social aspect brings in many new ideas as well as adds to the complexity of solving international relations disputes.

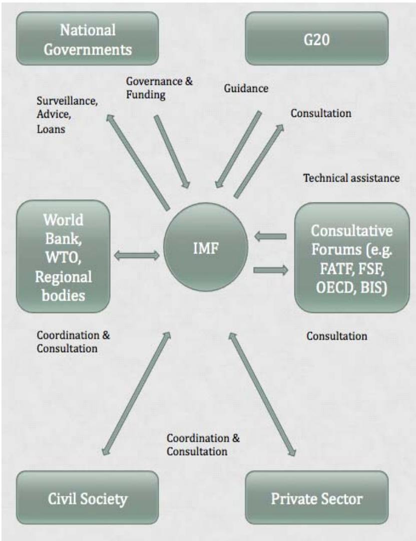
Suggestions for the IMF in particular relate to its revenue model as well as strengthening the core of its activities namely surveillance. The revenue model until recently was based on the interest payments made by previous loans. The promised injection of capital following the G20 summit in Seoul provides a great opportunity to strengthen the power of the IMF to make what Peter Kenen has called “precautionary loans” that is a loan which is given out to a country that has followed a prudent fiscal policy. This type of loan is meant to shore up against a wider contagion effect. In order to prevent any major emergency lending a concerted effort to have more effective surveillance must be made. That means increasing the transparency in certain markets, such as derivatives. The advent of a clearinghouse would do a great deal in making it fair to determine price of such structured products. The IMF can have a lead role in this capacity.

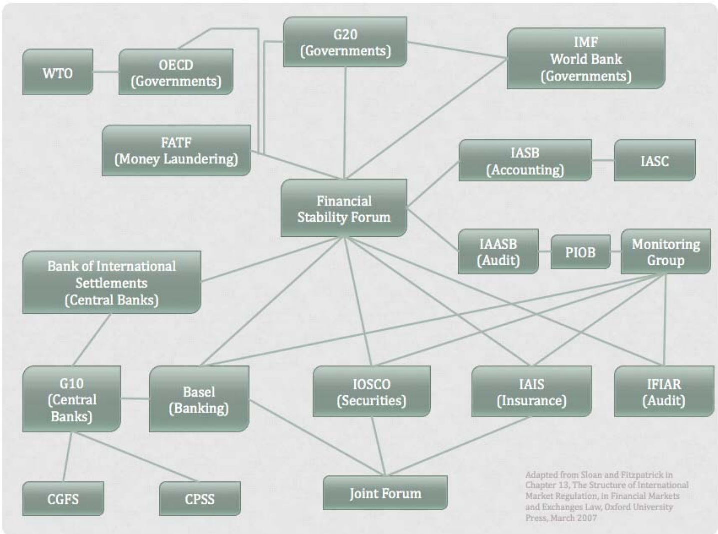
Coherence is key. The coherence between the various institutions is only as good as that within national governments. If such a centralized body as the IMF is to give advice to the central bank in South Africa, then it is reliant on that being able to be timely implemented through the government structures there. If that does not occur then the whole process will break down and prove ineffectual.

2. Conclusion

To summarize, the financial world's upheaval during the 2008 crisis was in some way to the broader publics benefit. That we should seek to learn from our mistakes of poor regulation and financial supervision, and make good on the promises from various bodies over the last two years. This reversal of exactly those policies that got us into the mess in the first place would increase financial health and encourage people to have confidence again. Such an act would be a testament to human resolve in the face of nation state politics that at times can drive the narrative in one direction and silence all other measures of reform. A holistic view of the world not only needs to be taken, but *has* to be taken. Living in the 21st century we cannot afford the luxury of simply watching what will happen but rather we should be shaping what will happen. The current climate of currency-wars and Wikileaks has proven that there is a conversation going on beneath the gaze of major news outlets and one that we must lift higher for the broader public. Something beyond diplomatic malaise and rather heated and thoughtful discussion which sees the best answer beyond politics make its way forth. Thus blending is not something that will happen in the next two or three years but is something that we should take steps to move towards over the next decade.

3. Appendix





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