GLOBAL POLITICS IN ACTION . . .

Global economic governance and the 'Great Recession'

Events: At the height of the global financial crisis in September 2008, as banking crises erupted in the USA, the UK and elsewhere, and stock markets went into freefall worldwide, business and consumer confidence collapsed, giving rise to the most severe global recession since the Great Depression of the 1930s. During 2008–9, in what was later dubbed the 'Great Recession', most developed economies contracted and growth rates fell significantly across the developing world. The International Labour Organization estimated that global unemployment increased by 14 million people in 2008 alone. The G-20 (see p. 121) quickly became the leading mechanism through which the international community attempted to manage its response. In Washington in November 2008, and at their April 2009 London Summit, the G-20 countries committed themselves to an integrated strategy, which involved substantial and speedy cuts in interest rates (monetary stimulus), the boosting of domestic demand by economically advanced states (fiscal stimulus) and an agreement to resist pressure to increase tariffs and return to economic nationalism. In Seoul in November 2010, the G-20 pledged to reform the IMF, both by strengthening the voice and representation of the developing world within the organization and by tightening the IMF's surveillance of national and global economic circumstances.

Significance: For many, the 2007–9 global financial crisis highlighted the spectacular failure of global economic governance, whose key institutions had, because of their commitment to neoliberal economics, presided over an inadequate system of banking and financial regulation. Similarly, the Great Recession has demonstrated that the world lacks an appropriate and effective mechanism for responding to crises. The consensus over macroeconomic policy that had been fashioned at Washington and London broke down at the 2010 Toronto G-20 Summit, as a growing number of countries, concerned about rising debt levels, embraced austerity policies rather than sustained fiscal and monetary expansion, as advocated by Obama and the USA. From 2011 onwards, a new phase in the crisis also emerged through an escalating sovereign debt crisis in Europe (see p. 112). Although the IMF shared with the EU responsibility for international bail-outs to Greece, Portugal, Spain and other countries, it showed both a lack of leadership and an inability to come up with fresh ideas (particularly about how to address debt challenges without damaging growth), allowing the response to the eurozone crisis to be largely dictated by a German-dominated EU. Furthermore, not only has the much-vaunted reform of the IMF failed to materialize beyond a minor adjustment of quota shares and increased funding, but the organization is increasingly looking like an irrelevant Euro-Atlantic body in a global economy in which power is shifting to China and other emerging states.

Nevertheless, if the Great Recession was a 'stress test' for global economic governance, the system may have come out of it in surprisingly good shape (Drezner, 2012). This is demonstrated by the fact that while the percentage drop in global industrial output and world trade levels at the start of the 2008 crisis were more severe than the fall-offs following the Wall Street Crash of 1929, the post-2008 rebound was significantly more robust. Four years after the onset of the Great Recession, global industrial output was 10 per cent higher than when the recession began; in contrast, four years after the onset of the Great Depression, industrial output was only two-thirds of the pre-crisis level (Eichengreen and O'Rourke, 2012). After 2008, there was a much higher level of international cooperation than in the 1930s, born out of a keener awareness of mutual vulnerabilities (possibly, thanks to globalization) and more robust than expected US leadership. Amongst the manifestations of this was concerted resistance to 'beggar-thy-neighbour' protectionism. By 2012, trade flows were thus 5 per cent higher than in 2008, while four years after the 1929 Crash they remained 25 per cent lower than pre-crisis levels.