The crisis is more than economics
Creating a global culture of responsibility

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At the London G20 Summit, hosted by Gordon Brown, the leaders of the major new "great powers", China, India and Brazil, will be prominent. What can be expected from this meeting? The G20 will only fill the vacuum at the centre if it addresses the broader systemic crisis of responsibility and accountability that arises out of the West's worship of the free market.

London on April 2nd becomes the site for the second global summit of twenty rather than of eight. The G20, originally a finance ministers grouping, includes the leaders of all G8 countries along with leaders of a dozen other non-western countries, namely Turkey, Saudi Arabia and Indonesia from the Islamic world and middle powers such as Argentina, Korea, Mexico and South Africa reflecting the globality and pluralism of the new world order.

The policy agenda is urgent, but the fundamentals of the crisis go deeper than the economic crisis that forced this second G20 summit. If we delve into these we may rescue the elements out of which we can create something different for the future.

Crisis of capitalism

The global financial crisis and economic recession have their root causes in a major weakness in the Anglo-Saxon model of capitalism. The free markets, free enterprise, free trade mantra which George W. Bush repeated at the opening of the first-ever G20 leaders' summit in November in Washington was a direct quote from a speech by Ronald Reagan to the United Nations General Assembly in the mid-1980s. The fact of the matter is that even the Clinton-Blair third way of the 1990s was an endorsement of globalization based on market fundamentalism.

The failure of this economic model is rooted in the fact that it delegates the responsibility for the effects of the market system on society from governments to the markets themselves. Competition, liberalization and markets, in this model, are the most efficient path to optimal outcomes. Hands-off, laissez faire capitalism entrusts responsibility to the invisible hand, ameliorated at best by corporate social responsibility and by philanthropy. Public authorities have exhibited extreme reluctance to step forward to assume national responsibility for financial market oversight, supervision and regulation and, at least until October 2008, negligible global responsibility.

Part of the reason for this abdication of public responsibility is the complexity, scale and globality of economic phenomena as a result of rapid economic growth, surges in trade and mushrooming global capital flows that escape both government control and private sector management responsibility. The problem has been that enterprises have grown too large to manage, much less control, trade has morphed into inter-firm value chain transactions, and capital flows are triggered by instantaneous electronic transmissions. Who in public life wants to step forward and assume responsibility for social outcomes generated by a global economic system that seems to be beyond the reach of firms, institutions and governments?

Yet there are other varieties of capitalism where public authorities acknowledge a wider responsibility for outcomes. In the 1970s, the social market economy in West Germany was lauded as an alternative model and the Deutschmark was the most solid currency on the planet. In the 1980s, there was an acute concern that the Nippon form of capitalism with greater government intervention in markets was becoming a dynamic engine of trade-driven growth in

Japan that threatened the West. By the 1990s, the Asian tigers appeared to have their own diverse models of fast growth that differed from each other and from the West. In the opening years of the 21st century, China has loomed not so much as a new form of communism but precisely as an alternative configuration of capitalism that works. But nonetheless, the Anglo-Saxon model of free market capitalism came to be equated with globalization and Americanization and its excesses are now widely seen as the cause of the current economic crisis.

The crisis of global leadership

More and more, the summits of the G8 industrial nations appear as parades of the ancien régime. What presents itself as the global steering committee for the world is in fact a ceremonial extension of a parochial Europe and North America. This pretense has created a crisis in global leadership at the very moment when the world is looking for a locus of responsibility for the global economy. Worldwide public agitation signals the existence of global society, but the global governance mechanisms fail to provide leadership. There is a void at the apex of the international system.

The G8 symbolizes and exacerbates the cultural clash of the West against the Rest rather than attenuating it or addressing it. The recent effort at “G8 enlargement” to include five emerging market economies – Brazil, China, India, Mexico and South Africa – in parts of the G8 summits but not in the decision-making process itself, is insult rather than inclusion. A “G8 Plus 5”, as it is known, is not a G13. Far from it. G8 enlargement visibly marginalizes rather than incorporates the emerging powers.

But this is why the upcoming meeting of the G20 leaders may mark a critical transition. The G20 came into being ten years ago as a grouping of finance ministers in the wake of the Asian financial crisis. It has global reach and representation. Finance ministers and central bank presidents from the twenty countries have met annually and their deputies meet twice a year. The chair rotates among the countries in a troika format of the past-current-future chair to assure continuity of preparation and follow through. A culture of trust, confidence and engagement has characterized these endeavors which rests on a network of international economic officials in the twenty countries who are in constant touch with each other, especially now as they prepare for the April 2 London Summit of G20 leaders.

G20 countries account for 85 percent of global output and 75 percent of global population. All the major regions of the world are represented. The top fifteen countries in the world in terms of carbon emissions are all members of the G20. G20 countries are crucial to successful outcomes on most global challenges facing the world. If the G8 is experiencing a double legitimacy crisis, in both representativeness and in effectiveness, the G20 would seem to be a giant step in the direction of repairing both pillars of a global order.

Toward a culture of responsibility

Representativeness and effectiveness are the prerequisites for world leaders to be able to assume responsibility for the world economy and to regain credibility with their citizens. They do indeed frequently invoke the notion of responsibility. Obama's "new era of responsibility" is only the most prominent of a long line of such calls from Western leaders. But as leaders, they have the task of introducing measures that will make a reality of those exhortations. Rhetoric, however persuasive, cannot replace the institutional reforms that only they can initiate and for which they are responsible.

The G20 will only fill the vacuum at the centre if it addresses the broader systemic crisis of responsibility and accountability that arises out of the West's worship of the free market. What is lacking is a culture of responsibility that pervades society, a willingness to assume public responsibility for public outcomes. This has to be based in a reform of institutions so that such a culture flourishes in business as much as in public administration, in finance as well as in not-for-profit organizations, among activists as well as in law enforcement agencies.

Reform will certainly begin with a completely fresh look at global financial institutions and the introduction of a regulatory system for global financial flows. But it cannot end there. The implicit principles underlying the invitation to the summit, namely, inclusive membership, legitimate authority to speak for a defined constituency, and a responsibility to contribute to collective resolutions demand to be replicated in reshaping global institutions, but also send a message to the publics that the leaders represent. The sharing of responsibility should be an enhancement, not a diminution of our duties to each other. Accountability has to be a societal process, leaders to publics, officers to members, partners to each other.

In this respect the financial crisis provides stark warnings on the way complexity and scale have provided the pretext for invoking the invisible hand and escaping responsibility. The demise of local banks, the bundling of mortgages and their securitization have broken the link between borrower and lender and between the local community and the financial fabric on which it depends. There is a backlash against this aspect of globalization which has ruptured relationships that characterize community and give rise to responsibility. The need to address the issues of monopoly, of limits to mergers and acquisitions, of tax havens, and of financial instruments such as derivatives which obscure relationships prompts the insistent demand for transparency, without which it is not possible to pin social cost and loss to human agents.

Identifying focal points for public responsibility on April 2nd

Therefore, a major purpose of the London G20 Summit on April 2 will be to identify focal points for public responsibility where abdication of responsibility has manifested itself in the financial crisis. First, there needs to be a single locus of integrated responsibility for financial oversight, supervision and regulation in each major economy for the future. The UK has such an agency in the Financial Services Agency; the United States does not. All countries need to have one.

Second, the global economy lacks a global focal point for oversight, supervision and coordinating regulation of financial markets. The Financial Stability Forum in Basel, formed in 1999, seeks to strengthen financial systems and the stability of international financial markets. The FSF is a regionally lop-sided forum with only 12 countries represented, 8 of which are transatlantic countries (6 European and 2 North American countries), along with Japan, Australia, Hong Kong and Singapore from Asia. In order to fulfill its global functions, it must have a new mandate and a more inclusive membership, especially from Asia, in order to be able to become a vigilant, effective agency for the global public interest in financial stability.

Third, the International Monetary Fund is a hollow instrument compared to its former self in earlier years. It no longer has the resources, the mandate, or the power structure to be the overseer of international risk nor the provider of resources for countries in crisis. A major increase in IMF resources, a stronger role in overseeing international financial flows and evaluating macro-prudential risks are essential steps toward reconstituting the IMF as the steward of the global financial system.

Fourth, not only does concerted expansionary fiscal policy and public investment programs need to be a centerpiece of the London Summit but there needs to be a global focal point for monitoring actions, progress and divergence from commitments. That focal point could be the International Monetary Fund which has already demonstrated that a bigger growth kick can be anticipated from coordinated expansion than from isolated actions.

Again, the democracy deficit in the power structure of the Fund is a major obstacle to bringing the IMF back to center stage in the global economy. The governance reform challenge is one in which European countries now name the head of the IMF, have 8 of the 24 chairs, and control 33 percent of the votes. By contrast, China has 3.6 percent of the vote and India 1.9 percent. Form and function must be linked. For the IMF to be again a locus of responsibility over the global financial system, a strengthened mandate, new roles, more resources and governance reform must go hand in hand.

Responsible sovereignty and responsible agency

Much has been made of the weakening of the sovereign state under the impact of globalization, often indeed used as an excuse for government inaction. But the very extension of the power and influence of transnational corporations, non-governmental organizations and campaigning bodies increases the need to co-opt them into shared responsibility with states. In fact the “responsible sovereignty” that Carlos Pascual and his colleagues advocate for states must entail an emphasis on the responsibility of citizens and organized groups of all kinds. They are all responsible agents in matters of sustainability, security and human rights.

Institutional reform to put "responsible agency" into effect as a foundational characteristic of social organization in global society in the 21^{st} century would seem to be a good antidote to the practices that led to the global financial crisis. Responsible agency rests on the principles of transparency and accountability that underpin integrity and the restoration of trust and confidence in social life on which the health of the economy depends. If the demise of the Western model of capitalism leads to institutional reforms that promote a global culture of responsibility, it will be a major step toward a sound global economy is built on solid social and cultural foundations.

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