

# Reforming global financial governance - evolution or revolution?

Reflections at the beginning of a review process

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\*Remarks are made in a personal capacity and not meant to represent the views of the G20 Group of Eminent Persons on Global Financial Governance or its Secretariat.

## Old world

- No women
- States disappeared – U.S.S.R., Yugoslavia...
- New states – more than 50 states between Philippines and UK...
- Special status of the US...



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## Brave New World

- Not 20, but 35+
- Four women, but no Ivanka...
- International institutions in the background
- Special status of Germany?

# Outline

- Global state of affairs
- Rapidly shifting political landscapes
- Governance – towards a systemic and more legitimate approach
- Reforming global institutions/IFIs
- Modern models: Vienna Initiative, Paris Climate Change Accord
- Towards heterarchy (and hierarchy)?

# Global state of affairs

- Tectonic shifts in global governance system
- More ambitious development approach (Agenda 2030, SGDs)
- Growing global threats – climate, pandemics, cybersecurity...
- Changing political landscape and atmospherics
- ***How to provide a systemic response?***

# Tectonic shifts in global governance

- Power shift with multi-polarity and decentralisation
- Globalizing private sector and expanding state capitalism
- Increasing interconnectivity (finance and social media)
- Fragmentation (financial regulation) and gaps (capital flows)
- ***How to make a decentralized, more market-based system become more cohesive – and not more fragmented?***

# IFIs - mandate and governance issues

- Rise of private capital – public balance sheets more constrained
- From remit over current account (IMF) and intermediation of official capital (MDBs)—loans and grants as well as for the donor community
- Today, growth of capital markets outstripped official capital
- ***How to get existing institutions to respond in a coherent fashion (policy, financial and operational coherence)?***

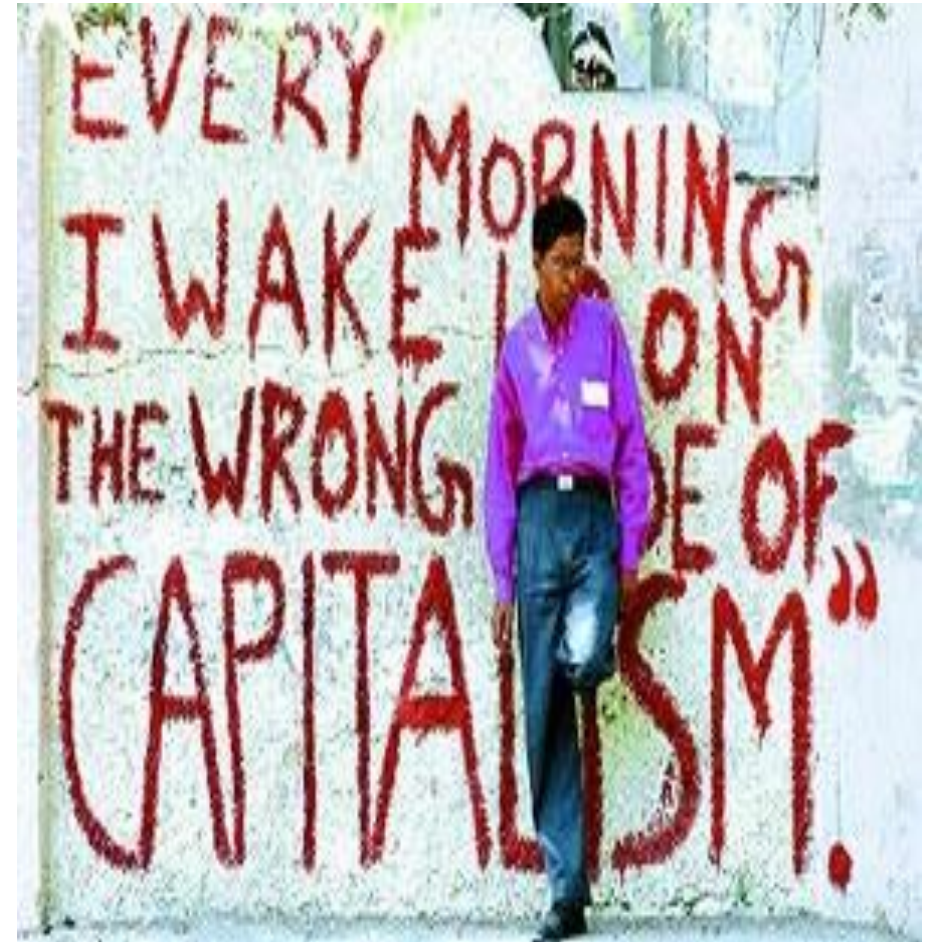
# Inadequate response from current system

- Governance reform not kept abreast with growing multi-polarity
- Mission creep and new institutions (MDBs, NGOs, foundations...)
- Lack of coherence - same shareholders vote differently
- Incrementalism of the current processes insufficient
- ***How to reform the system without losing what has been achieved?***



# Changing political landscape and atmospherics

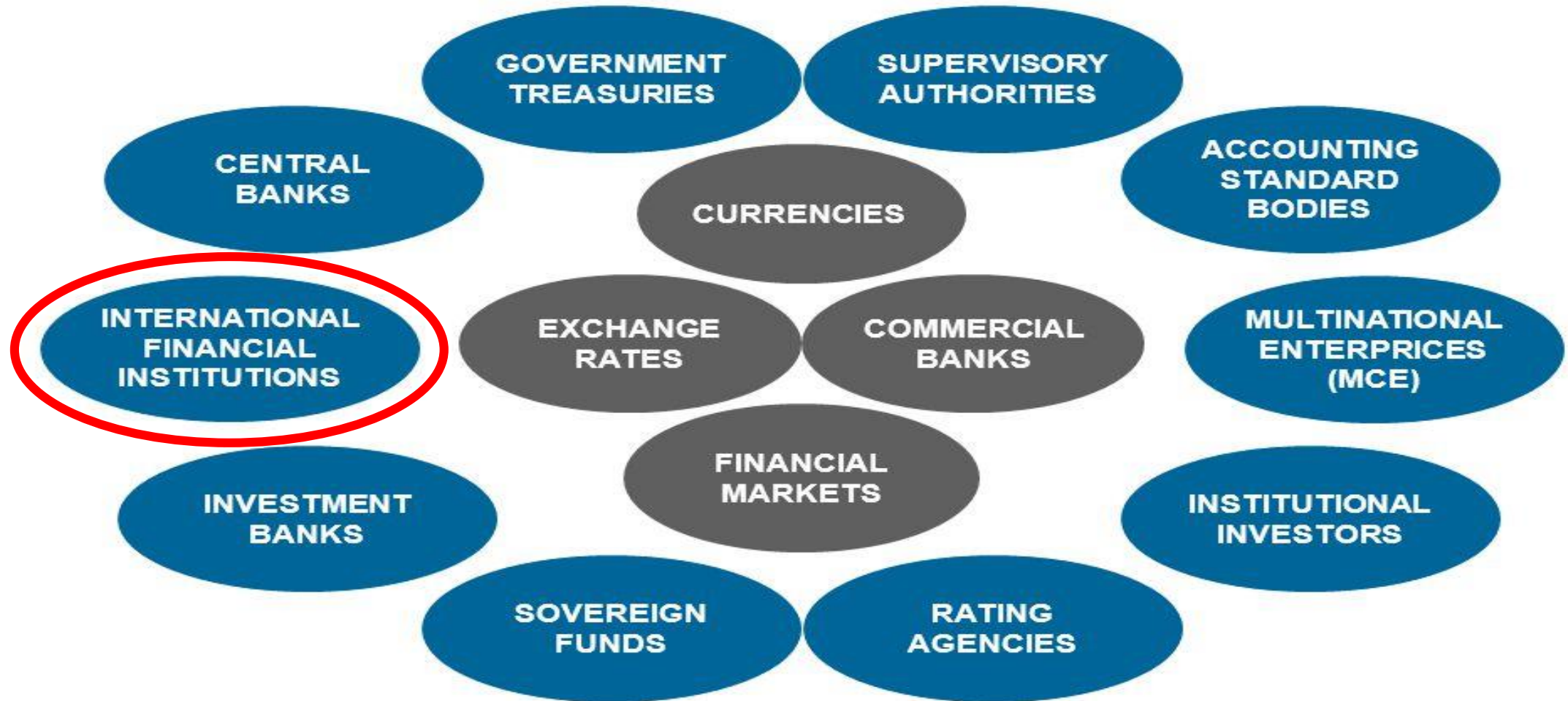
- End of technocracy + nationalism, nativism
  - John Bolton: “revolutionary moment in international affairs”
  - Dani Rodrik: globalisation limited by democratic legitimacy (nation-based)
  - Richard Haass: new “World Order 2.0” based on “sovereign responsibility”
- US Role (sovereignty – illusive concept)
- New consensus: multi-polarity + power shifts
- Different world (environment and inequality)
- ***How not to throw out baby with bath water?***



# Towards a systemic, more legitimate approach

- Interdependent actors with discretion and responsive to incentives
- Acknowledge interlinkages across institutions and policy areas
- Recognise growth/development and financial stability strongly linked
- National (information, legitimacy and capacity) vs. “federal” (spillovers)
  - Subsidiarity principle with burden of proof on “federalists”
- ***How to build a dynamic system with flexibility and adaptability – and resilience (legitimacy, representation, efficiency and effectiveness)?***

# The Global Financial System



# IFIs as innovators – filling gaps and mending flaws

- Crisis response be made core mandate
- Lead the way – did so in the crisis
- Shift from safeguard to entrepreneurial approach
- Incentives critical – IFIs need to internalize spillovers
- Stronger link between thinking and doing – need both
- ***Give constitutionally flexible mandates, allowing evolution (reviews)***

# Who are the mayors in the global system?



# Innovative governance responses: Paris Climate Change Accord & Vienna Initiative

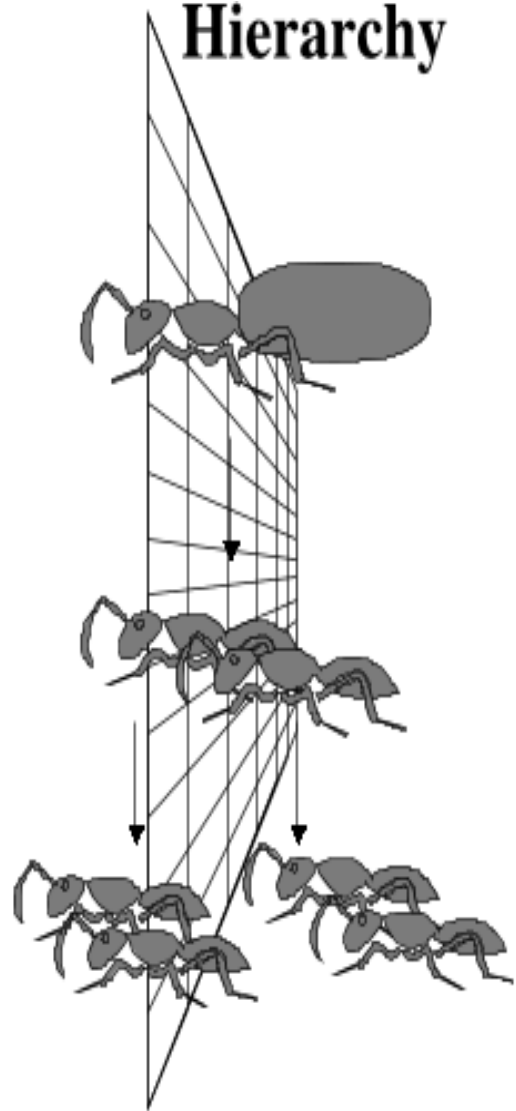
- Innovative response to gap in global/regional system
- Collective action problems on both official and private side
- Inclusive platform (national authorities, private sector, IFIs, regional players)
- Bottom-up commitments - not “legally binding” but publically announced and monitored
- Local analytical capacity to respond independently
- Global and regional IFIs incentivised to internalise spill-overs (EBRD)
- Objective (not neutral) convener: “anchor tenant” France (Paris); EBRD (Vienna)



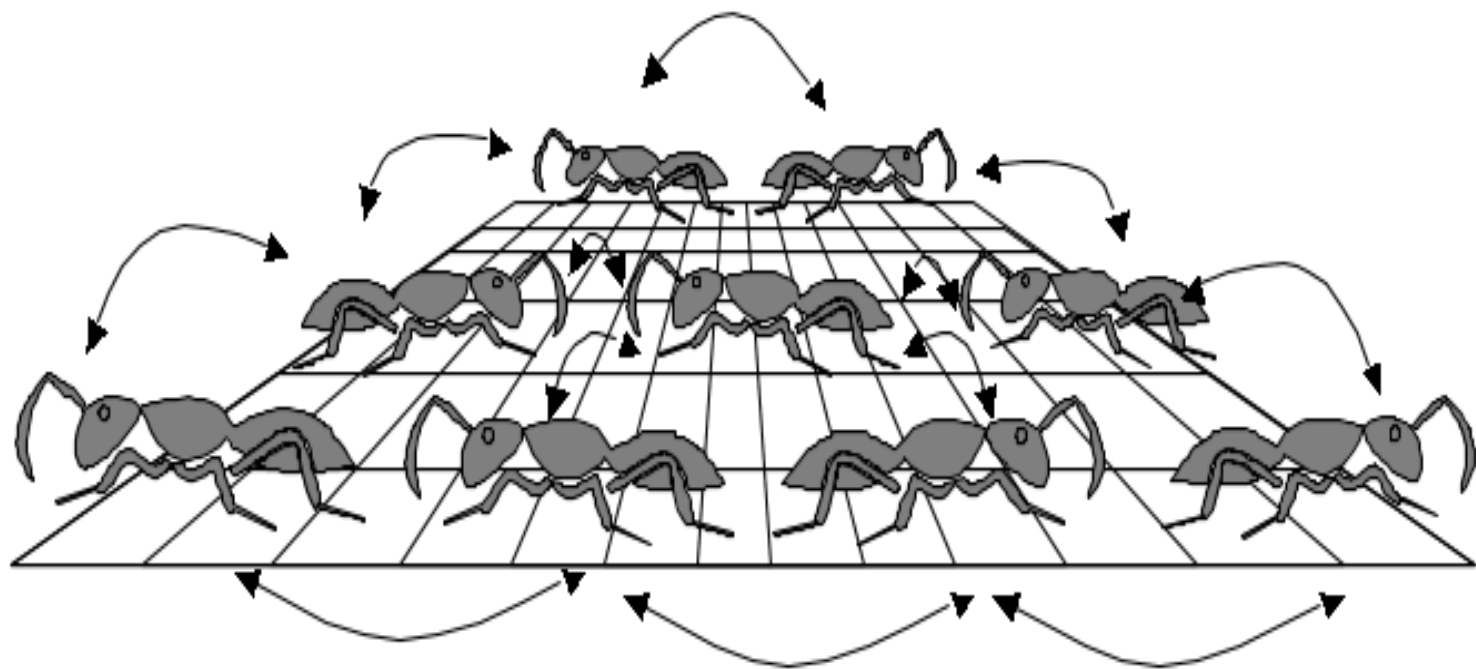
# Towards heterarchy (and hierarchy)

- A system of organisation where elements unranked or where they could be ranked in a number of different ways (Crumley, 1995)
  - No one way of describing the system (depends on perspective)
  - Human brain does not work hierarchically; heterarchy superior processing
- Coordination key - knowledge and function determines authority
- Heterarchy increasingly trumps hierarchy as complexity and rate of change increase – the “Hypermodern MNC” (Hedlund, 1985)
- All information is contained in every part of the system (hologram) – decentralised system requires independent thinking and action

## Hierarchy



## Heterarchy





Searching for a new meaning...



# Conclusions

- Treat the multilateral system as a system – governance is critical
- Revisit governance and coherence across entire system
- Emphasize links across institutions and policy areas
- Enable and incentivize institutions to fill gaps and resolve overlaps
- Revolutionary moment – may get more change than we asked for
- Reagan-Thatcher – not good for international institutions, but...
  - gave birth to Single Market and inspired end of Cold War and transition



**Reforming Global Financial Governance –  
a volcanic eruption, a passing Northern Light or  
an evidence-based redesign of the system?**

