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Abstract

If Hedley Bull came back today and revised his most famous book, he would likely devote a chapter to the economic forces that transformed our world during the past four decades. Among other systemic changes, the radical unleashing of finance and the partial return of a pre-1914 economic ideology justifying open and integrating capital markets might surprise an advocate of the virtues of the states system. But by following Bull's reasoning, his model of empirical observation, and his underlying moral sensibilities—as well as suggestions from his constructive critics—this chapter traces the emergence since the late 1970s of a variegated global capacity to assess systemic financial risks, design collaborative policies to prevent systemic crises, and manage them when they nevertheless occur. The challenge of deeply legitimating that nuanced and complex capacity remains, which, as Bull anticipated, means that considerations of justice must soon be addressed.

Keywords

Hedley Bull, financial crises, global economy, global finance, preventive governance, financial risks

11. *The Anarchical Society* and a Global Political Economy

Louis W. Pauly

INTRODUCTION

In *The Anarchical Society*, Hedley Bull highlighted the centrality of the states system in the quest for global order, but he did not dismiss system-changing developments underway both below and above the authoritative governing institutions of the state. If he were with us today, he would undoubtedly have much to say about the consequences of such developments within the world economy. For in the decades since 1977, the cross-border mobility of goods and services, people, ideas, and capital has transformed our world. The crises associated with that transformation, moreover, have posed dramatic challenges to order on a global scale. It would be incorrect to state that Bull failed to anticipate that transformation. It is true, however, that he was quite sceptical that it would any time soon bring about effective and legitimate global governing institutions transcending the states system.

This chapter focuses on integrating financial markets, a prominent feature of the contemporary global economy and a phenomenon at the core of the 'anarchical society of states' before 1914 (Frieden 2006). The integration process went partially into reverse during the inter-war period. As the Second World War was ending, moreover, post-war planners doubted the wisdom of allowing capital to flow freely in the context of either a regime of floating exchange rates or a restored gold standard. Before Bull died, however, capital controls were loosened and global finance had begun to recover its Janus-faced systemic role. One side helped to carve measurable risks out of the myriad uncertainties confronting humanity and to manage them through cross-border market mechanisms, while the other periodically threatened to spin those markets entirely out of control.

Bounded polities face great challenges in harnessing the benefits and limiting the costs of financial openness. In hindsight, this was quite obvious before 1914. It remains so today. The difference is that we are now witnessing the development of a global capacity to govern more open financial markets. It is emerging even as its legitimacy remains in question, and it will remain fragile as long as that question is open.

Bull would have had no trouble recognizing the self-interested interaction of great powers in building a collaborative governing capacity, but his basic perspective would likely not have led him to expect the degree of solidarity that has regularly if grudgingly manifested itself in the financial policy arena ever since the breakdown of the Bretton Woods arrangements in the early 1970s. A hierarchical state-centered system continues to provide the foundation (Lake 2009). The dynamic energies released when inevitable political conflicts manifest themselves in large, open markets provide the impulse for policy change and development. The resulting order, as Bull would have expected, results mainly from the policies of the powerful that limit ever more strictly the fundamental choices of the weak and, more modestly, their own future options.

Bull would not have been surprised that justice is the lagging variable. There is no obvious reason, though, to doubt the existence of a widening sense that justice

cannot be forever denied. The gradual emergence of a capacity to govern a global financial order has already put a spotlight on the legitimacy deficit. The political energies either to address it or to destroy that order are evident. Bull gave us reason to make the more optimistic bet.

My objective here is to outline and assess the politics behind the emergence of global financial governance in the full light of Bull's perspective and intellectual legacy. Although his own empirical depiction of international society may have been limited by his less than comprehensive attention to an economic and especially financial transformation then beginning, his central political insight remains timely. Even in a globalizing society centered on but not limited to an increasing number of states, a society now marked by the staggering mobility of information, goods and services, human beings, and financial capital, the desire for order precedes the search for fairness. Especially obvious at points of systemic emergency, dominant states still underwrite the emerging global order. If it is to endure, however, it must eventually rest upon an expanding sense that the basic interests of the many and not just the few will be met. In his most famous book, Bull himself aptly concluded:

> If our analysis has led us to reject the view that the states system is in decline, it should also lead us to notice one of the cardinal features of its present phase. This is that there is now a wider world political system of which the states system is only part. By the world political system we understand the world-wide network of interaction that embraces not only states but also other political actors, both 'above' the state and 'below' it (1977, 276). . . . [W]orld order, or order within the great society of all mankind, is not only wider than international order or order among states, but also more fundamental and primordial than it, and morally prior to it. The system of states has constantly to be assessed in relation to the goal of world order (1977, 319).

The challenge is not to deny the ultimate necessity of order on a global scale, but, like Bull, to use our powers of practical reasoning and empirical observation to discern the evolving pillars upon which its governance must rest if it is to persist. Bull's analytical method and moral sensibilities continue to help us examine those pillars, including the pillar today supporting global finance.

BUILDING A GLOBAL SOCIETY

Within the 'English School' of international relations, Barry Buzan has long been the most forceful advocate of a more thorough treatment of the causes and political consequences of transnational economic deepening. A decade ago, he noted:

> My inclinations lean toward the strategy of Rosenau (1990) and Bull (1977), which is to find the point of interest in the balance between the state and non-state worlds. . . . In some ways, they are profoundly antagonistic, both in concept and in practice. In other ways, they are heavily interdependent, again both in concept and in practice. (Buzan 2005, 133)

Bull himself did not miss the contemporary phenomenon of deepening economic integration across the borders of states. He simply noted that it was not unprecedented, and he warned against exaggerating its near-term implications. Moreover, his notion of a 'world political system', within which states and other actors 'above' and 'below' construct a 'world-wide network of interaction', circumscribed the arena where such interdependence might be expected to encourage a movement toward rules and institutions capable of underpinning a stable social order on a global scale. Such rules and institutions would be instruments of collective governance, but Bull did not predict the emergence of 'world government' anytime soon. Formal political consolidation on the basis of either contract or conquest seemed to him implausible in the near term, and he devoted chapter 11 of *The Anarchical Society* to explaining why.

In that same chapter, though, he did wonder whether non-state actors were pushing the states system towards a 'new mediaevalism' that would 'deprive the concept of sovereignty of its utility and viability' (1977, 264). He focused on the pressures leading some states toward regional governance systems and others toward internal disintegration. He noted the expansion of 'private' international violence, and he assessed the impact of expanding transnational organizations and multinational corporations. Finally, he took account of rapid technological change. With this in mind, he addressed directly the essential framing by Robert Keohane and Joseph Nye (1977) of what was becoming the mainstream American approach to the field of international political economy.

> There is no doubt that there exists among all societies today a high degree of interdependence or mutual sensitivity in the pursuit of basic human goals. However, we have also to recognise that the term 'interdependence' has become a cant word that serves to rationalise relations between a dominant power and its dependencies, in which the sensitivity is more one-sided than it is mutual. . . . [Interdependence also] does not in itself generate a sense of common interest, let alone of common values. . . . some transnational relationships are of global and not merely regional importance, but their effect is to promote not the integration of world society as a whole, but rather the integration of a dominant culture, which as it draws closer together at the same time draws farther apart from those social elements that are left outside. . . . [Still] the world political system of whose existence we have taken note in no way implies the demise of the states system. (1977, 280–1)

In the end, though, Bull held that the 'future of international society is likely to be determined, among other things, by the preservation and extension of a cosmopolitan culture, embracing both common ideas and common values, and rooted in societies in general as well as in their elites' (1977, 317). Durable systemic order, then, would eventually come to rest on a basic sense of solidarity and a shared sense of what some of his intellectual precursors termed an irreducible awareness of the common good.

Bull himself emphasized ideas and values rooted in the dominant societies with which he was most familiar. For this reason, Stanley Hoffman (1986, 179–95) noted the tension in his thinking between defence of a system organized around great

powers and his observation that coherence and stability even among them remained marked by uncertainty, despite the facts of deepening interdependence. As Buzan and Lawson (2015, 46–7) point out, Bull and others within the English School were fully aware of the great industrial transformation that opened the era of globalizing capitalism. An obsession with Westphalia and intra-European struggles to establish a state-led order, however, may have led them somewhat to downplay the import of that transformation. To re-emphasize the idea of underlying uncertainty, nearly forty years after Bull's opening, Buzan and Lawson (2015, 4) proposed a framework that depicted industrialization, rational state-building, and the advance of ideologies of progress in the nineteenth century not only as generating a tension-filled core–periphery global order but also as destabilizing great power relations by exposing the balance of power to rapid technological and social change.

While Bull was still alive, Susan Strange's ruminations on structural power in a dynamic capitalist system moved along a line of practical reasoning similar to that of Buzan and Lawson. Although she criticized the state-centricity of the early English School, Strange shared Bull's concerns about the distributive and normative implications of 'woolly' concepts like 'interdependence' and 'international regimes' (Tooze and May 2002, ch. 15). At the same time, she took Bull and many other IR theorists on both sides of the Atlantic to task for misunderstanding the complex structural effects of several dynamic global forces, especially those associated with 'international finance' (Tooze and May 2002, 104; Germain 2016, ch. 1).

It is precisely here where we may begin more precisely to trace the delicate interplay Bull was beginning to sense between the continuing evolution of a society of states and the potentially destabilizing deepening of a global society of all humanity. Theorists of globalization have, in fact, recently focused directly on this theme. For example, Jan Aart Scholte (2005) draws a line between straightforward processes of internationalization and interdependence, on the one hand, and, on the other, the expansion and proliferation of supra-territorial connections that transform the basic social geography within which political agents at all levels make decisions. Martin Shaw (2010) and others (e.g. Albert, Buzan, and Zürn 2013) do not deny that such spatial restructuring is underway, but they suggest the need for deeper sociological and psychological exploration, since the empirical phenomena associated with globalization appear to be forcing a widening sense of the holistic nature of life on the planet. Reus-Smit (Ch. 5 in this volume) supports an analogous claim in the field of human rights, while others similarly treat issues arising from the natural environment and military security arenas. Together, these scholars are calling for a deeper awareness of common values constitutive of a society that has begun to recognize itself as worldwide in nature.

Without abandoning Bull's insistence on the practical utility of the doctrine of state sovereignty in the historical evolution of world order, his student Andrew Hurrell (in his 2007 book) anticipated that such a recognition would spawn reactionary impulses. The hunch that they would be likely be frustrated lies in the background of Hurrell's robust defence of an expansive sense of solidarism in global order and his warning against the siren song of a return to a pluralist system that never really existed in its ideal-typical form. In a much-cited article, Alex Wendt similarly defended the associated teleological argument and predicted an inevitable

movement from a system of states, to a society of states, to world society, to collective security, and finally to a world state (2003).

Recent developments in financial markets hardly take us all the way there, but they do suggest powerfully that profound structural change is underway and tending in the same direction. A reborn Hedley Bull would be unlikely to find himself lost in an era of globalizing markets and an emergent global society, for his own thinking accommodated just such a development. But he would surely urge us to discipline our hopes, remember the human capacity for self-destruction, and ground our contemporary assessment of political probabilities in historical evidence. Without denying the long-run importance of an expansive sense of justice and fairness, Bull's empirical observation of order preceding justice in actual human societies continues to inspire a pragmatic and realistic moral sensibility. The aim of the next sections, admittedly brief and suggestive, is to imagine how with a little nudge he might have interpreted the recent evolution of a globalizing financial system at the heart of a world political economy.

TOWARDS GLOBAL FINANCIAL GOVERNANCE?

In principle, Bull would likely have expected integrating markets both to strengthen bonds of global solidarity in the long term *and* reinforce fissiparous pressures in the short term. Just such a complex political dynamic, indeed, was foreseen by other thinkers as ideologically diverse as Polanyi (1944) and Hayek (1944). It is the political consequence of this interaction of many contingent factors exerting themselves on the states system in a necessarily uncertain global setting to which we must turn our attention.

In the face of the special risks generated when capital can move more freely across contemporary national borders, as Bull would have asserted, there still exists no unambiguous global authority to assess them, to prevent periodic crises, or to resolve emergencies. Nevertheless, we can observe that nascent governance capacities in each category are today becoming visible. Legitimation grounded in solid claims of global social justice may someday render those capacities more durable, but their current emergence is the straightforward result of yesterday's decisions by great powers to manage internal and external distributive struggles through the instrument of more open markets. Those capacities thus necessarily reflect sometimes convergent and sometimes conflicting interests, heightened competition among states and market actors, and unavoidable policy spillovers. Conceptualizing their political implications requires underlining an essential distinction, one Bull well understood, between authority (the right to govern) and capacity (the ability to govern).

A transformation in political authority arguably occurs in three steps: the building of political capacity (or coercive power as it is commonly understood), the effective deployment of that capacity (or the actual solving of problems), and then the legitimation of that deployment (through wide-enough social acceptance to render it sustainable). Here, we can take a helpful cue from the political philosopher Thomas Nagel (2005, 147) who, like Bull, rejects the common view that legitimation needs to come first. Cross-border problem-solving can occur in an imaginable policy

space that ranges from autonomous and simultaneous national action to intergovernmental coordination to supra-territorial governance. When actual problems are definitively addressed by whatever means, effective capacities may be said to be developing, even if their legitimacy may remain problematic. Such capacities appear now, in fact, to be evolving quite rapidly in the policy arena defined by systemic financial risks. They are, moreover, changing the very meaning of state sovereignty as it was widely understood in Bull's day.

Measuring, reducing, and pooling risks *ex ante*, as well as providing compensation *ex post*, describe the basic principles of insurance systems, including the system we conventionally call government (Pauly 2014). At the heart of such systems are practices of burden sharing. Robinson Crusoe's survival would be most improbable in any non-fictional world. Only communities reliably sustain human life, and over time many human communities have observably expanded the bonds of solidarity required for group survival. Where fires once wiped out whole cities and left bankruptcy in their wake, insurance and reinsurance firms now spread the risks of catastrophe far beyond city limits. When such firms lose their bets that disaster will not occur, the markets they and their overseers have developed spread their losses globally and provide external resources for local recovery. In the modern era, indeed, states have encouraged such markets and regularly intervened to stabilize them.

When conventional market-based insurance schemes reach their limits, the nation-state has sometimes proved successful in expanding the boundaries of what might accurately be termed 'risk communities' (Faure and Hartlief 2003). It has sometimes done so *ex ante* through mandatory risk pooling and public subsidy, and sometimes *ex post* by covering losses actually incurred from national fiscal accounts. Its own limit, then, has historically been defined by its fiscal capacity (James 2014). Even such limits, however, have in the contemporary period sometimes been exceeded through intergovernmental arrangements (Goodhart and Schoenmaker 2006). Although modest in scale and scope, for example, agreements are in place among some national and now regional governments to share the potential costs of disasters at nuclear power plants.

As noted above, Bull was well aware that a 'world-wide network of interaction' already embraced many state and non-state actors. Against this background, restricted intergovernmental arrangements for global financial risk management cannot be the end of the story for anyone other than closed-minded ideologues unable to perceive the existence of an emerging global system undergoing dynamic development. In truth, it would take a fair dose of hubris to believe that human social evolution has somehow reached its end in our own day. On what ground is it reasonable to assume that human ingenuity exhausted itself in the political construction of the nation-state, of functioning federations, or of entities like the European Union? On what ground is it reasonable to assert that although human beings can obviously continue to manufacture global risks in the financial arena and elsewhere (Beck 1992), they absolutely cannot design accommodating instruments for managing them, not least by conceiving the means necessary reliably and routinely to exceed the fiscal limits of separate and autonomous polities? In the light of history, as Bull would have understood, there is no good reason to accept any

such assertion, even if we recognize that consequent political dilemmas would remain formidable.

At this point, disciplined imagination in the direction of the global must be called upon. Bull certainly invited such speculation, even as he cast doubts on the near-term feasibility of an actual global polity. If the threats global financial risks suggest are serious, however, and if states, elites, and parties with interests in the success of private firms and markets continue to seek the benefits of capital mobility, it is not enough for Bull's descendants to cherish such doubts and simply hope for the best.

In short, at the center of attention across a range of contemporary policy arenas like the arena of globalizing finance lies an undeniable awareness of tomorrow's potential catastrophes. An impulse towards 'preventive governance' thus may reasonably be seen as driven by the shared imperative of disaster avoidance. In fact, repeated near-disasters have recently heightened the realization that discrete preventive policies are futile unless they are pursued jointly by 'sovereign' political authorities and ultimately unless such authorities can reliably be transcended during future emergencies.

Preventive financial governance in a collective sense today already depends upon the ability of those 'in authority' to determine pre-emptively how much systemic risk is acceptable to societies no longer separated in practical terms by clear borders. It is complicated by the fact that in a still-decentralized governmental setting, characterized by different degrees of regulatory capture by non-governmental actors, some authorities may be unwilling to accept high preventive costs, while others may be unwilling to accept anything less than strong *precautionary* measures entailing high opportunity costs. (The global debate on regulating financial derivatives in the wake of the 2008 crisis, for example, featured characteristic differences between states favouring clear rules and well-supervised trading on organized exchanges and others willing to let freer markets innovate and absorb the risks of failure.)

The challenge of governing global financial risks thus spans two observable dimensions, namely, the identities of key actors and the scope of their aspirations. Given the residual authority of the state and the historic political bargains underpinning specific states that were emphasized by Bull, we might therefore expect *transnational* prevention practices in the financial arena to emerge through opaque processes full of conflicts. Decisions would likely remain fluid and informal, that is, not necessarily embedded in fixed treaties. The locus of actual decision-making would likely be dynamic, multilayered, and bureaucratic (Black 2008). Central bankers, regulators, and industry associations would be expected to play key policy development roles, with political executives and legislators standing by to ratify collective decisions if necessary and often after the fact.

The occasional denial of political responsibility for such decisions, especially when they have serious distributive consequences, may actually help preserve and even strengthen preventive governance capacities. The instrumentality of impersonal markets, informal collaborative fora, and diverse standard-setting associations may in a wider sense come to be seen as reasonably responsive to a functional, order-preserving, logic. Under conditions of complex interdependence,

political conflicts and policy spillovers just might be expected to force significant innovations in governance. Ideological commitments to 'sovereignty' and 'democratic legitimacy' may remain, but governing instruments may become increasingly effective even as they continue to fall short of conventional expectations of legitimacy. A discrete policy problem may lead to a partial and imperfect solution, contested but convenient. In the end, of course, political conflicts and underlying legitimation dilemmas may themselves lead to systemic crises. As policy spillovers and conflicted decision-making processes interact, however, they may also provide the spark for new political capacity building beyond the nation-state and even beyond the states system.

With these logical possibilities in mind, the next section, 'Three Policy Arenas', looks more closely at contemporary financial governance and separates out the *distinctive politics involved in cross-border risk assessment, in crisis prevention, and in transnational emergency management.* As we shall see, the practical reasoning and moral sensibility modelled by Bull remain helpful in drawing out systemic implications. Likewise, a Bull-inspired dose of scepticism promises to keep that effort well-grounded.

THREE POLICY ARENAS: RISK ASSESSMENT, CRISIS PREVENTION, AND EMERGENCY MANAGEMENT

At the frontier of financial risk management is speculation, which stimulates the pooling instinct and finds its footing in the law of large numbers (Pauly 2014). Global financial risks again suggest the idea of 'insurance' structured at whatever scale is efficient for what are commonly termed 'orderly markets'. As financial markets were opened after the early 1970s and allowed to become more integrated across the political boundaries of both developed and developing countries, ever more apparent became a basic deficiency in systemic risk assessment and management. A decade later, the main arenas within which still mainly national overseers sought to cooperate in their risk assessment and measurement activities were easy to identify.

After the 1974 failure of Germany's Herstatt Bank destabilized markets around the world, supervisory interaction became ever more clearly multilateralized through a central bankers' club hosted by the Bank for International Settlements (BIS). Originally established to manage reparations payments after the First World War, the BIS had by then developed a profitable business managing central-bank reserves. That business funded a convenient venue as well as staff support for regular informal meetings of central bank governors, mainly but not exclusively from advanced industrial countries. Upon this foundation gradually developed a series of related technical clubs. The Basel Committee on Banking Supervision (BCBS) was the first (Goodhart 2011).

The BCBS from the beginning focused primarily on the micro-level, and specifically on the task of ensuring that large banks operating across national borders were properly supervised, with an agreed division of responsibilities between home and host country governments. Their 'concordat' never worked perfectly, but it did reflect converging approaches to risk assessment. It soon led the

BCBS to experiment with minimum standards for the loss-absorbing reserves of banks, thus reducing the likelihood that national monetary and fiscal resources would be called upon during periods of instability (Kapstein 1998). The so-called 'Basel I' agreement also nudged forward collaborative work by other national and some regional bodies aimed at better prudential oversight within and beyond the banking sector narrowly defined. An informal, collaborative insurance system thus began to emerge in embryonic form.

Intergovernmental organizations like the International Monetary Fund and the World Bank tried to adapt their own surveillance and financing functions to accommodate changes in capital markets, but they were hampered by their macroeconomic and developmental mandates, by the treaties upon which they were based, as well as by their scale. In 1999, in the aftermath of the Asian financial crisis, leading governments under the rubric of the G-20 chose to establish the Financial Stability Forum (FSF) to concentrate on the systemic effects of the expanding operations of financial institutions crossing borders and business lines in increasingly complicated ways. Those effects became undeniable in the midst of a broader systemic crisis ten years later, when the G-20 reconstituted the FSF as the Financial Stability Board (FSB). Other sectoral bodies had by then also begun convening with assistance from the BIS (McKeen-Edwards and Porter, 2013). They included the International Association of Deposit Insurers, the International Association of Insurance Supervisors, and the International Organization of Securities Commissions (IOSCO). The often-overlapping activities of the FSB and such technical clubs came to be called the 'Basel Process'.

Much of the initial technical work of these clubs focused on *cross-border risk measurement and analysis*. What differentiated them was their internal composition and near-term interests. Aside from private firms trying to influence policies in various ways, mainly back home in national capitals, they were composed of supervisors located within central banks, government officials, representatives of independent agencies, public and private managers of financial exchanges, and formal industry associations. The bank-centered Institute of International Finance perfectly represented the latter kind of political actor, which combined special-interest lobbying, globally-minded sectoral assessment, and the capacity to directly engage in policymaking, especially in the United States, where the dividing line between the public and the private is famously (and arguably intentionally) unclear (Farrell and Newman 2014).

As Bull might have said when he penned the passage on non-state actors quoted at the outset of this chapter, it is noteworthy that by then the process of risk measurement and analysis could no longer adequately be encompassed by the term 'inter-state'. Too many players were involved, no legal treaty was expected, and the evolving standards at issue crossed many neat boundaries—political, functional, public-private, and technical. The result was not chaos, but it was more complex. It also began to hint at an order inaccurately characterized as 'international'.

Although technical clubs did clarify the systemic risks associated with dynamic financial markets, they were not equipped to stop regional crises—from Latin America to Asia to North America and Europe—often from roiling those markets. Specific crises, in turn, began to stimulate a new kind of deepening political

interaction aimed at *crisis prevention*. One key objective remained enhancing the capital adequacy of international active financial intermediaries. But other instruments were tailored to domestic circumstances and designed to foster self-discipline by the managers of those firms. In 2006, the most extensive and detailed effort to increase the equity bases of more diversified financial conglomerates came in an accord commonly dubbed Basel II. Under its terms, intermediaries were encouraged to bring sophisticated internal risk-models and a nuanced risk-weighting system into capital adequacy calculations ultimately and collectively agreed to by their home supervisors. Notwithstanding the increasing prominence of non-state actors, the politics of policymaking here reached a traditional limit, not least because underlying risk cultures and enforcement practices across major regions remained distinctive.

The fact that the implementation of Basel II left much discretion with national supervisors was only the most obvious source of future trouble. The reliance on internal risk modelling served to expand the competitive advantages and leverage available to large money-center banks. Astute observers pointed out that the impact might be 'pro-cyclical', that is, the new standards might encourage intermediaries around the world to excessively restrict lending during recessions and to imprudently expand lending during booms. Others noted that the Basel Process still depended excessively on national institutions more responsive to diverse and often conflicting domestic policy priorities than to global understandings (Singer 2007). Bull might have recognized here the continuing importance yet inadequacy of great-power collaboration in the production of a sustainable order.

More than a common language of risk assessment continued to be required to stabilize markets when disorderly conditions arose and safely to extend the experiment in financial integration beyond the core of the system. In the absence of a global regulator and complete convergence on enforceable accounting standards, and in the context of intense competition for market share, other kinds of *crisis preventive practices* were needed. One tangible consequence of this broadening realization was the development of payment-settlement systems that automatically promised to limit cascading cross-border defaults. Less immediately successful were various proposals to align executive compensation with long-term firm profitability, to limit pure financial speculation, and to rein in the implicit public subsidies underpinning the operations of firms likely in a crisis to be deemed too-big-to-fail. In practice, the Basel II regime—still working mainly in and through national authorities who were both cooperating *and* competing with one another—increased the fragility of the integrating system as a whole.

The larger systemic question ever since the breakdown of the Bretton Woods system focused on precisely how open and integrating markets would and should force constructive adjustments in national macroeconomic policies and discourage excessive national payments imbalances. Their most common effect in practice was to accommodate such imbalances and postpone necessary adjustments. By the turn of the twenty-first century, for example, it was clear that the United States was importing too much, saving too little, and depending for its financing needs on vast inflows of capital from China, Japan, Germany, and many middle-income and developing countries. For a time, the situation looked like a happy one for all

concerned, not least for the cross-border firms handling the requisite, if arguably perverse, capital flows from relatively poor countries to a relatively rich country. Instead of encouraging macroeconomic adjustments, expanding capital markets actually permitted such imbalances to grow. Spillovers from one policy arena to another, moreover, were much in evidence. Loose monetary policies, lax regulation, remarkably high leverage in key financial intermediaries, illusory financial innovations, a broadly under-appreciated turn in the business cycle, and the reliance on the housing sector to sustain national prosperity in the United States and elsewhere—are now all commonly blamed for what happened next.

Real-estate related bank failures were not new in American history, but after 2007 staggering numbers occurred (from less than two dozen in 2007 to almost 500 by 2011). In their wake, the capacity of existing multilateral arrangements to pre-empt contagion across the markets to which those banks were now directly or indirectly connected proved inadequate. Expanding reliance on inadequately equipped and informally constituted technical clubs failed to pre-empt a systemic financial emergency that threatened to bring on the second Great Depression.

The attention of policymakers now turned to *emergency management*. Indicative of a rapidly broadening sense that more countries needed to be involved in the task was an expansion in the membership of the BCBS and other BIS-hosted clubs. By March 2009, the number of countries around the BCBS table grew from thirteen to twenty-seven, with the inclusion of emerging-market countries from the G20. At the same time, a refurbished FSB and its staff (mainly borrowed from the BIS) were mandated to accelerate an ambitious work program to identify the constituent elements of more stable and resilient financial markets, including but not limited to higher capital buffers, minimum liquidity ratios, and maximum leverage requirements for banks and other financial institutions deemed to be 'systemically significant'. Although this accelerated project in preventive governance appeared quite consistent with earlier technocratic efforts led by central banks and supervisory institutions, it actually masked the reassertion in the face of an emergency of great-power finance ministries, especially that of the United States.

Aiming to restore order, regardless of immediate considerations of justice or fairness, governments around the world intervened heavily and directly in global markets in the fall of 2008 and for many months afterwards. The United States in particular lent and invested monetary and fiscal resources—the resources of its own citizens—lavishly. Beneficiaries, however, now included not only its own large financial institutions but also many foreign institutions operating within and across its borders.

In the immediate aftermath of a US decision to let the Lehman Brothers investment bank fail outright, banks around the world had confronted a drastic shortage of liquidity. In coordinated operations, the Federal Reserve and other central banks pumped billions of dollars into money markets. With reluctant congressional authorization, the US Treasury soon established funds to purchase troubled assets from American and foreign banks, and ultimately to make a massive capital injection into a large insurance company, AIG, some of which was used to pay AIG's obligations in full to major domestic and foreign counterparties. Fearing

economic collapse, central banks around the world together also slashed short-term interest rates and initiated novel monetary expansions.

In circumstances where illiquidity and insolvency were not easy to differentiate, between 2007 and 2010 nearly 200 domestic and foreign firms benefited from US Federal Reserve liquidity facilities. Their total extra earnings attributable to those operations topped US$13 billion, a figure that must be set against estimates of US$21.6 billion in total losses during the crisis period. There is nothing unique about this effect, for that is what is often meant by recapitalizing institutions at the core of vital payments systems. This one slice of data, however, is illustrative of the impact of a massive set of programmes put in place by the US central bank and Treasury to support markets now intricately linked around the world. Other Federal Reserve actions aimed at restoring global order are worth a deeper look.

Currency swaps between central banks to manage liquidity pressures are hardly unusual. The novelty during this particular crisis came in the unprecedented scale and speed and extent of such operations, and later in the rendering of some new reciprocal swap facilities permanent. Leadership was certainly required and the Fed provided it, but important followers did not need much convincing. In essence, mutually self-interested and informally coordinated actions by key-currency central banks activated and significantly deepened three swap networks centered on the Fed and the dollar, the European Central Bank and the euro, and the Swiss National Bank and the Swiss franc. Additionally, the kinds of regional swap arrangements put in place during and after previous crises in Asia and Latin America were again activated. From 2007 onwards, nearly half of all potential foreign-currency demand from local financial institutions around the world was for US dollars, including demand originating from US bank subsidiaries and branches whose parent banks had pulled liquidity home as US markets were contracting. Swap facilities from the Fed, therefore, played a crucial role, directly by keeping US dollar markets liquid and indirectly by reassuring market participants that funding risks would remain limited. In all, fourteen countries listed negotiated swap lines with the Fed. All but four eventually drew on those lines, but each benefited from the market-calming influence of their very existence. In October 2013, the Fed, the European Central Bank, and the central banks of Canada, the UK, Japan, and Switzerland agreed to convert their temporary swap facilities to permanent lines.

Central banks were not alone in their emergency management activities. Between September 2008 and June 2009, the United States and advanced-economy governments around the world announced some thirty-four systemic or institution-specific programmes involving bank recapitalization, debt guarantees, asset purchases and guarantees, and increases in deposit-insurance limits (Panetta et al. 2009). As Bull might have predicted, *systemic emergency management* was clearly led in this instance by the United States. Its success, however, depended on informally coordinated assertive action by all national authorities at the core of the system as well as by the regional authorities of the Eurozone (Drezner 2014).

Gradually, market turmoil subsided. Policymakers and market participants then found themselves once again in the arena of crisis prevention. By late 2015 in the context of a new Basel III effort, the members of the FSB had agreed in principle to impose a rule on global systemically important banks that would see their 'total loss-

absorbing capacity', including capital and subordinated debt, increase over time to 18 per cent of total risk-weighted assets. Deadlines varied, with banks based in emerging markets given until 2028 to meet the new standard. New rules were designed to reduce bank leverage ratios, and work continued on other measures intended to provide bank management with disincentives to speculate with taxpayer-backed deposits. Contentious debates also resumed on the appropriate deployment of the capital bases of global financial intermediaries across home and host markets.

Plus ça change . . . noted much sceptical commentary. But who could miss the underlying political trajectory involved? Finance ministries had again retreated to the shadows. Despite the near-catastrophe of 2007–9, there was no serious momentum behind the idea of reverting to the tightly controlled and relatively closed national markets of the post-1945 era. Competition for global market share began rising again in the aftermath of the crisis, yet the lessons of the past could not easily be ignored. The moral hazards introduced to financial markets by crisis-driven government interventions had to be reined in but could not be eliminated. Collaborative and binding regulation was logically required, but it still could not formally be guaranteed at the global level.

Informal *preventive governance* returned as the most feasible objective in a policy arena now rendered more complicated by the entrance of emerging-market economies and even more players from the private and public sides of the rapidly changing landscape of global finance. The demand for order in a more globally integrated environment retained its priority, even as nativist resentment of 'bank bailouts' rose around the word and broader demands for social justice became louder. If he were around to observe this situation, Hedley Bull may well have remained conflicted about the necessity and the difficulty of designing practicable measures to meet those demands after order was restored. His moral sensibility, though, would surely have encouraged him to address that conflict directly.

GLOBAL BURDEN SHARING?

Despite the dimensions of the 2008 crisis, and despite some limited moves toward national 'ring-fencing' by host countries demanding, for example, that foreign firms hold more capital locally, dynamic political interaction inclined the system toward deeper integration. Revived competitive pressures to allow national champions to operate globally, the costs of actually limiting capital inflows and outflows, the reluctance to move back to a pegged exchange-rate system—all impelled financial markets back to the *status quo* before 2007 (Helleiner 2014). Even in the wake of the simultaneous rise of nativist reactions in the United Kingdom, the United States, and elsewhere, only the most pessimistic analysts or market participants were betting that the era of global finance was over. Surely any student of Hedley Bull would remind them that the only serious, if still temporary, retreats occurred in the last two centuries in the context of catastrophic systemic wars.

The true dimensions of the structural dilemma posed by global finance after the crisis of 2007–9 were partly obscured by the arenas within which underlying political conflicts were played out. The *technocratic politics of risk measurement and assessment*

were again more obvious right after crisis conditions subsided, and they appeared more tractable. When it came to improving feasible *prevention strategies*, moreover, hopes were also then raised, even as the cooperative politics of loss-avoidance gave way to the more difficult politics of sharing the economic gains delivered by recovering markets. At the same time, the task of designing and rendering legitimate durable *emergency resolution* instruments became more contentious. The ultimate sustainability of a global financial order thus seemed to hinge on whether the experience and prospects of repeated systemic crises could incrementally contribute to a broadening sense of solidarity and co-responsibility—beyond national and regional borders. And here is where policy spillovers come back in.

Financial crises in the past certainly did painfully promote solidarity *within* many civil societies. Something akin to this kind of development sometimes appeared to be occurring within the Eurozone, as financial and other stresses forged just enough of a grudging realization of 'shared fate' to sustain an evolving regional capacity, with a modest and necessary fiscal foundation, for emergency management (Schimmelfennig 2014). The European System of Central Banks coordinated by the European Central Bank was clearly engaged in this drama, while finance ministries once again tried to limit their fiscal responsibilities. But state-based regulatory instruments hardly signalled the only imaginable pathway towards adequate if not optimal financial governance. Within Europe, the most palatable included variants of collective insurance programs which served to cloak ultimate fiscal guarantees, especially market-focused programs directed at undergirding a regional banking union. Analogous global plans for reliable and collaborative financial governance beyond the limits of Europe are hardly unimaginable. Before the crisis of 2008, crucial policy debates on the key issue of emergency resolution revolved around the theory and practice of sovereign bankruptcy (Brummer 2012). The crisis of 2008 dramatically raised the stakes.

The ad hoc collaboration of great powers during the crisis stopped short of establishing definitive resolution mechanisms, even if it did provide new impetus to the Basel Process to improve systemic risk assessment and policies designed to prevent future crises (Aquanno 2015). The way the crisis was actually managed did, nevertheless, highlight the underlying issue of justice. As an IMF (2014, 104) study put it, 'In dollar terms, if applied at the total liabilities of the banks [designated by the FSB as global systemically important] net of equity, the implicit subsidies in 2011–12 represent around $15–70 billion in the United States, $25-110 billion in Japan, $20–110 billion in the United Kingdom, and up to $90–300 billion in the euro area.' Those subsidies may once again encourage imprudent risk-taking and render global markets more, not less, fragile. They also appear increasingly widely to be perceived as unfair and as exacerbating social inequalities around the world.

Bull's observation that order precedes justice was suggested once again during the crisis of 2007–9. Likewise, well worth recalling was his reminder that justice nevertheless remained vital for the long-run persistence of an order destined to be global in nature. Despite much domestic political noise, and despite wilful blindness by some electors and their nationalist champions, the issue of global justice became a prominent theme in post-crisis policy debates. It could not seriously be ignored in the United States and other great powers, in emerging-market economies, or in an

array of international financial institutions. The path ahead was filled with moral hazards and significant political complexity, but the path back from a financial order stubbornly eroding national boundaries was obscured by the political consequences of prior policy decisions.

CONCLUSION

The credible prospect of catastrophic loss was enough to motivate just-adequate systemic governance in 2008. The promise of future joint gains seems a less reliable motivator of authoritative systemic regulation. But a modicum of global governance capacity is now logically required by the continuing existence and expansion of systemically significant financial institutions around the world (Gallagher 2015). That capacity is evolving differentially across the spectrum of risk assessment, crisis prevention, and emergency management. Shaping arrangements and future expectations in each of these three arenas are different kinds of politics. Within each arena, as Bull would have explained, order takes priority over justice, but demands for justice have not disappeared and are not being ignored.

The politics of risk assessment involves social learning, common knowledge, and technical coordination by experts, and it is leavened by competitive market dynamics. The *politics of crisis prevention*, awkwardly but necessarily, involves trying to combine local-level incentives for private managerial self-discipline with system-level efforts to build insurance-like arrangements. However masked, risk pooling, portfolio diversification, burden sharing, and converging regulation to reduce moral hazards—all are gradually emerging in cross-national practice. Finally, *the politics of emergency management* still revolves around the power of assertive governance by leading states and self-interested collaboration by followers, all forced by policy spillovers and the spectre of systemic catastrophe.

At a time when systemic power is shifting underneath a globalizing economy, the logic of functionalism here meets the hard politics of establishing robust governing structures, structures that reliably promise order responsive to broader demands for justice, structures, in short, that are widely-enough perceived to be legitimate. The system inclines towards more complexity and more intense political conflict. Nothing is certain, but uncertainty does not preclude faith in the future. As elsewhere in human life, uncertainty rather provides the wellspring for such faith.

Solidarity emerges not from rhetorical appeals but from functional necessity, political struggle, and what Gramsci famously called 'optimism of the will'. The political impulses that gave rise to the regulatory and fiscal capacity of the modern state itself suggest the emergence of its successor (Grande and Pauly 2005). The analytically separable political logics of risk assessment, crisis prevention, and emergency management open pathways to imagining its variegated organization.

If government still ultimately involves the authoritative allocation of values, then actual governments today continue partly to meet their responsibilities through the instrument of integrating financial markets in a global economy. Reactionary responses are today evident throughout the world. They are likely to be frustrated in the absence of a more feasible collective plan for sustaining prosperity, peace, and the capacity for global problem-solving.

Until some form of fiscal authority moves decisively to the level implied by their evolving scope, the collaborative policy instrument of border-spanning and well-functioning markets will rest on uneasy foundations. Institutional experiments like those associated with the Basel Process, the Financial Stability Board, central-bank networks, and, within Europe, a nascent banking union, may for a time help us to assess and live with irreducible systemic risks. The actual deepening of cross-national risk pools in public and private insurance systems, systems that can engender a sense of shared fate within and across politically bounded societies, provide the grounds for some optimism when it comes to designing reliable and politically balanced mechanisms for crisis prevention. Furthermore, although straightforward *ex ante* burden-sharing agreements across diverse societies may remain rare for a time, repeated ad hoc burden-sharing arrangements during systemic emergencies do certainly give rise to reasonable expectations of future cross-national regulatory, monetary, and fiscal coordination. In the language of debates still inspired by Bull, the logic of solidarism still promises to overwhelm the logic of pluralism.

The reconstitution of social boundaries, nevertheless, remains a profoundly political project. The global experiment in financial integration is part of that project. In the absence of deepening confidence that an adequate degree of transnational solidarity will exist before and during future emergencies, it could fail. Associated global risks, however, would not then disappear. As they have in the past, they would simply spill into other policy arenas, including the arena of security policy. Avoiding that scenario and fostering solidarity now necessarily means attending to the demands of justice. As Bull himself put it, 'The states system will indeed prove dysfunctional if states are not able to preserve and extend the sense of common interests, common rules, and common institutions that have moderated their conflicts in the past' (1977, 295).

A process of deep social re-ordering on a global scale anticipated by Bull's own practical and moral reasoning is underway. The transformative moment in industrial capitalism sparked within the states system but now driving governance capacities beyond the sovereign confines of existing states, a moment highlighted by Buzan, Lawson, and many others, has already occurred. As predicted and critiqued by many theorists from many different perspectives, global finance is now a fact of life. Notwithstanding the rage of nativists, a widening array of states and powerful non-state actors has apparently concluded that stopping the evolution of integrating markets is less desirable than trying collectively to steer it and to stabilize its foundations. The long-run acceptance of systemic governance delivered partly through the expansion of orderly global markets will depend upon limiting the unequal outcomes those markets produce. Bull's analytical and moral sensibilities remain relevant. Order retains its priority, even as it increases demands for greater justice that must eventually be met.

In the face of some future disaster on a scale never experienced in recent centuries, we may nevertheless find ourselves for a time moving in the opposite direction. If so, we will be lucky indeed to retreat to Hedley Bull's anarchical society. So we must hope for the eventual reassertion of hard-won wisdom. Hyperbolic nationalists, scowling finance ministers, and libertarian financiers should not

confuse us. The political capacity to govern global economic and financial risks has emerged, albeit unevenly across distinct policy arenas. Its ultimate legitimation is possible, functional, and necessary. The global society that Bull glimpsed, and to which he assigned moral priority, is on the horizon.

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