Post-American Moments in Global Financial Governance in the New Millennium

By Ilene Grabel

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Abstract
Writing during a previous interregnum, Gramsci spoke of the “morbid symptoms” that were readily apparent as “the old is dying and the new cannot be born.” This is an apt description of the current conjuncture. If this period of aperture has one dominant feature, it is “incoherence.” By incoherence I mean that the landscape of international economic governance, especially as concerns finance, features fragmentation, conflict, experimentation, proliferation, unevenness, and the resilience of legacy practices. Interregnums are unwelcomed by social scientists. I call the longing for coherence “ism-ism,” reflecting the professional imperative to capture the proliferation of discordant tendencies in a neat analytical package, some “ism” or other, so that we can impose analytical order. Today we are lacking that new ism. Instead, we confront the 2020s anxious about the shape of what is emerging and what is to come. We confront the simultaneous proliferation of regimes that include kleptocratic capitalism, state capitalism, social democratic multilateralism, neoliberal nationalism, neonationalism, and what I call “embedded populism.” A post-American order may emerge—or at the very least a projection by scholars of such an order—but at present it is difficult to see just where the seeds of a new order lie. There is no doubt that the US has powerful legacy advantages and the Fed and the dollar still matter a lot. But that fact does not undermine the point that the world—well before the Covid-19 crisis—bore little resemblance to the world of the postwar or neoliberal American-led orders. The abdication by the US of its traditional role, as exerted under the post-war and the neoliberal American-led orders, is creating opportunities for more permissive and varied “reembeddedness” and diverse multilateralisms, even as each day also reveals the destructive aspects of incoherence. The emerging regime reflects neither your grandmother’s American-led order 1.0 or 2.0. In this morbid interregnum there is no singular “ism” or “alternative order,” a fact that I do not mourn.

1. Introduction

The American-led international economic order that emerged from the second world war featured the dominance of embedded liberal ideas (Ruggie 1982, 1991). This first American-led order involved, inter alia, a unipolar global financial governance architecture organized around the dollar and the Bretton Woods institutions (BWIs) and wide consensus around Keynesian principles of economic management.

The second American-led international order was just as ambitious. The emergent neoliberalism that followed the collapse of the first American-led order reinforced existing US-led financial unipolarity in ways that amplified the role and power of the BWIs and US-based financial actors and interests. With notable exceptions, this order reflected and promoted the primacy of the liberalized, liquid American financial model as a global ideal. The new ideal displaced ideas and policy practices associated with embedded liberalism. Embedded liberalism was slain where its foundations were weakest, and put on the defensive elsewhere.

A series of financial crises exposed internal contradictions in the neoliberal order. Unlike the demise of the first order, the crises of the 1990s and the global crisis of 2008 (hereafter global crisis) threatened not just the predominant economic model, but also the centripetal force of the global financial governance architecture. The crisis of 2008 had contradictory effects on the global financial governance architecture and neoliberalism, deepening fissures in the US-led regime while also reinforcing the central role of the US. But where does this leave us? The best that can be said is that we are in an interregnum in which there is no coherent, singular “ism,” or even a set of contending coherent systems of economic arrangements. Instead we confront the simultaneous proliferation of regimes that include kleptocratic capitalism, state capitalism, social democratic multilateralism, neoliberal nationalism, neonationalism (as per (Blyth 2016)), and what I call below “embedded populism.” A larger range of actors and institutions has joined the conversation in global economic governance, pushing forward with ambitious new institutions and initiatives. Many are encouraging, while others are not. Some of the initiatives threaten existing arrangements, others mimic practices pioneered by established actors and institutions, while others are establishing new networks beyond the direct control of established institutions.

Interregnums are unwelcomed by social scientists (and especially by economists), trained as we are to value analytical fastidiousness, certainty, and coherence.¹ I call that longing for coherence “ism-ism,” reflecting the professional imperative to capture the proliferation of discordant tendencies in a neat analytical package, some “ism” or other, so that we can impose analytical order. Today we are lacking that new ism. Instead, we

¹ Not all social scientists celebrate fastidiousness. Most notably, and as I argue elsewhere (Grabel 2017b, chap. 2) and below, Albert Hirschman embraced messiness, experimentation, and rejected grand plans and narratives. See DeMartino (2015) and DeMartino and Grabel (2020) on fastidiousness in economics.
confront the 2020s anxious about the shape of what is emerging and what is to come. A post-American, post-embedded liberal, post-neoliberal order may emerge—or at the very least a projection by scholars of such an order—but at present it is difficult to see just where the seeds of a new order lie. I maintain that the unease helps to explain the continuing appeal of what I term the “continuity” view—the view that nothing of consequence has changed—that we are still locked in the coherent (and coherently damaging) American-led neoliberal order (Grabel 2017b). Academics and other observers are drawn to coherence, the orderliness of orders, and a need to make the case—again and again—that the US is still top dog (e.g. Sharma 2020). Proving this is taken as the rejoinder to the naivete of those (like me) who hold less certain and tidy views of the present and near future. There is no doubt that the US has powerful legacy advantages and the Fed and the dollar still matter a lot. But that does not undermine the point that the world—well before the Covid-19 crisis—bore little resemblance to the world of the second American order.

I view the current state of affairs as at loose ends. If this period of aperture has one dominant feature, it is that it is “incoherent” (on this concept, see Grabel (2017b, pp. 15-7). By incoherent I mean that the landscape of international economic governance, especially as concerns finance, features fragmentation, conflict, experimentation, proliferation, and unevenness. But the present conjuncture is also marked by the resilience of legacy practices. No “ism,” unless “incoherence-ism” counts (I think it does not). Instead there is a proliferation of conflicting norms, ideals, and strategies, and a profound and disturbing nostalgia for the tidiness of the embedded liberal and neoliberal eras, even among their critics. The playbook seemed so clear. Nostalgia perhaps stems from the fact that the first order looks pretty good from where we now stand. In contrast, mourning for the second order is entirely unwarranted given the ravages associated with neoliberal convergence. Writing during a previous interregnum, Gramsci spoke of the “morbid symptoms” that were readily apparent as “the old is dying and the new cannot be born” (Hoare, Nowell-Smith, and trans. 1971, 278). This is an apt description of the current conjuncture.

It is difficult to find much to celebrate about the current conjuncture. Incoherence entails risks, some of which are deeply threatening. Household, corporate, and public debt burdens have created pervasive financial fragilities. Postwar cooperative traditions and institutions of multilateralism are under assault. Central banks are exhausting their arsenals, while a trade war between the US and China is recruiting them into currency wars not of their choosing. The world’s central bank, the Federal Reserve (or Fed), has faced populist resentment mobilized by an erratic, churlish executive. Domestic and international politics have turned inward, nasty, and conflictual in many contexts as a Polanyian double movement plays out (Blyth 2016). The countermovement has many roots, but among the most important are the real and perceived damages associated with the creation of a coherent internationally integrated system under the banner of US-led neoliberalism and elite-led cosmopolitanism. The same cocktail of resentments fuels a variety of authoritarianisms and illiberalisms. Progressive and retrograde deglobalization impulses have undermined the prospects of regional and international cooperation, especially as concerns the provision of public goods and protection of the
global commons. These developments jeopardize essential international projects, such as the pursuit of the United Nations’ Sustainable Development Goals (SDGs) and the prospects of a “New New Deal,” while substantially weakening collective responses to challenges in the global commons, such as the refugee, environmental, and Covid-19 crises. The world economy is speeding toward another Great Depression as a consequence of the Covid-19 crisis. The prospects for global coordination in response to imminent financial crises are, in a word, dim.

Yes, all this is deeply worrisome. But I want to suggest that today’s incoherence also includes productive and even transformative moments. In other work I have used the deliberately provocative term “productive incoherence” to capture this idea (Grabel 2017b). Productive incoherence is deeply indebted to Albert Hirschman’s epistemic and theoretical commitments (ibid., chap. 2). Hirschman’s embrace of “possibilism” and his epistemic commitment to uncertainty led him to reject the notion that the future can be prenarrated. Hirschman also emphasized the vital role of experimentation, pragmatic problem solving in response to unforeseen or underestimated challenges, the centrality of learning by doing and from others, and the virtues of messiness over real and contrived parsimony. A “Hirschmanian mindset” informs the claims I advance here.

I argue that incoherence in global financial governance should be understood as productive in several respects. It is creating and widening alternative spaces in which some of the values, practices, tools, objectives, and goals associated with embedded liberalism can be rearticulated in a world in which there is no “order,” American-led or otherwise. The silver lining of incoherence is that it creates space for experimentation and innovation unconstrained by an overarching “ism.” Incoherence is creating what we might think of as exits or leakages from a noxious national and global policy environment, rendering it less poisonous than it would be in the absence of ideational aperture and contestation, competing policies, institutions, networks, and poles of power. The abdication by the US of its traditional role, as exerted under American orders 1.0 and 2.0, is creating opportunities for more permissive and varied “reembeddedness” and diverse multilateralisms. Agile, pragmatic, ideationally elastic, and/or networked actors are in the best position to thrive in an environment of incoherence. China is the exemplar in this connection. The evolving and reinvented

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2 The failed response to the Covid-19 crisis in the US is a perfect illustration of destructive incoherence. Balanced budget rules at the state and municipal levels constrain their responses and cancel out much of the effects of federal fiscal responses. At the same time the absence of federal leadership in implementing closures and openings of schools and workplaces, and in securing ventilators and personal protection equipment, have led to damaging deficiencies in constraining the virus. Nonetheless the US federal government and the Fed implemented expansive economic and social protection programs, some features of which are consistent with embedded liberalism, which may stick long after the pandemic has passed. National governments in many European contexts went much further in the direction of expansive, universal social protection.
BWIs, and even many entirely new players in the financial landscape, are stepping forward with strategies that defy theoretical encapsulation.

In this essay I examine the contradictory implications of this era of incoherence for rearticulations of embedded liberalisms and multilateralisms that are more heterogeneous, pluripolar, resilient, and permissive. I focus only on global financial governance, encompassing institutions, policies, and practices, because this is where my interests and expertise lie and because, for several reasons, it is particularly germane to discussions of embedded liberalisms. Global financial governance was a crucial supporting pillar for both embedded liberalism and neoliberalism. Transformations and conflict in the arena of global finance were central to the unraveling of post-war embedded liberalism and to the emergence and ultimate fracturing of neoliberalism. Financial incoherence can also play a productive role in supporting rearticulations of embedded liberalisms. I make no predictions, but I do push back against the presumption that embedded liberalism is on a death watch. Instead I argue that in some domains incoherence in global financial governance is creating opportunities for reconstituted embedded liberalisms. This is the case even though financial incoherence also incorporates retrograde impulses. The emerging regime reflects neither your grandmother’s embeddedness nor her liberalism—but it may achieve some of the results of her embedded liberalism nonetheless. ³

I do not want to be misunderstood as suggesting that the two American-led international economic orders were internally consistent or all encompassing, whereas the current moment is uniquely marked by incoherence. To a large degree, order is something we impose on regimes—they are not simple, obvious, objective features of the arrangements we designate as an order (Hirschman 1970). Moreover, when making comparisons between the present and prior eras we should remember that much scholarship has amply demonstrated that the emergence of embedded liberalism and neoliberalism involved contestation and contradiction that were never overcome. These regimes unfolded unevenly over long periods, and they co-existed with other “isms” in a heterogeneous global landscape (Brenner, Peck, and Theodore 2010, Helleiner 2014, 2019). Coherence is always a matter of degree; it is not a matter of present-absent. In my view, these earlier eras were coherent only in comparison to the present period. Expert understandings, policy practice, and institutional design were significantly guided by an overarching “ism” that established a logic of appropriateness and structured choices, even if the logic was widely violated in practice.

³ It bears mention that rearticulations of embedded liberalisms are occurring on the intrastate level. For example, in the US many states and cities have made commitments to the Paris Climate Accord and living wages. Other examples include Medicare programs in Massachusetts; policies on immigration, the environment, and private prisons in California; and protective policies enacted by US states during the Covid-19 crisis. Much of the New Deal architecture was modeled on successful state level initiatives (Galbraith 2020).
This essay is organized in the following manner. In the second and third sections, respectively, I briefly discuss the erosion of the financial architectures of embedded liberalism under the banner of US-led neoliberalism and the eventual unraveling of that order. In the fourth section I examine developments in the arena of global financial governance that may be conducive to rearticulations of embedded liberalisms in what increasingly appears to be an incoherent post-neoliberal era. In the fifth section I speculate on the near future, including a post-Covid-19 era.

2. Global neoliberalism and the dismantling of financial architectures of embedded liberalism

There are four pathways by which the neoliberalism that marked the second American-led order undermined the financial architecture that supported embedded liberalism of the first order. First, financial liberalization undermined the ability of states to channel credit, foreign exchange, and capital flows toward macroeconomic and other objectives central to embedded liberal ideals; undermined the power of states to repress financial interests; and eliminated the mechanisms by which the real economy could be insulated from external financial disturbances that generated instability for vulnerable actors, and created conditions for contagious financial crises. Financial liberalization also facilitated tax avoidance and tax evasion, which threatened the tax base and eroded the financial foundation of the welfare state (DeMartino and Grabel 2003, Rodrik 1997).

A second pathway involved the BWIs. These institutions enforced structural adjustment in the context of economic reform programs and stand by arrangements (SBAs) negotiated during crises. Homegrown neoliberals seized the opportunities provided by crisis to implement reform programs that were not otherwise politically viable. Neoliberalism undermined the capacity of developmental states to pursue strategies that subordinated finance to real sector and other domestic social and economic objectives and that protected or compensated the losers from economic integration (Chang and Grabel 2014[2004]).

The third pathway entails the importation of external constraints—incorporated into multilateral and bilateral treaties and other commitments—into domestic policy formation (DeMartino 2000). The goal was to lock-in neoliberal arrangements in the face of future possible popular resistance. This involved, e.g., strictures over the ability to implement capital controls and to enact environmental or social protections.

Fourth, the depth and speed with which financial interests and their boosters succeeded in transforming the ideological landscape is, in a word, stunning. The new worldview installed an inaccurate reading of history in which the failure of dirigiste models—from forms of socialism to embedded liberalism—proved that there was no alternative to a finance-led economic order.

3. The crises of neoliberalism and the beginning of the end of the second order
The crises that swept through emerging market and developing economies (EMDEs) in the 1990s had paradoxical effects on neoliberalism, global financial governance, and the second US-led international economic order. Most importantly the crises of the 1990s, especially the East Asian crisis (hereafter Asian crisis), laid the groundwork for the ideational, policy, and institutional transformations that deepened significantly during the crisis of 2008. One critical effect was the opening of space for the rearticulation of central pillars of embedded liberalism (Grabel 2017b, chap. 3).

In the first instance the Asian crisis solidified neoliberalism. The SBAs of the crisis dismantled key attributes of the developmental state model. But the crisis also induced cracks in the neoliberal consensus. Prior to the Asian crisis, the IMF was poised to enshrine capital flow liberalization in its Articles of Agreement. The Asian crisis put paid to that effort. Moreover, and despite the neoliberal tenor of the times, some countries stubbornly maintained capital controls, with notable success. Partly in response, the Asian crisis precipitated the beginning of a begrudging, uneven reevaluation of capital flow liberalization (Grabel 2011).

The Asian crisis had contradictory effects on the BWIs, especially the IMF (Grabel 2017b, chap. 5). The crisis was ultimately costly to the IMF insofar as its crisis response led EMDEs to implement strategies to escape its orbit through self-insurance programs. The combination of a curtailed geography and widespread condemnation of institutional performance undermined the IMF’s legitimacy and reduced the material resources at its disposal.

The Asian crisis also renewed interest by EMDE policymakers in the creation of institutions that supplement and even substitute for the BWIs. The Asian Monetary Fund, proposed in the summer of 1997, failed to materialize. Nevertheless it had powerful effects in the region and across EMDEs more broadly. Indeed, and as I argue below, the roots of today’s more pluripolar global financial architecture lie here, in the Asian crisis.

The crises of the 1990s also induced policymakers to create informal financial governance networks. This informal architecture of networked financial governance evolved and broadened during the global crisis (Grabel 2017b, chap. 4, Helleiner 2016).

4. Where are we now? Rearticulating embedded and other isms in an incoherent world

The brief history sketched above suggests a degree of aperture that was not in evidence over the past several decades. The global crisis deepened and widened that aperture in numerous respects. I draw attention here to those aspects of global financial governance

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4 European SBAs after 2008 had similar effects on remaining vestiges of embedded liberalism.

5 Luckhurst (2012)--too uncritically--identifies these networks, especially the G-20, as a space for “ad hoc embedded liberalism.”
in the present period that bear most directly on the fate of embedded liberalisms. These include the eclipse of the US-centric neoliberal financial model; an expanded central bank toolkit; the resurrection of capital controls; the hollowing out of the BWIs in a more crowded landscape; and trends pointing in the direction of deglobalization, reglobalization, and new multilateralisms. My chief argument is that the evolving, incoherent nature of global financial governance can support the financial pillars of rearticulated, heterogeneous embedded liberalisms, along with other and less appealing isms. The diverse policy responses to the Covid-19 crisis provide a window into the operation of the incoherent “order,” revealing both its productive and destructive potential.

The eclipse of the US order, and the rise of hybridized financial models

The global crisis tarnished claims for the superiority and universality of the liberalized, liquid US financial model. The crisis validated the views of critics of the model in the US, China, and elsewhere who had long identified the failings of “light touch” financial regulation (Kirshner 2014).

The hegemony of the neoliberal financial model was threatened by the sharp divergence between the performance of the US and Europe during the global crisis and that of many EMDEs, and by pivotal retreats by the US in financial governance. A large set of EMDEs navigated the challenges of rapid growth, inflation, and the currency appreciation and asset bubbles caused by large capital inflows. Many EMDEs facing these favorable conditions had messy, hybridized financial systems. These systems combined financial openness with stringent regulation, including capital controls. Policymakers were attuned to and had the ability to adjust financial regulations and close channels of evasion. Robust mechanisms influenced credit allocation through networks of public and private institutions.

Emboldened by their superior performance, EMDE policymakers exploited the global crisis to call for alternatives to a US-based financial order. The most widely publicized salvo was the 2009 essay by Xiaochuan Zhou, Governor of the People’s Bank of China. The Chinese also downgraded US government debt in 2011 and 2013, something that would have been unthinkable just a few years prior, and took steps to internationalize the RMB. Since 2015 China has promoted development of a Cross Border International Payments System (CIPS) as an alternative to SWIFT (Society for Worldwide Interbank Financial Telecommunication), the West’s dominant international financial messaging system used widely for cross-border payments (Campanella 2019, Farrell and Newman 2020). China’s monetary and financial internationalization have been less impactful to date than some predicted. Moreover and paradoxically, some Chinese initiatives have actually confirmed the pivotal role of the dollar in international finance. But this is to be expected given both the legacy advantages that the dollar and US institutions enjoy and the cautious experimental approach that mark China’s policy strategy.

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6 Discussion in this section draws on Grabel (2017b, chaps. 3-7, 2018, 2019).
Chinese policymakers have taken an innovative approach to finance, using offshore markets as sites of experimentation, while also conducting experiments in national and local markets on the mainland (Subacchi 2017). A number of these initiatives involve practices and instruments associated with neoliberalism and financialization, such as securitized lending and shadow banking (Gabor 2018). In 2018, for instance, the government announced an ambitious 3-5 year plan to liberalize financial services, including international capital flows. This is surprising given the fragilities that such practices necessarily induce, especially in an economy already overstretched by domestic and foreign over-lending. Nonetheless these measures are consistent with the overall messiness of China’s approach. The government typically introduces new controls even as it liberalizes, especially during moments of financial and political volatility. Unlike the US’ ideological commitment to financial openness, China’s initiatives are best viewed as pragmatic, ad hoc innovations in financial governance.

China’s Belt and Road Initiative (BRI) and numerous other cross-border investment and aid initiatives are outgrowths of China’s muscular state capitalist model. The model reflects embedded liberal “adjacent” aims on the one hand, and realpolitik on the other. The former is seen in commitments to financial and broader economic and political stability, high levels of policy autonomy, real sector and employment growth, maintenance of export markets, and an ambitious vision of reglobalization that places the country at the center of a hub and spoke model of global integration. The latter involves securing control over natural resources, cultivating political allies, and stepping into the void created by the withdrawal of the US from its traditional global role. Chinese policymakers do not share the US presumption that its model should be universalized, though there is ample evidence of significant ambition and rivalry with the US model and the dollar (Chin 2014, Kirshner 2018, pp. 16-7, fn46). At the same time important features of the Chinese financial model are consistent with or support a form of embedded liberalism distinct from that of the first American-led order.

The trade and currency wars unleashed by the Trump administration are providing additional momentum to the case against US economic leadership, especially as these conflicts unfolded in 2019 and early 2020. The erratic nationalism of the Trump administration widened the void in global economic governance opened by the Obama administration’s refusal to accept China’s invitation to join the Asian Infrastructure Investment Bank (AIIB) as a founding member in 2015. Moreover, the failed, chaotic, and inward looking response by the US to the Covid-19 crisis moves it even further away from any semblance of global leadership.

There are a range of early stage innovations and blue sky discussions among US foes and allies that aim to gradually reduce the dependence on the dollar and to provide some protection from the Trump administration’s weaponization of finance and trade relations, such as its (ab)use of sanctions (Economist 2020a). Among US allies, former

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7 However the dollar is benefiting from Trumpian chaos and the Covid-19 crisis.
8 Russia is developing an alternative to SWIFT that will connect to CIPS and India might connect with Russia’s platform (Chaudhury 2019). CIPS is still in its infancy--in 2018 it
Bank of England governor Mark Carney proposed far reaching adjustments that would demote the role of the dollar (Giles 2019). He argued that the world’s reliance on the dollar “won’t hold” and that the IMF should manage a multipolar system of currencies (ibid.).

The fractured hegemony of the US model has created space for a pluriculture of financial models, features of which are consistent with embedded liberalism. China’s model is the most legible of these alternatives, but we should keep an eye on other initiatives, inchoate as they may be, in South Korean, Indian, Malaysian, and Islamic finance, which represent alternative modes of organizing finance.9

A broadened central bank toolkit in a strange, crisis prone environment

Central banks scrambled to respond to the uncertain dimensions and geography of the global crisis by drawing on a broad range of tools to stabilize markets, support financial and non-financial firms, and inject liquidity into the financial system.

What became known as “unconventional monetary policies” became a norm for central banks in many advanced economies (AEs) during the global crisis. That inflation targeting fell away as the primary objective of the central bank agenda in AEs, during the global (and the Covid-19) crisis, is less indicative of a change in priorities or ideas than it is of the deflationary environment.10 At the same time central banks in EMDEs and other national contexts began to target financial stability and asset bubbles and the reduction of systemic risk through macroprudential policies (Benlialper and Cömert 2016). It also became more acceptable for central banks in AEs and EMDEs to target the exchange rate to protect exports and employment from currency appreciations fueled by foreign capital inflows. Central banks created large, broad, ad hoc international liquidity networks through vast swap lines. Swap agreements were driven by a variety of concerns, including financial stability, but also domestic bank exposure, geopolitical considerations, national interest, and export market protection.

The “new normal” for central banks is unconventional monetary policies in an environment marked by erratic executives, inter-bank conflict reminiscent of the 1930s, disruptions in international trade, and contagious crises. Indeed the 2019 Jackson Hole central banker conference focused on the strange new environment (Greeley 2019). Populists have also attacked the credibility and independence of central banks as part of broader attacks on expertise.

processed less than SWIFT did in a day. This is not surprising since it is new and the dollar enjoys numerous incumbency and structural advantages (Economist 2020a). Moreover, Europe has built a new clearing house called Instex, though it has not yet been used (Economist 2020b). Europe’s officials are playing the long game, seeing Instex as a 10-20 year project (Economist 2020a).

9 Islamic finance takes many forms, but all prohibit speculation.

10 Always dependable, the Bundesbank remained doggedly committed to fighting the ghost of inflations past during the global crisis. This has not been the case early in the Covid-19 crisis.
Central banks in AEs have responded to the Covid-19 crisis with multipronged, aggressive and, in many cases, innovative policy responses that made them the lender of last resort for the financial and real sector. The banks have bought unlimited amounts of Treasury bonds; signed swap agreements; created temporary liquidity facilities for central banks not party to swap agreements; supported the credit needs of small, medium, and especially large firms; and backstopped banks, municipal and corporate bond markets, commercial paper, and repurchase markets. During the global and Covid-19 crises central banks pivoted in the direction of “embedded central banking,” deploying new tools and attacking new targets, including real sector conditions and financial instability.

I should note as an aside that beyond the policy imperatives driven by the global and Covid-19 crises, central bank officials (such as those at the Fed and the ECB) are increasingly emphasizing the importance of developing new tools to “green” monetary policy. The goal is to use monetary policy to support a transition to a low-carbon economy and to build climate risk assessments into lending decisions (Jones 2019). IMF Managing Director Kristalina Georgieva made similar calls for the IMF to place climate risk at the centerpiece of its work (ibid.)

The resurrection of capital controls
Most countries used capital controls during the first American-led order. Capital controls were legitimized by the then dominant Keynesianism. Capital controls fell out of favor in the 1970s and remained so during the long neoliberal era. But ideas and practices began to evolve during the crises of the 1990s. As the global crisis emerged, capital controls were quickly re-legitimized (Grabel 2015, 2017a, chap. 7).

A wide range of EMDEs used diverse capital controls to slow the tide and dampen the negative spillover effects of large capital inflows. Examples of countries that used controls for this reason include Brazil, China, India, Indonesia, South Korea, Thailand, and Uruguay. Other countries, including Ukraine, Iceland, Indonesia, Greece, Cyprus, and Argentina, used capital controls to mitigate the effects of crisis-induced capital outflows. Formerly denigrated as a policy tool of choice of the weak and misguided, capital controls were normalized as a legitimate tool of prudential financial management. Particular notable in this context is the behavior of the IMF. It prescribed capital controls to both borrowing and non-borrowing economies during the global crisis, and the resulting initiatives were validated by the credit rating agencies. The deeply conservative neoclassical heart of the economics profession followed the lead of those IMF researchers, who domesticated the idea of capital controls by referring to them as a “legitimate part of the policy toolkit.”

The restoration of capital controls has by no means been consistent, as recent experiences in Argentina (2018-19), Ecuador (2019), and Lebanon (2019) underscore. As with most rebranding exercises there is also uncertainty about whether the new framing will prove sufficiently sticky, especially in the context of tensions and countervailing impulses at the IMF and elsewhere. The emergence of illiberal governments that
pander to capital owners, and a resilient bias against state management of economic flows among many economists who were trained and cut their professional teeth during the neoliberal era, also threaten the endurance of controls. But it is most unlikely that we will see a return to the reification of capital flow liberalization given the widespread, productive use of capital controls during the global crisis. IMF Chief Economist Gita Goinpath now discusses controls used in “normal times” as prudential measures in what she terms an “Integrated Policy Framework” (Gopinath 2019). Those of us who remember the IMF effort to banish capital controls for good as recently as the early 2000s can’t help but take note of the sea change in thinking that this statement reveals.

The rethinking of capital controls marks a decisive shift back toward the vision of BWI architects Keynes and Dexter White. The implications for the emergence of embedded liberalisms are profound.11 Most immediately, the restoration of capital controls provides a degree of policy autonomy as EMDEs shoulder the effects of currency depreciations, capital flight, financial crisis, and severe economic and social dislocation associated with the Covid-19 crisis. Indeed, IMF staff recently highlighted the role that capital controls can play in this context (Rhee 2020). This is in keeping with the insulating and supportive role that capital controls played in the embedded liberal era. Beyond the serious challenges associated with the Covid-19 crisis, capital controls are an important component of the “Global Green New Deal” in conjunction with the 2030 SDG agenda.

The hollowing out of the BWIs
President Trump’s Treasury team and his appointments to the IMF and the World Bank display the administration’s deep hostility to multilateral organizations, and its hope to weaken the institutions from within. In a 2017 speech at the Council on Foreign Relations (then) US Treasury official David Malpass asserted that “Now is an opportune time to discuss…the rapid increase in globalism…multilateralism has gone substantially too far” (Johnson 2019). In 2018 Malpass urged the Inter-American Development Bank not to hold its annual meeting in China in 2019. He made clear that the administration was increasingly discomforted by China’s growing influence at the multilateral development banks. In 2020 Malpass, by then President of the World Bank, skipped the annual World Economic Forum. This was widely seen to reflect the Trump administration’s go it alone approach. So was Malpass’ veto of the word “multilateralism” in the collective statement issued at the G7 2019 summit (Elliot 2020). As with his predecessor, Malpass also appears to be hostile to large scale cross-border infrastructure projects that might involve co-financing with China.

The administration’s attack on multilateralism is also reflected in a 2019 decision to block an IMF quota increase and redistribution of voting rights. Observers speculated that the administration’s move to block quota reform sought to prevent China from

11 A parallel line of rethinking is emerging in new IMF research on industrial policy, which recently caught up with decades of work in the developmental state tradition (Cherif and Hasanov 2019).
garnering more voting power (BWP 2019). The US Treasury blocked efforts to scale up the firepower of the IMF during the Covid-19 crisis by allocating a large new tranche of Special Drawing Rights (SDRs) to members. The Trump administration’s decision to halt funding to the WHO during the Covid-19 crisis reflects the strength of its anti-globalist impulses and the commitment to punish a multilateral institution for (a real and an exaggerated) tilt towards China.

To sum up, the present conjuncture is a time of uncertainty at and for the BWIs and their roles in economic governance. There are ample signs of evolution in ideology and strategies, as we see most clearly in the case of capital controls. The new stance toward prudential financial management is a necessary though insufficient condition for the reconstruction and sustenance of embedded liberal strategies. In addition, a new and as of yet underdeveloped open-minded approach to industrial policy might ultimately prove to be just as consequential (see fn11); as could the proposed Global Green New Deal. The BWI’s might become more relevant in the Covid-19 crisis, especially as they are called upon (and indeed have begun) to respond to the needs of low-income countries. Nonetheless, the BWIs and other multilateral institutions face hostility from the US, their primary sponsor over the long post-WWII period. The Trump attack is intended to hollow out the BWIs, in part to deny China and other EMDE competitors a foothold to extend their role in global economic affairs. But the Trump strategy is shortsighted and likely to fail. Not least, it is incentivizing friend and foe alike to create new institutions and linkages that circumvent and constrain US influence over financial flows and financial governance. Moreover, Trump’s timing could not be worse. The uncertainty around the BWIs provides possibilities for more permissive and varied multilateralisms at a time when at least some EMDEs have the resources and backbone to withstand Washington’s threats. We see clear signs that the shape of multilateralism is being contested and rethought. Since the global crisis a new, more densely populated ecosystem of financial governance has emerged, which was already threatening the privileged place of the US even before Trump’s election.

A more heterogeneous institutional landscape

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12 I should note one legitimate reason for this decision. Under existing rules 70% of new SDRs would have gone to G20 members, most of which did not need them. However, those countries could have lent the new SDRs to poor countries. But the US crisis response has been inconsistent, even as concerns multilateralism. The first of the disaster recovery packages in the US, the CARES Act, included increased funding for the BWIs, e.g., by authorizing continued and expanded US participation in the IMF’s New Arrangements to Borrow.

13 The Trump administration has gone so far as to defund a US NGO doing vitally important research on coronaviruses in China (National Public Radio 2020).

14 There is evidence of declining US influence in other multilateral organizations along with the attempt to dismantle them. For instance, in 2018 the International Organization of Migrants rejected President Trump’s choice for Executive Director (Cumming-Bruce 2018).
Reserves accumulated after the Asian crisis and robust EMDE performance during the global crisis provided the means to support innovations in financial governance architectures. For institutions whose existence pre-dates the global crisis there was expansion in the scale of activity, geographic reach, and the introduction of novel mechanisms. New EMDE institutions were also created during the crisis, a few focusing on counter-cyclical support, others on development finance, and a handful doing both. Many of the institutions signed cooperation agreements with one another. A subset of these institutions hews to the Bretton Woods model in various respects while others formally and informally even link their decisions to IMF surveillance programs. Others deploy entirely different models, disbursement criteria, approaches to surveillance, and extend loans in local currencies. In contrast to its opposition to the Asian Monetary Fund proposal, the IMF has been encouraging the expansion of and connections among these institutions and between them and the IMF. This engagement surely stems from several factors—namely, institutional self-preservation in a world of hollowed-out multilateralism and recognition that the IMF’s resources are inadequate in the face of a turbulent financial horizon.

The new arrangements do not coalesce around a singular, grand new global architecture that might replace the foundering BWIs. Indeed, they are explicitly not intended to do so. Nor do they yet amount to a potent challenge to the financial power of the USA and other leading AEs. But displacement is the wrong standard against which to measure their significance. Instead, we are observing productive incoherence in the expansion of disparate, overlapping, and interconnected institutions that complement the BWIs. Taken together, they are diversifying the financial landscape and introducing the possibility of a transition to a more complex, decentralized, multi-tiered, pluripolar global financial and monetary system. The initiatives are complicating the terrain on which the BWIs operate—and that’s a good thing. A more densely populated, pluripolar global financial governance architecture is more likely to be tolerant or supportive of experimentation and a diversity of economic models, and to enable a variety of embedded liberalisms. That kind of tolerance is typically absent under an architectural monoculture that exerts a gravitational pull towards a single idealized model. Today, new players hold diverse ideas about policy autonomy, the role of the state in the economy, and the importance of financial stability. Is this inconsistency disconcerting? I propose instead we assess the emerging incoherence with Hirschmanian sensibilities, or via Ostrom’s (1999) complimentary arguments for polycentrism. We should also keep in view related arguments in complexity theory concerning the benefits of heterogeneous, adaptive systems and the dangers of monocultures and centripetal systems.15

15 For some, pluripolar systems induce instability and aggravate uncertainty (Drezner 2008). Strong versions of this argument reflect the gravitational pull that coherent systems have on social scientists. These arguments also underestimate the benefits of pluripolarity (namely, bargaining power offered to smaller countries, competitive pressures on legacy institutions, and the potential of complex systems to enhance anti-fragility (as per Taleb 2012), especially if rules of engagement are negotiated outside of a crisis context).
Deglobalization, reglobalization, and new multilateralisms

During the first and second American-led order lending by the BWIs amplified and transmitted economic policy norms and reinforced the role of the US in global financial governance. Today, China’s international aid and investment lending magnifies the country’s role in reshaping the landscape of global development finance. The stock of outstanding loans made by the China Development Bank alone was US$1.6 trillion in 2017, much larger than loans by World Bank. Outstanding loans by China grew from approximately zero in 2000 to more than US$700 billion today; it’s the world’s largest official creditor, more than twice as big as the World Bank and IMF combined (Economist 2019). And there is evidence that even these figures understate China’s international lending (Horn, Reinhart, and Trebesch 2019).

During the global crisis the Chinese government positioned itself as a savior of multilateralism. The government was alone among the BRICS in its decision to provide finance to the European Financial Stability Facility during the Eurozone crisis. The government also signaled its commitment to multilateralism and Chinese-led reglobalization during the crisis by launching the AIIB, BRI, other loan and aid programs, the CIPS, and playing a leading role in the financial structures developed by the BRICS. Chinese President Xi Jinping launched a robust defense of globalization and multilateralism at the World Economic Forum in Davos in 2017 (Xi 2017). Since then Chinese officials have seized the stage on many occasions to defend multilateralism, a rules-based international order, and the benefits of global integration (Economist 2018a). BRICS representatives have also called for multilateralism to be upheld, while also arguing that its traditional institutional supports need significant modernization.

China sought to rebrand its role in the Covid-19 crisis after several months of mismanagement and misinformation. The country stepped into the void created by the US abdication from multilateralism, not least by announcing new funding for the WHO following Trump’s decision to halt it. China also donated and sold medical supplies on several continents and sent medical personal abroad.

Many observers worry about the kind of reglobalization and multilateralism that is emerging as China steps into the void created by the fracturing of postwar traditions of multilateralism and deepening illiberal nationalisms. For example, Eichengreen (2018) raises concerns about a reglobalization that features illiberal politics and where the rules of a new world order are shaped to fit Chinese preferences. Others worry about forum shopping opportunities (Drezner 2014) while others raise concerns about the construction of a parallel system at a time of US retreat and expanding global demand for project finance (Palacio 2019). To be sure, China’s lending raises numerous concerns, particularly its implications for financial fragility, power over borrowers and control of natural resources, and the carbon footprint of its loans. The Covid-19 crisis also
highlights the obvious fragilities associated with a global supply chain organized around one country.

But China is not the only actor seeking to shore up and recast multilateralism. There is substantial support for an unspecified but presumably modernized, heterogeneous, and permissive liberal multilateralism. French, Canadian, and German heads of state and IMF leadership (starting with former Managing Director Lagarde) have promoted multilateralism. In addition, the “Democracy 10” (D10) involves senior officials from a group of leading democracies. The group has been meeting for the past four years once to twice per year to discuss how to coordinate strategies to advance the liberal world order.

The chief inference to be drawn at this point, I think, is that the shape of multilateralism and economic integration are being contested and reshaped. The most likely outcome in the near and medium term involves deglobalization, reglobalization, and a variety of multilateralisms against a backdrop of illiberal nationalisms. The latter has been given new life by the exigencies of the Covid-19 crisis, which has been a gift to illiberal politicians and propagandists the world over.

What do we expect in this era of incoherence?
The developments discussed above don’t resurrect 20th century embedded liberalism, as it was theorized then and now, and they do not guarantee any particular outcome concerning the role of the state in promoting economic and social welfare. But I contend that they do open the door to a rearticulation of central features of embedded liberalism—especially forms of social protection for actors whose well-being has been imperiled by the long neoliberal experiment and by the Covid-19 crisis. We might expect a proliferation of diverse embedded liberalisms that take root at multiple levels via a wide range of instruments. For example, the social protections we associate with embedded liberalism might be pursued through decidedly non-liberal political means. Indeed, we might posit a continuum of approaches to the achievement of social protection. At one pole are forms we might easily recognize as embedded liberalism, with universal protections via democratic, participatory engagement that is universal in scope but that benefits those most vulnerable to the shocks of international economic openness. At the other pole we might find something very different—partial rather than universal protections, directed at particular constituencies that are tied to nationality, race, and other identities, which have experienced the damage of neoliberal engagement as an erosion of rights by the incursion of others who are seen to threaten their claims. I refer to this pole of social protection—particular and exclusionary— as “embedded populism.” But the present conjuncture of productive incoherence does not dictate any particular form of social protection. We should indeed expect to see, and indeed are seeing, the proliferation of diverse and contending forms of social protection across the liberal-illiberal continuum—even within individual nations.

16 The D10 aims to increase cooperation among a small number of strategic minded and capable states.
The US case is particularly illustrative of the many risks associated with incoherence, such as the inability to manage innocent but damaging spillovers (such as those associated with the return of ultra-accommodative monetary policies), beggar thy neighbor policies, systemic risk, currency and trade conflicts, and the absence of a federal response to the Covid-19 crisis. Indeed, all manner of destructive incoherence becomes more apparent daily in the US as the Covid-19 crisis unfolds. Destructive incoherence is also on full display in the failure to develop a coordinated global or even an EU-wide response to the crisis. That said, many important European states are continuing to hold down features of the embedded liberalism pole—though even here there are important exceptions, such as the Macron administration which liberalized the economy and especially labor markets while becoming Europe’s most powerful champion of multilateralism. However, even Macron changed course as the Covid-19 crisis developed. As in most European contexts, French policies supported furloughed workers in ways that were inconceivable in the US. And even Germany moved away from its deficit obsession early in the Covid-19 crisis. Thus, which countries support the tent poles of embedded liberalism and how they do so is fluid and evolving. We can also situate countries like China, India, and other developmental states—and even states with more liberal politics, like Chile—at various points along the continuum reflecting their apparently contradictory mix of liberal and illiberal strategies that inter alia promote social protection.

Dismal as this account might seem—with Gramsci, we might indeed read the period as morbid—it presents opportunities that may be taken to begin to restore protections of especially the most vulnerable. The changes in global financial governance surveyed above provide far more extensive policy space than was available during the neoliberal era that can be exploited for progressive purposes. We will likely have to endure the morbidity of the present conjuncture for a long while. But we should not lose sight of the wisdom of Hirschman who was able to look out on unpromising development terrains and yet hold to his “bias for hope,” represented so strongly in his commitment to possibilism (Hirschman 1971, 2013[1971]). This is the basis for considering the current incoherence as partly productive as opposed to wholly destructive. Incoherence is agnostic: it opens up opportunities for progress and experimentation even as it induces the risk of regress. Incoherence also provides the opportunity to shatter old falsehoods, such as budget deficits are necessarily damaging, the government is the enemy, and democratic socialism is akin to Soviet-era communism, etc. Moreover, Hirschman urged us to push past easy pessimism since yielding to pessimism could blind us to chances all about us to achieve meaningful reform. Our rhetoric, Hirschman reminds us, affects what we see, how we intervene, and the consequences of our actions (Hirschman 1965, 1991, 1973[1963], 247-9). Best, then, to err on the side of potentiality.

5. Conclusions

\[^{17}\text{See Grabel (2017b, chap. 8) on destructive aspects of incoherence.}\]

\[^{18}\text{Much the same will likely be said about the manner and speed with which tent poles are removed after the Covid-19 crisis subsides.}\]
What have we found? The possibilities for embedded liberalism may be returning even if the mid-20th century form has largely passed us by. Nostalgia is not appropriate. The particular form of 20th century embedded liberalism depended on a unipolar system of global financial governance that was biased in terms of its benefits and costs – toward the global north, large firms, white men, the able bodied, etc. The new forms of social protection that can arise in the next context of productive incoherence might be more heterogeneous in forms and effects, but also better suited to the institutional configurations and needs of diverse countries and diverse social groups. Not all forms promise to be benign – indeed the nationalist, illiberal impulses so much in play today suggest that social protections will be sought via beggar-thy-neighbor strategies, cronyist configurations, racism, misogyny, xenophobia, propaganda, and other means that offload risk onto weaker parties at home and abroad. At one extreme, in fact, these strategies test the limits of what we mean by liberalism—they may be better characterized as embedded populism(s).

Examples of embedded populism include the Trump administration’s decision to put American farmers on welfare, the administration’s decision to cut taxes (with disproportionate benefits for the rich) without cutting spending, beating up on China, browbeating US corporations into investment decisions and job creation, and putting pressure on the Fed to pursue expansionary monetary policy at a time of relatively strong growth prior to the Covid-19 crisis. Similarly, during the Covid-19 crisis we should take note of the Trump administration’s decision to bail out large firms while starving state and local governments and hospitals of much needed funds and stirring nativism against China and Asians more broadly. Another example is given by attacks on central bank independence by Presidents Trump and Erdogan; as is the use of economic sanctions against Iran. Neoliberals would want to engage Iran with markets so as to cultivate good behavior through deepening market integration. These strategies have nothing to do with neoliberalism, and I therefore reject what is becoming the common characterization of the Trump (and other backward looking populists) as neoliberal nationalists.

From Polanyi’s perspective, Trump and embedded populism can be understood as reaction against the social damage wrought by the pursuit of neoliberal coherence. The neoliberalism and elite-led globalization of the second American-led order bred resentment among its victims and primed them for illiberal leaders peddling contrived analyses and solutions. I nonetheless hold that the present incoherence creates space that was unavailable in coherent neoliberal era. It provides opportunities for varied forms of re-embeddednesses along with permissive and diverse multilateralisms. Incoherent systems create space for experimentation, heterogeneity, and complexity. That incoherence also creates space for discord, nationalism, and authoritarianism, as Polanyi above all others understood. There are opportunities in incoherence, but there are no reassuring guarantees.

The original embedded liberalism of the postwar era was based on rules with universal aspirations and formal multilateral institutions seen as necessary to protect an open international economic order that had the US at its unquestioned center. Perhaps in
light of the uneven changes highlighted in the discussion above— and in light of the rise of informal governance networks and the networks emerging among EMDE financial institutions and officials, and between them and the IMF— we should think more about how to nurture informal and varied networked, cross cutting, messy embedded liberalisms coexisting in a world marked by many isms.

Making space for alternative embedded liberalisms necessitates a degree of permissiveness in the international order— what Rodrik (2011, 205-6,280) refers to as a “thin versions of globalization.” Thin globalization accepts a collection of diverse national strategies (such as capital controls) whose interactions are regulated by a set of simple, transparent, and common-sense rules by a range of actors and representatives of institutions, which are themselves representative and inclusive. My claim is that this reconstruction can enable but by no means assures a restoration of embedded liberal principles. It may well be that thin globalization is all that is possible or even desirable given the pending conclusion of the era of US hegemony. In this morbid interregnum there is no singular “ism” or “alternative order,” a fact that I do not mourn (Grabel 2017b).

References


