

Preface

Why publish a new book on the 2008 financial crisis? The basic reason is that, during these dramatic years, we became aware of the fact that the first global crisis will have a similar impact on the international economic and political systems as the 1929 crisis between the two world wars had. Not only did the Great Depression mark the end of the gold standard, the old economic order of the nineteenth century, it also marked the beginning of the transition to a new political order, after World War II, based on the hegemonic power of the US and, to a lesser extent, the USSR.

The main features of our study are analyses of the causes of the crisis and the measures of political economy required to build a safer and more stable international order. We try to show that the deep roots of the financial crisis are to be found in the flaws of the dollar standard. The heart of the crisis was in the US, but the turmoil immediately spread all over the world because of the deep integration of all national economies in the global financial market. The crucial vehicle for global economic integration is the dollar, but the dollar is the sovereign currency of the US, a tool at the disposal of the US government for its policy aims. The dollar as an international currency has no government and no central bank. Of course, this problem is not new – it has been discussed since the heyday of the Bretton Woods system – but the financial crisis shows how urgent it is to face a new organization of the world economy. Parts I and II aim to explain why the dollar and globalization should be considered together in order to understand the present challenges. For instance, global imbalances and income inequalities, within and between countries, can be considered by-products of the present international monetary and financial order. Moreover, regional unions reveal a tendency towards supranational integration and the development of a multipolar global economy.

Part III explains why it is necessary to reform the international order. The political background in which we planned these reforms is characterized by the transition from a monopolar system, led by the US, to a multipolar international system where, next to the old superpowers of the Cold War, new emerging countries – such as China, India, Brazil and South Africa – are quickly falling into place. The European Union, with the euro carried away by the devastating sovereign debt crisis, cannot yet

be considered a new global player, but its model for the integration of different national peoples, once fierce enemies, has inspired the institutional reforms presented here. The novelty of the European method of integration is the building of supranational institutions. In 1950, the European Coal and Steel Community was shaped according to the federal model, though with powers limited to the management of two sectors, coal and steel, crucial to avoid a new war between France and Germany. The fact that European integration developed solely along an economic pathway blurred the political meaning of the European project. Likewise, today it is not plain that the lack of a European political government is the real cause of the sovereign debt crisis. But whatever the outcome of this crisis, the history of European integration is full of useful teachings for the architecture of a new multipolar world.

Today supranational institutions in the global economy are necessary to provide global public goods to national peoples, such as a world currency and a policy for sustainable development, to overcome the divide between rich and poor people, and to stop the insane race of humankind towards an irreversible ecological crisis. Supranational institutions are required to overcome a double failure: the failure of the market and the failure of cooperation among national governments. Supranational institutions must have limited but effective power to foster policies that are essential for the provision of global public goods. To face this problem a part of this book is devoted to clarifying the relationship between monetary and fiscal policy among different national governments in a multitier system of governments, that is a federal union.

Monetary policy and fiscal policy are the core of macroeconomic theory, but international economics examines this relationship assuming the existence of national sovereign governments without supranational institutions. Indeed, economists study international monetary relations as a choice between fixed and flexible rates of exchange. Likewise fiscal policy is hardly ever considered a competence of international institutions: for international economics the only substantial problem is the impact of national fiscal policy on national welfare: the impact on the rest of the world is seldom considered.

The state-centric point of view is also the explicit assumption of international political economy, an academic branch developed after the breakdown of the Bretton Woods system. International political economy is an attempt to melt international economics and the theory of international relations. Some say that it studies the struggle for power and wealth among sovereign states. Indeed, this approach can help to overcome the restricted point of view of international economics. But after the accomplishment of globalization, there is a growing uneasiness among its

scholars. Susan Strange (2002) resolutely protested against its incapacity to understand the mechanism of the new global framework, and some scholars tried to found a 'heterodox' international political economy (Pogatsa, 2011).

Adopting the supranational point of view we were able to overcome the shortcomings of international economics and international political economy. But we realized that our analytical framework was – if the individual members of a political community are considered the final subjects of a policy – hanging in the air. A national government acts for the wellbeing of its national citizens. The so-called international community is only a coalition of nation states, when they have some common interest to manage, such as the G20. Nevertheless a summation of national peoples is not a political community.

The ambiguous meaning of internationalism can be explained. Internationalism – basically a simple propensity to negotiate problems among national governments – is also an ideology embedded in liberal, democratic and socialist thinking. The positive side of internationalism claims that peaceful and cooperative relationships can be established among liberal, democratic and socialist governments. But this claim very often fails because national interest prevails over the interest of other national peoples.

To sum up, our effort to overcome the shortcomings of international cooperation required the identification of a new political community, a new political subject. We had to answer the question: a policy for whom? Thanks to a debate already under way among many political scientists, the solution to our problem was not difficult: we were working out policies for a cosmopolitan community. According to Brown and Held: 'In its basic form, cosmopolitanism maintains that there are moral obligations owed to all human beings based solely on our humanity alone, without reference to race, gender, nationality, ethnicity, culture, religion, political affiliation, state citizenship, or other communal particularities' (Brown and Held, 2010: 1). The logical outcome of our research was a more precise terminology: we prefer to speak of a 'global political economy' or 'supranational political economy.' Although, if the political values are taken into account, the correct terminology should be 'cosmopolitan political economy.'

No concluding chapter is necessary for this book. Our conclusions are two proposals: one for a World Monetary Union (WMU) and, following this, a World Eco-Monetary Union¹ (WEMU). We are fully aware that the realist school of international politics and economics will criticize these proposals. Reforming the international political and economic order is the most difficult task for all policy makers. The social scientists should

be aware that their work risks being disregarded and left to gather dust in some library. In 1949, Professor Rappart, after Robert Triffin's presentation of his project for the *European Payments Union*, commented: 'You are far too optimistic . . . such proposals cannot be agreed to in a negotiation involving so many governments and contradictory national interests.' To this remark Triffin's answer was: 'If my main concern were to make safe forecasts, I would agree with you and be proven right nine times out of ten. But I prefer to be wrong nine times out of ten, if I can contribute once in ten times to divert us from catastrophe, and help build a better future' (Triffin, 1981).

Our chances to be heard are much lower than Triffin's even if the overhanging catastrophes of our day are not less dreadful of those of the 1940s. We are aware that our task is difficult but not hopeless. The limit of our proposals is that we worked out a cosmopolitan design starting from a European point of view. We cannot overcome this hurdle: we were born and we live in Europe. Nevertheless there is a way out. Our work will be useful – and governments will think over bold reforms of the international order – if people living in other continents enrich and widen the debate with their points of view on the future of the cosmopolitan community.²

December 2011
Riccardo Fiorentini
Guido Montani

NOTES

1. 'Eco' is an abbreviation of 'economic' and 'ecological' union.
2. The authors take joint responsibility for the full content of the book, but they specify that Riccardo Fiorentini wrote Part II and Guido Montani Parts I and III. They wish to thank Deirdre Kantz for revising the English draft of Parts I and III, and Marcus Perryman for revising Part II.

