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# **Global governance<sup>1</sup>**

**Global governance and global economic efficiency, global political stability – need for  
global governance and chance of its development**

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<sup>1</sup> A közeljövőben az Akadémia Kiadónál megjelenő könyv bevezetője.

Entering the twenty-first century the globalizing world brings with it historically unprecedented economic, social and security dangers. Fortunately, at this very same time unlimited economic, social and security development possibilities are equally possible. The fate of mankind, to either eliminate the dangers, or utilize the possibilities, depends on his ability to establish and employ responsible global governance. Man can mitigate the danger and reap the enormous development possibilities through the implementation of efficient global governance. Without such governance the devastating consequences of globalization may be unavoidable. Therefore man has a huge stake in pursuing global governance. This concept is the main motivation of this book.

The book sets forth a theoretical and practical rationale of global governance and also examines existing methods on their success and weakness. It elaborates the dilemmas and dangers that global governance must face, and in the last chapter outlines a perspective for global governance.

Man is a social being thriving in social communities comprised of widespread and complex interconnected systems. He has numerous motivations and interests that are reflected in his social activities. His voracious appetite to consume ignites an enormous production requirement that in turn drives the material allocation of scarce and diminishing resources. This tenuous existence underpins potential sources of conflict/crises and could even threaten the very existence of society. In addition to this a lot of decision has to be reached and enforced in the social communities and it would be very inefficient if every decision had to be preceded by separate agreement on how to reach and apply it. Therefore a set of rules for human behavior to coordinate and regulate human activities is needed to ensure a sustainable, comfortable and efficient future. To sustain in creative and efficient way these social activities requires some kind of collective management and institutions. To meet this need the man makes collective decisions - practicing governance - and creates institutions - government - for society.

Governance and government are not new concepts as they have played a crucial role throughout history. Development of some form of governance and government was a precondition not only for enrichment and improvement, but also for the very existence and survival of human society.

Government - and governance too -, from the ancient city state to today's modern democratic government have evolved tremendously. Nevertheless, no form of government has managed to be perfectly good or just. At one time or another, all forms of government have demonstrated some serious flaws and weaknesses often leading to economic and social injustice. Notwithstanding that, human governance has managed, over time, to gradually evolve into substantially better and more efficient organizations.

History shows the importance for society to have capable and effective government. Those communities that were unable to adjust their governments (e.g. city states, nation state or empires, etc.) to ever changing conditions did not survive. Examples are abundant. A great number of governments from city states, through nation states and empires have failed and become extinct. Early Hungarian history shows the striking contrast between people's fate as a result of successful and failed government. The early Hungarian tribes, called Avars, came to the Karpat Basin around the 7th century CE. They were unable to give up their nomadic lifestyle and disappeared during Charlemagne Empire. Two centuries later, the second waves of Hungarian tribes, called Magyars, under the leadership of Duke Geza and his son King St. Stephan shed the nomadic structures and adopted the Christian Kingdom as the new form of government. This in turn enabled them to successfully adapt to the surrounding European environment. The Magyars are still here, their nation state, Hungary has recently become member of the European Union, while the Avars are only known from the textbooks of history. The Avars were unable to adjust to the new Christian era, while the Magyars successfully adapted by forming a Christian feudal government. A more recent case is the difference in fate between the Soviet Union and China. Both countries adopted a communist government in the early 20th century. However, the Soviet Union were unable to cope with the realities of the new globalizing world due to its rigid system of governance, while the government of communist China have successfully adapted and is now on the road to become a prosperous country.

A key development within Europe was an evolving government that was able to emerge from the feudal systems of the fifteenth to seventeenth centuries into sovereign territorial states and governments. These territorial states and governments proved to be more efficient at mobilizing economic resources than other forms of organization. One of the main drivers for an increase in economic efficiency was the creation of national markets that strengthened commercial ties and radically increased trade. At the same time, a single political authority was

created that broke down barriers within the territory, similar to what we are witnessing today in the creation of free trade zones.

Over the last three centuries the governments of the most advanced capitalist countries have demonstrated a surprising flexibility and adaptability. First the mercantilist government evolved into liberal *laissez faire*, and that became the welfare state utilizing effective macro-economic stabilization and wide scale welfare policy, which now seems to be morphing into the so-called “competition state”.

During the second half of the twentieth century the economic role and functions of government were built on both practical experiences and theoretical economics research. Economics – especially the public choice theory and the public economics – have shown that there are important circumstances, or conditions, under which the market is not Pareto efficient. These are market failures that have led to a set of rationales for government activities.

Government driven corrective actions can increase efficiency and the size of the economic pie. In other words, government can generate benefits for the players - consumers and producers - within the market. However, as with markets, there are categories of activities, that even democratic governments do poorly. Thus, there can be government failure as well as market failure. Therefore, to be effective, government has to correct and/or eliminate not only failures of the market but its own failures. To do this requires continuous improvement in public governance and governmental activities.

The market is becoming a world market, especially in the intensively globalizing world, and this world market has serious flaws, failures as well. This rapid transformation is generating the need for global level public governance capable of mitigating failures and problems associated with the global market. This must be chartered to address the danger of world economic instability brought about by such issues as international and global monopoly, trans-boundary problems, global externalities, global public, collective goods, income inequality and poverty. In addition to these, there are political and security problems such as weapons of mass destruction (WMD) and asymmetric warfare. All of this, if not managed effectively and efficiently, could very well lead to a global market meltdown.

Global governance has similar characteristics as national governance, but works at the global level. It has similar functions and has to be empowered to direct institutions, and enforce implementation of global policies, that at times are used to coerce and/or to influence the global players (national governments, firms, different institutions, organizations) to behave according to the roles of the global game, and to abide by international law.

*Thus, we can say, that the purpose of global governance is to maintain global public order, security, liberty and economic stability. To do this, it must focus on eliminating the negative effects of global monopoly and global externalities, protect and provide common resources and global public goods, and promote the welfare of its citizens.*

What can and should the global government do to eliminate or correct the failures of the global market and handle global security problems? The tasks of a global government would be the very same as those of a national government but done at the global level:

- Regulate global monopoly;
- Protect the environment;
- Make international development assistance more effective (to alleviate poverty, it must do at the global level what social policy does at the national level);
- Promote global economic stability (e.g. govern the international financial system, etc.);
- Manage global and regional security crisis (e.g. threat of nuclear war, terrorism, etc.)

These tasks are interconnected. The problem of terrorism cannot be solved by only military means. One cannot successfully fight against terrorism without alleviating massive poverty and income inequality present at global scale.

Today, complete and fully coherent system of global governance does not exist, and there is definitely no global government. Global governance however could and should develop and one can argue that it is already emerging with its different elements being gradually developed including its policy and rule making functions, and its institutional and due process mechanisms. However, due to the fragmented development of the different components of what global governance should be, contemporary global governance is highly uneven. Some of

its dimensions, in particular in the field of economic governance (its global stabilization, regulation, resource allocation and income distribution functions), are fairly well developed; whereas other areas, especially regarding health, environmental protection and human rights barely exist or are entirely absent.

In addition to its institutional weakness, the emerging global governance faces serious dilemma and dangers. It is evident that US must play a key role in the shaping of global governance. The central question – which was also raised by Z. Brzezinski<sup>2</sup> – is that “does the US intend to rule the world as an imperial ... empire or to govern it jointly with other states?” The US is the only superpower left after the collapse of the Soviet Union. Its answer to this question will have a significant impact on the future of the global system. The choice of the US between dominating the world and leading the world, i.e. between unilateralism and multilateralism, will be decisive regarding the chances of creating efficient global governance. In the long run it would be in the interest of the US for its government to take a multilateral approach by accepting collective global governance.

The United States must choose between playing a (non-zero-sum) positive-sum-game and playing a zero-sum-game, and must determine its behavior according to either a Hobbesian world or a Kantian world. In the contemporary world, choosing the positive-sum-game would be the rational choice for the U.S, and it follows from that that its behavior should be in accordance with the requirements of a Kantian world.

The changing global economic order represents a great challenge for the exercise of democratic global governance. Globalization of the world economy is accompanied by the emergence of more and more international institutions such as the IMF, World Bank and WTO which are taking on an ever increasing role in governing the global economy. Thus, rules and norms are needed to guide state, corporate and citizen activity in this environment. However, new forms of regulation raise difficult issues about democratic control over the regulators and the process of creating rules. The impression that existing regulatory structure serves the needs of the rich and powerful has led to considerable public unease about global governance.

Another problem is that corporate profit interest can undermine global governance interests. The multinational corporation (MNC) has become endowed with a greater political role as it uses more diverse means of achieving its objectives. Not only have MNC restored to using their access to the highest levels of decision-making with national governments, but also access to the WTO, World Bank and other multilateral institutions to ensure that corporate agendas are prioritized everywhere. That is why critics accuse the World Bank of putting profits before people, and distorting development. An “increased structural power of capital” have been developed. This means that the organization, or structure, of the financial system gives more power to those who possess wealth and those who can move money around the global system. Because financial markets operate around the clock and transactions can take place almost instantaneously, investors can move their money out of a country that adopts policies which can threaten their profits. This reduces the autonomy of states and societies that have different priorities from investors. If the structural power of capital perspective is correct, democracy in the national states also can be undermined because financial interest are having an increasingly large say over public policy. Voters may elect a government on the program of economic growth and lowering unemployment, but the government may not follow these policies because of financial implication. The will of the people is undermined by the power of investors’ dollar or euro.

In this respect the basic priority of corporate governance and the strategic orientation of the companies, particularly MNCs, is especially important. This is strongly connected to the century-long debate about what companies are for and whose interests they should serve – about the role of business in society. The long-running debate about business’s role in society is currently caught between two contrasting ideological positions.

On one side of the debate are those who, borrowing Milton Friedman’s phrase, the “business of business is business”. On the other side are the proponents of the “Corporate Social Responsibility” (CSR), The CSR ideological position is getting more and more supports due to the new economic and social condition created by the globalization.

Business leaders should not fear their greater advocacy of the contract between business and society. More than two centuries ago, Rousseau’s social contract helped to seed the idea among political leaders that they must serve the public good, lest their own legitimacy be threatened. The chief economic officers (CEOs) of today’s big corporations should take the opportunity to restate and reinforce their own social contracts in order to help secure, for the long term, the invested billions of their shareholders.

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<sup>2</sup> Zbigniew Brzezinski: *The Choice: Global Domination or Global Leadership*. Basic Books, New York. 2004.

By influencing the location and distribution of wealth and productive power in the world economy, globalization defines and reshapes global patterns of hierarchy and inequality. That creates a challenge for global governance. The challenges in the twenty-first century is to devise structures so that persistent inequality and widening income disparities do not lead to a more unstable and unruly world. The lack of democracy, destabilizing anti-globalization and fundamentalist movements can gain strength from income inequality. It could be amplified by shortsighted interests of developed, rich countries by creating obstacles of providing market access, and economic, technical and welfare aids to developing, poor countries. Without that, these countries cannot become prosperous and one of the key stabilizing factors of the world economy and policy will be missing. Therefore the *shortsighted interest of developed, rich countries* is another danger for global governance. Unfortunately the shortsighted interests have been built into the policy decision system of the developed countries.

What is the chance of developing efficient global governance required for global economic stabilization and global political stability?

On the basis of historical experience the least chance can be given to a purposely, planned and developed global governance, especially a global (world) government. Spontaneous positive development has the greatest chance. This modest optimistic forecast can be made on the basis of the huge risk created by failing to develop efficient global governance. The stakes are no more or less than the survival of mankind.

Over time, the creation of governments, especially territorial national and sovereign government, was a basic precondition to avoiding anarchy and chaos and ensuring law and order needed for peaceful material and cultural wealth creative social activities.

In the today's globalizing world, national governments are unable to provide peace and prosperity or successfully address the challenges created by globalization. The most important global challenges can be listed as follows:

without global economic stabilization policy, economic crises can easily develop at a global scale creating worldwide economic chaos and hardship with devastating social and political consequences;

due to the historically unprecedented effectiveness of modern weaponry, mankind is able to destroy itself and has the power – akin with the power of God– to launch manmade Apocalypse earth;

as a results of the revolutionary progress of sciences, it has become possible to create and nurture embryo, i.e. life itself, in laboratory. That again gives man God-like power, i.e. the power to create man including to genetically engineer children by coupling cloning and in-vitro-fertilization techniques; this in turn makes it possible to conduct preferential human enhancement. There is a real danger that some states will be tempted to use human enhancement techniques for national policy purposed with devastating consequences for mankind.

These formidable challenges are the basic rational for seeking and promoting global governance. Nation states and governments are all parts of the global community and therefore have a vital interest in successfully averting the dangers inherent to our global economy. The stake nation have in finding solutions for potentially fatal conflicts of interest could not only convince the national governments to co=operate but also give them the incentive to give up some parts of their sovereignty and to abide by rules and laws set by the institutions of global governance. If Hobbes were alive today, he, we believe, would likely perceive the current situation as immensely precarious and dangerous, where relations between nation states are not regulated by a common power and which therefore is bound to generate into a state of merciless competition, capable of quickly escalating into violence and war. Hobbes, we believe, would surely become advocate of global governance, a new “global Leviathan”.

But this new “global Leviathan” should be democratic. It should function on the principle of perpetual peace, as postulated by Kant. This new Leviathan should also operate on the basis of a social contract, as prescribed by Rousseau. This is because forced coercion by military or other armed forces and economic exploitation would become counterproductive in the current system of power distribution and weaponry development; it would necessarily create new conflicts which could not be solved in zero-sum game frameworks, but would escalate into global conflicts. Forced coercion would create more conflicts than it would not solve.

We argue that a “democratic global Leviathan” would not only be capable of averting an Apocalypse inherent of man having power of God, but it would be able of taking the mankind back into “the garden of Eden”, the “Paradise” from where God expelled it. Man is potentially capable of acting as “God” not only in a destructive way, but equally so in a positive way due to the tremendous possibilities opened up by the modern sciences and technology, in particular by the revolutionary development of information technology and biotechnology, and the great advances achieved in economic management at both micro- and macro levels.

The existing institutions of global governance, fragmented and partial as they may be, have already secured a number of positive developments although the efficiency of these activities is considerably lower than what would be necessary to successfully manage markets failures and social-military conflicts already appearing at a global scale. Notwithstanding, important experiences of global governance have been accumulated during the last decades. These experiences could become the first ingredients of efficient and peaceful global governance, while the formidable dangers and unprecedented possibilities of an increasingly global world create incentives for government to improve the current global political institutions. The development of global governance is the only rational response mankind can give to the challenges of globalization. In the spirit of Hobbes and Kant we can only hope that this is the path that will be chosen. The arguments for global governance thus are powerful and this justifies some optimist outlook for the future. Would the expectation that mankind will choose the rational path turn out to be false, the future of the world would become very gloomy. But let us be optimistic!