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Geopolitics after the Global Financial Crisis

What are some of the geopolitical aftereffects of the Global Financial Crisis? Jonathan Kirshner believes there has been a sharp decline in the ideological power of financial liberalization, a decisive end to the American-led post-Cold War economic order, and a sharp rise in uncoordinated 'heterogeneous thinking'.

By Jonathan Kirshner for ISN

The Global Financial Crisis (GFC) was a watershed event. The world's largest economy teetered on the brink of a financial meltdown—Federal Reserve Chair Ben Bernanke estimated that twelve of the thirteen "most important financial institutions in the United States were at risk" of imminent failure. The American earthquake shook the foundations of the world economy, and its effects are still felt today.

After American hegemony

That the GFC was an economic catastrophe is generally understood. Less appreciated is that the crisis also had profound international political consequences. In fact, the GFC was an important inflection point in the trajectory of international relations, altering the balance of power and relative political influence, and affecting the emerging patterns of world politics. In particular, the crisis brought about an end to what I have labeled the "second post-war American order" (the period of U.S. hegemony *after* the Cold War and associated with its project of domestic and international financial deregulation), due to a collapse in the legitimacy of the economic ideas that underpinned that order—especially those that encouraged and even insisted upon uninhibited financial deregulation. In addition, the crisis accelerated two pre-existing trends, the relative erosion of the power and political influence of the United States, and the increased political influence of other states, most notably, but not exclusively, China. Finally, the crisis has brought about a "New Heterogeneity of Thinking" with regard to ideas about how to best manage international monetary and financial affairs. The New Heterogeneity will matter greatly because it will make it more difficult for countries to agree on coordinated efforts to supervise the international economy. This will in turn inhibit the prospects for solutions to problems that will inevitably arise, and for consequential reform of existing international institutions.

That the "second" American Order has come to a close is easy to miss, because the period from the end of World War II to the GFC is often seen as one of continuous American hegemony. But in fact the U.S. constructed two distinct international orders, each based on its own economic ideology and geopolitical context. The first order was influenced by an economic ideology of "embedded liberalism"

(that market forces should be embraced but nevertheless mediated by social purpose) and shaped by the imperatives of the Cold War. By the 1980s, that order was already foundering. When the dust finally settled after the unanticipated collapse of the Soviet Union, a second American order emerged – particularly after 1994, as the foreign policy agenda of the Clinton Administration took shape. Like the first, it was rooted in power and ideology—but characterized by radically different content. Bipolarity gave way to an extraordinarily empowering American unipolarity; embedded liberalism was jettisoned in favor of "market fundamentalism," the belief that that unfettered markets—even financial markets—always know best and should be left to govern themselves.

The leap of faith that was the great American financial liberalization project was not simply a domestic economic experiment—it also became a foundation of American grand strategy. The U.S. and its allies in institutions like the IMF pushed hard for global financial deregulation. From the U.S. perspective, all good things went together: financial deregulation was assumed to be good public policy; it was clearly good for U.S. firms eager to crack foreign markets; and its foreign policy elites concluded that financial globalization would offer an international environment in which American political power and influence would be enhanced. It was this order that was disrupted by the GFC, a development that marks the relative erosion of U.S. power and influence on world politics.

This argument can be overstated—the U.S. remains without a peer military competitor, and its economy is enormous, adaptive, essential, and robust. Still, the crisis has made more salient and accelerated a basic trend: the diffusion of the center of global economic gravity away from America. In addition, the simple fact of the crisis revealed a previously underappreciated vulnerability *of* the U.S *to* financial crisis. For three quarters of a century, financial crises were things that happened to everybody, everywhere—with the exception of the United States. If anything, international financial crises tended to empower the U.S., which served as a safe haven for investors seeking cover from shocks elsewhere. Even in the most recent crisis, panicking actors ran *towards* the American economy, which was the source of the disturbance. That, however, will not remain the case indefinitely, and the GFC suggests a new and unfamiliar (though actually, more "normal") level of exposure of the U.S. economy to external financial pressures.

These material changes and reassessments are taking place in the context of the de-legitimization of the Second American Order, reflected in the diverse interpretations of the GFC. From one perspective, widely held in the U.S. and indicated by its timid regulatory response, the crisis was a freak event: extremely unlikely and essentially unpredictable. From another point of view, however, some sort of crisis was virtually inevitable—the consequence of an under-regulated, dangerously interconnected, and overgrown financial sector. As a virtual iron law of history, this perspective holds (with much evidence on its side): deregulated finance invites crisis. Regardless of which view is correct (though I'd put my analytical money on the latter), the *political* points are that: (1) for much of the world, the GFC was the second major financial crisis within ten years; (2) the epicenter of the crisis was the U.S.; (3) many actors, especially outside of the U.S., now hold the view that the American financial model is suspect. This is why, throughout the globe, a variety of macroeconomic policy innovations (most obviously various forms of capital control) have been introduced. A manifestation of the New Heterogeneity of Thinking, it will affect both state choices and international politics, neither to America's advantage.

Winners and losers

The European Union also had a rather dismal GFC—so bad, in fact, that it is not yet possible to talk about the "post-crisis" era. The Euro, widely touted as the first true "peer competitor" to the dollar,

for example, was exposed instead as a pretender. The final chapters of this story are yet to be written; perhaps Europe will rebound, with a more ambitious reconstituted purpose, or with a leaner but more capacious currency union. For now, however, it is all too clear that the fundamental problems of the Euro-zone, more plainly exposed by crisis, remain stubbornly unresolved: its economics ran ahead of its politics. Signing on to the common currency, which forced member states to abdicate the levers of monetary and exchange rate policies, reduced distributing the inevitable costs of macroeconomic adjustment to their most bitter and naked, as the tourniquet of austerity was left as the only policy tool in the medicine-bag for states facing distress. And as long as participants' identity politics only go so far—that is, as long as individual EU states divide their fellow members into categories of "us" and "them"—these problems are not going to go away.

By contrast, in Asia, and other parts of the world more generally, economic growth rebounded more quickly after the GFC—as did skepticism of the American model and the international institutions the U.S. dominates. The Asian Financial Crisis (AFC) of 1997-98—and other crises that followed in Latin America, Russia, and elsewhere—planted the seeds of doubt that would eventually delegitimize the Second American Order. This was less noticeable at the time because, especially after the AFC, the American model was the only one left standing. And the U.S. continued to aggressively promote financial openness and deregulation, often with sharp elbows that left bruised feelings. But push-back was inhibited not simply by the irresistibility of American power, but also by a widespread (if tacit and grudging) acknowledgement that the U.S. financial model represented the goal to which all states should aspire.

This all changed as a result of the GFC. The crisis ended the belief that the American model was singularly correct, or even a good idea. In China, it provided (yet another) lesson about the perils of finance unbound (China's controls had spared it the worst of the AFC), and also elicited what can be called "buyer's remorse"—remorse about a development model that left it with massive, historically unprecedented holdings of US securities, and which bound it so tightly to the American economy—as well as increased disenchantment with American stewardship of the global economy. In addition, after the GFC, China (and other states), aspire to a role in global economic governance in accord with their greater economic weight in the international system. The People's Republic surely faces its own economic problems. But after more than three decades of very high economic growth, China is no longer "rising"—it has risen. Even as its rate of growth decelerates, and even if the American economy performs well, the general trend—accelerated by the GFC—endures: of the diffusion of economic activity throughout the globe, and towards Asia in particular, with predictable consequences for the balance of power and the contest of political influence in world politics.

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