

## Global Change?

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### Abstract

Recent history is replete with events that ostensibly changed the world. Yet, predictions of profound imminent global transformations are seldom borne out by realities. Rather than triggering radical changes, single events tend to unveil or amplify longer-term developments and trends. Moreover, we seldom specify what we mean by change. Utilizing Kalevi Holsti's categorization of conceptions of change (as novelty or replacement, as addition or subtraction, as increased/decreased complexity, as transformation, as reversion, and as obsolescence), this essay addresses three questions: What developments have been unveiled or amplified by the 2007-2008 financial crisis? How can these be understood in terms of Holsti's categorization? And what are the implications for democracy worldwide? Four interrelated developments are identified: (1) the growing significance of flows as compared to places; (2) a moving public-private borderline; (3) a transnational turn; and (4) changing global fault lines. All have the character of addition and increased complexity. They have not transformed the world, but have added labyrinthine complexity. None of the processes of change—with the possible exception of the transnational turn—has had a beneficial effect on global democracy. Rather, these processes have tended to create a number of problems for democratic rule.

**Keywords:** Complexity, finance, global democracy, public-private sphere, space of flows, transnational actors.

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The financial turmoil after 2008 has engendered notions of a changing world. Global financial actors are taking center stage, challenging the authority of states. The financial crisis “ended the unquestioned supremacy of the model adopted by the rich developed democracies and firmly embedded after the Cold War,” reversed “their seemingly ever-progressing economic development,”

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and entailed “the risk that confidence in democracy itself might start to erode.”<sup>1</sup> Some observers have seen the crisis as heralding the decline of the West.

In fact, recent history is replete with events that ostensibly changed the world. For example, the advent of nuclear weapons was perceived to destroy the “impermeability” of states and entailed predictions of the decline of the territorial state much in the same way as the “gunpowder revolution” of the late Middle Ages in Europe rendered castles and walled cities obsolete as units of protection. Utmost strength was seen to coincide with utmost vulnerability.<sup>2</sup>

The end of the Cold War generally was viewed as another decisive turning point. Not only did it mark the end of bipolarity, but also it could be seen to signal the endpoint of humankind’s ideological evolution and the universalization of Western liberal democracy as the final form of human government.<sup>3</sup> Others argued that the fault lines of international conflict changed after the Cold War from conflicts between states and their encapsulated ideologies, to conflicts between civilizations.<sup>4</sup>

The events of September 11, 2001, sent shockwaves throughout the world. September 11 was characterized as a “day that changed the world” in the media, and the most common observation in speeches and commentaries was that “the world will never be the same” or “we live in a new world.” The terrorist attacks were seen to change ingrained perceptions of security and threats and to create a sense of vulnerability as well as distrust and phobia around the world.

Such predictions of profound global transformations are seldom borne out by realities. Although the “hard shell” or “impermeability” of the state vanished as a result of nuclear weapons, it was replaced by a new shell rooted in the psychological quality of deterrence.<sup>5</sup> Nuclear weapons entailed “the impotence of omnipotence.”<sup>6</sup> The optimistic predictions of the final triumph of liberal democracy as a result of the end of the Cold War came to naught, as democratization turned out to be a problematic and reversible process. September 11 may have changed the psychological climate, but did not alter the fundamentals of the global power game.

One reason that such predictions fail to materialize is, of course, that single events do not trigger radical changes. Rather, they unveil or amplify

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<sup>1</sup> Ursula van Beek, “The Crisis that Shook the World,” in *Democracy under Stress: The Global Crisis and Beyond*, ed. Ursula van Beek and Edmund Wnuk-Lipinski (Farmington Hills, MI: Barbara Budrich Publishers, 2012), 12.

<sup>2</sup> John H. Herz, *International Politics in the Atomic Age* (New York: Columbia University Press, 1959).

<sup>3</sup> Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).

<sup>4</sup> Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon and Schuster, 1996).

<sup>5</sup> Robert E. Osgood and Robert W. Tucker, *Force, Order and Justice* (Baltimore, MD: Johns Hopkins Press, 1967), 326.

<sup>6</sup> John L. Gaddis, *The United States and the Origins of the Cold War, 1941-1947* (New York: Columbia University Press, 1972).

longer-term developments and trends. Nuclear weapons were the culmination of a development of weapons technology that made territories increasingly vulnerable and penetrable, beginning with the use of airplanes in World War I. The end of the Cold War came as a result of processes of structural weakening in the Soviet Bloc that had gone on for years. And 9/11 dramatized grievances and beliefs in terror as a justified weapon that had been brewing for a long time.

In short, it has become a cliché that we live in a changing world. “Great events” are often viewed as markers of change. Yet, there is little agreement as to which major events changed the world: “One person’s discontinuity or great event is not necessarily a sign of transformation for others.”<sup>7</sup> In fact, we seldom reflect on what we mean by change. Kalevi Holsti, a veteran in the field of International Relations, finds it curious that the discipline “is largely bereft of serious analysis of the nature and sources of change,” and is “puzzled as to why, when the nature, qualities, and sources of change in international politics are so fundamental to academic debates, so few have turned their attention to the phenomenon.”<sup>8</sup> He proposes a categorization of conceptions of change, which I will utilize to analyze a number of developments or trends that seem to have been unveiled or amplified by the recent financial crisis.

## **The Nature of Change**

Change can be understood as novelty or replacement, as addition or subtraction, as increased/decreased complexity, as transformation, as reversion, and as obsolescence.<sup>9</sup> The differences among these conceptions are important in estimating the validity of claims of novelty or transformation.

### ***Change as Novelty or Replacement***

Novelty or replacement is a discontinuous idea of change. Something new replaces something old, and the new thing is usually the antithesis of the old thing. “Certainly nothing new develops without a past, but the characteristics of the new may be so fundamentally different from anything preceding it that transformation is not an appropriate word.”<sup>10</sup> The digital revolution is often depicted in such terms.

### ***Change as Addition or Subtraction***

Addition or subtraction has the quality of more or less of something. Many changes that are described as transformations or novelties, in fact, are little

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<sup>7</sup> Kalevi J. Holsti, *Taming the Sovereigns: Institutional Change in International Politics* (Cambridge, UK: Cambridge University Press, 2004), 11.

<sup>8</sup> *Ibid.*, xiii-xiv.

<sup>9</sup> *Ibid.*, 12-17.

<sup>10</sup> *Ibid.*, 14.

more than a quantitative growth or decline. For example, much of what is subsumed under the label of globalization actually refers to increases in the volumes and speed of transactions of various kinds. This is probably the most common form of change, although commentators have a tendency to attribute qualitative consequences.

### ***Change as Increased/Decreased Complexity***

The evolution of the institution of diplomacy may illustrate a shift in the complexity of change. Old practices, ideas, norms, rules, and etiquette remain, but activities and agents expand in numbers and tasks, rules become more elaborate, new formats emerge, and the scope of activity expands. By analogy, the automobile consists of a number of essential elements, such as wheels, chassis, motor, gearing device, steering mechanism, and brakes. While a contemporary car is far more complex than a 1930s Ford model, the basic functions have not altered to the point of nonrecognition, and today's driver is doing essentially the same as his or her 1930s predecessor.

### ***Change as Transformation***

Quantitative changes, when accumulated over time, may bring new forms to life. Whereas new forms by necessity derive from old patterns and include residues of the old, transformation does not imply obsolescence. Insofar as old practices and norms may remain reasonably similar, their functions may change. Monarchy is a case in point. In the Scandinavian countries, Japan, and Britain, "many of the practices of monarchy, as well as protocol, norms and ideas, have remained similar over the centuries, but the functions of the monarchy have changed from ruling to symbolism and national identity."<sup>11</sup> The institution has been transformed, but not replaced. The old and the new thus coexist.

### ***Change as Reversion***

Change is not only progressive, but also can move toward more primitive forms. For instance, it can be argued that contemporary warfare in many parts of the world has reverted to patterns of action similar to medieval warfare. Several contemporary armed conflicts are characterized by lack of clear political purpose, failure to distinguish between civilians and combatants, and deliberate targeting of civilian populations, including women and children. Terror, stealth, deception, and anonymity characterize armed operations, and mercenaries have reappeared. All are signs of reversion.

### ***Change as Obsolescence***

Typical behaviors, institutions, practices, and norms may simply disappear

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<sup>11</sup> Ibid., 16.

without something new taking their place. Slavery and colonialism are examples of old practices that have become obsolete, even if a few residues exist. Similarly, conquest as a form of state behavior has been delegitimized and is considered obsolete, at least in large parts of today's world.

Much of the rhetoric concerning events that "change the world" seems to imply change as novelty or transformation, without considering alternative understandings. Commentators frequently assert qualitative change from mere additions or growing complexity. "Claims of novelty, replacement, or transformation would often better be classified as additions or growing complexity, where elements of the old and the new coexist. In a few cases, reversion would be a better category."<sup>12</sup>

## **Change Associated with the Financial Crisis**

What developments or trends have been unveiled or amplified by the financial crisis? How can these be understood in terms of Holsti's categorization of change? And what are the implications for democracy worldwide? These will be the questions guiding the remainder of this essay. Specifically, I will look into four different but interrelated developments: (1) the growing significance of flows as compared to places; (2) a moving public-private borderline; (3) a transnational turn; and (4) changing global fault lines.

### ***Space of Flows***

The generic concept of space is a three-dimensional phenomenon, but within geography and related disciplines it is generally perceived as a two-dimensional surface. Maps are expressions of the importance of distance and spatial relations. Physical proximity always has been a key principle behind decisions as to where to draw spatial boundaries. This historically rooted spatial logic can be labeled "space of places."<sup>13</sup>

However, no ordinary map can capture the fact that crucial functions and processes in the information age are increasingly organized around networks. "Networks constitute the new social morphology of our societies, and the diffusion of networking logic substantially modifies the operation and outcomes in processes of production, experience, power and culture."<sup>14</sup> Physical proximity loses some of its significance. Accessibility and reachability are no longer contingent on one's physical location on a surface. In the emergent "network society," a new spatial logic prevails, which Manuel Castells has labeled *space of flows*.

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<sup>12</sup> Ibid., 17.

<sup>13</sup> Manuel Castells, *The Rise of the Network Society* (Oxford: Blackwell, 1996), 378.

<sup>14</sup> Ibid., 469.

[O]ur society is constructed around flows: flows of capital, flows of information, flows of technology, flows of organizational interaction, flows of images, sounds, and symbols. Flows are not just one element of the social organization: they are the expression of processes *dominating* our economic, political, and symbolic life.<sup>15</sup>

Castells<sup>16</sup> identifies three layers of material supports that, together, constitute the space of flows: the new information and communication technology; network nodes and hubs, such as “global cities”;<sup>17</sup> and the cosmopolitan lifestyle of the dominant, managerial elites which sets them apart from locally bound people. “The space of power and wealth is projected throughout the world, while people’s life and experience is rooted in places, in their culture, in their history.”<sup>18</sup>

Contemporary society has become increasingly dependent on flows across geographical boundaries, and our welfare and security are increasingly dependent on undisturbed air, sea, and land transports of goods and people as well as uninterrupted flows of communication via the Internet. Migration and finance are two prominent manifestations of the significance of flows.

The flow of people includes travel as well as migration, both voluntary migration and forced displacement. During the period 2000 to 2010, the global migrant stock grew twice as fast as during the previous decade, and in 2013 it consisted of some 232 million international migrants.<sup>19</sup> The United Nations High Commissioner for Refugees (UNHCR) figures indicate that 51 million people were forcibly displaced at the end of 2013, the largest number since the end of World War II. The average number of newly displaced persons per day doubled from 2001 to 2012. This translates into a new refugee or internally displaced person every four seconds.<sup>20</sup>

Finance is a quintessential example of the space of flows. As we entered a new millennium, the *daily* turnover in the international currency trade exceeded the reserves of the largest central banks, outstripped all World Bank loans throughout its existence, and amounted to around forty times the value of the daily production of merchandise in the world. Since actors in the financial

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<sup>15</sup> Ibid., 412.

<sup>16</sup> Ibid., 412-417.

<sup>17</sup> Saski Sassen, *The Global City: New York, London, Tokyo* (Princeton, NJ: Princeton University Press, 1991).

<sup>18</sup> Castells, *The Rise of the Network Society*, 415-416.

<sup>19</sup> World Migration in Figures: A Joint Contribution by the UN-DESA and the OECD to the United Nations High Level Dialogue on Migration and Development (October 3-4, 2013), <http://www.oecd.org/els/mig/World-Migration-in-Figures.pdf> (accessed March 12, 2015).

<sup>20</sup> “New UNHCR Report Says Global Forced Displacement at 18-Year High,” UNHCR (June 9, 2013), <http://www.unhcr.org/51c071816.html> (accessed March 12, 2015).

market today have a “technological and informational ability relentlessly to scan the entire planet for investment opportunities, and to move from one option to another in a matter of seconds,” finance capital is in constant movement.<sup>21</sup> These flows of money of an almost unimaginable magnitude are, by and large, beyond the effective control of governments or intergovernmental organizations. Global cities such as New York, London, and Zurich are central hubs in the management of these flows, and the high-risk decisions, greed, and lack of humility among the cosmopolitan finance managers have contributed to the financial crisis.<sup>22</sup>

While depicted by Castells as a novelty, the new significance of space of flows is essentially a case of addition and increased complexity. The ease, magnitude, and diversity of flows are indeed unprecedented, but they represent a culmination and acceleration of a process that began two centuries ago. The adage that Napoleon did not travel faster than Caesar reflects the significance of distance-related friction throughout centuries until the advent of steamships, railways, and the telegraph in the nineteenth century, and automobiles, airplanes, and electronic communication in the twentieth century.<sup>23</sup> The process of reducing the friction associated with distance and facilitating transborder flows has accelerated with the extraordinary revolution in electronic communication in recent decades.

How has democracy been affected by the increasing significance and amount of flows? The increased mobility of persons challenges the traditional notion of *demos* as a territorially bound group of individuals, a notion firmly grounded in the space of places. Moreover, democracy presupposes congruence between the *demos* with voting rights and the people affected by the resulting policy measures. This forges the link between voting and accountability judgements. Today, however, “territorial systems of accountability no longer necessarily coincide with the spatial reach of sites of power.”<sup>24</sup> The European Union epitomizes “governance...beyond the territorial congruence of those who govern with those who are subject to governance.”<sup>25</sup>

At the same time, the financial market illustrates the reduced ability of governments to regulate flows across their borders. This loss of

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<sup>21</sup> Castells, *The Rise of the Network Society*, 363.

<sup>22</sup> Andrew R. Sorkin, *Too Big to Fail: Inside the Battle to Save Wall Street* (London: Allen Lane, 2009).

<sup>23</sup> Christer Jönsson, Sven Tägil, and Gunnar Törnqvist, *Organizing European Space* (London: Sage, 2000), 179-181.

<sup>24</sup> Anthony McGrew, “Globalization and Democracy: An Introduction,” in *The Transformation of Democracy?* ed. Anthony McGrew (Cambridge, UK: Polity Press, 1997).

<sup>25</sup> Markus Jachtenfuchs and Beate Kohler-Koch, “The Transformation of Governance in the European Union,” paper presented at the Fourth Biennial International Conference of the European Community Studies Association, Charleston, SC, May 11-14, 1995, 5.

“interdependence sovereignty”<sup>26</sup> has consequences for democracy as well. To the extent that citizens perceive that a significant part of their welfare depends on these transnational flows rather than on government policies, they may question the authority of the state and doubt their own ability to influence developments through traditional democratic procedures.

### ***Moving Public-Private Borderline***

The distinction between a public and a private sphere is essential to politics. The public sphere is commonly associated with the state and politics, whereas the private sphere encompasses markets and civil society. Political power and state sovereignty rest on “a set of institutionalized authority claims.”<sup>27</sup> The sovereign state’s claims to authority over its population impart to it “meta-political” authority. That is, the governing bodies of states claim to have, and are recognized as having, the authority to define what is public—and thus political—and what is private—and thus beyond political authority.<sup>28</sup> The range of activities over which political bodies can legitimately exercise authority may vary over time and among states. For instance, the authority claims of modern welfare states are far more extensive than those of medieval or nineteenth-century states, as formerly “private” aspects of people’s lives have become included in the public realm.

The public-private distinction can be seen as one of the “grand dichotomies” of Western thought, subsuming a wide range of other distinctions shaping our understanding and organization of social life.<sup>29</sup> Rather than essential and categorically separable, the terms of this formative distinction are relational, and their interpretation has varied over time. The establishment of a distinction between a public and a private sphere is the result of a prolonged and often conflictive historical process.<sup>30</sup> For example, warfare and diplomacy—which we today unquestionably include in the public sphere—were “marketized and internationalized” well into the nineteenth century. Conversely, there are activities that we today consider primarily commercial which were seen to belong to the public sphere not long ago. For example, from its inception in the

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<sup>26</sup> Stephen D. Krasner, *Sovereignty: Organized Hypocrisy* (Princeton, NJ: Princeton University Press, 1999), 12-14.

<sup>27</sup> Janice E. Thomson, *Mercenaries, Pirates and Sovereigns: State-Building and Extraterritorial Violence in Early Modern Europe* (Princeton, NJ: Princeton University Press, 1994), 14.

<sup>28</sup> *Ibid.*, 214.

<sup>29</sup> Jeff A. Weintraub, “The Theory and Politics of the Public/Private Distinction,” in *Public and Private in Thought and Practice: Perspectives on a Grand Dichotomy*, ed. Jeff A. Weintraub and Krishan Kumar (Chicago, IL: University of Chicago Press, 1997), 1.

<sup>30</sup> Magdalena Bexell and Ulrika Mörth, “Introduction: Partnerships, Democracy, and Governance,” in *Democracy and Public-Private Partnerships in Global Governance*, ed. Magdalena Bexell and Ulrika Mörth (Basingstoke, UK: Palgrave Macmillan, 2010).



late 1920s through the immediate post-World War II period, international civil air transport was essentially a government enterprise.

Simplified understandings of the distinction between public and private neglect the range of variable interpretations and alternative implications of these concepts. And in today's globalized world, the borderline between the public and the private sphere is becoming increasingly diffused. Domestically as well as internationally, private actors become politicized and public actors become "marketized"—"the public goes private and the private goes public."<sup>31</sup>

There were important ideational factors contributing to the public-private reconfiguration around the turn of the millennium. The New Public Management (NPM) model of administrative reform, which had gained wide currency worldwide, blurred the borderline between public and private. It fundamentally changed the public sector into becoming more dependent on corporate ideas and resources. Market values and norms entered public governance.

At the same time as the state and the public sphere came to focus more on efficiency and market management, private firms became increasingly aware of, and active in, human rights, environmental issues, and other public policy fields. This implied paying more attention to other goals than profit maximization, focusing more on stakeholders than on shareholders. Corporate Social Responsibility (CSR) became a new private management trend and emerged as a regulatory framework placing new demands on corporations. NPM and CSR point in the same direction of blurred borders between public and private.

This moving borderline is reflected in various new modes of global governance.<sup>32</sup> In recent decades, intergovernmental organizations (IGOs) increasingly have opened up and granted access to private actors.<sup>33</sup> In addition, informal networks of public and private actors, focusing on specific issues, have become important constellations in global and regional governance. Informal networks often emerge in the shadow of, and tend to be useful complements to, formal structures. The European Union is a case in point.

Public-private partnerships (PPPs) are emerging in such areas as human rights, public health, environmental protection, and development. While differing in degree of institutionalization, existing PPPs constitute more

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<sup>31</sup> Magdalena Bexell and Ulrika Mörth, "Conclusions and Directions," in *Democracy and Public-Private Partnerships in Global Governance*, ed. Magdalena Bexell and Ulrika Mörth (Basingstoke, UK: Palgrave Macmillan, 2010), 218.

<sup>32</sup> cf. Christer Jönsson, "The John Holmes Memorial Lecture: International Organizations at the Moving Public-Private Borderline," *Global Governance* 19, no. 1 (2013): 1-18.

<sup>33</sup> cf. Jonas Tallberg et al., *The Opening Up of International Organizations: Transnational Access in Global Governance* (Cambridge, UK: Cambridge University Press, 2013), and Jonas Tallberg et al., "Explaining the Transnational Design of International Organizations," *International Organization* 68, no. 4 (2014): 741-774.

formalized cooperation than networks. The United Nations Global Compact, a partnership with business actors and nongovernmental organizations (NGOs) that share the U. N.'s values, was established in 2000 and today has as members more than eight thousand enterprises in 145 countries. It has had repercussions throughout and beyond the U. N. system. Cooperation in partnerships is commonly depicted as a win-win situation, and PPPs are seen as vehicles for collective action to overcome both political failures and market failures.

Finally, the private sector has become increasingly involved in regulatory activity in global governance. Nonstate actors cooperate across borders in order to establish rules and standards of behavior accepted as legitimate beyond their own circles. The major bond rating agencies, Moody's and Standard & Poor's, are prominent examples of private authority trespassing into the public sphere. The conflicting and unreliable credit ratings of these two private agencies are by some analysts regarded as contributing to the 2001-2005 housing bubble in the United States. They assess the creditworthiness of not only corporations, but sovereign governments as well. Yet, they remain anonymous, faceless institutions, left alone by governments to do their work.

"Soft law," in the form of standards or codes of conduct, is frequently produced by actors outside the public realm. For instance, the International Social and Environmental Accreditation and Labelling Alliance (ISEAL) is an association of transnational organizations, designed to develop Codes of Good Practice that emphasize social justice and environmental sustainability in agriculture, fishing, and several other sectors. While gaining a substantial degree of adherence in the rich North, stringent standards hit operators in the poor South much harder and are therefore not complied with to the same extent.

In several respects, the financial crisis has highlighted the moving borderline between public and private. In the world of finance, it is primarily a matter of the relationship between private financial actors, such as banks, investment firms, and insurance companies, and public regulators. Overall, "the financial markets were much less tightly regulated after 1980 than before."<sup>34</sup> Capital market liberalization has opened markets to the free flow of short-term, speculative money. At the same time, central banks in key countries have become increasingly independent from political interference.

One arena where the changing public-private balance is playing out is the Basel Committee on Banking Supervision (BCBS), established in 1974 at the Bank for International Settlements (BIS), itself a forum for central bankers created after World War I. Until 2009, the committee consisted of representatives of central banks as well as the authorities responsible for domestic banking supervision in twelve countries. Since then, the committee has expanded its membership to include all G20 countries. The regulatory

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<sup>34</sup> Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: Belknap Press, 2014), 476.

authority of the BCBS was vested in the so-called Basel process. Its aim has been to set prudential standards for the international banking system via the rule of capital adequacy requirements that are to provide a buffer against unexpected losses and allow banks to continue to operate during periods of stress. The Basel I Accord of 1988 and the Basel II Accord of 2004 were seen to be inadequate, reflecting a disproportionate influence of large international banks over the Basel process.

The financial crisis created a strong demand for regulatory change, at the same time as the G20 emerged as a regulatory authority to rival the BCBS. New Basel III rules were proposed by the BCBS and endorsed by the G20 in 2010. Basel III more than triples the amount of capital that banks must hold in reserve. Moreover, the capital has to be of better quality than before. It also introduces capital buffers above the minimum requirements that can be drawn upon in bad times. Basel III began to be gradually implemented on January 1, 2013, and is to be fully phased in by January 1, 2019.

While strengthening the hand of public regulators, Basel III does not upset the strong position of financial actors. Opaque treatment of derivatives contracts in Basel III has caused observers to claim that the “too big to fail” status of derivatives dealers remains. Global banks, organized in the Institute of International Finance, continue their lobbying. They argue that the risk inhibition and paper burden associated with Basel III hurts not only banks but also the world economy. In January 2013, the banking sector managed to get BCBS support for an extension of the implementation schedule and a broadened definition of liquid assets. In short, Basel III, like the preceding Basel accords, seems to be prone to “regulatory capture,” that is, *de facto* control of regulatory agencies by the regulated interests.<sup>35</sup>

Beyond the Basel process, individual states, the European Union, and other international organizations have taken measures to counter the detrimental effects of the financial crisis. The pragmatic measures by the governments and central banks of wealthy states have avoided waves of bank failures, “but they did not really provide a durable response to the structural problems that made the crisis possible, including the crying lack of financial transparency and the rise of inequality.”<sup>36</sup> In short, the public-private balance in international finance has not been settled: “today’s crisis is both an indictment of the markets and a challenge to the role of governments.”<sup>37</sup> It is not only a matter of problematic financial markets, but also the current situation in Europe is aggravated by an unresolved public debt crisis.

Thus, the type of change represented by the moving public-private

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<sup>35</sup> Ranjit Lall, “Reforming Global Banking Rules: Back to the Future?” DIIS Working Paper no. 16 (2010) (Copenhagen: Danish Institute for International Studies, 2010).

<sup>36</sup> Piketty, *Capital in the Twenty-First Century*, 476.

<sup>37</sup> *Ibid.*, 473-474.

borderline is primarily that of added complexity. The balance between the public and the private sector always has been in flux, but in recent decades the two have become more intertwined than ever before. In the financial sector, this increasing complexity is magnified by the variety of new financial instruments. Alan Greenspan, after he stepped down as chairman of the Federal Reserve, admitted that the complexity of some of these new instruments was hard to comprehend, even for him: “And I figured if I didn’t understand it and I had access to a couple hundred PhDs, how the rest of the world is going to understand it sort of bewildered me.”<sup>38</sup>

How is democracy affected by this moving public-private balance in the financial sector? The lack of financial *transparency* constitutes a democratic problem. Finance is a market where a small group of experts is well-informed and the vast majority is ill-informed or ignorant. In fact, even “international organizations currently responsible for overseeing and regulating the global financial system, starting with the IMF, have only a very rough idea of the global distribution of financial assets, and in particular the amount of assets hidden in tax havens.”<sup>39</sup> Important market transactions take place within a privileged cabal without any popular representation. The lack of mechanisms through which ordinary citizens can find out who are responsible and hold them accountable represents a serious democratic challenge.

In addition, the opaque, and in some cases patently false, public accounts in countries with debt problems, such as Greece, entail similar transparency deficits. Moreover, the austerity measures made necessary by the public debt crisis threaten to erode the confidence in democracy among citizens in affected countries.

### ***A Transnational Turn***

While the term “internationalization” usually denotes expanding interrelations and tightening links among states, “transnationalization” involves growing flows and relations across state boundaries beyond government control. A 1971 special issue of *International Organization* entitled “Transnational Relations and World Politics,” which also appeared as a book edited by Robert Keohane and Joseph Nye in 1971,<sup>40</sup> alerted political scientists to the concept and the emerging significance of the transnational dimension. In their introduction, the co-editors define transnational relations as “contacts, coalitions, and interactions across state boundaries that are not controlled by the central foreign policy organs of governments,” including among transnational interactions “the movement of tangible or intangible items across state boundaries when at

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<sup>38</sup> Sorkin, *Too Big to Fail*, 90.

<sup>39</sup> Piketty, *Capital in the Twenty-First Century*, 519.

<sup>40</sup> Robert O. Keohane and Joseph S. Nye, Jr., eds., *Transnational Relations and World Politics* (Cambridge, MA: Harvard University Press, 1971).

least one actor is not an agent of a government.”<sup>41</sup>

The past quarter of a century has witnessed a gradual transformation in the dominant mode of political organization at the international level, from interstate cooperation, negotiated and managed by national governments, to more complex forms of cooperation, involving transnational as well as supranational actors. The state-dominated international institutions of the postwar period have developed into more multifaceted arrangements, and new forms of governance have emerged that involve both public and private actors.

This “transnational turn” has entailed formal and informal opportunities for nonstate actors to participate in international policy-making processes. Increased participation is frequently identified both as a factor driving the growth in transnational activity, and as a vital source of transnational influence in world politics. Whereas fewer than one thousand international NGOs existed in 1956, their number had climbed to fourteen thousand in 1985, and to twenty-one thousand in 2003. Part of this growth may be attributed to the opportunity structures provided by states and institutions.<sup>42</sup> Much like the emergence of the nation-state stimulated the growth of new forms of citizen activism, the creation of international institutions in the postwar period provided new political opportunities and incentives to organize. While cooperation in some instances began in the 1950s and 1960s, it is from the 1980s onward that international institutions seriously have expanded both access and resources for transnational actors. The end of the Cold War, in particular, set off a number of processes leading to broadened and deepened access for transnational actors in IGOs. Increasingly, international organizations are engaging transnational actors as policy experts, service providers, compliance watchdogs, and stakeholders.<sup>43</sup>

The transnational turn constitutes change in terms of addition rather than transformation. The increased number and significance of transnational actors and processes have added another layer to international relations, complementing rather than replacing the Westphalian pattern of state-centered actors and processes. The expanded participation by transnational actors in global governance has not been forced upon states and IGOs, but rather is the result of functional demand: access is driven and shaped by the benefits of involvement by transnational actors in solving particular governance problems, such as providing needed expertise, monitoring compliance with commitments, and contributing to the implementation of programs in the field. Thus, somewhat paradoxically, the process of change, enhancing the role of transnational actors, has largely been state-driven.<sup>44</sup>

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<sup>41</sup> Ibid., xi-xii.

<sup>42</sup> Kim D. Reimann, “A View from the Top: International Politics, Norms, and the Worldwide Growth of NGOs,” *International Studies Quarterly* 50, no. 1 (2006): 45-68.

<sup>43</sup> cf. Tallberg et al., *The Opening Up of International Organizations*, and Tallberg et al., “Explaining the Transnational Design of International Organizations.”

<sup>44</sup> Tallberg et al., *The Opening Up of International Organizations*, 256.

The transnational turn is often seen as contributing to a democratization of global governance through closer involvement of civil society organizations. While the opening of international organizations to transnational actors expands participation and establishes complementary channels of citizen representation, opportunities to take part in global policymaking are unequal and circumscribed. Well-organized and well-funded NGOs in the rich part of the world are overrepresented. The democratization potential is particularly frail in the finance sector. Banks and other actors in the financial market are prominent examples of transnationalization. However, finance is the issue area with the lowest access for transnational actors to international organizations—even lower than security, which is generally seen as the privileged domain of states.<sup>45</sup> To be sure, the functional demand logic suggests that the need for engaging transnational actors is low in finance, because the relevant information and expertise is centralized within government ministries, central banks, and specialized financial institutions. Yet, the absence in international forums of countervailing transnational actors, representing the interests of the customers of financial services, has arguably aggravated the financial crisis.

### ***Changing Global Fault Lines***

The bipolar pattern of the Cold War was straightforward: the East-West divide permeated practically all world politics. The end of the Cold War brought the fermenting North-South polarization to the fore. The United Nations managed to achieve consensus among its member states around a series of Millennium Development Goals. Even if certain steps have been taken toward their realization, the gap between the rich North and the poor South persists. Moreover, another dimension of economic division is emerging. The equalizing decades following World War II, which brought about the rise of the middle class, have been succeeded by extreme inequalities, as returns on capital tend to exceed the rate of economic growth. The growing concentration of wealth, often inherited, in the hands of a small economic elite threatens to stir discontent and undermine democratic values.<sup>46</sup> The balance between economic and ecological considerations represents yet another global fault line of momentous proportions. How to achieve economic growth without environmental degradation has become a matter of destiny.

September 11, 2001, became a reminder of emerging religious fault lines in the contemporary world, a factor long neglected by students as well as practitioners of international relations. The predominant polarization initially was seen to be between secular Western values and theocratic Islam, but increasingly internecine conflicts between Shiite and Sunni Muslims have gained prominence. In more general terms, a division between absolutist

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<sup>45</sup> Ibid., 75-77.

<sup>46</sup> Piketty, *Capital in the Twenty-First Century*, 2014.

and pluralist attitudes is becoming increasingly apparent. Whereas *plurality*, the quintessence of modern secular societies, is a fact virtually everywhere in today's globalized world, commitment to *pluralism* is not. Religious as well as secular varieties of fundamentalism and absolutism—"I am absolutely right, and you are absolutely wrong"—steadily are gaining ground around the world. Pluralist dispositions that constitute the lifeblood of democracy are increasingly challenged. Democracy, like diplomacy, rests on a norm of coexistence. Diplomatic historian Garrett Mattingly's<sup>47</sup> conclusion that "unless people realize that they have to live together, indefinitely, in spite of their differences, diplomats have no place to stand" is equally valid for democrats and democratic institutions.

In terms of geopolitics, there are shifting global fault lines as well. The position of the Atlantic as the political and economic center of gravity is rivaled by the Pacific area, as Asia is steadily gaining in power. China is on the verge of surpassing the United States as the world's largest economy, and India's growth rate is now exceeding that of China. As the current financial crisis has hit mainly the United States and Europe, it has amplified the power shift in Asia's favor. And the leading Asian powers are emerging as more assertive on global issues, demanding a restructuring of global political and financial institutions such as the United Nations Security Council, the World Bank, and the IMF to be more reflective of the growing strength of Asia. At the same time, the autocratic rule and aggressive foreign policy of Putin's Russia have spawned a conflict pattern in Europe reminiscent of the Cold War.

More fault lines could no doubt be added, but the key point is that the changes have added new dimensions and increased the complexity of global patterns. The financial crisis is nurtured by, and feeds into, these interrelated fault lines. A crucial question is to what extent democracy can handle this accelerating complexity. The task of interest aggregation, assigned to political parties, has become vastly more complicated and difficult.

## Conclusion

The global changes identified in this essay have the character of addition and increased complexity in Holsti's terms. Accelerating transborder flows, moving and diffuse borderlines between public and private spheres, growing significance of transnational actors and processes, and new global fault lines have not transformed the world, but they have added labyrinthine complexity. The current growth in Europe of populist parties with simplified, unidimensional programs can be seen as a response to this unwieldy complexity. The somewhat paradoxical links between European populist parties of differing hues and Putin's Russia indicate that the processes of change identified in this essay are

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<sup>47</sup> Garrett Mattingly, *Renaissance Diplomacy* (London: Jonathan Cape, 1955).

intertwined.

How, then, have these changes affected global democracy? None of the processes of change identified in this essay—with the possible exception of the transnational turn—have had a beneficial effect. Rather, they tend to create a number of problems for democratic rule. And in recent years, global democracy does indeed have a rather bleak record. The wave of democratization that followed the end of the Cold War has ebbed and in some cases reverted. Russia, Turkey, and Hungary are noteworthy examples of trajectories away from democratization. Former Soviet republics in Central Asia are other cases in point. Whereas the so-called Arab Spring in 2011 inspired new optimism, democracy has not yet taken hold in the Arab world. Hopes of gradual democratization in China have yet to be fulfilled. According to Freedom House's annual report, the state of political rights and civil liberties in the world declined for the ninth consecutive year in 2014.<sup>48</sup> And indicators compiled by Reporters Without Borders show a marked decline in freedom of information in recent years.<sup>49</sup> Globally, democracy appears to be in retreat<sup>50</sup> rather than advancing.

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<sup>48</sup> "Discarding Democracy: Return to the Iron Fists," Freedom House, <https://freedomhouse.org/report/freedom-world/freedom-world-2015#.VR0t85UcR3c> (accessed April 14, 2015).

<sup>49</sup> "World Press Freedom Index 2015: Decline on all Fronts," Reporters without Borders, <http://index.rsf.org/#!/presentation> (accessed April 15, 2015).

<sup>50</sup> Larry Diamond contends more optimistically that democracy is in recession, not in retreat. See Larry Diamond, "Facing up to Democratic Recession," *Journal of Democracy* 26, no. 1 (2015): 141-155.