Towards a Pluripolar Global Financial Architecture?

The Bretton Woods Institutions and the New Landscape of Developmental Finance

Ilene Grabel*
Josef Korbel School of International Studies
University of Denver
Denver, CO 80208, USA
Email: Ilene.Grabel@du.edu

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Abstract
I advance three claims in the paper. The first claim is positive. The Asian and especially the global financial crisis occasioned meaningful though ad hoc, partial, and uneven discontinuities in developmental finance and financial governance architecture. The conjunction of discontinuities and continuities is imparting incoherence to the financial governance architecture and developmental finance. The second claim is normative. I hold, contrary to the common narrative, that the emergent incoherence is *productive* rather than debilitating. In the absence of an over-arching, coherent model of financial governance EMDEs today are experiencing a dramatic expansion in policy space and room for institutional experimentation. Especially in comparison with the stultifying coherence of the neoliberal era, EMDEs enjoy a degree of autonomy to pursue economic and human development and to introduce reforms that promote financial stability, resilience in the face of disturbances, and financial inclusion. Emergent redundancy and networks of institutional cooperation are increasing resilience. The third claim is that productive incoherence can be understood most fully within a "Hirschmanian mindset," i.e., an understanding of social and regime change informed by Albert O. Hirschman's key theoretical and epistemic commitments. The Hirschmanian vision that underpins the paper's central theses recognizes that meaningful change can and should come about through the proliferation of small scale, disconnected, experimental, and incremental adjustments in institutions and practices that take root in the concrete demands facing policymakers with the capacity to adjust pragmatically to the changing circumstances and challenges they face.

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I have a book that's just come out that takes on widely held, incorrect understanding of the consequences of the Asian and especially the global crisis for the global financial governance architecture. What I'd like to do today is talk about a paper that draws on one of the book's empirical chapters, which focuses on innovations financial governance architectures and on the related implications of these innovations for the legacy Bretton Woods institutions.

To foreground the discussion I'll note that the crises of the 1970s and 1980s generated demands for "South-South" institutions that would be largely autonomous from the Bretton Woods institutions. In contrast, the East Asian and especially the global crises spawned an unruly, muscular *pragmatism* reflected in the view that emerging market and developing economy (what I call EMDE) institutions could complement and even substitute to some extent for the Bretton Woods institutions. Indeed, one of the most important features of the current period is the extent to which EMDE policy makers are taking advantage of increasing freedom to act autonomously to establish new institutions of financial governance and developmental finance, to build out preexisting institutions, and, in some cases (and with the support of the IMF) explore ways in which they might link to and coordinate with one another. The willingness and ability of EMDEs to undertake ad hoc, uncoordinated innovation in institutions that provide long-term project finance and liquidity support--which together constitute what I refer to as developmental finance--is a crucial legacy of the recent crises. *Innovations in this domain are best understood as uneven, partial, experimental, contested, and incomplete*. And yet, EMDE institutions are evolving in ways that allow them to fill persistent gaps in the global financial architecture. *In short, we find institutional proliferation and expanding mandates that place the EMDEs at the* *center of an evolving institutional landscape marked by complexity; density; fragmentation; and what I term "pluripolarity," productive incoherence, and productive redundancy*.

I advance three claims. The first is positive. The Asian and especially the global crisis occasioned meaningful though ad hoc, partial, and uneven discontinuities in developmental finance and financial governance architecture. The conjunction of discontinuities and continuities is imparting incoherence to the financial governance architecture and developmental finance. The second claim is normative. Contrary to the common narrative that emphasizes strong continuity in financial governance, I argue that the emergent incoherence is *productive* rather than debilitating. In the absence of an over-arching, coherent model of financial governance EMDEs today are experiencing an expansion in the room for institutional experimentation. Especially in comparison with the stultifying coherence of the neoliberal era, EMDEs enjoy a degree of autonomy to innovate in ways that promote financial stability, resilience, and financial inclusion. Emergent redundancy and networks of cooperation are increasing resilience. The third claim is that productive incoherence can be understood most fully within what I call a "Hirschmanian mindset," by which I mean an understanding of social and regime change informed by Albert Hirschman's key theoretical and epistemic commitments.

In the paper (and the book) I elaborate on what are for me the key features of Hirschman's thought. I'll note now that they center on Hirschman's examination of exit, voice and loyalty; his treatment of linkages and side effects; his appreciation of the way that uncertainty, ignorance, and error could be potential drivers of productive action by policy entrepreneurs (as embodied in his Hiding Hand concept); his rejection of uniform solutions and the related centrality of the diminutive, complex, and experimental; and his commitment to what he termed possibilism, which followed from his epistemic commitments and rejection of the hubristic thinking that elevated social engineering and prejudged the outcomes of interventions. The Hirschmanian vision that underpins my central theses recognizes that meaningful change can and should come about through proliferation of small scale, disconnected, experimental, and incremental adjustments in institutions that take root in the concrete demands facing policymakers.

These Hirschmanian insights are useful when trying to make sense of contemporary developments. Taken together, they take the form of *pro*scriptions that suggest we should reject evaluative criteria that purport to determine ex ante or even ex post whether particular innovations are coherent, viable, sufficient, scalable, and significant because these criteria constrain our appreciation of the ad hoc and the unscripted, and blind us to the potential of sometimes small-scale initiatives proliferating in EMDEs. In this connection I take on the concrete matter of how we might understand architectural innovations in reserve pooling and development finance through a Hirschmanian lens. In doing so I explore the form of change underway, which I classify as capacity expansion, hybridization, and institutional creation.

I find a few things across these institutional terrains. For institutions that pre-date the global crisis we find expansion in the scale of activity, geographic reach, and the introduction of novel mechanisms. Examples of institutions that have expanded their capacity include the Chiang Mai Initiative Multilateralization of the ASEAN+3, Latin American Reserve Fund, Arab Monetary Fund, and Development Bank of Latin America. We also find "hybridization" as when a regional development bank provides counter-cyclical support. Examples of newly hybridized institutions include Brazil's National Bank of Economic and Social Development and Development Bank of Latin America. We also find institutions that have been created during the crisis, some focusing on reserve pooling, others on development finance, and some doing both. Examples of institutional creation include the Eurasian Fund for Stabilization and Development of the Eurasian Economic Community, Contingent Reserve Arrangement and New Development Bank of the BRICS, Asian Infrastructure Investment Bank, and the funds that China has created, the largest of which supports the Belt and Road initiative. Many of the institutions have signed cooperation agreements with one another. 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 is creating linkages between it and EMDE institutions.

These institutional innovations do not meld into a new, coherent system of financial governance architecture or developmental finance. Not all are equally likely to survive, let alone thrive, in the years ahead. Neither individually nor collectively do any of the reserve pooling institutions promise or seek to challenge the IMF. The development banks should also not be considered against the standard of *displacement* of the World Bank and related institutions. *Indeed, displacement is the wrong standard against which to measure the significance of any of the institutions that I examine.* They do not amount to a new pole of financial power that will necessarily demote advanced economy hegemony in financial affairs. Instead, the initiatives are fragmentary and heterogeneous, some are internally fraught with rivalry and suspicion, and many are no doubt marked by the same kinds of ambiguity as the IMF. And the institutions may work at cross-purposes, especially during crisis moments, undermining each other's efforts and/or imposing cross-border spillovers that disrupt each other's economies. Thus, we must acknowledge that incoherence, redundancy, and pluripolarity may entail risks of their own.

But these risks aren't fatal. Instead we can see the present period of institutional experimentation, expansion, and hybridization as a moment of pragmatic innovation that might yield institutions that do better than their predecessors in promoting financial stability and resilience, and as a consequence, provide the possibility for development that is more stable, inclusive, sustainable, and protective of autonomy. At a minimum, the flourishing of heterogeneous EMDE institutions generates opportunities for exit from unresponsive institutions and a degree of forum shopping. As a consequence, it may increase EMDE resilience, bargaining power, and voice vis-à-vis the Bretton Woods institutions. To the extent that forum shopping opportunities are realized, the Bretton Woods institutions may face pressure to respond to long-held concerns. In any event, the leverage of larger EMDEs in global and regional financial governance is increasing as several of the institutions I've mentioned have come to play a more prominent role, especially as the Trump administration has moved away from the US' role at the Bretton Woods institutions. Emergent redundancy and networks of cooperation may increase overall resilience. Multiple layers and increased density have the potential to yield productive redundancy—which can reduce instability, contain and ameliorate crisis, and increase opportunities to finance development. The emerging productive redundancy threatens the apparent efficiency of the streamlined, centralized financial governance architecture that characterized the neoliberal era, which promised efficiency but in fact generated extraordinary risk and contagious crises while starving EMDEs of developmental finance.

There are no guarantees that the opportunities afforded by institutional innovation, exit, and voice will generate a more just economic landscape. A financial governance architecture dominated by China would not necessarily provide greater breathing room in the long run for small, low-income countries. But for now, we should be attentive to the potential for change and experimentation that has emerged in the evolving, incoherent system. Certainly in contrast to the neoliberal era, when financial governance structures, practices, and ideology represented a suffocating obstacle to innovation and experimentation, what we see now is a more heterogeneous landscape that may prove more congenial to unscripted, locally-appropriate initiatives.

The new initiatives provide Hirschmanian opportunities—for learning by doing and learning from others, parallel experimentation, and providential problem solving. Progress happens often when practitioners are forced to search for previously unimaginable solutions. *The next crisis may well propel new initiatives and a deepening of embryonic institutions and partnerships that speak to challenges that now appear irresolvable. Moreover, the proliferation of institutions, even if they are not as credible, efficient, and experienced as the Bretton Woods institutions, is vital to the creation of new networks within countries and across borders that can enhance indigenous and widely dispersed capacity in areas that are fundamental to development. We should remember that even experimental failures can and often do leave in their wake vital linkages and knowledge that may be available for and enable subsequent endeavors.* Ad hoc, pragmatic adjustments rather than a tightly constrained choreography—that is what Hirschman put his faith in, messy though it may be. *And that is what is just what is emerging across the new financial governance architecture.*

Table 1. Chief Institutional Goals or Practices

Institution/ Arrangement	Reserve Pooling	Liquidity/ Counter cyclical Support	Precautionary Support	Development/ Project/ Infrastructure Finance
CMIM	✓	✓*	✓*	
FLAR	✓	✓	✓	
ArMF	✓	✓		
EFSD	✓	✓		✓
CRA	✓	✓*	✓*	
CAF		✓**		✓
NDB				✓
AIIB&Belt and Road				✓
BNDES		✓**		✓
CDB		✓**		✓

Notes: CMIM=Chiang Mai Initiative Multilateralisation; FLAR=Latin American Reserve Fund; ArMF=Arab Monetary Fund; EFSD=Eurasian Fund for Stabilization and Development; CRA=Contingent Reserve Arrangement; CAF=Development Bank of Latin America; NDB=New Development Bank; AIIB=Asian Infrastructure Investment Bank; Belt and Road=One Belt, One Road Initiative; BNDES=Brazil National Bank of Economic and Social Development; CDB=China Development Bank

* Arrangement established, but no drawings to date.

** Provision of counter-cyclical support is not an explicit function of the institution, but some resources disbursed during crises have counter-cyclical effects. Source: Author analysis

Table 2. Types of Change during the Global Crisis

Institution/ Arrangement	Capacity Expansion	Hybridization	Institutional Creation
CMIM	✓		✓
FLAR	✓	✓	
ArMF	✓		
EFSD		Created as hybrid	✓
CRA			✓
CAF	✓	✓	
NDB			✓
AIIB&Belt and Road			✓
BNDES	✓	✓	
CDB	✓	✓	

Source: Author analysis