

Pragmatism is king in our vague new world

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A new international order is taking shape. It's not idealistic but it can save lives and stop currencies collapsing

Shortly after the G20 meeting in London that marked the turning point of the 2008-09 financial crisis, President Sarkozy declared with characteristic grandiloquence that “the G20 foreshadows the planetary governance of the 21st century”.

This remark provoked predictable derision in the Anglo-Saxon world. But maybe the French President had a point. The two great calamities of the Bush decade — the Lehman crisis and the bungled wars in Iraq and Afghanistan — simultaneously destroyed faith in US global leadership and its main philosophical tenets: free-market economics and unilateralist geopolitics.

As a result, the world has been searching for new ideas and structures to maintain some semblance of economic and geopolitical order. And although Europe's intergovernmental relations have become increasingly strained as a result of the euro crisis and the German bullying of Ireland and Portugal, which led to the Lisbon Government's collapse this week, the progress towards reinvention of the global system took a great leap forward last week.

A few hours after the UN Security Council's vote on Libya, another historic meeting took place on the phone lines between America, Europe and Asia. This meeting, at 1am London time last Friday, attracted far fewer headlines as it involved technocratic finance ministers and central bankers discussing currency intervention to defend the Japanese economy, rather than glamorous heads of state and defence chiefs debating military intervention to save human lives.

But the consequences of the \$30 billion currency intervention to help to stabilise the Japanese yen — the first such “co-ordinated intervention” to be undertaken jointly by the G7 advanced economies since the waning days of the Clinton Administration in mid-2000 — could be just as important as those of the no-fly zone.

Last week’s events suggest three conditions for this reinvention to be successful. First, it is clear that international action, whether on no-fly zones, currency intervention or bank rescues, can no longer rely on US leadership. Yet it remains true, as it has been throughout the postwar period, that nothing much can happen until the US joins in. The US is still “the indispensable nation”, as it long has been; but its involvement is a necessary condition, not a sufficient condition, for international initiatives to succeed.

Second, the emerging nations widely expected to challenge US economic dominance in the 21st century show no signs of capacity for political and diplomatic leadership. It is a telling coincidence that among the five nations that abstained in the Security Council resolution on Libya were all of the so-called Brics, the four most important emerging economies of Brazil, Russia, India and China.

That none of these countries could bring themselves to vote for or against the Libyan intervention suggests that they have limited interest in trying to shape the global political environment — or at least that geopolitical leadership trails a very distant second place after their desire for economic development.

This is good news for the democracies of Europe and North America. It means that the West still has the chance to reshape the global economy and international institutions in accordance with liberal democratic traditions rather than with the more authoritarian values of China, Russia and much of the developing world.

To do this, however, we must understand that reinventing the global system will require us to abandon some of the ideals of modern technocratic politics — which brings me to the third condition for successful international action.

Western democracies tend to regard precision, transparency and rule-governed predictability as preconditions for good government. Yet both the economic and military actions last week contradicted these requirements. The UN resolution on Libya set no precise objectives for military action. The G7 currency agreement set no rigid targets and gave no hint of the amounts to be deployed or how they would be financed.

Far from being a flaw in these agreements, their vagueness is a condition for success. Because the world is imprecise and ever changing, vagueness and unpredictability in public policy can be a virtue. Setting rigid targets is obviously impossible in warfare but it can also be unwise in civilian life.

In defending its currency against excessive fluctuations, Japan is right not to set any precise exchange rate targets, as John Major foolishly did when he pegged sterling to the mark in 1990. Similarly flexible principles will have to apply to carbon emissions, deficits and alleviating poverty if international agreements are to be achieved.

Two interesting recent books consider whether stronger mechanisms must be devised for markets to discipline governments, and also for governments to tame markets, reaching opposing conclusions. In *The Unfinished Global Revolution*, Mark Malloch-Brown, the former Foreign Office minister, argues the classic view that global solidarity requires greater clarity about “rules and limits” and more specific targets on such aims as poverty alleviation and energy use.

The other book, published last month by two US economists, reaches the opposite conclusion. In *Beyond Mechanical Markets*, Roman Frydman and Michael Goldberg conclude that instead of aiming for precise targets, for example on exchange rates, economic policy should set broad ranges, based mainly on historic experience. Markets should be left unimpeded if they remain within these guidelines. But when they breach them, governments should intervene with increasing force — as long as they are also willing gradually to revise the ranges if markets overshoot for long periods, creating new norms.

In short, governments should not define what they want to achieve but try to avoid unacceptable outcomes. This theoretical approach, developed to deal with currency and stock market excesses, may sound weak and cynical when dealing with the excesses of North African tyrants.

Yet it seems a reasonable description of how Western policy on the Middle East has evolved — and while this pragmatic approach may fall short of liberal ideals, it seems a lot better than following unrealistic and rigid principles, whether of national sovereignty or of humanitarian intervention.

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