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## WHICH GLOBAL TRANSFORMATIONS WOULD THE GLOBAL CRISIS LEAD TO?

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*This article analyzes the global causes of the contemporary crisis and the possibilities to eliminate the most acute problems that have generated this crisis. It analyzes both the negative role of the world financial flows and their important positive functions including the 'insurance' of social guaranties at the global scale. In connection with the outcome of the crisis it analyzes the conditions of possible transformations of the world system and the possibility of various global scripts of its near future. It gives a characteristic of the coming 'epoch of new coalitions'; it gives some futuristic prognosis.*

### GLOBAL CHARACTERISTICS OF THE CRISIS AND THE NECESSITY OF CHANGES

The global crisis that has somehow sobered down (at least for some time) those who believed global development would proceed without crises appears to be fading away (though the threat of one more wave of crisis does not seem to have disappeared entirely). The world economy in general has moved from the phase of recession to the phase of depression, and there seem to appear some indications suggesting certain movement toward the recovery phase. This implies that we can look at the causes (as well as proximate and ultimate consequences) of the deepest (within the last 75 years) economic crisis in a way somehow different from that of one and a half year ago.

The history of economic crises suggests that each of them was connected with the type of relationships within the World System.<sup>1</sup> However, some strongest crises also changed in a rather significant way the World System structure, the connecting lines of this system. The current global financial-economic crisis is also likely to contribute to the beginning of the process of major changes in the World System structure and functioning, as well as in the principles of the international relations in the forthcoming decades. The main part of the present article will be devoted to the analysis of probable future transformations in connection with the crisis and to estimating the probabilities of various scenarios in the development of the World System during the forthcoming decades.

#### 1. Global Causes of the Global Crisis

The growth and deepening of financial-economic globalization has led to the unprecedented development of a number of countries and regions in the last decade; yet, it

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<sup>1</sup> The world-system approach originated in the 1960s and 1970s due to the work by Fernand Braudel, Andre Gunder Frank, Immanuel Wallerstein, Samir Amin, and Giovanni Arrighi. The term World System/world-system is used rather widely and not by world-system analysts only. For more detail on the history and contents of 'the World System' notion see Grinin, L. E., and Korotayev, A. V. Social Macroeolution: The Genesis and Transformation of the World System. – Moscow: LIBROCOM, 2009. In Russian (Гринин, Л. Е., Коротаев, А. В. Социальная макроэволюция: Генезис и трансформации Мир-Системы. – М.: ЛИБРОКОМ, 2009).

has also caused some crises. That is why on the whole the current crisis may be considered as the reverse side of globalization.

It is quite natural that the causes and character of the current crisis will be a subject of attentive research for quite a long time. However, it is quite evident that the main factors causing the crisis have not disappeared. Also many problems have been just temporarily dampened by an unprecedented pumping of funds that can be only justified as an extraordinary measure that can worsen the situation in the future. That is why there are some grounds to expect in the near future (within 3–5 years) a new outburst of the crisis. In the meantime, there is a considerable probability that the strongest manifestations of the crisis will be felt most distinctly in the fast growing Asian economies that have suffered rather moderately from the current crisis. Similar situations, with a similar asynchrony during the strongest crises with respect to Europe and the USA, were observed to occur in the late nineteenth century and the early twentieth century.

**The occurrence of major changes in the global division of labor between countries<sup>2</sup>** is associated with the most important causes of the crisis. One of the most salient points here is that the countries of the World System center (especially the UK and USA) have developed their financial sector in the most active way.<sup>3</sup> In the meantime the semiperipheral countries have been developing more actively the ‘real economy’. As a result, within Western economies the GDP share produced by the financial sector reaches between a quarter and a third of the total GDP, exceeding the share produced by industry.

In general, within the world economy (due to the West's ability to accumulate the world capitals, as well as due to the formation and diffusion of new financial technologies) the financial sector has been growing faster than the other sectors over the last three decades. As a result of this, the financial sector has been transformed from a sector serving the economy, to a sector producing the main vector of its development; thus it has become a sector where an immense share of added value is produced. Such a division of labor has a number of important consequences. Western countries become not only the world capital accumulation center, they also become net importers of capitals. In these countries one can observe a phenomenon of deindustrialization.

On the contrary, one can observe a fast industrial growth in the semiperipheral countries. This has appreciably contributed to the development of the situation when

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<sup>2</sup> For more detail on this and other causes of the crisis, as well as on the development of new financial technologies see my other works: Grinin, L. E. *The Unwanted Child of Globalization. Notes about the Crisis // Vek globalizatsii*. – 2008. – Num. 2. – Pp. 46–53. In Russian (Гринин, Л. Е. Нежеланное дитя глобализации. Заметки о кризисе // Век глобализации. – 2008. – № 2. – С. 46–53); *Idem*. *Comprehension of the Crisis. Global Crisis as the Crisis of Overproduction of Money // Filosofia i obschestvo*. – 2009. – Num. 1. – Pp. 5–32. In Russian (Он же. Осмысление кризиса. Глобальный кризис как кризис перепроизводства денег // Философия и общество. – 2009. – № 1. – С. 5–32); *Idem*. *Modern Crisis: New Lines and Classics of Genre // Istoria i sovremennost'*. – 2009. – Num. 1. – Pp. 3–32. In Russian (Он же. Современный кризис: новые черты и классика жанра // История и современность. – 2009. – № 1. – С. 3–32); Grinin, L. E., Korotayev, A. V. *Global Crisis in Retrospective. A Brief History of Raisings and Crises: From Lycurgus to Alan Greenspan*. – Moscow: LIBROCOM, 2010. In Russian (Гринин, Л. Е., Коротаев, А. В. Глобальный кризис в ретроспективе: Краткая история подъемов и кризисов: от Ликурга до Алана Гриспена. – М.: ЛИБРОКОМ, 2010).

<sup>3</sup> As the World System core countries in the wide sense may be considered the most developed OECD countries including 24 of the 30 members of this organization and that produce 60 % of the entire world GDP.

the growth rates in such developing economies – *e.g.*, the ones of the BRIC and some other semiperipheral countries – are significantly higher than in the West. In the semiperipheral countries one can observe an especially fast growth of the exporting sectors, whereas the USA and some other core countries become more and more a world center of consumption whose demand determines to a considerable extent the prosperity of semi-peripheral and peripheral economies. Thus, in general we can observe the decline of the role of the West as an industrial-economic center of the World System; on the other hand, this is accompanied by the growth of its importance as an importer of commodities and capitals; correspondingly, the economic role of the semiperiphery (in general, and certain semiperipheral centers, in particular) grows; yet, their economy becomes more and more dependent on the ability of the West to consume. The consumption economy has become an imperative not only for the West, but for the World System as a whole.

An anarchic and extremely rapid development of new financial centers, financial currents and technologies (that has secured a fast growth of the financial sector) has also contributed in an extremely significant way to the genesis of the global financial-economic crisis. Their negative role, according to financiers, has been amplified by the lack of transparency with respect to many financial instruments and institutes, which led to the actual obscuring of risks and to the general underestimation of global risk.

It should be noted that the aspiration for risk (which is usually characterized as a positive quality feature of an entrepreneur's psychology) should be reconsidered in conditions of globalization. If financiers (and finally other businessmen) consider the whole world to be a sphere for possible investment, and thus, given this condition, risks are counted in trillions of dollars, then to risk or not to risk stops being just a question of personal choice for individual entrepreneurs and firms. An adventurous inclination for risk (whose consequences could produce a fatal influence on the whole global economy) becomes a very dangerous feature. Consequently, it becomes necessary to control activities of such global entrepreneurs.

## **2. Why there have been Manifested the Classical Features of Economic Crises?**

The global causes of the contemporary crisis, in my opinion, have led to an unexpected effect – we observe within it some classical features of the cyclical crises of the past time that appeared to have been eliminated. Crises in their classical form (as unexpected and even unexplainable economic collapses occurring against the backdrop of unprecedented florescence, growth of profits and prices) were typical for the nineteenth and early twentieth centuries. Later, in the second half of the twentieth century (in a direct connection with an active countercyclical interference of the state) the cyclical crises became much weaker and less pronounced.

Let us recollect that medium-length economic cycles with a characteristic period of 7–11 years (that go through the upswing phase turning into the overheating subphase, and ending with a crisis/collapse/recession and depression) are also known as Juglar cycles.<sup>4</sup> Such cycles were typically characterized by fast (sometimes even explosive)

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<sup>4</sup> They were denoted as Juglar cycles after Clément Juglar (1819–1905), who was one of the first to demonstrate the periodical, regular, cyclical character of economic crises; though a number of economists (including Karl Marx) studied the economic cycles simultaneously with Juglar.

booms (that implied a great strain on the economic system) followed by even faster collapses.

The period of upswing followed by boom and overheating was accompanied (a) by a fast and inadequate growth of prices of raw materials and real estate objects; (b) by an excessive demand for credit funds and investment expansion beyond any reasonable limits; (c) by outbursts of speculations with commodity and stock assets; (d) by enormous increase in risky operations. All these features were described many times in studies produced by representatives of various schools of economic thought. All these features have been observed in the current crisis.

Abrupt transitions from booms to collapses were connected with spontaneous economic development that was regulated by market forces and almost nothing else, as state interference into the economic development was insufficient. Karl Marx had already considered the anarchic character of development inherent in a capitalist economy (against the background of the economic agents' urge towards the expansion of supply) as the main cause of the economic crises.

As a result of the Great Depression the role of the state in regulating the economy changed. Due to various direct and indirect ways to influence the macroeconomic framework of national economic development it became possible for the state to minimize dramatic distortions of booms and busts. As a result, the crises became much less pronounced than before.

However, the global causes of the current crisis have made those Keynesian monetary methods of economic regulation (that are effective at the scale of a single country) ineffective at the global level. The world economy is being transformed into a single system, but technologies of the countercyclical management at the World System scale have not yet been worked out. Nation-states wage a tense competition for higher growth rates (and the question of possible limitation of those rates is not even discussed). Respectively, in the absence of the necessary level of control, the features of anarchic and arrhythmic development of non-regulated market economy become more and more salient at the World System level.

Hence there is a definite resemblance between the functioning of the non-regulated market national economy and modern global economy. This likeness, in my opinion, explains the contemporary recurrence of some features of the cyclical crises of the past times.<sup>5</sup>

It should be noted that in modern economy not only new financial technologies have emerged, but also modern economy itself to a large extent has started to produce values exactly in the financial sphere (of financial services). Thus, the financial constituent of the crisis has harshly risen compared to the preceding decades, where the main growth occurred in the material sphere.

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<sup>5</sup> For details see Grinin, L. E., Korotayev, A. V. *Global Crisis in Retrospect...* In Russian (Гринин, Л. Е., Коротаев, А. В. *Глобальный кризис в ретроспективе...*); Grinin, L. E., Malkov, S. Yu., Korotayev, A. V. *Mathematical Modeling of Medium-Term Economic Cycle and Current Global Crisis // History and Mathematics: Evolutional Historical Macrodynamics* / Ed. by S. Yu. Malkov, L. E. Grinin, A. V. Korotayev. – Moscow: LIBROCOM, 2010. In Russian (Гринин, Л. Е., Малков, С. Ю., Коротаев, А. В. *Математическая модель среднесрочного экономического цикла и современный глобальный кризис // История и Математика: Эволюционная историческая макродинамика* / ред. С. Ю. Малков, Л. Е. Гринин, А. В. Коротаев. – М.: ЛИБРОКОМ, 2010).

### 3. Financial Speculation: Does it have a Positive Side?

Financial middlemen were cursed in all epochs. And there were always certain grounds to curse them. But they exist and the modern economic system cannot reproduce itself without them, as the modern market economy depends on financial middlemen in a rather significant way, as they transform households' savings into productive investments.<sup>6</sup>

The activities of modern financial corporations and funds (which lead to the uncontrolled growth of financial assets and anarchy in their movements) are quite justly criticized (this point will be discussed below).<sup>7</sup> However, it would not be correct to maintain that modern financial technologies are fundamentally deleterious, that they only lead the world economy to various troubles, that they are only beneficial to the financiers and speculators. On the contrary, both the formation and the current development of the financial sector are connected with the performance of very important functions – and just at the global scale.

Thus, the modern financial globalization should not only be cursed; it also has some positive sides. Summing up the achievements of what is called 'the financial revolution'<sup>8</sup> we would provide our own version of the most important directions taken by the development of financial engineering (in addition to the computerization of this sphere of business). We shall also try to specify the positive influence produced by them. Those directions can be described as follows:

1. Powerful expansion of nomenclature of financial instruments and products, which leads to the expansion of possibilities to choose the most convenient financial instrument.

2. Standardization of financial instruments and products. This creates the possibility to calculate an abstract (that is, an aggregate, unified measure based on a standard package of shares and other stocks) base (and not just concrete prices of concrete securities). This secures a considerable economy of time for those who use financial instruments; it makes it possible to purchase financial securities without a detailed analysis of particular stocks; this leads to an increase in the number of participants by an order of magnitude.

3. Institutionalization of ways to minimize individual risks. In addition to the above mentioned expansion of nomenclature and assortment of financial products, it appears

<sup>6</sup> Greenspan, A. *The Epoch of Shocks. Problems and Perspectives of the World Financial System.* – Moscow: Alpina Business Books, 2009. In Russian (Гринспен, А. Эпоха потрясений: Проблемы и перспективы мировой финансовой системы. – М.: Альпина Бизнес Букс, 2009).

<sup>7</sup> My analysis of the negative consequences, see in Grinin, L. E. *The Unwanted Child of Globalization. Notes about the Crisis // Vek globalizatsii.* – 2008. – Num. 2. – Pp. 46–53. In Russian (Гринин, Л. Е. Нежеланное дитя глобализации. Заметки о кризисе // Век глобализации. – 2008. – № 2. – С. 46–53); *Idem.* *Comprehension of the crisis. Global Crisis as the Crisis of Overproduction of Money // Filosofia i obschestvo.* – 2009. – Num. 1. – Pp. 5–32. In Russian (Он же. Понимание кризиса. Глобальный кризис как кризис перепроизводства денег // Философия и общество. – 2009. – № 1. – С. 5–32); *Idem.* *Modern Crisis: New Lines and Classics of Genre // Istoria i sovremennost'.* – 2009. – Num. 1. – Pp. 3–32. In Russian (Он же. Современный кризис: Новые черты и классика жанра // История и современность. – 2009. – № 1. – С. 3–32); Grinin, L. E., Korotayev, A. V. *Global Crisis in Retrospective...* In Russian (Гринин, Л. Е., Коротаев А. В. Глобальный кризис в ретроспективе...).

<sup>8</sup> See, e. g., Doronin, I. G. *The World Stock Markets // The World Economy: Global Trends for One Hundred Years / Ed. by I. S. Korolyov.* – Moscow: Economist, 2003. – Pp. 101–133. In Russian (Доронин, И. Г. Мировые фондовые рынки // Мировая экономика: глобальные тенденции за 100 лет / Ред. И. С. Королев. – М.: Экономист, 2003. – С. 101–133); Mikhailov, D. M. *The World Financial Markets. Trends and Tools.* – Moscow: Ekzamen, 2000. In Russian (Михайлов, Д. М. Мировой финансовый рынок. Тенденции и инструменты. – М.: Экзамен, 2000).

especially important to mention: first, the development of special institutions – specialized clearing chambers – with their internal regulations (which makes it possible to avoid reliance on courts of law); second, the use of special rules and computer software, various technologies; and, third, new forms of risk hedging. All these changes help to minimize both the individual risks of unfulfilled deals and also of bankruptcies in the framework of certain stock markets.<sup>9</sup>

4. Increase in number of participants and centers for the trade of financial instruments. Modern financial instruments have made it possible to include a great number of people through various special programs, mediators, and structures.<sup>10</sup> These changes result in the diffusion of technologies among the owners of capitals with various sizes (this is similar to the development of joint-stock companies that made it possible to accumulate enormous capitals). It is also possible to observe a significant increase in the number of financial centers and their specialization, as well as in the interconnectedness of national and world financial centers. It is also extremely important that we observe the growth of the number of emitters of various financial derivatives which earlier had lacked the access to global markets.

What is the significance of these changes in the financial sector on the global scale?

- Enormous new capitals, actors, markets are accumulated and engaged.
- Due to enormous growth in the volumes of operations, we observe the emergence of possibilities to extract profits from such operations, from which it was impossible to extract any profits earlier. Thus, a firm could earn just 3 cents from re-selling one share, but it may re-sell millions of such shares every day – and what is more, it may re-sell the same shares dozens of times within the same day.<sup>11</sup> One may compare this with the industrial concentration of low-grade ores, whose processing was not profitable before the invention of respective technologies.

The growth of diversity of financial products, the development of specialization in the production of financial services, and the increase in nomenclature of those services make it possible to smooth the demand fluctuations and to increase the general volume of sales (in fact, the growth of nomenclature of products achieves the same results within any branch of economy).

- Financial currents and financial centers start to structure the world economy in a new way. The market economy is always structured along certain modes of communications. One may recollect how railway construction not only altered the transportation of commodities but also changed the whole organization of economic life. Within the modern information economy the financial currents start playing a role of such system-creating communications. In those zones where we observe the most important financial currents, we may also observe the most intensive economic life.

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<sup>9</sup> However, the expansion of the operations' volume and their acceleration create a threat of global financial collapses.

<sup>10</sup> The Foreign Exchange Market (FOREX) is the most famous among them.

<sup>11</sup> Callahan, D. Financial Economics for Real People // *Economic Cycle: The Analyses of the Austrian school* / Ed. by A. V. Kuryaev. – Chelyabinsk: Socium, 2005. – Pp. 70–79. In Russian (Кэлахан, Д. Экономика финансов для простых людей // *Экономический цикл: анализ австрийской школы* / ред. А. В. Куряев. – Челябинск: Социум, 2005. – С. 70–79). Of course, to a better extent it concerns the period of rise, and to a much less extent (though not zero) the period of fall.

Small financial streams (like, before, small streams of commodities along the railways) create a new economic network.

- The new structure makes it possible for the periphery to participate actively in the world economy. It is quite clear that the spontaneous movement of capital can lead to collapses and global crises; yet, the same was observed in the 19<sup>th</sup> century when the vigorous railroad construction (accompanied by unprecedented speculations) led first to enormous upswings, and, later, to collapses. Thus, the main task is to put the most dangerous and unpredictable actions under control.

#### **4. Financial Currents as the World Pension Fund?**

Our research has made it possible to detect such global functions of the world financial sector that do not seem to have been noticed by analysts. Those functions have developed in conditions of currency not guaranteed by gold and they are connected with the necessity to protect savings in conditions of inflation against losses and risks during long periods of time. They emerged as an unintended consequence of the radical transformations in the world financial system that began in the 1970s. At that time the world financial system finally rejected the gold monetary standard as a result of the double devaluation of dollar and the collapse of the Bretton Woods monetary system. The price of gold was no longer tied to the dollar even nominally, it became free, whereas the currency exchange rate became floating.

However, as a result of the rejection of the golden standard the function of savings' protection moved finally from an 'independent' guarantor (*i.e.*, precious metals) to the state.<sup>12</sup> However, there was no state left, on which the capital owners could rely entirely as they could on a perfectly secure guarantor. One should add to this, the growth of inflation that especially bothered the West in the 1970s and 1980s. One should note that it was during the 1960s and 1970s that the volume of 'social capitals' in the direct sense (*i.e.*, various pension, social, insurance funds, including the medical insurance funds) grew very significantly in direct connection with active social legislation, the growth of the quality of life, and some demographic processes (first of all, the coming to age of the numerous baby-boom generation). There were some other important sources for the growth of capitals in the 1970s and 1980s, in addition to the above-mentioned ones. The general volume of capitals also grew due to the petrodollars, the increase in the emission of stocks, and borrowing (including the sovereign borrowing). In general, since that time one may observe the process of rapid growth of the volume of free capitals that should be invested somewhere.

With inflation the question of where to invest capitals and funds not guaranteed by gold or hard currency becomes extremely important. This is especially relevant for capitals accumulated by pension funds, as their designation is to be found dozens of

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<sup>12</sup> Naturally, the value of gold and silver could fluctuate. One can easily recollect the so-called price revolution of the 16<sup>th</sup> century, as a result of which the prices grew four times. But there has never been a single case when gold or silver lost their value momentarily, or when their prices dropped close to zero (this eventually happens with prices of shares), whereas in the nineteenth and early twentieth centuries (when many states applied the gold standard) the value of money was sometimes surprisingly stable for long periods of time (the same is true for prices of many key commodities), and this allowed many people to live from the interest rates of their savings. It made it possible to rely on savings in the form of gold/silver coins to guarantee one's survival in old age or for any emergencies. Incidentally, this was a very important basis for the development of thriftiness. Today prices of precious metals are as unstable as the ones of any other assets, and the magnitude of their fluctuations is great.

years later preserved and multiplied. Thus, it was necessary to find new ways to guarantee the preservation and multiplication of capitals.

The actual abandonment of the gold standard led to the transformation of not only the world monetary system, but also to the transformation of the financial economy and all financial technology. The sharp increase in the quantity of capitals, the necessity to preserve them from inflation and to find their profitable application objectively pushed the financial market actors to look for new forms of financial activities. As a result, one could observe the start of the process of rapid growth of the volumes of financial operations, the number of financial assets, objects, instruments, and products. Some new instruments were already available at that time, and it became possible to apply them rapidly on a wide scale.<sup>13</sup> A factor that contributed greatly to all this was nothing else but the information-computer revolution that occurred simultaneously with the financial revolution and that gave it a solid material basis.

Thus, in contrast with precious metals (that retained their value even if they were not invested in anything) the modern capitals do not have such an anchor; that is why if capitals just lie still (as gold in treasuries), they risk to depreciate gradually into 'dust'. What are the possible sources of their preservation and growth – and, hence, what are the possibilities of the fulfillment of respective financial obligations (as well as social obligations connected with them)?

The first point is a system of dynamic movements of capitals, continuous change of their forms, the engagement of new people, mediators, and services that allow them to be preserved and multiplied. The faster the movements and transformations of financial objects, the better the preservation of capitals.

The second point is the distribution of risks at the global scale. We observe the growth of opportunities to distribute risks among a larger number of participants and countries, to transform a relatively small number of initial financial objects into a very large number of financial products. This makes it possible to achieve the maximum diversification by letting people choose convenient forms of financial products and to change them whenever necessary. That is why derivative financial instruments become more and more derivative, they acquire more and more modified forms that become more and more distant from the initial money one.<sup>14</sup>

The third point is the growth of specialization (including various forms of deposit insurance) that supports diversification and the possibilities for expansion.

The additional importance of the world finances' functions – with respect to the preservation and multiplication of savings in pension, insurance, and social funds – is amplified every year by a very significant (and, in some sense, global) process of the

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<sup>13</sup> For details see Grinin, L. E. *Comprehension of the Crisis. Global Crisis as the Crisis of Overproduction of Money* // *Filosofia i obshchestvo*. – 2009. – Num. 1. – Pp. 5–32. In Russian (Гринин, Л. Е. Осмысление кризиса. Глобальный кризис как кризис перепроизводства денег // *Философия и общество*. – 2009. – № 1. – С. 5–32); *Idem*. *Modern Crisis: New Lines and Classics of Genre* // *Istoria i sovremennost'*. – 2009. – Num. 1. – Pp. 3–32. In Russian (Он же. Современный кризис: Новые черты и классика жанра // *История и современность*. – 2009. – № 1. – С. 3–32); Grinin, L. E., Korotayev, A. V. *Global Crisis in Retrospective...* In Russian (Гринин, Л. Е., Коротаев, А. В. Глобальный кризис в ретроспективе...).

<sup>14</sup> One should take into account that pension funds, insurance companies *etc.* act as institutional investors and owners within many corporations that themselves invest in numerous stocks and projects; this way the finances of the world have been so mixed up that it is difficult to comprehend whom exactly these particular funds belong to, whether they are 'good', or 'toxic'.



finalization of the second phase of demographic transition in Europe, the USA and Japan. It is well known that as a result of this process the natural population growth rates declined in those countries to values that are close or even below zero; depopulation began in a number of developed countries, a rather rapid population aging is observed, whereas the proportion of pensioners in total population tends to increase in a rather dramatic way. The forecasts suggest a further acceleration of this process. In 2010 one can observe 1 pensioner per 4 working-age adults, whereas in 2025, according to forecasts, there will be less than 3 working-age adult per pensioner in the developed countries<sup>15</sup>, and there are even more pessimistic forecasts. Who will be filling the pension funds in the future, who will fulfill the social obligations with respect to hundreds of millions of elderly voters? Note meanwhile that, in addition to the overall growth of the number of pensioners, one can also observe simultaneously the increase in volume, complexity, and value of respective obligations (in particular, health care services).

Indeed, within such a context, against the background of the slow down of the economic growth in the West and the threatening growth of state debts in many developed countries, the guarantees of pension (and other social insurance) payments do not look perfectly secure.

Here one should take into account that most pension funds are concentrated not in the state pension funds, but in thousand of private (non-state) pension funds that are very active as regards the search for the most secure and profitable investments. The amounts of money concentrated in pension funds are enormous. At the world scale they are counted in dozens of trillion dollars. Note that we are dealing here not with some financial derivatives or bad debts, but, in general, with honestly earned money accumulated over the three to five decades that constitute a working life. Thus, according to some calculations, the volume of the American pension funds can be estimated for the moment of the start of the world financial crisis as about 10 trillion US dollars.<sup>16</sup> The crisis led to tangible losses and even bankruptcies of many of those funds. How to make the preservation of those resources secure? It is easy to see, that security is a rather relative notion. The best shares can suddenly turn out to be insecure, the same goes with respect to the apparently best shares, real estate, and even state obligations. In 2008, the Russian State Pension Fund lost 10 billion roubles because of drop in rate of these obligations.<sup>17</sup> It seems that within a single developed country it

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<sup>15</sup> See World after Crisis. Global Trends. 2025: Transformed World. The Report of the National Intelligence Council. – Moscow: Европа, 2009. – Pp. 57–58. In Russian (Мир после кризиса. Глобальные тенденции – 2025: меняющийся мир. Доклад Национального разведывательного совета США. – М.: Европа, 2009. – С. 57–58). A dramatic change in the proportion of pensioners to working people could be seen from the following numbers: in 1950 in the USA the ratio was 1:16, in the middle of the 2000s it was already 1:3, so it has changed five times (see Meliantsev, V. A. *Developed and Developing Countries in the Age of Transformations.* – Moscow: Klyuch-S, 2009. In Russian [Мельянцеv, В. А. Развитие и развивающиеся страны в эпоху перемен. – М.: Ключ-С, 2009]).

<sup>16</sup> Shtefan, Ye. American Pension Capital Funds have Lost 2 Trillion Dollars // *Novyi region* 2.08.10. URL: <http://www.nr2.ru/economy/199830.html>. In Russian (Штефан, Е. Пенсионные фонды США потеряли два триллиона долларов // Интернет-ресурс).

<sup>17</sup> Naumov, I. The Pension Capital Fund of Russia (PFR) in the Current Year Sustained 10 Billion Roubles of Losses from the Investment of Funds in the State Securities / *Nezavisimaya gazeta.* – 2008. – 19.12. URL: [http://www.ng.ru/economics/2008-12-19/4\\_pensia.html](http://www.ng.ru/economics/2008-12-19/4_pensia.html). In Russian (Наумов, И. Пенсионный фонд России (ПФР) в текущем году зафиксировал убытки в 10 млрд руб. от размещения средств в государственных бумагах // Независимая газета. – 2008. – 19 декабря // Интернет-ресурс).

becomes more and more difficult to achieve a sufficient level of the security of pension funds.

In the meantime in the developing countries we observe enormous numbers of young adults; and it is extremely difficult to provide all of them with jobs and education. It is impossible to solve this task without an active integration of the peripheral economies into the World System economy, without the diffusion of capitals and technologies from the World System core, whereas such an integration cannot be achieved without the development of the world financial system. In the meantime the number of pensioners in the developing countries is still relatively small, the social obligations with respect to them are relatively low, and only after a significant period of time the problem of the pensioners' support will become acute in those countries.

Against this background, the world monetary resources have already begun to take part in solving this social problem (though, naturally, they are unable to solve it completely). It appears that the redistribution of capitals throughout the whole world and the distribution of risks through investments in the diverse assets of developing countries (through numerous mediators and specialized funds) actually creates for the borrowers/recipients from the developing countries (*i.e.*, those countries with a high proportion of young adults in their population) financial obligations that multiply the invested capitals within rather long periods of time. And those multiplied capitals will be potentially used for the payment of pensions and other social obligations in the creditor countries. The developing countries are very interested in attracting capitals that create jobs for the numerous cohorts of young adults. A considerable part of requested capitals come from pension, insurance, and social funds of the developed countries. In other words, to some extent the young adults of India, Indonesia, Brazil, will be working indirectly to support the elderly population of the core countries.

*Thus, those countries that are rich in demographic resources, but that are poor in capitals are involved more and more in an extremely important (though not quite apparent at the surface) process through which they participate in the support of the elderly population cohorts living in the core countries through the vigorous unification of the world financial currents, its standardization, and increasing global mobility and anonymity.*

In other words, global finances not only integrate capitals of the various regions of the world, they also contribute to the solution of an extremely important social problem' (purely inner problem, which is, however, becoming more complicated to solve within the limits of individual countries) to support the numerous elderly population of the core countries. Within such a context one can foresee a situation when a failure of one country would be regarded as a common failure. Actually, this outruns (and prepares) political and legal globalization in some very important respects. Such interweaving of interests (as soon as it becomes evident) will make the actors move more actively toward the institutionalization of some financial and social relationships, toward a more rigorous control of financial currents, toward the full security of financial technologies.

In other words, the modern financial assets and currents have become global and international, huge funds are circulating within this system (though, of course, not all

its participants extract equal profits). Meanwhile, it is important to understand that a considerable percentage of the circulating sums are *social* (pension and insurance) money whose loss may lead to disasters with such consequences that are very difficult to forecast.

Thus, a more secure management of the world capital has (in addition to its evident economic and social dimensions) such a dimension as the security of the future of pensioners and those in need of social protection (there are certain respective insurance systems at national levels, but what could they mean in the situation of a global financial collapse?). Hence, the issue of the institutional support of the financial globalization becomes more and more important. However, one could wonder how many new crises are necessary in order that this problem would be solved?

### **5. Feeling of the Necessity of Changes**

Today many specialists see that the main current problems of the world stock markets stem from the defects of their regulatory system,<sup>18</sup> though many specialists (if not most of them, at least in the United States) still believe that the problems of stock and financial markets stem from defects and imperfections of the national (rather than supranational) regulation systems. One should admit that the United States has derived some conclusions from their crisis experience; in particular, the American actors have started discussing (and taking) measures aimed at tighter regulation. They have also begun cleaning bad and ‘toxic’ debts. All these are important developments, especially taking into account the special and enormous global influence of American financial institutions and instruments. A few quite reasonable opinions have been expressed recently with respect to the possible directions of the necessary regulation of financial activities. For example, Schäfer maintains the following:

Particularly risky financial products must be prohibited. At present, if one invents a new financial instrument, he can offer it to his clients the next day. For example, an inventor of a new derivative is not obliged to register it in any state agency; he can start selling it immediately. Free market proponents believe that financial markets will regulate everything themselves, that they will sort out and discard bad products by themselves. In reality this does not happen. Banks and funds threw ‘toxic waste’ amounting to trillions of dollars to the market, and meanwhile they diffused a belief that one can produce really valuable stocks from a large number of dubious assets, whereas nobody felt being responsible for all this. But if the market cannot take responsibility upon itself, it should be assumed by the state. Financial corporations must be obliged to register in advance all the financial products that they invent (similarly to what is observed with the production of medicines in the pharmaceutical industry). A state agency should anticipatorily check and test all the financial instruments before banks get their right to sell them. And if those instruments turn out to be too dangerous, the agency should prohibit them.<sup>19</sup> State agencies controlling financial markets should subdivide rating agencies in such a way that a part of them would calculate ratings, whereas the other part would provide consulting services to banks. In the meantime, rating agencies and their clients should publish all the information that has been used to calculate the rating. In this case, any other rating agency will be

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<sup>18</sup> For the analysis of such views see Doronin, I. G. – Op. cit. – Pp. 129–130. In Russian (Доронин, И. Г. Указ. соч. – С. 129–130).

<sup>19</sup> Schäfer, U. *Der Crash des Kapitalismus*. – Frankfurt: Campus Verlag, 2009. – S. 279–280.

able to check the ascribed rating and to publish an alternative calculation if it does not agree.<sup>20</sup>

Actually, the business of tax havens consists of the sucking of funds from industrially developed countries. The 'havens' attract them with their extremely low tax rates. They offer absolute secrecy to their depositors and exempt financial corporations from any checks. That is why the industrial countries should coerce 'havens' to abandon bank secrecy and make them inform foreign tax agencies of all the respective capitals and revenues. 'Havens' should raise their tax rates to an internationally acceptable level. They will not do this voluntarily. That is why, if necessary, they should be coerced to do this with economic sanctions.<sup>21</sup>

It is not difficult to see that this citation (with an important exception in the last section) is addressed to the national government. However, though the role of national regulation still remains very important, we observe now such a situation in the financial markets that a single state (in contrast with the previous period) cannot cope with it. Thus, as finances internationalize more and more (and as we have observed they play obviously a significant role, which can not be solved in the national scope), respective measures should be taken at the supranational level.

The necessity of the transition from the national level of regulation to the supranational one has been discussed by some analysts for quite a long time.<sup>22</sup> Lester Thurow, as well as some other analysts, finds the cause of the instability of the world stock markets in the contradiction between the international character of operations of the world stock markets and the national nature of the stock markets themselves. However, he has very good grounds to note that, though the epoch of national economic regulation is coming to its end, the epoch of the global economic regulation has not started yet.<sup>23</sup> Will radical changes in this direction take place in the near future?

The current global crisis has demonstrated, in an especially salient way, the necessity for major changes in the regulation of international economic activities and movements of world financial currents, the need for the growth of coordinated actions by governments and unified international legislation. Actually, the world needs a new system of financial-economic regulation at the global scale.

Comprehension of the causes of the crisis may provide a push to start a new round of global transformations, but the respective path (to effective transformations) appears rather long. However, even the transition to the very initial phase of a new system of supranational regulation will imply rather profound changes (whereas many transformations can hardly be predicted today). The point that the political landscape and the balance of world power will change in the forthcoming decades is felt more and more strongly. American analysts believe that 'the international system – as constructed following the Second World War – will be almost unrecognizable by 2025...

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<sup>20</sup> *Ibid.* – P. 280.

<sup>21</sup> Schäfer, U. *Op. cit.* – P. 284.

<sup>22</sup> For example, Van der Wee, H. *The History of World Economics 1945–1990.* – Moscow: Nauka, 1994. In Russian (Ван дер Вее, Г. *История мировой экономики 1945–1990.* – М.: Наука, 1994); Soros, G. *The Crisis of Global Capitalism. Open Society Endangered.* – Moscow: INFRA-M, 1999. In Russian (Сорос, Дж. *Кризис мирового капитализма. Открытое общество в опасности.* – М.: ИНФРА-М, 1999).

<sup>23</sup> Thurow, L. C. *The Future of Capitalism.* – Novosibirsk: Sibirskiy khronograf, 1999. In Russian (Турпой, Л. *Будущее капитализма.* – Новосибирск: Сибирский хронограф, 1999).

The transformation is being fueled by a globalizing economy, marked by an historic shift of relative wealth and economic power from West to East.<sup>24</sup>

## SOME CONSIDERATIONS ON THE POSSIBLE WAYS OF THE WORLD SYSTEM DEVELOPMENT

### 1. Change of Leadership or Fundamental System Change?

It is quite obvious today that we observe the weakening of the economic role of the USA as the World System center; in more general sense we observe the working of the World System core countries as a whole<sup>25</sup>. That is why there is no doubt that sooner or later (and in any case in the foreseeable future) the USA status of the world leader will change and their role will go down. Many are worried by this in the USA. The current crisis is an important step in the direction of the weakening of the present leader. As we have already spelled out, the earlier priorities and the earlier bases of the world economic order that are advantageous for the USA will start sooner or later being transformed into a new order. In the foreseeable futures such a transformation will constitute collisions of relations between national interests of the USA, on the one hand, and the general world interests, on the other.<sup>26</sup>

However, such a collision will lead to exceptionally major transformations, which, unfortunately, does not appear to be taken into account. There is a tendency to believe that the leading place of the USA will be occupied by the European Union, China, or some other country (starting with India and ending with Russia).<sup>27</sup> But this is a serious mistake – to model the World System transformations mostly in perspective of the change of its leader. Actually, we are dealing today not just with a crisis in the World System, or even the crisis of the World System core; we are dealing with a crisis of the established model of its structure headed by its leader that concentrate *many aspects of leadership (political, military, financial, monetary, economic, technological)*. The USA also acts as an avant-garde of the developed countries as whole. Thus, we deal with a rather complex leadership structure: the USA – leading European countries and Japan – newly industrialized countries of Asia – Pacific and medium developed European countries; a special position is occupied by the USA neighbors (Mexico *etc.*)

When we speak about the loss of the status of leader by the USA, we should not imply the change of the World System leader, we should rather imply a radical

<sup>24</sup> World after Crisis... – P. 12. In Russian (Мир после кризиса... – С. 12).

<sup>25</sup> This is manifested in the slow-down of the economic growth rates in the World System core and their acceleration in the most part of the World System periphery, in the too rapid and anarchic deindustrialization, in the dependence on cheap imports and capital import, in the budget deficits, in the general growth of public and private debts, in the dynamics of some demographic indicators, etc. This resurrects the ideas of the 'death of the West' (see, e.g., Buchanan, P. J. The Death of the West. – Moscow: AST, 2007. In Russian (Бьюкенен, П. Дж. Смерть Запада. – М.: АСТ, 2007).

<sup>26</sup> For detail see Grinin, L. E. The Unwanted Child of Globalization. Notes about the Crisis // *Vek globalizatsii*. – 2008. – Num. 2. – Pp. 46–53. In Russian (Гринин, Л. Е. Нежеланное дитя глобализации. Заметки о кризисе // *Век глобализации*. – 2008. – № 2. – С. 46–53). *Idem*. State and Historical Process. The Political Cut of Historical Process, 2<sup>nd</sup> ed. – Moscow: URSS, 2009. In Russian (Он же. Государство и исторический процесс. Политический срез исторического процесса. – 2-е изд. – М.: ЛИБРОКОМ, 2009).

<sup>27</sup> For example, Frank, A. G. ReORIENT: Global Economy in the Asian Age. – Berkeley, CA: University of California Press, 1998; Pantin, V. I., Lapkin, V. V. The Philosophy of Historical Forecast: The Rhythms of History and Perspectives of the World Development in the First Half of the 21<sup>st</sup> Century. – Dubna: Feniks, 2006. In Russian (Пантин, В. И., Лапкин, В. В. Философия исторического прогнозирования: Ритмы истории и перспективы мирового развития в первой половине XXI века. – Дубна: Феникс, 2006).

transformation of the overall structure of the world economic and political order. The simple change of the World System leader is rather unlikely already because of the point that *no country will be able to occupy a place similar to the one of the present USA, as no country will be able to concentrate so many leader functions*. And this is already because of this (though there are a number of other important factors) that the loss of the leader role by the USA will mean a radical transformation of the World System as a whole.

One should stress that the USA world leader position is unique in history. We also believe that the concentration in one center (in the USA) of the economic, financial, military, political, and innovation-scientific potential after the Second World War was a generally positive development (and the presence of the USSR as the alternative political and military center even amplified its positive value in some respects).

Let us recollect that the USA became the World System leader after the First World War. But even at that time the United States only concentrated the economic and financial power without the world political power that was not even sought after by the USA during that period of time. It should be emphasized that such a situation of the absence of a recognized World System leader contributed in a very significant way to a very severe economic and political World System upheavals in the period between the two world wars and the start of the Second World War. In the 1960s one could observe the decrease of the economic role of the USA that led to the formation of three-center model of the economic leadership: the USA – West Europe – Japan. However, it is important to note that this system was formed under the political and military (recognized and desired) leadership of the USA.

This structure turned out to be rather viable for almost four decades. It works even now; yet, if it turns out to be impossible to restore the growth rates of the Western economies, its role will weaken (whereas one can observe a general trend toward the decline of the economic growth rates in all the three centers). Unfortunately, today those centers are not able to give much to each other as they have rather similar problems. Their chance to strengthen themselves is connected with their unification of forces in order to preserve certain advantages of the developed countries (that are also useful for the World System as a whole), see below. in a way that is similar to the one through which the West strengthened against the background of the expansion of the Communist Block and the disintegration of colonial empires when it got united militarily, politically, ideologically (and partly economically) in the 1940s and 1950s.

It cannot be excluded, of course, that the emergence of new revolutionary technologies could give a certain new impulse to the economic development of the USA (as this happened in the late 1980s and 1990s), and the West as a whole; however, firstly, such technologies do not seem to be likely to be developed in the forthcoming decade, and in this period the problems in the American economy will be aggravated; secondly, in order that new technologies could produce major results a rather long time (of an order of 15–20 years) is necessary, whereas meanwhile many things are bound to change; thirdly, even the new technologies are not likely to help to preserve military and political leadership.

Thus, it is evident that a place similar to the one of the present-day USA cannot be occupied in future by any other state or state alliance, that *there is no country (or even*

*an alliance of countries) that will be able to concentrate several aspects of the World System leadership.*

This function is not likely to be performed by China. It has not enough potential yet even to become the World System economic leader. Those who suggest China as such a leader do not appear to take into consideration that its economy is not innovative, that it does not develop on the basis of technologies of tomorrow (and, to some extent, even of today).<sup>28</sup> In addition, it is too much export-oriented. And in this respect it is not sufficiently autonomous.<sup>29</sup> There are no entirely autonomous economies in the world now, but some of them are more self-sufficient than the Chinese one. What is more, its dynamics, might, and successes appear to be based on its ties with richer economies, they depend on their fluctuations to a considerable degree.<sup>30</sup> We believe that the economic center of the World System cannot be based on the exporting of *non-innovative* (and even not sufficiently highly technological) products.

In order to perform the World System center role, the Chinese economy should become innovative and highly technological (which is hardly compatible with hard industry, or conveyor industries). However, China does not possess necessary conditions for this. One would need no less than 20–25 years to become an innovation pioneer. We believe that it is India that is more likely to become a technological leader, but India does not have many other leadership components that China has.<sup>31</sup>

<sup>28</sup> Even those analysts who have rather optimistic moods with respect to China's capability to sustain extremely high GDP growth rates for long time in future note that China confronts the threat of the growing technological gap with respect to the USA, the EU and Japan (Mikheev, V. V. China // *The World Economy: The Forecast till 2020* / Ed. by A. A. Dynkin. – Moscow: Magistr, 2008. In Russian [Михеев, В. В. Китай // *Мировая экономика: прогноз до 2020 года* / Ред. А. А. Дынкин. – М.: Магистр, 2008]). 'With respect to its scientific potential, China will not be able to become a pioneer in the field of fundamental research and to secure a vigorous current of new breakthrough technologies' (*Ibid.* – P. 319). Yet according to some information, China has already moved to the third place in the world (after the USA and Japan) with respect to the absolute size of its R&D expenses (Meliantsev, V. A. *Developed and Developing Countries...* – Pp. 123–124. In Russian [Мельянцеv, В. А. Развитие и развивающиеся страны... – С. 123–124]).

<sup>29</sup> In particular the role of exports in the Chinese economy is about 2.5 times higher than in India (calculated on the basis of *The World Economy: The Forecast till 2020* / Ed. by A. A. Dynkin. – Moscow: Magistr, 2008. – P. 387. In Russian [Мировая экономика: прогноз до 2020 года / Ред. А. А. Дынкин. – М.: Магистр, 2008. – С. 387]). Meliantsev, V. A. *Developed and Developing Countries...* – P. 106. In Russian [Мельянцеv, В. А. Развитие и развивающиеся страны... – С. 106]. Though the proportion of export in the Indian GDP is constantly growing (Volodin, A. G. *India // The World Economy: The Forecast till 2020* / Ed. by A. A. Dynkin. – Moscow: Magistr, 2008. – P. 334. In Russian [Володин, А. Г. Индия // *Мировая экономика: прогноз до 2020 года* / Ред. А. А. Дынкин. – М.: Магистр, 2008. – С. 33]). Naturally, there are some economies (*e.g.*, South Korea) that are even more export-oriented than China.

<sup>30</sup> Incidentally, the explanation of a relatively small slow-down of the economic growth rates in China, India, and some other countries during the crisis needs additional research; yet, it is already quite clear that one should take into account first, a certain developmental inertia; second, state efforts aimed at the stimulation of the internal demand and very considerable financial infusions. In addition, one cannot exclude that those countries will become victims of the next crisis.

<sup>31</sup> In this respect, some suggestions seem noteworthy (*World after Crisis...* – P. 46. In Russian [Мир после кризиса... – С. 46]) which state that in a decade India will almost achieve the USA level of human and scientific capital (as measured by the model of National innovational system), while China will almost achieve the USA in terms of state receptivity to business innovations. Although it seems dubious but is nevertheless revealing in terms of different development vectors of these two great Asian states. Substantial differences in the export structure of China and India should also be noted. While in the former 90 % of export growth is supplied by growing goods exportation, in the latter 40 % of export growth accounts for the growth in service exportation, particularly in the informational sector (Meliantsev, V. A. *Developed and Developing Countries...* – P. 107. In Russian [Мельянцеv, В. А. Развитие и развивающиеся страны... – С. 107]). The USA would most probably preserve for a long time its role of the innovational leader of the World System, accounting for the fact that the USA currently produce 40 % of global expenses for research and development (*Ibid.* – P. 60).

That is why the idea that in 15–20 years many countries will be more attracted by ‘China’s alternative development model’ rather than by the Western models of political and economic development,<sup>32</sup> provokes serious doubts. The Western models may be criticized, whereas it is quite natural that China’s successes could hardly avoid bringing attention. But it is very unlikely that any country (with a possible exception of North Korea) will try to introduce the Chinese model. The point is that this model simply cannot be introduced. In order to do this one would need a totalitarian communist party.<sup>33</sup> Even the USSR was unable to copy the Chinese model.

The issue of the restructurization of the model of the Chinese economy is tightly connected with the ability of China to preserve the current high growth rates, whereas the latter is extremely important for the ideological prestige of the Chinese administration (though it includes a fraction that believes that it is necessary to slow down the growth rates in order to decrease the social stratification and tension).

The transition to such an economic model that is oriented at internal consumption and technological innovation is further complicated by the following points: *a)* the growth of internal consumption implies the acceleration of the growth of the level of life and Chinese labor costs (that are growing anyway); *b)* the growth of the labor costs is not likely to be compensated by an adequate increase in the productivity of labor; *c)* consequently, the costs of exported commodities may increase, their competitiveness may fall, while the attractiveness of investments in China will then decrease.<sup>34</sup> This may cause a slowdown of growth rates. Thus, transition to a new type of economy in China with simultaneous preservation of its leadership in economic growth rates is hardly possible.<sup>35</sup> Even though home demand will continue to develop, either it will be incapable of sufficiently replacing the export demand, or this will mean a profound structural rebuilding of economy. Investments into infrastructure, housing construction etc can be locomotives of development only if sufficient resources from export are present, but combining the two directions simultaneously does not seem probable. Growth rate decrease implies a state revenue decline accompanied by the aggravation of unemployment and by an increase in state social commitments.

Moreover, it can be assumed that after the crisis Chinese economy growth rates will sooner or later invariably decline (regardless of whether the attempt to re-orient the economy from an export model to the model of internal consumption will turn out successful or not). As a result, the same processes may be observed in the model as in Japan after 1975. However, growth rates slowdown in an authoritarian country where remarkable population ageing is to be observed soon will lead to aggravation of social conditions and changes in state priorities, which may ultimately weaken the economic potencies. The developing impulse force is still great in China, while inertia is still powerful, but this all will most probably weaken quite obviously. At the same time, the opinions on life standards of the majority (at least) of Chinese population will be

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<sup>32</sup> World after Crisis... – P. 8. In Russian (Мир после кризиса... – С. 8).

<sup>33</sup> Those capable have already introduced it, *e.g.*, Vietnam.

<sup>34</sup> Before the crisis there has already been forecasted some decrease in direct foreign investments into Chinese economy during the next 15 years (Mikheev, V. V. Op. cit. – P. 311. In Russian [Михеев, В. В. Указ. соч. – С. 311]).

<sup>35</sup> Economy re-orienting turns out to be very complicated even for such developed countries as Japan. Let us remember that attempts made in Russia during several decades to re-orient the export have been unsuccessful so far.



increasing at advance rate. This is positive while this inspires energy and new search motivations in some part of the population, but this is negative, while it increases ungrounded claims to the state and decreases the competitiveness of Chinese economy.

## **2. Hypothetical and Real Alternatives**

Thus, the future World System will not be able to possess the same structure as currently with an equally strong center. What can be an alternative to the modern 'order' of the world? Here we step upon unsteady and ungrateful soil of forecasts.

Let us first review the future structure basing upon the following probable but still hypothetical suggestion. Objectively, globalization stipulates the appearance of some new forms of political and economic establishments of supranational type. The EU represents just one variant of such a type, other types and forms have just been outlined or are currently being outlined. However, they may emerge rather fast at beneficial conditions. Largest states (the USA, China, India) may for quite a long time rival with such supranational establishments, but still future lies in front of latter, not the former.

According to this hypothesis, new World System leader (if one emerges altogether) will hardly be a separate state, but rather a (potentially increasing) block of states. Will this alliance be headed by some of the largest states of the modern world, or will it arise from a coalition of states of medium size and power? Or such a coalition will emerge on some other bases? Obviously, neither China, nor India can unite around themselves some relevant group of countries on their political (for India also civilisational) specific features. In order to become such an integrating center, China must change its political regime.<sup>36</sup> For China changing its political regime will most probably imply a severe shock (presumably even disintegration), while the preservation of the regime requires relying on the own capacities.

A more organic integration of the American region under the aegis of the USA (some kind of a pan-America) could theoretically revive the role of the USA as the world centre. However, the disposition of political forces in Latin America is too unstable, and the level of development differs too much among the states. Brazil has already itself stepped into the first line of the largest countries. Besides, quite a number of regimes are much tempted to play on confronting the USA. A union with Mexico and Canada (NAFTA), though supplying more than 85 % of the whole export for Canada and Mexico, is incapable of fulfilling such a role which could solve the abovementioned task.

Among all variants of the emergence of such hypothetical leading union the European variant has the largest (though still not too great) probability. Even though European expansion comes across natural geographical limitations, the possibility of Turkey with its more than 70 million population entering the EU someday should not be excluded. This would turn the EU into a supra-Europe union (we should also account for the strengthening ties between the EU and non-European Mediterranean states). If Europe could integrate with Russia, Ukraine, and Belarus, this would give a certain

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<sup>36</sup> It should be noted that China has got some projections on more active integration with neighbors. In particular, the idea of free trade area 'China+ASEAN' and a united integrative space in North-East Asia with participation of Japan, China, South Korea, and possibly Russian energetic resources. However, taking into account the tense relations between China and Japan this hardly seems real (for further details see Mikheev, V. V. Op. cit. – P. 319. In Russian [Михеев, В. В. Указ. соч. – С. 319]).

impulse to restructuring the World System relations and even form some strong centre. In terms of practice, this is a highly complicated, but not impossible variant.

All abovementioned variants are unlikely. Thus, the most real alternative to the role of the USA is currently ... the USA itself. That is why during the nearest one or two decades the USA will remain the most real leader if, of course, the Americans do not undermine their positions themselves (through a sharp change in foreign policy, strong devaluation of dollar, a default, or an economic collapse). In the current absence of an obvious leader counterweighing the USA, the world will be obliged to support the preservation of the USA as an center having no alternative, though growing decrepit, as any weakening in the USA position can lead to the World System transformation, to a great extent uncontrolled. A certain 'imbalance cycle' arises,<sup>37</sup> where imbalances support each other. On the one hand, this plays into the hands of the USA, but on the other hand, the absence of strong competition for leadership greatly weakens the capacities of the USA to renewal. There exists an opinion that, though the demand for the USA leadership remains high, the interest and readiness of the USA to play the leading role may decrease, as American voters will reconsider their attitude towards economic, military and other expenses of American leadership.<sup>38</sup> To put it more exactly, fluctuations in foreign policy are more possible, along with variations of the struggle between isolationism and hegemony, as a result of which foreign political activity of the USA may decline for some time. However, state transition from the policy of sheer hegemony and external expansion to passive foreign policy has taken place a number of times in the course of history, in particular, in Japan, Germany, and in most recent times in Russia.

In uncertain conditions the number of probable scenarios can be great. Thus, the document prepared by the National Intelligence Council of the USA *Global Trends 2025: A Transformed World*<sup>39</sup> considers four hypothetical scenarios: 'A World Without the West' when new forces press the West out of its leading positions in the geopolitics; 'October Surprise' – an ecological catastrophe; 'BRICs' Bust-Up' – a conflict between India and China over the access to vitally important resources; 'Politics is Not Always Local' – when various non-state structures unite in order to develop an international program for the environmental protection and to elect a new Secretary General of the United Nations. All of them, though based on certain trends of the modernity, do not seem sufficiently real, which is admitted by the authors themselves.<sup>40</sup>

Given the wide range of the variants of future, it is remarkably difficult to consider all variations. That is why it is better to select certain main parameters for the analysis of the hypotheses. Let us take such an important in our opinion parameter of future development as *the degree of suddenness and sharpness* of geopolitical and geoeconomic changes. Obviously, if the process proceeds gradually, it is accustomed to, it is put under influence, and the system somehow has time to transform. If the changes occur suddenly, for some time there arises a vacuum of the system and order, chaos, hasty construction of temporary and thus not always successful constructions.

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<sup>37</sup> World after Crisis... – P. 42. In Russian (Мир после кризиса... – С. 42).

<sup>38</sup> *Ibid.* – P. 171.

<sup>39</sup> *Ibid.*

<sup>40</sup> *Ibid.* – P. 29.

Let us view two such hypothetical variants: one of gradual change and one of sharp change.<sup>41</sup>

In the first one, the USA power would decrease not sharply, but gradually. In this case the USA, trying to preserve its leading position, would possibly be obliged to maneuver, enter some coalitions, give in sometimes in certain questions, and accept some global ideas in order not to lose leadership and to preserve the acceptable geopolitical balance. On the other hand, the USA would aspire to create something in a global scale, try to institutionalize the situation, seeking to strengthen the position of *primus inter pares* in some commonly accepted international and interstate agreements and interaction systems (organizations, consultations, *etc.*) at the same time no insisting on absolute or even evident hegemony which is present nowadays. Naturally, this would require great skill. This process would be more successful if the USA could, according to Brzezinski's recommendation, unite with Europe and Japan in important directions.<sup>42</sup> In our opinion, such uniting should take place in the maximum number of problems. Given the low growth rates in developed countries, the West is objectively interested in creating such an order which would institutionally formalize some of its advantages (to some extent this would be useful for the whole World System).<sup>43</sup> It is questionable whether this necessity could be realized in time, but the success of such an institutionalization greatly depends on whether this realization occurs sooner or later.<sup>44</sup> This would be, so to say, a scenario of 'planned rebuilding'.

The second variant occurs in case when the USA changes the position dramatically, that is as a result of sudden dollar collapse and especially as a consequence of the America's default (say, at sudden change in the global economy resulting from a crisis sharper than one of autumn 2008).

In this case the US public opinion may sway to folding up the global functions of the USA, which will additionally aggravate the vacuum of international governance. In this situation, the possibilities include anarchy (a less likely scenario) or hasty gathering (or 'knocking together') of some system capable of supporting the collapsing world order and solving the momentary tasks, offering certain palliative solutions and agreements which on the whole can turn out to be perspective further on.

However, among all hypothetical variants the two alternative ones seem most probable to me. The first one, which is naturally more preferable, is the expansion of the 'club' of leading global players up to a number which would allow them to somehow influence the course of world development (which will be considered further on). The second variant implies spontaneous uncontrolled development where main

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<sup>41</sup> Though the process will most probably be uneven: slow uncontrolled changes will be succeeded by large but not fatal collapses and crises, inspiring the transformation process and even changing its directions.

<sup>42</sup> Brzezinski, Z. *The Choice: Global Domination or Global Leadership*. – Moscow: Mezhdunarodnye otnosheniya, 2005. In Russian (Бжезинский, З. Выбор. Мировое господство или Глобальное лидерство. – М.: Международные отношения, 2005).

<sup>43</sup> An example of such securing is the definition of the five leading states having the veto right in the UN Security Council. The disposition of powers in the world is changing, while this order is not easy to alter.

<sup>44</sup> One of the possible outcomes for the West implies the quoting the economy growth rates in order to restrain the all too fast periphery development (on the possibility of such quoting see Grinin, L. E. *State and Historical Process...* In Russian (Гринин, Л. Е. Государство и исторический процесс...). If the limitations cannot be achieved through direct quotes on economic growth, they can still be pursued under the mask of struggling for the global ecology, for the rights of wage earners, against dishonest rivalry *etc.*

players will be mostly concerned with domestic problems, the politicians will mind only the popularity ratings, while the global problems will be solved in passing. The Japanese society is a good example of such self-isolation (though even there some certain trends to integration can be observed, the EU also all too frequently reveals reticence with their own interests. For Western countries there exists a danger to become hostages to democratic system, when the position of politicians would not allow them to think about future, and this ultimately turns them into demagogues and state-mongers. Besides, incidents of protectionism and other anti-globalization measures are in no way excluded. In this case only unexpected shakes, such as the modern crisis, can wake the Western politicians and societies up. Surges of national, civilizational, and hegemonic pride are also useful.

### **3. Will the Deficit of Global Governance and World Fragmentation Increase?**

We have already mentioned in our previous works that economic and financial globalization greatly advance the development of international law and political globalization.<sup>45</sup> Will the political component of the World System lag behind the economic one even more in the decades to come? The answer to a great extent depends on what the economic development will be in the nearest future. Numerous economists and social scientists, presenting various arguments (sometimes basing on the dynamics of the famous Kondratieff cycles), suppose that in the next 15–20 years world economic development will most probably proceed at a slower rate than in the preceding period. We support this point of view.<sup>46</sup> However, if this forecast comes true, will the political component of the World System not be able to catch up somewhat? Besides, the weakening of the US leadership and the absence of an alternative (in any case leader change is a lengthy and complicated process) must obviously lead to the international system transforming faster and in a more substantial way. Consequently, we are entering a period of searching for new structural and systemic solutions within the World System, which means a considerably complicated period awaiting us in the nearest future. Working out and stabilizing the model of a new political order within the World System will be a complicated, lengthy, and rather contentious process.

Somehow or other, global governance deficit is present, and in the next decades it obviously will not disappear. Supposedly, it will become more ideologically sensible, while the project of eliminating this deficit will become relatively feasible. However, global governance requires great effort and substantial sacrifices. To what extent will the states and non-state subjects wish or be able to endure the growing burden of global governance? A refusal to divide this burden will aggravate the situation

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<sup>45</sup> See, for example, Grinin, L. E. *Globalization and the Models of Transformation of Sovereignty in Western and Non-Western Countries* // *Person and Nature: 'Challenge and Response'* / Ed. by E. S. Kulpin. – Moscow: IATs-Energiya, 2008. – Pp. 56–88. In Russian (Гринин, Л. Е. Глобализация и модели трансформации суверенности в западных и незападных странах // *Человек и природа: 'Вызов и ответ'* / Ред. Э. С. Кульпин. – М.: ИАЦ-Энергия. – С. 56–88); *Idem*. *Globalization and the Processes of Transformation of National Sovereignty* // *Vek globalizatsii*. – 2008. – Num. 1. – Pp. 86–97. In Russian (*Он же*. Глобализация и процессы трансформации национального суверенитета // *Век глобализации*. – 2008. – № 1. – С. 86–97); *Idem*. *The Unwanted Child of Globalization...* In Russian (*Он же*. Нежеланное дитя глобализации...).

<sup>46</sup> See Grinin, L. E., Korotayev, A. V. *Global Crisis in Retrospective...* In Russian (Гринин, Л. Е., Коротаев, А. В. Глобальный кризис в ретроспективе...).

of increasing institutional lack.<sup>47</sup> Seemingly, countries ready to take some burden of international regulation by themselves will be few, in the same way as nowadays only a few states take obligations to make large contributions to international organizations including the UN. That is why for some time many countries will still be interested in the USA leadership even though, as it has been mentioned above, the USA itself in certain conditions may be not interested or incapable of continuing to be a leader. Certain large states rivaling the USA leadership will be most probably incapable of global governance as well.

Such situation may reveal the most important spheres the regulation of which will be profitable, as well as certain important fields where it will be compulsory to participate according to international obligations. This should strengthen the trend to various collective activities, formation of associations, and developing different types of cooperation. This will also transform the global governance towards new technologies.

American analysts suppose that a) in the nearest future politicians and the public will have to cope with the growing demand for multilateral cooperation; b) current trends are leading to the emergence in 15–20 years of a fragmented and contradictory world; c) multipolarity and lack of structure are the main features of the future system.<sup>48</sup>

As regards the demand for multilateral cooperation, which is already high nowadays, it will continue to grow. It seems, however, that the growth of this demand a) gives an opportunity for certain regional states and unions to strengthen their positions; b) will contribute to faster emergence of various formats of multilateral cooperation. It should be noted that the new international order would best emerge with the formation of a sufficient number of supranational unions, coalitions, coordination centers, multilateral agreements and influential NGOs and net systems varying in type and scale, on the one hand, and with presence of de-jure (or at least de-facto) accepted institutionalized leading center of the World System.

Multipolarity (though this term is interpreted differently) became a geopolitical motto for some states and it seems to be forming. New centers of power (first of all, economic, but also military and political) are being established, causing new configurations within the World System). However, in any case multipolarity in the context of peaceful coexistence implies the presence of some order, so multipolarity and the lack of structures are opposites to each other.

Fragmentation increase would imply the World System disintegration (at least temporary). As regards the probability, we consider this to be unlikely due to some realities of a certain quasi-unity being customary for us. Even the crisis did not lead to disintegration, but united the world to some extent. Certain global conscience seems to be being formed. Let us bring just one example of unexpected metamorphoses of in modern economic psychology. During the period of a particularly low fall of production indexes in 2008–

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<sup>47</sup> On the institutional lack see *World after Crisis...* – P. 13, 20. In Russian (Мир после кризиса... – С. 13, 20).

<sup>48</sup> On the institutional lack see *World after Crisis...* – P. 8, 25–26, 180. In Russian (Мир после кризиса... – С. 8, 25–26, 180).

2009 many economists were circulating the idea that the Chinese economy would pull the whole world out, and so things are not too disastrous.

#### 4. The Epoch of New Coalitions and Sovereignty Transformation

We have already written on the transformation process in the content of national sovereignty, *i.e.* on the decrease of the real volume of state sovereign powers, which is to a great extent voluntary.<sup>49</sup> The necessity to pull up the political component of the World System and to strengthen the global regulation of financial and other agents contributes to the sovereignty transformation process, as the states must voluntarily limit themselves in some spheres, and sometimes undertake additional functions. The global crisis has revealed the sovereignty limitations more clearly, showing that even the USA cannot act without real support of other countries. 'By 2025 a single "international community" composed of nation-states will no longer exist. Power will be more dispersed with the newer players bringing new rules of the game while risks will increase that the traditional Western alliances will weaken'.<sup>50</sup> Indeed, the real composition of 'international community' will most likely be more complicated in the next decades due to the addition of some supranational unions, official or unofficial councils of leaders of states and unions, temporary or constant coalitions, and, possibly, NGOs.

However, sovereignty transformation within the new world order creation is not a unidirectional and unilinear process. Firstly, national state will for a long time remain the leading player in the world arena, as in the foreseeable future only the state will be capable of solving a number of questions. Secondly, sovereignty may even increase in some aspects, as the modern crisis shows once more that the fate of national economies to a great extent depends on the state strength. Thus, it is quite probable that the nearest future may reveal a certain 'renaissance' of the state role and activity in the world arena. In some countries sovereign powers may possibly be returned that had previously been (sometimes thoughtlessly) given away to supranational organizations, unions, and global capital. In long-term trends such ebbs and fluctuations are not only possible but unavoidable. Thus, the seemingly steady movement towards democracy in the first half of the twentieth century suddenly made a swerve towards totalitarianism; the development of free market trade in late nineteenth century was turned to protectionism. Thus, a return to etatism can be both rather lengthy and rather useful.

Nevertheless, it should be mentioned that such a return to the increasing role of state cannot be performed on the former bases, when the benefits of a state (even within the fulfillment of undertaken obligations and the observation of common international norms) were accepted in international relations as the highest cause of its activity on the world arena. We suppose that the return of the state role cannot be successful without a substantial change in the state foreign policy ideology. In other words, we can suggest that purely egoistic interests of states will to a much lesser extent underlie the foreign policy

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<sup>49</sup> For details on this process see Grinin, L. E. Globalization and the Processes of Transformation of National Sovereignty // *Vek globalizatsii*. – 2009. – Num. 1. – Pp. 86–97. In Russian (Гринин, Л. Е. Глобализация и процессы трансформации национального суверенитета // *Век глобализации*. – 2009. – № 1. – С. 86–97); *Idem*. State and Historical Process... In Russian (Он же. Государство и исторический процесс...); *Idem*. Globalization and the Transformation of National Sovereignty // *Systemic Development: Local Solutions in a Global Environment* / Ed. by J. Sheffield. – Auckland: ISCE Publishing; Goodyear. – Pp. 47–53.

<sup>50</sup> World after Crisis... – P. 8. In Russian (Мир после кризиса... – С. 8).

concept and performance.<sup>51</sup> Naturally, national egoism will not disappear altogether for a long time (if ever at all), but it will be more disguised by supranational interests and necessities than it is now. To put it more exactly, every action may require not only a real interest, but also an ideological grounding. Viewing the global arena as a 'great chess board' (Brzezinski) where the strongest one wins, while small pieces may be exchanged or sacrificed will possibly not be in demand any more. The world arena will rather be viewed as a common field of interests where rules advantageous for everybody must be stated and somehow supported. That is why it is sensed that gradually the mottos of common (regional, global, group) good will increase in foreign policy, though the 'who-represents-the-global-interests-better' formula may, as always, disguise egoistic causes.<sup>52</sup> However, this will lead to substantial changes, generally positive. In any case, the countries continuing to roughly stand up for their national egoistic interests will eventually lose, sooner or later. Radical changes will be unavoidable in the policy of large states aimed at direct and rough domineering in global or regional scale (including the most independent and egoistic sovereign, the USA).

In this case national interests assertion, rivalry forms on the world arena, conflicts and litigations will acquire a different form from now. Rivalry will increase on directing the process of new world order formation. Rival forces will perform under mottos of a new, more honest world arrangement, for just and crisis-free global development, against national (especially American) egoism, *etc.* In executing such a politics, allies and blocks are obviously necessary. This, regrouping of forces on the world and regional arenas will invariably start. In the struggle for an honorary place in globalization and coalitions, in organization and functioning of a new world order the phenomenon occurs which we named *the epoch of new coalitions*.<sup>53</sup> As a result, new force disposition may be outlined for quite a lengthy period.

Forms, particular aims and activity directions of the new coalitions will depend on numerous factors, in particular, on how far the process of making common decisions will go and what means and forms of common decision-making will be realized. Thus, it seems that the system of simple democracy (one state/participant – one vote) on the World System level will hardly be viable.<sup>54</sup> China and India cannot be equaled to Lesotho or Tuvalu with 12 000 population.

Probably, for some time the mobility of partnerships within the World System will increase, the coalitions arising may turn out to be chimerical, ephemeral, or fantastic.

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<sup>51</sup> One of the numerous examples of such egoistic approach is the position of the USA on the question of greenhouse gas emission into the atmosphere.

<sup>52</sup> For sure, in modern history different actions have been and are still carried out under the aegis of common interests, in particular, intervention into dependent countries (both on the part of the USSR and the USA), pressure upon certain countries under the mottos of defending the human rights, democracy, *etc.* It appears that ideological aspect will presumably substantially increase.

<sup>53</sup> See Grinin, L. E. State and Historical Process... In Russian (Гринин, Л. Е. Государство и исторический процесс...); *Idem.* The Epoch of New Coalitions. The Presentation at the 'round table' in the Editorial of the journal 'Vek globalizatsii' on 'Global-Systemic Crisis and Models of the World Order' // Vek globalizatsii. – 2009. – Num. 1. – Pp. 36–70. In Russian (Он же. Эпоха Новых коалиций. Выступление на круглом столе в редакции журнала «Век глобализации» на тему «Глобально-системный кризис и модели мироустройства» // Век глобализации. – 2009. – № 1. – С. 36–70.

<sup>54</sup> The EU experience shows that this substantially restrains the development process, while such rules in the global representations will simply block it up.

In the course of search for most stable, advantageous, and adequate organizational supranational forms various rapidly changing intermediary forms may occur, where the players of the world and regional political arenas will be searching for most advantageous and convenient blocks and agreements. For example, if population number and other parameters<sup>55</sup> will be taken into account at decision-making (and quota distribution), countries and participants may block with each other basing on the relative advantages of everyone in order to accept a decision advantageous to them (similar to political parties). However, some of the new unions and associations may eventually turn from temporary into constant ones and accept specific supranational forms.

Some new imperatives of global law will start being worked out in the same process. This idea is quite supported by the events connected with the modern global crisis, in particular the G-20 meetings. Direction towards such supranational regulation forms is obvious, though it is unclear whether namely G-20 will become a constant organ, as 20 is possibly too great a number. However, as it has been stated above, some other variant of leading players' club expansion is possible. Bringing the number of 'G club' members up to at least 11, *i.e.* 7 plus BRIC countries could already make this organ more influential than it is today. However, presidential meetings once a year or even more seldom, and even ministerial meetings do not suffice. Such meetings bear more of a ritual than practical character. In order to make such an organ not just influential, but a real global one, at least de-facto, it is necessary to arrange the formats of negotiations, consultations, private agreements *etc.* on various levels and in different combinations.

The stability of new geopolitical and geoeconomic forms will depend on numerous factors. However, historical experience shows most stable ones to be those with not only particular advantages and objective necessity, but also with certain non-political bases for uniting (*i.e.* geographical, cultural, economic, ideological, *etc.*).

Naturally, the movement towards the new world order will proceed on different levels. The regional level is very important. Regional leaders gather power very fast, consequently, their role will most possibly increase. Besides, some regional states will start playing the key role in the whole geopolitical disposition in huge territories. Nowadays, according to some opinions, Iran is starting to play such a key role. The eminent role of regional states will be revealed not only in geopolitical and geoeconomic aspects, but also, so to say, in geocultural aspect, which would be in no way less important than the first two. The possibility cannot be ruled out that, responding to the probable deficit of global governance, non-governmental actors will form networks concentrated on particular problems.<sup>56</sup> However, the role of neither NGOs nor networks should be exaggerated. The main part in the formation of a new world order will most probably be played by states, while supranational unions of all formats and forms will be gathering strength.

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<sup>55</sup> There exists an index of national power measurement which integrates GDP measurements, defense expenses, population and the state of technology. Some indexes may serve as a basis for institution at the counting of quotes and votes.

<sup>56</sup> One could mention as examples of such networks the Financial Stability Forum, the Carbon Sequestration Leadership Forum, and the International Partnership for the Hydrogen Economy (World after Crisis... – P. 161. In Russian [Мир после кризиса... – С. 161]).



A coordination center is desperately necessary, without which the net world will become an uncontrolled conglomerate. Besides, there is a prevailing stereotype on the necessity of some global institutions, so they will be aspired to, more or less successfully. Thus, the question of the coordination-political center of the World System remains exceedingly important. If some collective political (coordination) center (with limited rights) could be created, the coexistence of other functional centers could become more possible and systemic, interactive. Namely states and especially supranational unions are most likely to be capable of moving towards the creation of such a center.

Thus, the future epoch will be an epoch of not only new coalitions, but also one of new global institutions, and new international technologies of multilateral (diplomatic, social, cultural) cooperation, on which much will depend. For example, the format of international congresses and multilateral agreements that originated after the Napoleonic Wars and reached its apogee in the 20<sup>th</sup> century is likely to be pressed by other formats which most probably will be based on modern communication technologies. Thus, some standing commission that works not at a bargaining table, but through the video conference format could become a convenient and rather cheap organ which could work permanently on solving certain problems. As Charles de Gaulle said, politics is too serious a matter to entrust politicians with it.<sup>57</sup> The same may be said about the diplomacy in the globalizing world.

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<sup>57</sup> Thoughts of Great Politicians / Ed. by Ye. V. Belmis. – St. Petersburg: Paritet, 2009. – P. 238. In Russian (Мысли великих политиков / Ред. Е. В. Бельмис. – СПб.: Паритет, 2009).