The Recipe for new crisis: towards the New Global Order and Political Economy after the Crisis

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The paper devises the transformation of current global economic order and new possible definitions of political economy according to the changing environment. It takes three propositions as a starting point. First of all, after the global crisis new forms of institutions and agents emerged. Political economy started to change its form due to the sudden and unexpected new platforms. The institutions in developing countries were in a way of transformation to resemble the ones in developed countries. However, after the global crisis, it was obvious that the institutions in developed counties are also in trouble. The crisis lead new economic policies for the new century's new global economic troubles. The Keynesian approaches are again on the agenda. Secondly, the main topic for new political economy and the new form of institutions is that the economic and social environment are started to diverge from each other. Political economy needs to find ways to understand the social environment better and suggest new economic policies that will provide better environment for the human beings. The capitalism need to be more humanitarian. Thirdly, the crisis usually lead to the change in institutions and point out the need for new economic policies. The new global order is prone to new platforms and new forms of institutional managements. After saying the three points, we try to address the possible transformation.

Key words: Institutional transformation, crisis, political economy

1. Introduction

The new Century, the information century cannot be understood by the old concepts of the previous century. The Keynesian Theory was a remedy for the Great Depression in 1929, whereas it is not a total solution for the current global crisis. That is because the 1929 was a different world and the 2008 denotes a distinct world. The paper is based on this disparity.

2. Diagnoses, Treatment, Recipes and the economic policies after crisis: Austerity versus Growth

In the year financial crisis has emerged, the USA economy has shrunk 0.33 per cent. After a 3.5 per cent recession in 2009, the 2010 and 2011 the contradiction continued with 3 per cent and 1.7 per cent, respectively. On the other hand, the EU economy had worse consequences than USA. The 0.4 per cent growth in 2008 has turned a 4.4 per cent economic shrinkage in 2009 and the growth was only 2.1 per cent and 1.4 per cent during 2010 and 2011. The economic downturn was even worse in Greece with a 6.9 per cent shrinkage in 2009, with a 3.7 per cent shrinkage in Spain and with a deeper effect in Ireland, a 7 per cent decrease.

The unemployment and the poverty data also worsened after the crisis. The unemployment rate has kept increasing in Eurozone and in the USA. In Spain, one of the countries where the negative effects of the crisis were felt heavily, the unemployment rates reached to 20 per cent in 2010. The average unemployment rate in total EU was high as 10.1 per cent in 2011. In Ireland, the unemployment rate reached at peak level with a ratio of 14 per cent in 2011. Estonia is the mostly effected country among the EU countries with 16 per cent rates in 2010.

According to Eurostat data, the poverty rates has increased in 2012 compared to previous month, the people under the risk of poverty and marginalized constitute 24 per cent. That means one fourth of the total population is within the vulnerable group. The rate of the vulnerable group among the total population is 49 per cent in Bulgaria, 31 per cent in Greece and Hungary. The 17 per cent of the total population in EU has been living under the poverty level.

Having effected most severely, Greek economy had announced large budget deficits, despite the 110 billion rescue loan program in 2010 from the European Central Bank (ECB) and International Monetary Fund (IMF). The worsening economic environment resulted in social movements and demonstrations in the Union. The declining exchange rate of Euro was followed by the decreasing prices of European state bonds. The subprime crisis has the roots to the housing loans that reached $13 trillion in 2006. The subprime loans that have limited credibility was at the amount of $1.7 trillion. The banks that were lending these house credits were also questionable, since the main aim of the banks in an economy needs to be finance of investments other than individual consumption. The house prices, which were said to more than doubled, together with unpaid loans resulted in a deep crisis for financial institutions. The bankruptcy of four big financial institutions and three automobile producers increased the deepening of the crisis and the growth rates in the world as a general decreased.[3]

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Table 1: The Growth Rates of World Economies before and after the crisis

	2007	2008	2009	2010	2011	2012
World	5.4	2.8	–0.7	5.2	3.8	3.3
Advanced economies	2.8	0.1	–3.7	3.2	1.6	1.2
USA	1.9	–0.3	–3.5	3	1.8	1.8
Euro area	3	0.4	–4.3	19	1.6	–0.5
Japan	2.4	–1.2	–6.3	4.4	–0.9	1.7
Emerging and developing economies	8.9	6	2.8	7.3	6.2	5.4
Developing Asia	11.5	7.7	7.2	9.5	7.9	7.3
China	14.2	9.6	9.2	10.4	9.2	8.2
India	10	6.2	6.8	9.9	7.4	7.3

Source: IMF

China was the main contributor to sustain the global imbalances in world countries. United States is the biggest country with a current account deficit that is financed mainly by China who invests US dollars. Although, the global imbalance was seen as the cause of the crisis, the root cause of the crisis was mainly domestic in US. The deficit of USA that was financed by other countries resulted a decrease in public deficits, but an increase in private indebtedness. The private sector debts were the main contributor to the crisis that resulted a bubble caused by the mortgage finance.[4]

After the 2008 financial crisis, all the actions for riding out the financial crisis were centralized in one solution: expanding expenditures. Both in United States (USA) and European Union (EU) started to apply Keynesian economic policies. There is the saying that "During the crisis, we are all Keynesian."[5] Together with the Keynesian policies that encourage public spending as a way to recover recession effects, the government intervention to the economic policies resulted in the discussions about the future of the capitalism. The Keynesian policies in EU includes the dilemma of austerity or growth. On the other hand, in USA, the Keynesian politics was applied in the form of the liquidity injections of FED. In 2013, FED president Bernanke has declared that the injection will be diminished by reducing the purchase of treasury bills gradually. EU chose to deepen the fiscal discipline in order to finance the public debt at the expense of decreasing the public social expenditures and increasing the unemployment by undertaking the risk of social movements and demonstrations. Although the same discussion for austerity in USA ongoing, more importance to the FED announcements regarding the reduction in liquidity in the economy was given.

The bank breakdowns resulted in rescue packages that constituted nearly 80 per cent of EU and USA economies. The increasing expenditures of governments for the financial bailout was an extension of Keynesian politics. In order to rescue the financial institutions, governments have spent big portion of their budget at the expense of the social or welfare expenditures. However, the USA and the EU rescue packages were different in the sense that USA invested a bulk and large amount of financial reserve in order to finalize the crisis in financial sector. On the other hand, EU governments have injected small amounts of funds with repeated times, whereas the injections were not effective as in USA.

Austerity in EU has been a big debate among economists. Germany has long supported the austerity politics together with the structural reforms. Merkel has supported the short run austerity policies together with structural reforms even though the reforms will take long time. The structural reforms in Germany is working well since the productivity rate of private sector workers are high. As this is not the case in other EU countries, Germany seems to act like China of the EU in terms of production and growth potential who supports other EU counties. The surplus of Germany production is financing the debts of other EU countries that is very similar to USA and China link in terms of financing the current accounts- China giving surplus and financing USA deficits.

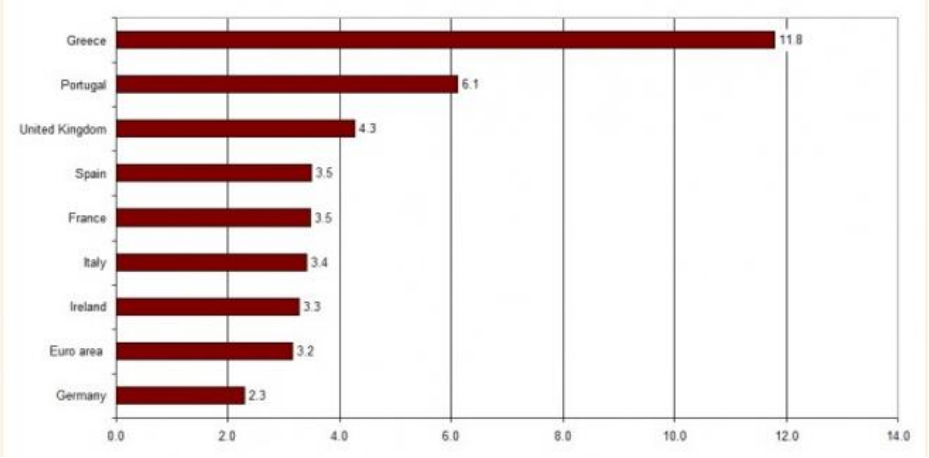
The Keynesian policies and the austerity debate among economists has also a prehistory in the thinking of Hume, Smith, Ricardo, Mill, Schumpeter, Hayek and the neoclassical critics of Keynes[6]. The austerity plans in advanced economies includes halving the deficits by 2013 as a fiscal plan. The biggest risk lies in the Eurozone.

[4] Robert Wade, 2009, "*From the Global Imbalances to global reorganizations",* Cambridge Journal of Economics, 33, 539–562.

[5] Henri Houben, 2013, "*A Marxist critic on the Keynesian Analysis of the Economic Crisis*", World Review of Political Economy, Summer 2011): 219-234.

[6] Mark Blyth, 2013 "*The Political Theory of Austerity: History of a Dangerous Idea",* Oxford University Press

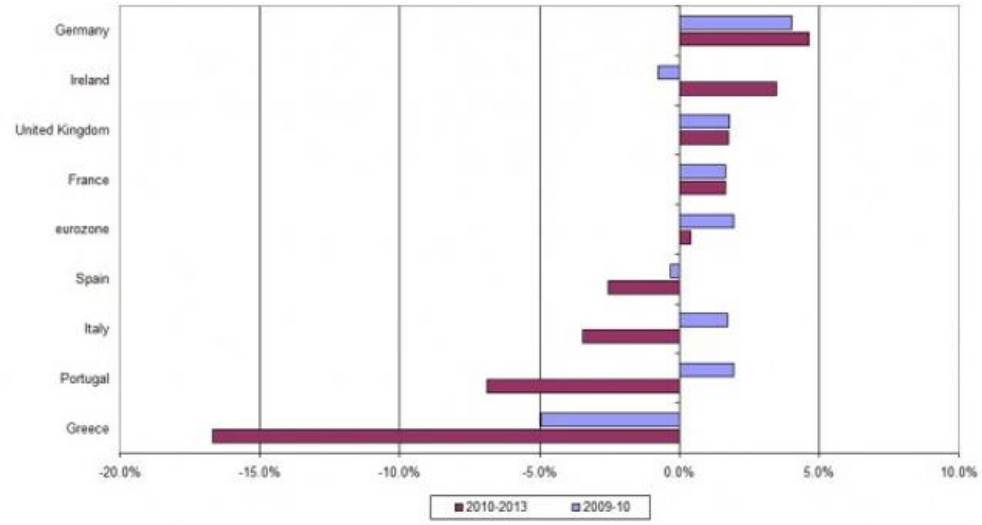
Table 2: Changes in Fiscal Deficits (2010-2013)



Source: IMF, World Outlook Database

The picture is also visible in the automobile sales in EU that were diminished by 5.6 percent compared to 2012, which was the worst case since 1996. The fiscal retrenchment has only added deep injury to the private sector in Greece, Ireland, Portugal and Spain. Martin Wolf states that as austerity is on its own not the cause of the worsening economy, but austerity makes it far difficult to deal with the shocks. Strengthening the banking system, increasing the incentives for private sector to invest and expansionary monetary policies can be the right ways to approach crisis economics.[7] There is a literature in economics showing fiscal expansion helps the economic growth and reduces the unemployment rate in the short-run, whereas, in the long run, austerity may be desirable for the economic sustainability.[8]

Table 3: Changes in GDP in EU



Source: IMF, World Outlook Database

Among the debate about economic austerity still no comprehensive and well-working recipe for the crisis has been found yet. USA economics also suffered from the crisis just like the EU. However, their recipes for the crisis recovery was a bit different. In addition to the austerity policies for decreasing the public debt, the USA economy still have high amounts of debt that is to be financed by issuing treasury bills. The recent policy in USA depends on the signal of Ben Bernanke that the US Federal Reserve will close to tampering down the asset purchase that will be a monthly decrease of approximately 85 billion. The tampering down of assets were conditional to the positivist behavior of the economy in the future. The economic improvement and the sustained financial performance observed will be followed by the step down of bond purchases that were used to increase the liquidity in economy, which was a trigger for financial expansion to recover from recession both

7 Martin Wolf, "*How Austerity has failed*", New York Review of Books, July 11, 2013, Volume 60, Number 12. http://www.nybooks.com/articles/archives/2013/jul/11/how-austerity-has-failed/ accessed on 27.07.2013.
8 Dubravko Radošević, 2012 "*Fiscal Policy in Crisis: Rethinking Austerity*", Zagreb International Review of Economics & Business, Vol. 15, No. 2, pp. 45-60.

in advanced and developing countries. Today, after the policy announcement stating that the treasury bills will no more purchased by FED resulted in heavy responses from the stock exchanges decreasing volumes of investment in developing countries. The world is following the FED announcements closely for the future of the economy, which still have a strong effect on world economy.

After stating the economic current picture of the advanced economies, the austerity in EU and the free market shortcomings in USA, it can be said that no recipe for the economic crisis overcome can be found yet. No achievement was seen in growth rates or the unemployment rates. Reinhart point outs the evidence that the countries usually overcome from crisis during a ten year period of time.[9] Apart from the economic indicators we need to have a look at the new global order and analyze the vulnerabilities of it. In the new global order, we see the developing world is becoming closer to the developed world. But with shortcomings. According to Zoellick, "The modern G-20 was borne out of crisis." The World has different multilateral systems. We need to analyze the new global order after the crisis, whether it is a new form of current international cooperation or something totally new. The share of countries in world demand is changing while the developing countries started to have more share in world demand, the United States' share in demand diminished.

Table 4. Classification by World Economic Outlook Groups and Their Shares in Aggregate GDP, Exports of Goods and Services, and Population

		GDP		Exports of Goods and Services		Population	
	Number of Economies	Advanced Economies	World	Advanced Economies	World	Advanced Economies	World
Advanced Economies	**35**	**100.0**	**50.1**	**100.0**	**61.2**	**100.0**	**14.9**
United States		37.7	18.9	16.0	9.8	30.5	4.5
Euro Area	17	27.4	13.7	40.7	24.9	32.1	4.8
Germany		7.7	3.8	12.9	7.9	7.9	1.2
France		5.4	2.7	5.7	3.5	6.2	0.9
Italy		4.4	2.2	4.4	2.7	5.9	0.9
Spain		3.4	1.7	3.2	1.9	4.5	0.7
Japan		11.1	5.6	6.6	4.1	12.4	1.8
United Kingdom		5.6	2.8	5.6	3.4	6.1	0.9
Canada		3.6	1.8	4.0	2.4	3.4	0.5
Other Advanced Economies	14	14.7	7.3	27.1	16.6	15.5	2.3
		Emerging Market and Developing Economies	World	Emerging Market and Developing Economies	World	Emerging Market and Developing Economies	World
Emerging Market and Developing Economies	**153**	**100.0**	**49.9**	**100.0**	**38.8**	**100.0**	**85.1**
Regional Groups							
Central and Eastern Europe	14	6.9	3.4	8.8	3.4	3.0	2.6
Commonwealth of Independent States[2]	12	8.6	4.3	10.4	4.0	4.8	4.1
Russia		6.1	3.0	6.7	2.6	2.4	2.0
Developing Asia	28	50.4	25.1	42.9	16.7	57.6	49.0
China		29.9	14.9	25.8	10.0	22.9	19.5
India		11.3	5.6	5.1	2.0	20.7	17.6
Excluding China and India	26	9.2	4.6	12.0	4.7	14.0	11.9
Latin America and the Caribbean	32	17.4	8.7	14.3	5.6	9.9	8.4
Brazil		5.7	2.8	3.2	1.3	3.4	2.9
Mexico		4.2	2.1	4.4	1.7	1.9	1.7
Middle East, North Africa, Afghanistan, and Pakistan	22	11.7	5.8	18.2	7.1	10.3	8.8
Middle East and North Africa	20	10.4	5.2	17.8	6.9	6.7	5.7
Sub-Saharan Africa	45	5.1	2.5	5.4	2.1	14.4	12.3
Excluding Nigeria and South Africa	43	2.6	1.3	3.0	1.2	10.7	9.1

Source: IMF, World Economic Outlook, 2012

The change includes China, India and the developing world that started to be an important part of the world economy. The developing countries have long been getting more direct capital investments and the growth rate after the crisis, although decrease, still at high levels. Africa, who in the past was left outside the World economy, started to be within the World economy with potential of economic growth. Africa needs to be a part of the world market and have a private sector. On the other hand, Unites States and European Union

[9] Reihart, Carmen M., Reinhert, Vincent R., 2010, "*After the Fall*", NBER Working Paper No. 1633, September 2010

power on world economy started to be limited. G20 rounds also reflected these shifts, where developing world and the BRIC countries (Brazil, Russia, India and China) started have more power during the economic discussions. However, it is still not easy to have mutual benefits and agree on the economic discussion, as in Doha World Trade Organization and Copenhagen it was realized that how hard it is to have mutual agreements.

In addition to the developing world having more share in world economy, there are also other forms of change. According to Schumpeter, the world system is changing and the change was triggered by the economic crisis. The "creative destruction" of the new forms of the economy leads the old system to renovate itself. In the current crisis also, the change lead to a destruction so that the new form can be materialized. What the shortcomings of the old system that leads the reconstruction is that the highly financialization of the economy made the financial sector expansion to get separated from the real sector. The financial instruments have enormously increased after 1970s. On the other hand, the financial system in an economy have the prior role of financing the investments as a motive to the economic development. Whereas, the current financial system works on its own and creates profits that are triggered by the financial instruments, not from production. Having seen this, the capitalist system were not able to work within these circumstances and tried to find a way to make the financial system working as a supplement for the real sector production. The financial bubbles that were created in financial instruments were crashed and the market at last found a way to make the system better off.

In Capitalism, Sociology and Democracy, Schumpeter stated the technological advance is the main source for economic growth. His claim was that the new competition in products and processes are important for understanding the capitalism. If a new set of rule, for example lower prices in products maximizes the utility of consumers by offering lower prices for the consumers, a new set of rule, for example producing new products will lead creative destruction. The creative destruction can not only seen in products, but also in processes.[10] This also highlighted by Thomas Friedman, who argues that the future of USA is highly dependent on the innovation. The research and development activities needs to be the core of every industry and all the new industries should be based on that. There is one think that USA economy should invest on: the building up the educational or technological background for innovation, this can be by increasing the educational standards or importing brains and financing the innovative investments.[11]

Our statement here is that what causes the creative destruction in production processes by eliminating the old products and destroying them, the financial crisis also destroyed the not working parts of the capitalist system, mainly the financial products and the way financial system was working. If the capitalist system makes the system to destroy the not working parts of it, it will also have any ways to recreate a working economic environment. However, since the system is bounded to lots of institutions and regulations that has been developed so far, it will not be a casual process for the transformation. The needed actions are to eliminate the old financial system that creates bubbles and crisis, create new ones by setting new regulations and institutions. So, it is the states, global institutions or the economists who will find solutions and organize new regulations for the interrupted parts.

As we are discussing the financial system that is free to expand regardless of the economic growth, the institutions are free to invent new financial instruments that can be very risky for the future of the economy and creates bubbles, we need to also discuss the financial regulations here. The Basel 2 Accord was created to measure the riskiness of the financial institutions and set standards for formulating the capital requirements and operational and credit riskiness of the institutions. However, after the crisis it was understood the ratio analysis was not enough to measure the riskiness of the finance sector, the financial instruments also needs to be analyzed. The financial crisis again highlighted the importance of financial regulations.

It was allowed after the elimination of Glass-Steagall Act that the commercial banks were allowed to engage in the activities of investment banking. The Glass-Steagall Act that was invented in 1933 was eliminated by replacing it with the Gramm-Leach-Bliley Act (GLBA) of 1999. The Glass-Steagall Act of 1933 also sought the "complete divorcement" of commercial and investment banking by prohibiting commercial banks from engaging in the "issue, flotation, underwriting, public sale or distribution either wholesale, or retail or through a syndicate participation, of stocks, bonds, debentures, notes or other securities". A big importance was given to the Act after the Great Depression that gave FED the opportunity to prohibit speculative operations in stock markets. The act was useful in stabilizing a less complicated Banking System. Before the repeal Glass- Steagell Act, the banks were allowed to sell stocks and bonds, provide advice on mergers and acquisitions, and enter into new forms of financial products and trading. The banks were acting like financial supermarkets. Banks were also had the right to underwrite and distribute loans and bonds; provide mezzanine financing to companies and trade complex financial instruments. Before the Act, the one third of the revenues of the larger

10 Artur Diamond, 2006, "*Schumpeter's Creative Destruction: A Review of the Evidence*", Journal of Private Enterprise

11 Friedman, Thomas, Mandelbaum, Michael, 2011 "*That used to be us*", Shock Therapy, Farrar, Straus, Girox, New York

banks were coming from non-interest income. Banks were also allowed to be an investment advisor. The insurance underwriting restrictions on the commercial banks were fully over. After two years of the GLBA, Citigroup become the largest underwriter of stocks and bonds. [12]

While the removal of Act resulted in so much freedom and risk taking for the commercial banks, it was not fair to fully blame the act as the main contributor to the crisis. The lower rates of interests, wrong accounting applications, miscalculations in risk models and the greed behavior of credit lenders were also main contributor to the crisis.

Another point to declare is that the aggregate demand in the economic system is not efficient to make the economic performance better off.

3. The Institutional Change after the Crisis: Fiscal Union in EU and Changing role of IMF, WB

The crisis has also transformed the Institutions in the global context. The main idea of the institutions in social and economic environment is their service to human-being. Since the crisis was due to the systems that had injured parts and needs to be resolved after the crisis, the intuitions also need to respond to these changes. The change may be in the form of transforming the current institutions or combining and expanding them or even forming new type of institutions.

The transformation was seen obviously in financial institutions. In some countries, including Turkey, there are institutions that have the duty of organizing and controlling the financial environment. It is the duty of Central Banks in some counties. Being the Central Bank or other intuitions, the main point is that before the crisis, the monetary economics theory and the monetary policy was structured towards the price stability. It was agreed that by stabilizing the prices, the monetary policy will also be maintained. However, the financial crisis appeared despite the price stability. After the end of 1990s, most of the countries have very low levels of inflation rates. In developed and developing countries, crisis showed that stabilizing the prices and having low levels of inflation do not mean that the financial stabilization occurred and there will be no crisis.

After the crisis, the debate was how the financial institutions that are stabilizing the prices can also restructured so that they can also maintain the financial stability. It is not only the limitation of Central Banks' roles that is monetary policy, but the changing role is how the monetary policies can be extended so that they also maintain the financial stability.[13] The extended role of the Central Banks are obvious. The extended policies of the Central Banks are not within the scope of this paper, it will be better to only point out here that the Central Banks need to stabilize the financial environment by extending their price stabilization programs by interest rate and credit enhancing stabilization programs.

Secondly, taking into account the transforming organization International Monetary Fund (IMF) after the global financial crisis, we conclude a similar change in policies. After the Second World War, IMF and the World Bank (WB) emerged with different roles. IMF's main role was to finance the countries having current account balances as that was organized in Bretton Woods. On the other hand, the role of the WB was to reconstruct the Europe after the damages of the world war. Today, having look at their main responsibilities, the IMF has the following expanded spectrum of responsibilities compared to previously limited duties:

> *"The IMF's fundamental mission is to help ensure stability in the international system. It does so in three ways: keeping track of the global economy and the economies of member countries; lending to countries with balance of payments difficulties; and giving practical help to members. The IMF oversees the international monetary system and monitors the financial and economic policies of its members. It keeps track of economic developments on a national, regional, and global basis, consulting regularly with member countries and providing them with macroeconomic and financial policy advice."*[14]

It is obvious that the IMF has extended its role from just financing the balance sheet deficits of a country to giving macroeconomic and financial advice, organizing structural reforms and sustaining financial stability that covers international reserve and currency rate. The advice is not limited to financial aspects, it also includes social aspects such as reducing poverty and inequalities. Strongly committed to the promoting open-market economies, IMF's crisis management roles and other responsibilities historically have expanded and hanged dramatically in the last three decades. The crisis management approach has changed in a flexible manner and the mistakes done during the crisis of emerging economies in 1990s have been fixed. Also, according to Broome, IMF's role seems to be extended during economic crisis and limited to macroeconomic stability during other periods. The increasing importance of the Fund also can be tracked from the credit lines that its lending capacity was tripled in 2009 after the crisis. [15]

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[12]Markham , Jerry W., 2009, "*The Subprime Crisis--A Test Match For the Bankers: Glass-Steagall vs. Gramm-Leach-Bliley*"

[13]Fatih Özatay, 2012, *"Para Politikasında Yeni Arayışlar ve TCMB"*, Türkiye Ekonomi Politikaları Araştırma Vakfı

[14] http://www.imf.org/external/about/ourwork.htm accessed on 27.07.2013.

[15] Broome, Andre, 2010, "*The International Monetary Fund, Crisis management and Credit Crunch*", Australian Journal of International Affairs Vol. 64, No. 1, pp. 37_54

As an institutional change the EU financial institutions have also transformed in a way that includes control mechanism and unities. The EU can be analyzed both from the perspective of its changing structure a regional organization. The change of globalization perception and the new forms of organizations is the subject of the next chapter. So, we will be focusing on the change of control processes and the idea of fiscal unity in EU in this chapter.

It was only obvious after the crisis that the Maastricht and Copenhagen criteria was not applicable in all EU countries. The public debts of Greece was not sustainable. Germany has injected its account surpluses to Greece in order to stabilize the future of the European zone. According to Acemoglu, the problems of EU is half structural and half macroeconomic. As being the very peak example, the structural economic conditions of Greece fell well below the EU averages. The political institutions in Greece were not transparent enough to reflect the exact picture. As a result, for the sake of the political gains, ineffective policies were applied as the tax collection was limited, lower retirement ages and the increasing scope of incentives. As a result, Greece economy started to depend only to the assistance from the EU countries and tourism revenues. The structural problems was mainly as a result of the limited production and export of the countries. In addition to Greece, the bubbles and problems in Spain were also not transparent due to the political secrecy and they continued to get credits despite the shortcomings. The realization of this financial status was resulted in the less reluctance of credit crunch for these countries, their credit riskiness and the lending interest rates have increased enormously. They started not being able to pay their debt burden, so debt delays resulted in a deep recession within the Europe area.

The recession in EU is the one that seems not to last in the near future within the world economy. For the root causes of the crisis in EU, the union is in a period to decide how to proceed from now on. The most probable action will be a fiscal union that will limit the member countries not to expense freely, there will be a central authority for fiscal aspects and the state will lose its main control areas in fiscal policies. The fiscal union includes the plans for a separate Eurozone budget and common issuance of public debt.

The current debate about the future of the European Union is about the formulations of two alternatives that are the fiscal union or the resolution of the total union. The Stability and Growth Path has already been introduced the common rules for the EU countries when the Euro was maintained. They were to balance the budget and keep the public debt below 60 percent of the GDP. The Path also have heavy sanctions for the ones above the budget and debt constraints. If a county falls below the limits, then ESM will help the country to support so that the financial stability will be maintained.[16]

4. New Global Order, G20 and New Forms of Regionalization

The main idea of the instructional change in the global context after the crisis was tried to be analyzed in terms of the need for an instructional change and some forms of the changes in global institutions. The need of the institutional change was the lack of the control and common financial stability and centralization in global financial architecture. And the new forms of institutions are the EU fiscal union and the changing role of the IMF. In this part, we will try to evaluate the changing world organization that leads the institutional change and the potential of new forms of the institutions.

Coming back to the global imbalances, as being one of the root cause of the financial crisis, the imbalances needs to be solved and this need also reflects the demand for an institutional change. The imbalances of global order, the emerging economies with account surplus and the US, main contributor to account deficit causes the systematic risks in the global economy. First of all, financing of the USA deficits makes the world economy depend mainly to US dollars and contributes to USA hegemony. And the main contributor to the systemic risk is that the financers of the USA deficits is not the emerging economies, but the European banks that were the most vulnerable institutions in the crisis. Other than the systematic risks, the surplus in emerging countries results in high rates of private savings that crows out the public investments in the economy and the diminishing rates of social security where people trust heavily on savings rather than the pension funds. On the other hand, the deficits of USA economy reflects the short of private savings. The imbalance problem in world economy also reflects the need for an international financial architecture and an institution for a financial stability that will prevent the world economy from a possible economic crisis in the future. The speculative capital flows were important contributor to deepen the financial crisis.[17]

"Overall, neoliberal globalization looks set to survive, but in a more heterodox and multipolar fashion." is what Onis and Guven stated in their global financial crisis and the future of neoliberal globalization analysis. They are pessimistic about the new institutional powers after the global crisis in the sense that they will not be

[16] Fuest Clemens, Peichl Andreas, 2012 "*European Fiscal Union: What is it? Does it work? And are there really 'no alternatives'*?", CESifo Forum 13.1 (Spring 2012): 3-9

[17] Blanchard, Oliver, 2009, Milesi-Ferrett, Gian Maria Milesi-Ferrett, "*Global Imbalances: In Midstream?",* IMF Staff Position Note

successful in international financial architecture, environmental catastrophe and democratic and developmental issues.[18] The global crisis has reflected the needs of more globalized world with more unions that will lead globalized decision making. The analysis of Zoellick is also important to point out here.

> *"If 1989 saw the end of the "Second World" with Communism's demise, then 2009 saw the end of what was known as the "Third World": We are now in a new, fast-evolving multipolar world economy – in which some developing countries are emerging as economic powers; others are moving towards becoming additional poles of growth; and some are struggling to attain their potential within this new system – where North and South, East and West, are now points on a compass, not economic destinies." Robert B. Zoellick*

On the other hand, the financial regulation has no global content. Although the global crisis showed that the lack of financial regulation that could be applicable to all big and small financial institutions both in developed and developing world has lead vulnerabilities. Again in climate issues, no agreement was made. The climate change affecting both developing and developed countries cannot make the countries to have a common regulation. Financial crisis pointed out the importance of strong multilateral institutions that will take into account the interests of the world people and nations mainly in trade, finance, and environment.

The global world has started to evolve to a new form of order that is seen both in fiscal, trade and other political issues. The globalization and regionalization has a long history, whereas it is in an ever-changing aspect starting from beginning. The globalization can be rooted back to World Trade Organization. The new forms of the WTO and the increasing voting power of developing countries gives the signals of the changing world organization. After the Doha disagreement phases, the member states has agreed the importance of world countries unity in decision making. And the developing counties voting power and their effect in decision making processes are understandable.

The Washington Consensus also points out the need for an institutional change. Also, the Augmented Washington Consensus reflects the need for institutions for economic growth. [19]

The Transatlantic Trade and Investment Partnership (TTIP) that is the new agenda of USA and EU that was emerged after the global crisis financial effect. TTIP was the result of the need of EU and USA to pull the economies from recession inspired the politicians to find a way to form a unity that was lost let say after the end of Cold War. The deal is expected to add investment and foreign trade volume to the member countries by 0.5 per cent by decreasing the tariffs.[20]

The Agreement signed by the two big players of the world economy, EU and USA lead the world economies to think about the possible outcomes and negative effects of the agreement on their economies. The partnership is expected to increase the trade volume of these partners by 460 million EUR and result in an economic growth of 1.5 per cent. China is expecting to have a loss of 32 billion after the partnership is effective.[21]

The transatlantic Partnership stresses the changing environment of the global order and the need for new regional partnerships. The neoliberal politics was seen as a way to increase the profits of the developed countries that they witnesses a decrease in profitability after 1970s. The neoliberal policies after 1980s were very useful for the advanced economies to provide better growth rates before. It is again after the global crisis that the advanced economies are facing lowering economic growth rates. Emerging economies, especially the BRIC countries have extended their trade volumes. Also the WTO seems to have little or no affect compared to previous dominant rounds. The developing world have much more space and effective in world power balances. Also, the increasing unemployment rates both in EU and USA have lead the startup of the transatlantic partnership. [22]

The need to form new multilateral foundations can also be seen between the G20. The network has helped to produce different types of hegemony within the world system. The G20 efforts have shown the need of developing countries' involvement in the global economic decision making. It was seen that the coordination between the emerging countries with increasing power and the developed ones are compulsory. Changing

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[18] Onis Ziya, Guven, Ali Burak, 2011, "*The Global Economic Crisis and the Future of Neoliberal Globalization: Rupture versus Continuity*", Global Governance, Oct-Dec 2011, 17, 4.

[19] Rodrik, Dani. 2006. "*Goodbye Washington Consensus, Hello Washington Confusion*? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform." Journal of Economic Literature, 44(4): 973-987.

[20] Stephens Philip, 2013, "*Transatlantic Pact promises Bigger Price*" http://www.ft.com/intl/cms/s/0/de81b668-753b-11e2-b8ad-00144feabdc0.html#axzz2aAn1WMEE, accessed on 05.08.2013

[21] Tübitak, 2013 "*Transatlantik Ticaret ve Yatırım Ortaklığı Anlaşması ve Çin*", http://www.tusiad.org.tr/tusiad/temsilcilik-ve-burolar/tusiad-pekin-burosu/pekin-burosu---bilgi-notu-ve-basin-bulteni/transatlantik-ticaret-ve-yatirim-ortakligi-anlasmasi-ve-cin/ accessed on 05.08.2013

[22] Akman, Sait, 2013, "*AB - ABD Transatlantik Ticaret Ve Yatirim Ortakliği (TTIP) ve Türkiye*", Tepav (Türkiye Ekonomi Politikaları Araştırma Vakfı), Haziran 2013.

dynamisms in the G20 also has marginalized the WTO, IMF and WB. The sub-Saharan Africa development was also inspired by the IMF funds. Before the G20 foundation, the advanced economies have founded the G7 that was having financial institutions and regulatory organizations for establishing financial stability in the economy. In 1999, the G7 countries have become together with the help of the Financial Stability Forum (FSF). The G20 engaged in a set of areas that is in line with the contribution of emerging economies to the global economy. The BRIC counties also have an increasing contribution to the G20 and to the IMF with the increase in economic growth. Also, the institutional change of the new economic order will give much more importance to human well-being, since the increasing democratic environments in developing countries were working to pressure the government to assist each and every citizen in an equal manner. So far, neoliberal globalization has not contributed much for the elimination of inequalities between the countries. After the crisis, the imbalances and inequalities will be urged to diminish with the increasing power of developing countries.[23]

5. Conclusion:

While the first moments in the twenty first century was ongoing, the world, transforming from the agriculture and industry stage to information stage, a new concept was invented: Globalization. The globalization phenomenon is unfortunately is not advantageous for the whole world. It brought benefits together with troubles. The countries in the information age were living in high standard. On the other hand, 1 billion people in less-developed countries has been living under 1 dollar income per day without access to clean water. A triumph improvement is the new "Middle class" that was formed after the globalization. In China, 6 million people is expected to participate in the new middle class. Among these, it was not possible to ignore the population that struggle with hunger and conflicts. Bill Gates had defined this process of capitalism as "humanitarian capitalism" in Davos.

In the global town, it is impossible to live in peace and welfare, where others are suffering not only from hunger but also from wars. In fact, the humanitarian capitalism highlights that the companies can also gain high profits by humanitarian operations.

In the global world, as a result of the information and telecommunication technologies, "the upmost level living standards" are demanded from every remote place of the world.

The global crisis in 2008 was born in the center of the information age and the humanitarian capitalism where information and telecommunication technologies and the social media was totally in the lives of people. Therefore, the causes and consequences of the current crisis, different from the previous ones, should be analyzed according to the new century and its necessities. In this study, we tried to analyze the global crisis and its contagion effects in terms of humanitarian capitalism and the Schumpeterian innovation.

[23] Onis, Guven, a.g.e. pg.475

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