Global Economic Governance: Between a New Compromise or Integration

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Abstract Globalization moves within the limits of the set of governance mechanisms and institutions function. The market has a tendency to exceed the limits of the nation-state but also need global institutional arrangements to ensure sustainable operation.

There is an inherent paradox in globalization. It is what Dani Rodrik has named as "trilemma" of modern times. Three key elements defining globalization are free markets, national sovereignty, and democratic legitimacy. But they cannot combine all three resultants parallelly, creating the "political triangle of incompatibility."

The imbalances of the modern system of economic governance are not only due to the wrong policies but mainly in combination weakness that can provide all three objectives simultaneously. Currently, globalization is trapped between this combination, in an unfinished selection, leading to instability.

In order to overcome this problem, the world community should either choose a new compromise, like that of Bretton Woods, or to complete its institutionalization, going to an "international economic association." In this paper, we will study the opportunities and challenges of these prospects.

Keywords Globalization • Bretton Woods • Economic governance

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1 Introduction

The USA held the Bretton Woods conference in order to plan a new global economic order focusing mainly on the dollar and US interests. In 1971, President Nixon announced the abolition of the fixed exchange rate, and this meant the end of the Bretton Woods system, which had constituted the global economy's governance plan for about 30 years.

Today, there is no ultimate authority which is able to take political decisions directly applicable at a global level. The governance mechanisms that have arisen are complicated and varied, though incomplete. Along with the increase of interdependence, the distribution of power and authority has become more diverse, while at the same time the intervention mechanisms have multiplied.

The Bretton Woods system was not replaced by another management mechanism, and despite the extent and intensity of institutionalization, the international system has been hovering among incomplete options ever since, presenting imbalances and inherent instability problems which, as Rodrik argues (2012), constitute manifestations of a "political trilemma" of the global economy. According to "the political trilemma," the economic globalization, the political democracy, and the national sovereignty are mutually incompatible conditions which cannot all be simultaneously combined, but only two of them can.

The policy recommendations for the management of globalization are usually unclear and insufficient. In this paper, an attempt will be made to explore the limits and potentials of global economic governance and the options available between the integration and the creation of a new compromise.

2 The Globalization Phenomenon

The creation of a scheme for the globalization phenomenon faces two key challenges. One relates to the theory of interpretation of the very phenomenon and the other to the complexity of the phenomenon itself.

Different approaches, analysis and interpretations of the phenomenon, of the concept and the characteristics of its, contribute to shaping not only different interpretations of the same world (globalization) but to the configuration of different worlds as well.

Globalization, because of the vagueness surrounding it, cannot be calculated efficiently as a whole (state) and/or as a process. It has multiple forms, i.e., a social, political, economic and cultural ones, and despite—perhaps due to—its diversity, it does not constitute a comprehensive concept as for its content, its reasoning, and the way it functions as a "whole."

Despite its intense economic character, it concerns almost everything. Although many have identified it with the neoclassical model, there is no economic or political theory or theory of international relations that explains it. It lacks theoretical background as it is practically impossible to formulate a theory about something so complex and intricate that affects all aspects of modern reality. As characteristically reported by Jackson and Sotensen (2003, pp. 313–314), "a social science cannot propose a theory 'on everything and anything' because every aspect of globalization must be analyzed in different ways." The absence of a theoretical framework increases the difficulty of analyzing the phenomenon and compels us to be restricted only to its interpretations.

In any case, globalization is either an existing situation or it does not constitute a reality. As it constitutes a concept of reference and interpretation of various phenomena, if not of the whole contemporary scene, it acquires existence even though its content remains unclear. It has been legalized as an idea to reconstruct, reform, and reconstitute whole systems as the repeated use of the term in the public dialectic and the immersion of issues into its schemata render it an ontological status.

3 The Transformational Approach

What signals the current form of globalization is the content of the economic, social, and political implications and characteristics as well as the quality of relationships developed among local or national, spatial units, and the global totality. It is not simply a gradual but expanding elimination of barriers to the movement of goods, capital, and labor among various countries. Their space, time, and operation are degraded and recomposed in the postmodern society within the context of globalization.

The hyper-globalists believe that globalization has brought about the end of the sovereign nation-state, as global forces undermine its ability in controlling key economic, political, and social issues (Scholte 2005).

In contrast, the skeptics consider globalization to be a "myth" arguing that the nation-states remain the principal shapers of the global political order (Gilpin 2007), noting that there has been a prior period before with a high degree of international economic integration and that the 50 years between 1950 and 2000 were not so remarkable in relation to the period between 1850 and 1914 (Hirst et al. 2000, p. 248). Some even doubt the beingness of globalization, questioning its very existence, while others consider it to be a modern version of imperialism, that is, an ideological construct that serves the neoliberal doctrine.

According to the transformational approach, adopted as an analytical tool in this paper, globalization leads to the globalization of politics and not the abolition of the sovereign state. In the new scene to be formed, an emerging "global policy" appears, in which the traditional distinction between domestic and international affairs is gradually weakened. Consequently, "policies everywhere seem to be related to that prevailing in the rest of the world" (Mcgrew 2005).

During the era we are going through, a decisive change is being made compared to the period before the First World War. The dividing lines between the internal and the external, the international and the domestic, and the inside and the outside of the nation-state are becoming complicated. The reality is getting much more perplexing. What is gradually being noticed is a deterritorialization of activities no longer organized on the basis of borders. Although borders keep having meaning and significance, they can no longer, as in the past, demarcate—as restrictive elements and measures—activities and actions of any kind. Territorial or national boundaries do not constitute "natural" limits of economic choices and political decisions, even if these are national. We are going through the phase of interdependence among nation-states, that is, internationalization, in a world that acquires features of a common area.

4 The Challenges of Globalization

The Westphalian perception on the sovereignty of states as the sole form of public power and authority is displaced by the emergence of a post-Westphalian world. In this new world, the nation-states retain, for the time being, their dominance with two fundamental differentiations. Dominance is currently being perceived as the exertion of political power and authority at an international level and is not limited by territorial boundaries. Yet the greatest challenge is to ensure that sovereignty, which is divided and distributed through partnerships and multilateral collaborations, leads to joint conformation of decisions through common exercise of public power among national, supranational, regional, governmental, and nongovernmental powers. Power is not a monopoly of most countries, but it is instead diffused to other public and private agents, pro-state and in-state ones.

The autonomy of the unitary state subsides, and its position is undertaken by the image of a decentralized state, the constituent bodies of which are interdependent upon and interact with their counterparts abroad. The national and international concepts are differentiated as the territorial state loses its traditional meaning and, as a result, the internal policy gets internationalized and its global policy becomes an internal matter. Member states do not operate as closed systems and policies cease to be exclusively national.

There are conflicting trends-forces within the globalization process itself. The cataclysmic changes reinforce both the dynamics of integration and the disruptive trends throughout the system. On the one hand, forces that contribute to and enhance the integration of the international system are released, while, on the other hand, the chaotic forces developed contribute to multidimensional disruptive pressures both inside and outside the international system.

As far as the international relations are concerned, the paradox of the opposing forces caused by the complex interdependence in the international scene is being described by the term "fragmegration." The term constitutes a coinage arising from the compound of the terms fragmentation and integration (Bennett and Oliver 2002, p. 41). Globalization does not imply neither absolute globalism nor universality as it remains highly unequal and asymmetrical. Not all regions, countries, and people are involved and affected in the same way in global processes. There are different levels of engagement that create a “variable geometry” (Castells 2000).

Despite promises to increase welfare, the globalizing forces and policies that shape it seem to cause inequalities both among and within countries. The elite of a sub-Saharan African country may be much more benefited from the globalization processes in relation to the socially and economically excluded of a richer country.

The phenomenon of globalization presents a particular geography in terms of inclusion and exclusion. For this reason, the emergence of a global community of ethics and culture has not come into being. What has been formed is not a cooperative world order but a world that produces new divisions and uncertainties resulting in a more chaotic and undisciplined state.

This asymmetrical globalization is often perceived as Western globalization that leads to a new form of imperialism. Although new agents in the world affairs have come into appearance, the basic rules of the game are still being determined primarily by the Northern countries and institutions such as the International Monetary Fund and the World Bank (Castles and Wise 2007; Stiglitz 2003). This explains, to some extent, the reactions against the phenomenon of globalization.

Yet the liberalization of the world trade did not benefit all stakeholders. Besides the undoubted advantages for some, mainly industrialized, countries, many others have been negatively affected in their domestic production which went through significant pressures. This led to either their deindustrialization or in the replacement of domestic production with cheap export industries. The capital investment in developing countries may well “have increased six times between 1990 and 1996” (Stiglitz 2003, p. 7), but the share of world income in these countries fell from 32 to 19% between 1970 and 2000 (Castles and Wise 2007, p. 5).

The report on global processes in an era of generalized cuts in public expenditure and the reduction of the state lead to shrinkage of social protection benefits, to excessive exposure to international risks, and to weakness of social policy. As a result, what is being formed is a supranational, multifronted, and heterogeneous movement, which, despite individual differences, is united against what they call neoliberal globalization, projecting its rights. In most cases the reactions do not concern the general idea, that is, the globalization per se, but the specific content it encompasses.

5 The Organizational Structures of Globalization

The current form of globalization differs substantially from the previous ones since it displays dense and multiple weaves of interconnectivity characterized by an unprecedented institutionalism/institutionalization. This dense globalization comprises a powerful systemic framework that configures the parameters and limits of state power. International institutions play a prominent role in the process of organizing the world system.

In the postwar economic system, the preferential agreements among the states were replaced by multilateral relations based on the principle of nondiscrimination and safeguarded by rules of law developed within the international institutions. This led to a rapid development of organizational activity.

During the Cold War, assistance was of highly political nature. The countries of the Western coalition, wishing to impart political neutrality in their actions, used the international institutions as their main means of assistance.

Apart from the UN and the dozens of institutions belonging to its system, a surfeit of global and regional institutions and organizations were also developed which, along with nongovernmental bodies, created an evolving web of global governance with formal and informal structures of relations and the coordination of options. The constituents of the web—i.e., states, institutions, and bodies—develop actions and apply policies in order to intervene or regulate international affairs, creating a complex and multidimensional framework of international organization.

The multilateral relations were promoted by the USA and reflected their desires and interests, which explain why their influence on international institution was undeniable. But the principle of multilateralism offered the institutions a degree of legitimacy and independence which played a determinant role in their success and expansion. Although always influenced by the USA and other powerful countries, they did not constitute their executive bodies, and their philosophy was far beyond the preferential agreements based on overt political power. Despite the individual compromises and perhaps because of them, the creation of international multilateral institutions allowed for the expression and protection of small and poor states in an unprecedented way.

Private and nongovernmental bodies are increasingly and progressively being involved in global affairs and influence them. International rating agencies determine the creditability of countries and companies. This involves the transfer of power from the states and international institutions to private operators, creating, thus, a shadowy private global governance which acts and regulates along with the public authorities, especially in the economic sector. The transfer of control of national, fiscal, monetary, immigrant policy tools to supranational institutions and the dominance of market forces over politics have serious consequences for democracy and the legitimacy of governments.

Influential decisions are taken and often implemented by these external agents resulting in a continuous and ongoing—relative—privatization and denationalization of power. Gradually, the economic, political, military power is organized and exerted by supranational bodies and from a distance, so the subjects and objects of power are distant from each other just like the policies cultivated by the Bretton Woods institutions and implemented through their programs in any region of the planet.

6 The Bretton Woods Global System of Economic Governance and Its Collapse

The Bretton Woods system defined the nature and determined the institutions of the postwar, global economic governance. The restructuring after the great crisis configured and brought to the forefront the principles of a mixed economy. The states would henceforth take part in the economic modernization. Most of the countries that evolved into industrialized ones managed to do so by means of the active guidance and support of the state.

The era after the Great Depression proved that interventions may well have a positive impact as it was a period that the living standards were increased, the economy flourished, and the political liberalism expanded. There was an unprecedented restructuring of capitalism while the economic activity was internationalized with the contribution of technological advancement. In the years after the Second World War, the financial system did not return to the interwar system, but a new kind of capitalism was formed, which constituted a coalescence between social democracy and economic liberalism with economic planning elements.

Those who had the ability to exercise power did not wish in any way to return to the interwar period. The Great Depression was attributed to the failure of the free market that led to the collapse of world trade and the financial system and led to the creation of authoritarian national economies with intense introversion. It was considered that the operation of the market had to be complemented by a public programming. The views on budgetary discipline, currency stability, and inflation were still significant but not so imperative any more. The financial system was led to the "mixed economy" through systematic governmental control.

The Bretton Woods agreement constituted an achievement of institutional innovation and was meant to become the backdrop of the global economic governance for about three decades, highlighting the potentials offered by collective consultation at a global level. Deep in the heart of this venture-mechanism, there was a compromise. On the one hand, what was created was a system that operated as a regulatory framework, and, on the other hand, it gave governments flexibility in managing the economic and social needs of their countries.

It was designed to ensure autonomy with regard to the national policies and international monetary stability at the same time. In order to achieve this objective, it offered a compromise between the gold standard which had been in force in the late nineteenth century, pursuant to which the countries struggled to manage their economy, and the monetary anarchy of the 1930s when governments were racing in a rally of competitive devaluations.

In order to combine autonomy with stability, the mechanism was based on "locked" exchange rates with a relative flexibility so as to enable countries to confront emergencies. The postwar monetary system of fixed exchange rates was proved to be successful by ensuring both its autonomy in terms of national policies and its international monetary stability as well. Without external interference and strict compliance rules, the countries were able to develop and implement their own domestic policies within a general global context.

This system was constructed in such a manner that it operated redistributively, benefiting and giving opportunities to more agents, as it exceeded the traditional, narrow, national interests and managed to promote the cooperation among countries, besides strengthening the US hegemony. John Ruggie (1982) called the Bretton Woods mechanism "a compromise of embedded liberalism." This mechanism gave the member states large leeway and allowed them to adjust their policies according to the specific characteristics and their internal needs. That explained what P. Hall and D. Spskice described as "variants of capitalism."

The more developed, capitalist states implemented a different policy mixture. Countries with a clear orientation toward market economy implemented policies with notable differentiations and national characteristics: the Scandinavian model that was based on the welfare state; the German social market model; the French model which was established under the principle of the "indicative central planning" and an extensive regulatory framework; the Japanese model which combined the competitive export orientation with a protected, traditional economy which was determined by a strong regulatory framework; and the US model, which was the most representative example of economic liberalism (Rodrik 2012, p. 128).

However, even the developing countries followed different paths of economic growth and development. As there were no external compliance mechanisms, the countries were free to develop custom development policies. Many of them managed to provide a huge boost to production and to obtain developing economies. Some typical examples are the countries of Southeastern Asia, which marked their own developmental course. An important role in the Asian miracle was played by governments which through their policies managed to achieve high savings rates and simultaneously direct them into profitable investments. The result was an increase in incomes and poverty reduction for three consecutive decades (1960–1990).

In this way, the Bretton Woods institution met with amazing success as it allowed for the liberalization of the economy and the expansion of globalization to the extent that liberalization and expansion did not threaten the internal balances, the domestic institutions, and the redistributive policies of each country. The priorities were formed on the basis of the internal agenda, which to a great extent caused its success to happen. The objective was a modest globalization rather than a profound globalization, a hyper-globalization. The policies designed to satisfy the internal needs of the states and their economic development eventually helped to strengthen globalization.

The rationale behind the establishment of the Bretton Woods institutions was partly based on Keynes' interpretation of the 1930s recession. Keynes argued that one of the weaknesses of the liberal system was that the market could operate inefficiently, resulting in massive unemployment and might not be able to supply the required funds to the economy of a country. This face, depending on the case in question, might have greater or lesser impact on other states, running the risk of causing a domino effect, leading to global recession.

Although the founders of Bretton Woods shared the belief that markets cannot regulate themselves sufficiently so as to lead to prosperity and stability, they did not embrace Keynes' view that we had to create a fully institutionalized, cooperative surplus recycling mechanism which would be controlled by an international body. The USA wanted to keep the hegemony of an informal surplus recycling mechanism so as not to limit the country's surpluses and its ability to intervene whenever and wherever it considered necessary in order to protect its interests. Therefore, the surplus recycling mechanism was ultimately not included in the Bretton Woods agreement.

Keynes had predicted that the new fixed exchange system would not be able to cope with a serious breakdown if there was no efficient surplus recycling mechanism. This mechanism would aim at preventing the creation of systematic surpluses in some countries and permanent deficits in others. If debt and unemployment crisis stroke any deficit country, it would directly implement austerity measures to allow it to remain in the Bretton Woods system. This would result in reducing demand, further resulting in increased public deficits and the collapse of the exchange rate of the country that faced problems. What would follow would be the decrease in the surplus countries' surpluses and the increase in the deficits of other deficit countries, as without escape valves the crisis that would strike a country would inevitably extend to deficit nations.

In an effort to reduce debts, expenses would be cut down, and the aggregate demand would be reduced, leading to a drop in sales and production; unemployment would rise, and prices would fall. So the economy would run the risk of getting trapped into a vicious debt-deflation cycle. With increased fiscal deficit and accumulated public debt, recession would depress taxes and would raise public deficit even more. Private and public expenses would be curbed and domestic demand would collapse.

A country within the Bretton Woods system would have to use its reserves in dollars in order to stabilize its currency. Yet a country ravaged by crisis would be more likely to wish to maintain its reserve and to increase its imports. To achieve this, it would attempt to devalue its currency. Keynes had pointed out that in times of crisis, it is practically impossible for a deficit country to adhere to the agreed rules and, if the crisis were to become generalized, the fixed exchange rate system would collapse as it eventually happened in 1971.

As the IMF's reserves were kept in dollars, the US dollar became the basis of the international monetary system. It was the only currency with direct interconnection to gold and to fixed exchange rates with all other currencies. The official rate was set at $35 per ounce of gold and the USA undertook the commitment and the obligation to exchange any amount of dollars to anyone owning it anywhere in the world with the proportional amount of gold. In order to promote their plan within the system of fixed exchange rates, they needed other major currencies as safety valves in case they themselves entered into crisis. This role was undertaken by the German mark and the Japanese yen.

Thus, the USA managed for many years to play a hegemonic, though not authoritarian, role as it was not only based on the exercise of military and political power but it was combined with the redistribution and recycling of its surpluses to its allies. The role of the dollar in the international monetary system facilitated the American alliance system and the operation of the global economy and rendered the USA a dominant economic and political force.

In the early 1971, the US export obligations exceeded $70 billion, while gold reserves did not exceed 12 billion (Varoufakis 2012, p. 185). The USA exported inflation to the rest of the world, and the other governments had to increase the amount of their currency so as to be able to maintain their exchange rate stable in relation to the dollar, as it was provided for by the Bretton Woods agreement.

When the USA ceased to be surplus and began to accumulate deficits, their fixed exchange rate system began to lurch and gradually reached its end. As confidence in dollar was limited, the foundations of the fixed rate system began to erode. In an effort to restore faith in the system, the IMF created in 1969 the special drawing rights as the new reserve asset.

In August 1971, France requested to swap a large amount of dollars to gold. After a few days, Britain sought to convert $3 billion into gold. In response to the above legal requirements, President Nixon on August 15, 1971, announced at a press conference the abolition of the fixed exchange rates which were provided for in the Bretton Woods system. The USA would not convert the dollars of other governments and individuals into gold. This decision marked the end of the Bretton Woods system, the global economic governance plan which collapsed due to its intrinsic weakness.

The Bretton Woods global system of economic governance was abandoned, and a new world order was to be formed. It was a new order characterized by the absence of any system, since no generally acceptable rules were established for the settlement of monetary relations.

The crisis that arose in these decades was not just a proof that the capitalist system does not work well but also that its functions have changed and can no longer be controlled. For years the main market management tool was government policies, but as nation-states kept losing the potentials of exercising economic power, the world market peculiarities began to create imbalances. This significant change was not immediately perceived as in the 1970s the belief that the problems were temporary in nature and the system would revert to normal operation was still predominant. The decision-makers tried to repair the damages by continuing to implement the policies that had led to progress and development throughout the previous period. It seemed, however, that these strategies could not work in the new global context that had been formed.

7 The Global Economic Governance After the Bretton Woods Collapse: The Political Triangle of Incompatibility

When the Bretton Woods system was abolished, it was replaced by an ambitious, though not systematic, effort toward economic liberalism and deeper integration. Globalization creates challenges both in the operation of nation-states and markets, creating what Rodrik (2012) had called trilemma of modern times (Fig. 1). This trilemma could also be called "political triangle of incompatibility." In this scheme there are three options that cannot be simultaneously combined: the hyper-globalization, the nation-state, and democracy (Rodrik 2012, pp. 285–291).

The combination of hyper-globalization and democracy leads to the selection of global governance in a fully globalized economy without national borders, where the exchange of goods, services, and capital movements are not hindered by any intermediation cost.

In this case, the nation-states will lose their essential operations, and their role will be limited to strengthening economic integration and the smooth operation of international markets by removing barriers, constraints, and obstacles. Global institutions with strong regulatory powers and the authority to impose political and economic standards will be crated. This will lead to a form of a global federalism, and if the institutions have sufficient political legitimacy, this policy will continue to exist but will be transferred to a global level.

Global governance will mean the end of the nation-state and national sovereignty. National governments may not disappear, but their responsibilities will change and will be limited as the main powers will be transferred to a supranational and central level of a global political and economic supranational authority. The

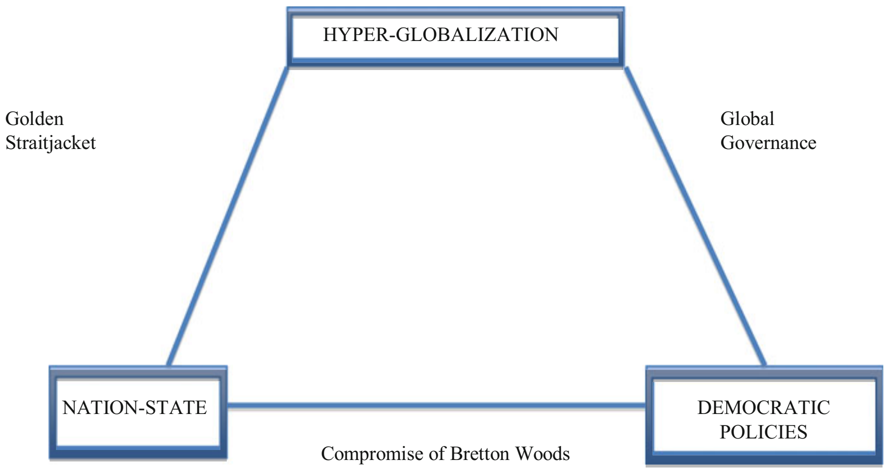

Fig. 1 The political triangle of incompatibility. Source: Rodrik (2012, p. 286)

European Union and the USA are, to some extent, regional examples of this model, but the extent and systematization which this global structure should have by far exceed any form of organization we have known to date.

An international body supervising the global economy with sufficient resources and staff could, in theory, constitute a counterweight to the uncontrolled action of financial markets. The granting of regulatory powers to an independent international technocratic team could lead to more effective governance. In practice, however, this assignment means conferral of the benefits of enacting laws and rules to a superpower, which weakens the relationship between electors and elected ones and the obligation to cover the demands and needs of the electorate.

It is thought that there are foundations which can support a global governance based on democratic principles as it can be established in already existing structures of global institutions (UN, IMF, World Bank) and the decision-making networks (G8, international NGOs) which will have to evolve and acquire new mechanisms of decision-making and accountability.

However, beyond the practical difficulties of implementing a proportional model, there are substantial reasons that render its practical application hard to conduct. The different value perceptions of societies, their different ethics and customs, and their great diversity are hard to unify under common rules through democratic processes. This will lead either to limitation of the democratic legitimacy or to a scheme with weak and ineffective rules.

A supernational management authority of economy would need a corresponding political supervisory structure of international affairs. This principle can operate as a closed club of technocrats with regulatory powers or may pass to another stage of global relations management with wider social targets. It could be a modernized version of the compromise of embedded liberalism and constitute an effort to overcome the multilateral state-centered relations and their evolution into multilateral relations which would integrate business agents and civil society into the global social organization (Rodrik 2012, p. 301).

The modern mechanisms that have been developed may constitute the prelude of hyper-globalization and become the basis for its development, but they are not sufficient enough to support a deep economic and political globalization. In any case though, the weak point of global governance is the lack of clear accountability relationships. In the nation-state, the electorate is the ultimate source of assigning powers and, simultaneously, the ultimate accountability mechanism. Within the ultra-globalization management framework, no commensurate accountability may exist.

The other combination at hand is that of the nation-state with hyper-globalization, and it leads to what Thomas Friedman (1999) had described as the "golden straitjacket." Friedman argues that the characteristic of globalization is that investors and speculators, the "electronic herd" as he calls it, can carry billions of dollars at the touch of a button, requiring all states to wear a "golden straitjacket" and to comply with certain rules, such as free trade, free markets, and small state.

When this happens, according to Friedman, "the economy will grow, and policies will shrink," and countries will be led to rapid economic growth. Although expectations for economic prosperity were not confirmed in states which wore the "golden straitjacket," such as Argentina, the main argument that hyper-globalization entails shrinking the domestic policy remains true because in order for hyper-globalization to operate in combination with the nation-state, technocrats must take the reins and act away from the requirements and the control of social groups with minimal democratic legitimacy.

This model of international economic and political organization exhibits, to some extent, similarities to the era of the gold standard that existed before the First World War. At that time the countries were not prevented from domestic commitments and social obligations, and governments had focused on adhering to strict monetary rules. A similar operation existed during the period of mercantilism, even though at that time there were no nation-states with the meaning these have today and national formations were required to work under the game rules imposed by corporate monopolies or the imperialist power and deviation chances were minimal.

Although we stand far from the gold standard and the monopolies of commercial companies, in order for hyper-globalization to prevail and operate, what is necessary is a similar elimination of domestic policies that serve the internal needs of each country. Since the main target is to meet the demands of global economy, the possibility of domestic groups to exert control over the decisions is limited, and alongside what is also restricted is the democracy within countries. Thus, the nation-state still remains which in conjunction with the hyper-globalization loses a great amount of its democratic legitimacy and its democratic principles.

The other alternative is to combine the nation-state with a new compromise like that of Bretton Woods which allows the combination of laissez-faire capitalism with interventionism, and the exact mixture will be determined depending on the specific needs of each country and from the countries themselves, allowing them to retain their own policies and to shape their own developmental model. Of course we cannot return to the consideration of the postwar decades, but we need to create new structures that will allow for the adoption of a new compromise that meets modern needs.

In this case we come to terms with the fact that the international community remains divided and the possibility of global arrangements is limited but it can focus and be effective in some areas, with clear rules, allowing the countries to formulate their options and policies and developing institutions that are best suited to their specific needs.

This new compromise will create a new reference framework that will not act suffocatingly but will guide member states, allowing them to develop their own path toward development and prosperity. No capitalist model will be imposed, but individual arrangements will be permitted according to local needs while at the same time countries will be able to protect these institutions and their national standards even if they have to raise barriers and legislate for the protection of their interests.

In this conciliatory scheme, no entity or body will be able to oblige any state to comply with certain standards. The compromise that will emerge shall respect diversity and the different needs of countries, actually reinforcing globalization. With the attempted blending of different resultants and forces, specific international rules may occur that can be respected by states without causing tensions in their interior, and this can lead to the consolidation of globalization on safer foundations which will be louder and will be capable of responding to crises.

Each of the combinations described above requires concessions, but, in any case, the greater the consolidation, the less the possibility of making decisions nationwide. This does not automatically mean that democracy will weaken as even if the people's participation is reduced or if the external rules limit participatory processes within the states, there might arise redeeming benefits such as the representation of minority groups, the restriction of interest groups that prey democracy, and the improvement of participatory processes. The international commitments of countries may upgrade democracy, but they may well downgrade it because in a hyper-globalized environment the main concern focuses on the proper operation of the world economy and not on the consolidation of democratic processes. The major economic interests and the minimization of the costs of mediation will be prioritized over other economic, political, and social targets.

8 Conclusion

Despite the fact that globalization has transformed governance both inside and outside states, the ultimate responsibility for the management remains on the states and national governments. In the recent crisis of 2007–2008, governments were the ones that were called to manage the consequences and policies for getting out of it.

The mismatch between the national range of governments and the global nature of markets constitutes the Achilles' heel of globalization, as its political prerequisites are demanding and require strong institutions in order to enable them to support a global market.

As there is no global regulatory authority, markets suffer the consequences of insufficient governance and are prone to instability, reduced efficiency, and weak people's legitimacy. The aim is not to reverse globalization but to create new institutions that can support it by making it more equitable, sustainable, and efficient.

Hyper-globalization, democracy, and national sovereignty cannot exist at the same time. Either globalization will be restricted so as to enhance democratic legitimacy, or democracy will be limited in the name of globalization and minimization of the mediation cost, or we will be led to globalization of democracy, resulting in a loss of sovereignty. If we take into consideration the fact that the choices available are limited, then we will be able to place the search for compromising solutions on a new basis.

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