


## Chapter 3

# Reconstruction of the Old Institutions: Crisis, Governance, and the G20

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### ABSTRACT

*The recent global economic and financial crisis has fundamentally questioned the crisis management mechanisms of the international institutions. Despite the development of the skills of these institutions, financial vulnerability, economic imbalances, and the instability of the macroeconomic performance indicators are still rising cyclically. The G20 represents roughly 85% percent of global GDP and two-thirds of the world population. It emerged as a leading body for international economic performance. The lack of permanent secretariat of the G20 is decreasing the effectiveness, legitimacy, and the economic viability of the club. Regarding this philosophical background, the role of G20s' institutional structure is examined according to institutional capacity and the macroeconomic performance of the club.*

### INTRODUCTION

International economy is experiencing systemic fractures at regular intervals. The political consequences of these systemic fractures often involve radical changes in the structure and institutions of the global system. These fractures, which can be described as the failure of capitalism, reprise state, society and market relations (Kaletsky, 2017, p. 1). In contrast to this view, it is the fact that all reliable findings of capitalism exceed more than the costs incurred.

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An open international economic system becomes stronger against the crises if a nation is to maintain its hegemonic power in a stable manner and systematically carry out the distribution of economic power. The reflection of the 1997 financial crisis to Russia and Brazil was also minimized by the policies implemented in these years mainly by the US (Pelagidis & Papasotiriou, 2002, p. 521). According to this acceptance, in the process of G20 formation, US recognizing the stability of the global system and realizing that the recipes that strengthen this stability are in the emerging economies is one of the fundamental factors (Cooper, 2010, p. 745).

The level reached by the end of the 20th century and the first quarter of the 21st century is the increasing political economy activities of emerging economies. These emerging powers in continents of Southeast Asia, South Africa and the South America have begun to find a place in the decision-making processes of international institutions. These changes and transformations have brought along the process of redefining the structural requirements of international institutions. According to this view, international institutions are directly affected by the mutual interstate relationship form and political economy orientations of the world (Nelson, 2016, p. 525).

The formation process of G20 is directly related to the key parameters of the global financial crisis. The problems raised by mono-centered financial management were intended to overcome by mutual relationship form and inclusion. Studies specific to this fact have been conducted in the G20 Leaders' Summit held periodically since 2008. G20's expertise in preventing economic crises needs to deepen the existing international institutional mechanism and policy developing system.

While this relationship level is revealed, it is seen that again an institution the Organization for Economic Cooperation and Development (OECD) plays a leading role in the organization of international regulation and taxation issues. Together with this structural integration, one of the main consequences of the 2008 global financial crisis is the increase in the co-efficiency of inclusion of states in financial regulations. Financial intermediaries and institutions failing to provide adequate security and guarantee in the struggle against systemic risks has coordinated the post-crisis institutionalization stages with the state (Germain, 2009, p. 678). State guarantee in risk management and loan funds has become the most fundamental output of the process. Additionally, the argument that the solution of the global crises is not included in the economies of developed countries was directly in line with the development of the G20 process. The fact that emerging economies gained importance since the 2009 G20 summit reveals that the balance of power theory has also evolved.

Regarding to this philosophical background, the role of G20s' institutional structure will be examined in accordance with the new institutional economics mannerism. Thus, institutional capacity and the macroeconomic performance of the G20 will be measured with current severe crises management skills and the role of the club in global income distribution. In addition to qualitative research methodology, numeric data's and statistics predominantly used as part of new institutional economics mannerisms in this study.

## **THE POLITICAL ECONOMY OF 2008 GLOBAL FINANCIAL CRISIS AND THE ECONOMIC GOVERNANCE**

On the basis of the 2008 global financial crisis lies the large real estate and credit bubble that has emerged in the US and spread all over the world in waves. The Mortgage market in the US has become the largest market in the world with as size close to \$ 10 trillion. First of all, 'prime mortgage' loans given to cus-

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