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How to Run the *Global Economy*



The current global rules and economic governance institutions are in need of repair, updating and re-legitimization" Gerald Helleiner, 2000

"We have a global economy but not a global polity and hence our ability to "govern the market" and ourselves is weakened" Keith Griffin, 2002


„The demand for reform is palpable“ Joseph Stiglitz, 2006

Kurt Bayer

How to Run the Global Economy A Framework for More Effective, Representative and Equitable Global Economic Governance¹

¹ In a very insightful paper Ph. Pattberg (2006) derides the ubiquitous, but completely undefined – and variously understood – concept of „governance“. This criticism is reminiscent of F. Machlup's 1960's criticism of the then en-vogue term „structural“, which Machlup termed a „weasel“ word which means anything to anybody, but nothing specific to everybody. Pattberg identifies at least 10 different possible meanings and uses of „governance“. I will use it both in the normative sense, the necessity of finding political answers to the problems of globalization, and in the institutional sense, as establishing an international order in the economic field, focusing on institutions.

A google research shows 123 mill entries for „global governance“ and 25 mill for „global financial and economic governance institutions“. This alone shows that the topic is not without interest.



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Executive Summary

While during the past few years world economic growth has been stronger than in decades, the future stability of the world economy and further integration through globalization are threatened by a lack of adequate governance rules and institutions. Among these problems are the ever widening income and opportunity gaps with growing poverty among and within countries, gaps in the provision of global public goods (fighting the spread of contagious diseases, global warming, deteriorating environmental conditions for many countries, access to vital resources), increasing vulnerability of weak countries through liberalized financial flows, unsustainable global economic imbalances and inadequate country ownership of global governance institutions and rules of many countries which results in a lack of multilateralism.

Most of the many existing global economic governance institutions were founded in the aftermath of World War II when the interlinkages of countries were weaker, trade much smaller, and foreign direct investment only beginning. Some of the gaps in governance have in the meantime been partially replaced by regional institutions (like e.g. the EU), some by private market activities (e.g. accounting rules), but many have remained.

It is the contention of this paper that rules and institutions which command the widest possible acceptance are essential to maintaining the momentum of a growing world economy where the benefits of growth are spread across all countries and population groups, where resource and environmental conditions are prevented from being depleted, where security, stability and improvement in well-being for all are provided by an appropriate mix of public and private institutions.

A two-tiered „clumsy“ structure is proposed where political guidance is provided by a re-invented G-20 forum (L-20 plus), which is composed of the heads of state or government of the G-20 countries plus 3 least developed countries, one each from Africa, Asia and Latin America, and where the 4 European G-7 members are replaced by a single representative of the European Union. The heads of the IMF and the World Bank, and of the major regional development banks should act as advisors to this group.

In addition to this political super-structure, thematic networks would be formed, which comprise members from three groups: government officials of affected countries; civil society representatives from around the world; firms and academics with specific expert experience. It is proposed that such networks are formed in the following areas: macroeconomic stability; economic and social development; international trade

and foreign direct investment with special emphasis on competition issues; labor market and migration; environmental and health issues; illegal activities. The networks would initially define the respective problem and recruit members, design appropriate rules and norms and eventually oversee their implementation and evaluation. The networks would report to the „L-20 plus“ group which would provide political backing and guidance. New networks could be formed as new problems arise; membership could change according to countries affected, etc. Inclusion of civil society, business and academia would guarantee that best available knowhow from different viewpoints is represented in the discussions and deliberations. Existing institutions could be tied into the respective networks. An overarching network could safeguard that problems extending over a single network obtain adequate recognition.

This institutional structure would be more inclusive and faster responding than existing arrangements and could provide global development and the quest for improved well-being and more cohesion with a stable framework.

1. The Globalizing Economy is Becoming more Volatile and Unequal

During the past decades economic relations between national economies and across continents have become closer: trade and foreign direct investment (FDI) flows have grown significantly faster than GDP, cross-border financial flows have reached around 1,5 trillion \$ a day (12 times the world GDP on an annual basis), modern transport and communication technologies have shrunk physical distances dramatically, regional integration has picked up², labor markets are becoming more international. This „globalization“ is the result of economic and political activity. The share of transnational corporations in world production and services is increasing strongly; global sourcing has established supply chains on a world-wide scale, financial investors are looking for the most profitable investments world-wide. This tendency has increased over-all growth, has led to the emergence of global enterprises, and has rewarded managers of global firms with astounding compensation packages³. It has also enabled a number of emerging economies, especially China and India, but also Brazil, Malaysia, Argentina and many Central European economies to integrate into the world economy and to grow fast as a result. In March 2006, China became the fourth largest economy in the world. Estimates show that at present growth rates, China's economy (with a present nominal p.c. income of 1300 \$) will have surpassed that of the USA (present p.c. income 41.000 \$) by 2040, India's (p.c. income 620 \$) will have passed Germany's (p.c. income 30.000 \$) by 2025. (Goldman Sachs, 2003). These are remarkable success stories, reminiscent of those of the „Asian Tigers“ in the 1980s, albeit on a much larger scale because of these countries' gigantic populations which comprise more than 1/3 of world populace. Some of this growth has contributed to reducing poverty in these emerging countries.

This is not the first wave towards a globalized economy. Before World War I, transnational flows relative to world GDP were even higher than now, the exploitation of colonies led to unprecedented – if unequal – exchange patterns. But economic and political rivalry led to World War I, to economic nationalism in its wake, to the following world depression. These developments gave rise to a surge in protectionism which reduced

world GDP and global welfare and resulted, eventually, in World War II with its devastating destruction of human life and physical infrastructure. The present trend towards a globalized economy thus need not persist into the future. Reversals are possible again.

While present globalization has benefited the world as a whole, it has also brought about severe problems. As J. Stiglitz puts it very succinctly: „Globalization today is not working for many of the world's poor.“ It is not working for much of the environment: it is not working for the stability of the global economy“ (Stiglitz, 2002, p.214). Stiglitz does not mean by this that globalization per se is negative, but rather that it is not managed correctly. In his view, globalization must not be seen as a force of nature which cannot be influenced, but rather as a socio-economic process whose effects depend on political guidance – and on the „mindsets“ of the persons being active in the global institutions (Stiglitz 2004, p.216). This is where a number of distinct problems arise.

Problem 1: High average world growth goes hand in hand with increasing income inequality, both within and between countries and regions.

During the last few years, the world economy as a whole has grown faster than for decades. Growth in emerging and developing countries as a group was exceptionally high, but its pace and impact on poverty reduction has been very uneven. Many economists claim, based on mainstream theory, that further world integration, i.e. globalization increases growth and thus benefits all participants. Reality, and increasingly also popular perception, speaks a different story. They point to the fact that we are far away from a truly global economy, since the differences in income and well-being among the most advanced and the poorest countries on average have become larger rather than smaller, especially since the 1980s (World Development Report 2006, p.6, pp. 62 ff.)⁴. While these measures only show an increase in relative inequality, for a number of (especially African) countries also absolute poverty (the number of persons living on less than 1 \$ a day) has increased.

Also within countries, income distributions have moved further apart (ibid., p.7, pp. 28 ff.). While wi-

² Viz. e.g. the recent enlargement rounds of the European Union, the establishment of NAFTA, the discussions in Latin America about extending MERCOSUR and in Asia about closer monetary coordination between the major Southeast-Asian countries.

³ According to recent information, the average compensation package of U.S. managers relative to the average income of their employees has risen to a factor of around 400, while twenty years ago it used to be around 35.

⁴ This trend of rising inequality between countries is counteracted when China and India are included in the measure, on account of their high growth rates during the past two decades.

thin countries mechanism may exist to promote redistribution, on a global scale no such mechanism exists. If global growth goes hand in hand with an increase in poverty, both between countries and within countries, problems arise which might eventually threaten global well-being and further world integration. The increasing flows of migrants from the poorest parts in Africa, Latin America and Asia - be they „legal“ or illegal – attest to that. The attempts to build walls, to tighten legal immigration regimes, to patrol Africa from the air in order to prevent impoverished migrants from leaving their countries will not be able to stem this tide. Rising inequality, and especially, increasing (absolute) poverty is one of the major problems threatening further globalization. Global and national actions are necessary to counter increasing inequality in income and opportunity (ibid, p.206-223). The recent World Development Report shows that income inequality is not the end of the story: rather, income inequality is closely linked with inequality in opportunity: poor people have less access to schooling, to public services, to health provision; they frequently are more likely to suffer from environmental damages (inflicted by themselves, but more frequently by external developments) and other deprivations. This means that they tend to be frequently caught in vicious circle-type situations where one affliction prevents them from escaping the other one. This leads to frustration, deprivation, marginalization, illness, substance abuse and – sometimes – criminal and violent activity at home and abroad.

Due to China's and India's performance, growth since the nineties was fastest in Asia (over 6%); there the share of people living on less than USD 1 per day fell from 30% to 15%. National Income in Sub-Saharan Africa, on the other hand, fell during the last two decades and the share of people in extreme poverty rose from 47% to 49%. In Latin America, extreme poverty remained at around 11% and growth was slow, even though also there it has picked up during the past few years. While growth differences also persist throughout the developed world, with the U.S. growing stronger, Europe rather slowly and Japan only recently recording a reversal of its decade-old slump, unemployment in many regions has remained high and has led once more to protectionist tendencies (mainly, but not only) within the organized labor movements, especially with respect to immigration.

During the fall of 2006 some analysts began to see first signs that the recent boom in the world economy might soon come to an end (see e.g. Roach, 2006). This view is not shared universally, however. While this might help to reduce global current account imbalances, any global recession will hit developing countries

and the poor more strongly and at the same time increase protectionist tendencies.

Problem 2: Globalized financial flows increase the vulnerability of weak countries and threaten world financial stability.

Another problem lies in the mechanisms of globalization themselves: both increasingly volatile financial flows and trade relations increase the world's risks of crisis contagion. The integration into world-wide supply chains may set individual countries on a sustainable growth path, but also make them more dependent on their suppliers and their customers. Also, while liberalized capital markets have contributed positively to increased private capital flows both to developed and less developed countries⁵, sudden and unpredictable large inflows and outflows have at times overwhelmed especially developing economies. The crises in Asia in 1996, in Russia in 1998 in Argentina in 2001 and Brazil, the meltdown in Turkey in 2001 – and a number of other events are proof that the world has become more vulnerable to „systemic“ crises. If the countries and their economies are more and more integrated into global supply chains, if they are open to sudden financial inflows and outflows from rent-seeking investors, they become more vulnerable. If the same „risk classes“ of countries are suddenly hit by a more general risk-aversion of financial investors as a result of a financial crisis on a different continent, the world becomes more vulnerable.

In addition, poor single-commodity exporters (e.g. Burkina Faso as a cotton producer, but the same holds for a number of cocoa or coffee-producing countries and others) are faced by a sudden price reduction in their only export commodity, over which they have no control, they and the world become more vulnerable. Not even a sudden oil price boom is an unmitigated blessing for the oil exporters, since especially smaller ones may be faced by „Dutch disease“ phenomena and other absorption problems, where the price level for the rest of the economy is pushed up by the price increase in the oil industry and thus makes the country both inflation-prone and uncompetitive in other exports. This has made the world more vulnerable. Some of the large emerging countries, especially China and India, have not yet opened their capital accounts, thus will be less vulnerable.

Problem 3: Unsustainable current account imbalances threaten global economic stability.

While current account imbalances are a fact of macroeconomic life, mirroring savings-investment balances, for years the twin deficit of the USA (both in its fede-

⁵ Nearly 90% of all capital flows to developing countries today originate in the private sector (see Global Development Finance 2005)

ral budget and in its trade balance) and corresponding current account surpluses in Asia have had the OECD and IMF worried as having become excessive and unsustainable. While the USA, as the world's largest economy whose currency is both the most widely used international unit of account and reserve currency, has so far been able to finance its deficit (which has reaches more than 6% of GDP), this will have to unwind at some point. Some, especially Asian, countries have built up unusually high dollar reserve positions (e.g. China has nearly 1 trillion \$ or 35% of GDP in reserves) in order to shield themselves against a sudden reversal. Economists disagree on who will suffer most from this unwinding, but are in consensus that unwinding will affect the whole world economy with (few) winners and (many) losers. Even in a „soft landing“ scenario, adjustment costs will be high. It can be assumed with high probability that especially developing countries will suffer most, but also among advanced countries high adjustment costs are to be expected (Ahearne-vonHagen, 2005, p.2/3). These persistent global imbalances and their looming resolution contribute to making the world economy more vulnerable. This danger also applies to countries and regions with balanced current accounts.

Problem 4: Lack of global governance leads to inadequate provision of global public goods.

Serious voices claim that there is an undersupply of „global public goods“, such as a sound environment (with its effect on the world climate), such as global health (contagious diseases are devastating large parts of Africa and have spilled into other continents especially in Asia and Eastern Europe), global security (probably – and this is a hypothesis – as a result of the misery and desolation for large parts of the world's population) and terrorism, civil strife, and others. It is a fact that the negative effects of global public goods are correlated with income distributions: poor countries on average are hit more strongly by negative environmental effects (see e.g. nuclear testing, export of hazardous wastes, floods, earthquakes, rising sea levels), have higher morbidity rates and lower life expectancy (as a result of contagious (preventable) diseases, less public infrastructure)⁶. The old fairytale description „poor, but happy“ is just that, a cynical misnomer at worst.

As the national hold over environmental, social, health and security conditions has been weakened as a result of new communication and logistical technologies, inadequate provision has been made to establish global rules and institutions to provide adequate amounts and quality of such public goods. Cross-border

human activities have brought with them new cross-border dangers which can only be tackled at regional or global scale. The number of problems which can be dealt with only at a global level, has increased: environmental damage, especially air and water pollution, spread across the globe, climate change is but one form; the spread of weapons together with modern transport technology has increased dangers to human security and safety; international land transport spreads contagious diseases along major trucking routes, as does tourism travel by air and sea; liberalized financial markets have facilitated global money-laundering activities, and others more. While a large number of UN and other institutions attempt to deal with some aspects of global public goods, there is no systematic approach and a manifest under-supply of such goods (see e.g. Griffin, 2003, p.14).

The provision of global public goods requires funds, both for preventive, adjustment and mitigating activities and for fighting the effects of their inadequate supply (natural disaster relief, humanitarian activities, fight of preventable diseases, etc.). Discussions have arisen about separate financing instruments, e.g. global taxes, the installation of a global tax institution, also to prevent the effects of tax competition which leads to the erosion of taxes on businesses and capital income.

Problem 5: Without stable and foreseeable regulations and institutions global markets cannot function; ownership and compliance require universal participation and representation in rulemaking and institutions.

While there is widespread agreement that globalization can potentially be beneficial to many, more and more experts argue that gaps in the governance structure of the world economy are at least partly responsible for the increasingly negative realities and perceptions of globalization. There is widespread agreement that markets need stable governance structures in order to be able to function. This was already recognized by Adam Smith. While many governance institutions exist on an international or global scale, they have not been able to prevent some of the above-mentioned deficiencies from coming into being.

The hypothesis of this paper is that many of the problems of our globalized economy could be dealt with by economic policy, by appropriate rules and institutions – at least in theory (e.g. Habermas, 1998, p.167). Other problems are different from formerly “national” ones, since they have been caused by increased international activity, i.e. by globalization itself⁷.

⁶ See e.g. the country tables in the World Development Report 2006

⁷ J. Habermas shows insufficient understanding for the governance problems caused by globalization itself when he writes that global governance is domestic policy for and on the level of the whole planet (translation K.B.). In this quote (p.167) he seems to convey that global politics is only the sum of (previously) national policies, thereby disregarding the additional problems caused by globalisation itself.

There is no reason why all these problems could not be dealt with at a global level, given that appropriate political will for agreeing widely on appropriate rules and institutions can be generated.

It is the contention of this paper that if we want to avoid a reversal of globalization, if we want to avoid the loss in well-being which would be incurred by a „new protectionism“, we need to develop a set of rules and institutions as appropriate forms of global economic governance.

A simple, mechanistic analysis would say that as nation states have lost some of their sovereignty in policy-making as a result of globalization, international or supra-national institutions have to step in. An even simpler hypothesis would say that if we only let global markets develop and flourish markets would regulate themselves and provide the greatest good for the greatest number of people. Sober analysis reveals that markets need a stable framework, in order to be able to function properly. Only in such a framework can investors invest wisely, have a medium-term perspective, have individuals the incentive to accumulate human capital, does it pay to engage in long-term infrastructure projects.

Thus governance rules and institutions are necessary to guide the global market economy in a way which enables it to benefit all of mankind. This also means to set rules for the global market economy in such a way as to differentiate between the „initial conditions“ of the various national economies: competitive positions vary between e.g. Cameroon and Austria. In order to integrate e.g. Cameroon into the world economy, different rules, if the same principles, need to be applied to its development and trading regime than for Austria. The major arguments of this paper are that the present global, regional and national governance institutions are inadequate for putting the world economy on a sustainable path which enables it to provide the highest possible socio-economic welfare to as many people as possible for the following reasons:

- the present institutions were designed for an economic system (after World war II) which was much less interlinked – globalized – than today (see e.g. Ahearne, et. al, 2006, p.9); as a result they take inadequate care of interconnections and spillovers
- The present rules and institutions do not provide an adequate amount and quality of global public goods;

- a number of existing institutions focus one-sidedly on the interests of industrialized countries; they give too little attention to equity considerations worldwide and thus exacerbate some of the market failures the present system produces (Stiglitz, 2002, p.214; Gilpin, 2000, p.343)⁸.

This paper deals only with economic governance, because this is where the expertise of its author lies. Superimposed on that we need to realize that a flourishing economy depends crucially on a generally peaceful and sustainable world environment. If stability is a precondition for optimal investment and consumption decisions by individuals, war, terrorism, and civil strife are the biggest enemies of stable expectations and fruitful engagement in the economy. Thus, political scientists should also concern themselves (and they do) with problems of global political governance as a precondition for fruitful socio-economic activity.

⁸ Developed countries account for 17% of the overall vote in the Global Environmental Facility and in the UN itself, 24% in the WTO, 34% in IFAD, 48% in the IDB, 60% in the ADB and 62% in the IMF and the World Bank (Helleiner, p.13). In some of these institutions, specific industrial countries have real or de facto veto rights.

2. Which Functions Do We Need in Global Economic Governance?

In an ideal world, which functions would need to be performed by global governance institutions? In trying to answer this question, we need to have in mind that no supranational state exists to establish and enforce such rules and institutions⁹. Chances for such a state coming into being soon are close to nil¹⁰. This implies that all rules and their enforcing institutions need to be drawn up by voluntary agreements among the economic/political actors, i.e. nation state governments, inter-governmental (regional) groupings, global non-governmental organizations (NGOs), business and labor groups, etc. The naming of these actors does not necessarily imply that all of them will have equal roles in these institutions. It also needs to be mentioned that these different actors command different degrees of democratic legitimacy.

2.1. Macro-Economic Stabilization

The macroeconomic stabilization function in a national economy is provided by the interaction of fiscal and monetary policy. While on a global scale as of now no fiscal policy institution exists, in the after-war regime of 1944 the International Monetary Fund was established to balance out problems of excessive, non-sustainable balance-of-payments disequilibria by means of providing short-term liquidity to member countries. Today the IMF has 184 members and performs its tasks via mainly two activities: it monitors each member country's economy annually with respect to its macroeconomic and structural performance (the so-called „Article IV consultations“) and provides short-term financial aid (with „conditionality“) to countries with liquidity problems. Up to 2006 the IMF has performed its surveillance function mainly on a country-by-country basis (the only exception was the European Union, resp. the Eurozone which was surveyed separately), but given the large and growing global current account imbalances, during the Spring Meetings 2006 Managing Director Rodrigo Rato made the proposal to begin surveying also on a „multilateral“ basis, meaning to analyze the effects of large country imbalances on other countries. This was approved by the Governors

and thus constitutes a first step towards a surveillance of exchange rate and imbalance mechanisms. While the IMF is encompassing in membership (only a small number of countries are not members) its mandate has been limited. An earlier attempt (launched in 2000) to establish some kind of a bankruptcy procedure for failing countries with large debts to work out (SDRM) never took off; a substitute procedure, to promote the use of collective action clauses (CACs) in international bond offerings on a voluntary basis, has not been tested yet in reality and is likely to have at best only limited effect. As a result of these failures to help heavily indebted countries to work out their debts in an organized manner (and to prevent free-riding by powerful creditors), the IMF also participated in the much more limited MDRI initiative (Multilateral Debt Relief Initiative), launched by the British G-7 Presidency in 2005 at the Gleneagles Summit.

Another institution in the international monetary field is the Bank for International Settlement (BIS) in Switzerland which deals with central banks only and has 58 members, including the European Central Bank. BIS functions mainly as a settlement and rule-setting institution for the supervision of national financial systems (banks, insurance companies) and has been able to establish new risk-weighted capital adequacy rules for banks as a tool to make national financial systems more resilient to financial shocks.

The more recently established Financial Stability Forum (1999) with its secretariat run by the BIS is mainly concerned with supervisory questions of the financial systems of its member countries. Its membership is heavily weighted towards developed countries. Complete lack of or inadequate representation by developing countries in institutions like the BIS or the Financial Stability Forum has been criticized widely (see, e.g. Kaul, Griffith-Jones, 2003).

Of these institutions, the IMF has the widest mandate. However, in contrast to a national central bank, the IMF has not been given the mandate of a lender of last resort for the world economy as a whole. Its systematic analysis of global imbalances and thus exchange rate questions has only recently been given the go-ahead. Since it lacks a counterpart on the fiscal policy side, the macroeconomic stabilization function of

⁹ This analysis seems to imply that national governance all over the globe is „perfect“. This is obviously not true for weak states, even more for failing and failed states, but also temporarily for developed countries where party-political squabbles lead to impasses – as we observe today e.g. in a number of Central European states. Even functioning nation states have very different leverage with respect to international issues and global negotiations.

¹⁰ Already on a more homogeneous and smaller scale, namely the European Union, the attempt to establish the recent „Constitutional Treaty“ was rejected by referenda in two founder countries of the EU.

the world economy remains woefully inadequate and geared towards the (very important) financial sector. The distribution of voting rights and board representation make the IMF weighted towards the industrial countries, with inadequate representation – and thus say in policy matters – of emerging and developing countries.

The crisis history of the past two decades proves that present institutions have not been able to stabilize the world economy. On the contrary, crises have been deeper and more frequent than at any time in recent history. The welfare losses in the countries affected most strongly (among them large countries like Indonesia, Thailand, Mexico, Argentina, Brazil, Russia) have increased poverty rates and have destroyed many previous development gains. The present current account imbalances, the large fluctuations in exchange rates, especially those important for international trade and transactions, the large and sudden money flow fluctuations – all these attest to the need for more effective macroeconomic stabilization as a precondition for world economic development.

2.2. Closing the Poverty and Welfare Gap

The stability of the world economy is not only threatened by inadequate macroeconomic stabilization, but also by the widening gap between the large number of developing and the small number of rich countries. Effective development institutions are necessary to bridge this gap. The World Bank Group was established (jointly with the IMF) in 1944 in Bretton Woods, New Hampshire, at that time as an institution to help finance the reconstruction of war-torn Europe and Japan. Only in the 1950's did it turn into a development institution proper, extending loans and grants to poor countries and – increasingly – giving advice and technical assistance to its clients, in order to manage the transition to sustainable market economies. While the World Bank Group has also, like the IMF, 184 members, of which around 140 are classified as developing countries, and works world-wide, the Regional Development Banks (RDBs) which were established later, have smaller membership. The major RDBs are the Inter-American Development Bank for Latin America and the Caribbean, the African Development Bank and the Asian Development Bank. A special case is the European Bank for Reconstruction and Development (EBRD) which was founded in London after the downfall of Communism

in the former Soviet Union and its East European allies. All have regional and non-regional members. In those banks the voting structure is more favorable towards the regional members than in the World Bank Group. This means also that less developed or emerging countries have more say in the governance and the policies of the respective bank. Next to these a whole host of other regional investment or development banks exist (from the Black Sea Trade and Development Bank, to the Andean Development Fund) with more limited mandates and less regional reach.

While there is an ongoing discussion, especially in the U.S., whether the World Bank Group should stay engaged with emerging countries and not restrict itself with giving grants to the poorest countries (which under normal circumstances are not able to pay interest on their loans and have to be debt-relieved repeatedly¹¹), apart from some NGOs there is no serious discussion to discontinue these development banks. Legitimate discussion items are the governance issues within these banks (including the voting structure, board representation, selection of top management) and policy directions (especially with respect to middle-income countries whose charges pay for most of the banks' administrative budget; and to vulnerable countries, especially those emerging from violent unrest; and to the breadth of the portfolio of projects undertaken by these banks), but their necessity of existence with a view to combat poverty and provide some global public goods is not really called into question. There is also widespread consensus that private sector development remains at the core of these banks' agenda for pro-poor growth, even though paradigmatic shifts have occurred over time about the appropriate role of the public sector in building a sustainable growth process. While during the 1990's the so-called „Washington Consensus“ (see Kuczynski-Williamson, 2002), the misnamed mainstream policy direction pursued by the IMF and the World Bank, called for large-scale privatizations of public enterprises, including utilities, during the past years a more realistic role for the public sector, especially with respect to providing infrastructure and utility services has been established as a policy direction. A topical discussion in these banks is – led once more by the World Bank, a reinforced role on good governance and fighting corruption as a central part of a successful development policy¹².

A large number of other institutions are engaged in development policies, from bilateral aid agencies in developed countries, to the EU as the world's largest donor. At a global scale the United National Development Program (UNDP) and a number of other specia-

¹¹ Viz. the recent HIPC initiative and the ongoing MDRI initiative.

¹² During the World Bank Spring Meetings 2006 the President was asked by the Governors of the World Bank to draw up a document how to integrate a good governance and anti-corruption strategy into the total framework of the World Bank. This is the major topic to be discussed during the Annual Meetings 2006 in Singapore in September 2006.

lized UN agencies (e.g. UNCTAD, UNIDO and others) are also active. While the UN also has offices around the world and cooperates with the World Bank and the regional banks, as well as with bilateral donors „in the field“, its governance structure is much more cumbersome, if at the top level more representative, than the World Bank Group’s – and its financial resources are by far lower. The UN organizations’ financial aid consists mainly of grants and thus they have no current reflows to be used for re-financing development projects, but rather rely on donors’ annual contributions. Together with the Bretton Woods Institutions which were originally designed to be part of the UN system, but have „emancipated“ themselves to a large extent, the UN Group was instrumental in organizing the Millennium Declaration (see United Nations 2000), the Financing for Development Conference in 2002 and the setting up of the Millennium Development Goals, a set of 8 quantitative development targets (sub-divided into 48 sub-targets, each with their own indicator) to be reached by 2015. World Bank Group and UNDP work closely together in the annual progress reports on the MDGs, but a certain rivalry, especially with respect to agenda setting hampers global development efficiency. The large network of specialized UN agencies, some of which have overlapping tasks, many of which are coordinated only insufficiently, has not proved a paragon of efficiency, clarity, quickness of implementation and accountability.

The historical shifts in the development paradigms pursued by the World Bank (and the UN) (see e.g. The World Bank. Its First 50 Years; St. Mallaby, 2004) show that approximately every 10 to 15 years a new paradigm assumes mainstream status: While in the first decades of the WB’s existence investment push theories ruled the roost (especially with respect to physical infrastructure), later theories of freeing developing countries’ economies from the shackles of government intervention became prominent („Washington Consensus“); even later, but parallel came the ideas of first developing the underlying factors of development, i.e. education, the legal system, health and social sectors and – especially – good governance; and then the importance of participatory processes (PRSPs) and empowerment as well as preparing the ground for attracting domestic and foreign investment were stressed. This goes to show that certain „fashions“ exist in development thinking, but, more importantly, that there is no consensus on what constitutes effective development. Even today, views between, say, IMF economists, World Bank country directors, developing country specialists and Western NGOs, vary widely in how to make social and economic development a sustainable success. Thus, as a result, actual development policy is, to a large extent, a process of trial and error where context-specificity and the importance of functioning institutions are

among the very few basics on which (nearly) everybody agrees. The internationally agreed MDGs are today probably the smallest common denominator on what constitutes development, even though the approaches to reach these targets vary widely.

Both the IMF and the World Bank suffer from insufficient representational power of less developed and transition countries, both in a formal (voting) way and in real agenda-setting influence. This is partly due to voting power being determined in the Bank by contributions, in the IMF by a complicated, outdated set of formulae which include – in a very non-transparent way – economic size, exposure to world trade and amount of reserves. Some of the recent prepayments of the largest clients (who are also shareholders) in both institutions – which threaten the future income base of the BWI – have been interpreted as partial reactions to the (perceived or real) lack of influence on the agendas. The attempts by Asian countries to form stronger regional alliances among themselves in the aftermath of the Asian crises of the late 1990s, which included considerations of currency unions and/or the creation of an Asian Monetary Fund, have weakened global macroeconomic governance.

The manifest fact that global economic growth has not closed the poverty gap, that some countries, especially, but not only in Sub-Saharan Africa have falling living standards, is proof to the need for more effective developmental efforts – and institutions.

2.3. Free and Fair Trade and Transnational Investment with Benefits for All

The failed early attempts to establish, along the IMF and the World Bank, an International Trade Organisation were counteracted by the success of the General Agreement on Tariffs and Trade (GATT) with its several “rounds” of specific agreements. It has led to external trade growing much faster than world GDP (quote), to an unprecedented integration of a number of export-promoting countries, especially in Southeast Asia, into the world economy and, finally, in 1995 to the establishment of the World Trade Organization (WTO) which, unique among international economic institutions, managed to install a conflict resolution system of some sort to sanction violations of its rules. While the WTO itself does not sanction violations, it rules effectively that the injured country may levy retaliatory measures against the violator.

It is a widespread consensus that for less developed countries sustainable development requires the country to participate in the world trading system,

that it must open its economy to international trade for private sector growth. While all successful countries which have made the transition towards sustainable growth and development have opened up to trade, not all open countries have developed. However, none of non-open countries has made this transition. The public discussion revolves not so much about this consensus, but rather about the speed, sequencing and conditions of opening previously closed countries to trade. While as part of the “Washington Consensus” an open trading system “ohne wenn und aber” was the international institutions’ credo during the eighties and nineties, today a more reasoned approach, choosing opening strategies carefully depending on each country’s state of development and context, is taking hold.

Still, the demise of the most recent trade round, the Doha Round, which has been dubbed “Development Round”, shows that the merits of free trade are not yet well understood by all participants. This especially refers to the strong agricultural lobbies in the advanced countries which have prevented their governments/representatives from making substantial concessions to emerging and developing countries in this field. It must be understood, that most developing countries have mainly agricultural commodities to export and thus their access to industrial countries’ markets, the elimination of heavy subsidies to agriculture, are of extreme importance to them.

It also needs to be mentioned that the WTO has met with the largest demonstrations by mainly Northern NGOs, much stronger than meetings of the G-7, the IMF and the World Bank. The reasons for this are not quite clear, but seem to signify the importance which (hopefully) well-meaning NGOs put on the issue of free trade. They demand rather the implementation of the concept of “fair trade” which so far has not really been spelled out exactly, beyond meaning that developing countries should be able to fetch a “fair” price for their goods. Part of the criticism against the WTO also rests on the fact that the WTO – in the eyes of its critics – has a too narrowly defined agenda, especially not dealing with issues of labor and social standards and environmental concerns. While nobody would deny that trade has significant influence on these two areas, there is the legitimate question of which organisation should deal with these issues: if e.g. core labor standards are left to the International Labor Organisation (ILO) and environmental issues to the UN Environmental Protection Agency (UNEP), without any organisation dealing with the interlinkages between these areas, much of this criticism must be seen as valid. On the other hand, following some of the discussions of industrial countries’ labor unions on the need to e.g. restrict free trade to

those countries which have the same labor conditions and wages as we do, would lead an objective observer to question where protectionism starts and how developing countries should ever be able to take part in the international trading system. Taken to its extreme, this would mean that only some OECD countries should trade with each other, and developing countries only with other developing countries at the same level of development – a perversion of the concept of free trade.

Another problem deals with the rules pertaining to Foreign Direct Investment. FDI’s role has increased significantly during the past two decades, from 0.5% of world GDP in 1982 to 1.6% of world GDP in 2004, and from 2.5% of world investment to 7.5%¹³. While most FDI still occur between industrial countries, an increasing portion goes to emerging and to a much lesser extent to developing countries (the share of developing countries FDI inflows in 2004 was 36%, highest since 1997). The formation of global supply chains is one of the characteristics of globalization. FDI play an important role for development, because they transfer finance and investment to LDC, bring in technical, production, distribution and organisational know-how and tie LDC into the world market. It also needs to be noted that FDI constitute the most stable part of LDC financing (see Global Development Finance 2005). The problematic side of FDI is that because of lack of own investment LDCs desperately attempt to attract FDI – and as a result are in no position to impose restrictions, local customs, etc. on these firms. While in industrial countries, local authorities, especially competition authorities, attempt to harness the negotiating power of transnational corporations (TNC) and hold them to the local regulatory regime as a matter of course, LDCs most frequently do not – and cannot. Many LDCs do not possess competition regulations which attempt to prevent abuse of market power at the expense of local competitors and customers. On the contrary, in order to attract desperately needed investment, they frequently relax the already weak rules which bind local firms. As a result, critics argue that TNC in developing countries frequently abuse monopoly power, exploit workers, violate environmental concerns, refuse to reinvest profits, etc.

While at present no global multilateral investment agreements exist¹⁴, a large number of bilateral agreements attempt to regulate such investments, but are mainly geared towards securing the rights of the investing firm, but not those of the interests of the citizens or competitors of the country in which the investment takes place. A more symmetrical regulatory system on a multilateral scale could on the one hand secure a

¹³ These data are from the World Investment Report 2005.

¹⁴ An attempt by OECD countries in 1999 to establish a Multilateral Agreement on Investment (MAI) failed.

level playing field, prevent a „race to the bottom“ by investment-hungry LDCs, safeguard the rights of the investing firms, in short act on a wider scale than an (also lacking) global competition authority.

One problem related to FDI is the lack of a global competition authority. As a rule, TNC are large companies, sometimes several times the size of the economies of the countries in which they invest. They may extract significant preferential treatment for their investments, an abuse of market power which frequently, especially in LDCs, goes unchecked. Large international mergers may put fragmented suppliers in very weak positions vis-à-vis the market power of the investor. If in LDC recipient countries competition authorities do exist at all, they are weak, and frequently incapable of implementing their laws, or under strong pressure from domestic economic/political interests to accept the terms of the investing TNC (see WTO 2002, p.6; Kovacic 2003, p.5). Kovacic's solution to the gaps in competition policy would not be a global competition authority, but an extension of the existing network of national authorities (the International Competition Network comprising over 80 jurisdictions) and incorporating the WTO and OECD know-how and activities, including technical assistance to LDC authorities (Kovacic 2003, p.8). An UNCTAD model law comprises the core elements for competition regulation: prohibition of cartels; case-by-case control of vertical restraints, especially by dominant firms; control of concentrations through mergers and acquisitions.

2.4. Adequate Provision of Global Public Goods, Linking Economic, Social and Environmental Global Developments

Climate Change and its effects, the prevalence and re-emergence of devastating contagious diseases all over the world, increasing and widening terrorist activity, the spread of drug use, the increasing lack of access of populations to safe drinking water – all these attest to the fact that global public goods are in short supply. While a number of UN-led specialized agencies deals with some of these aspects, and a number of private initiatives outside the UN and the established multinational bodies is active in some of these fields, it is clear that both their funding and their activity levels have not been able to prevent a worsening in most of these mentioned areas in the recent past.

While on occasions natural disasters lead to encouraging waves of solidarity (viz. the Tsunami catastrophe in 2004/5), such efforts are mainly event-driven and not persistent. For a number of these afflictions,

preventive action would require better organisation, streamlining activities and more money. It would seem that the present way of financing the UN and its agencies is not providing adequate funding, thus new ways need to be explored, in order to put funding for global public goods on a predictable, sustainable and adequate basis. This is where some proposals come in for levying global taxes, on cross-border financial transactions („Tobin Tax“), on (so far non-taxed) kerosene (airplane fuel), or other tax bases. Ideally, such a tax could also have positive side-effects on global welfare, i.e. from a Tobin tax its proponents expect less fluctuations in financial flows, from kerosene taxes less burdens on the environment, etc.

While any new tax is politically difficult to obtain approval, it might be preferable to think of surcharges on existing taxes (e.g. on consumption, or on „bads“ such as alcohol or tobacco). Of course, problems of political acceptance, world-wide levying, preference-setting for distribution, prioritization, etc. – all these would need to be considered, together with the institutional setup which could optimally raise the taxes and distribute them in an acceptable manner.

Some of the global public goods also pertain to the social sector and the labor conditions. Many of these are closely linked to the economic global governance agenda and cannot be dealt with independently of those. Thus, either interlinkages between the economic, social and environmental governance issues must be established, or, alternatively, an overarching institution under whose umbrella all these issues are joined together (like the cabinet meetings of national governments).

On an institutional level, the Zedillo Report (2001) maintained that „lack of agency to provide some global public goods“ (p.23), which was not corrected by the „innumerable global networks which are coming into being“, which only amounted to „networked minimalism“ (Langmore, p.3).

Theoretically, the ECOSOC, the Economic and Social Council in the UN Framework provides this overarching viewpoint. Its weaknesses however, prevent it from playing an effective role. One weakness is its composition of the UN Ambassadors who are not specialists; a second one is its cumbersome procedures; a third its lack of implementation capacity. Thus, it remains a „caller in the desert“, a powerless institution pretending to exert global governance, but without real power. New ways must be found.

On a more informal level, the G-7 (now frequently with the addition of Russia as G-8) could provide some over-all governance. This group of the 7/8 most advanced economies (USA, UK, Germany, France, Italy, Canada, Japan, Russia) meets semi-annually in Finance Ministers' composition (also in Heads of State and other ministers) and has recently dealt with a numb-

er of global economic problems, most recently in the fall of 2005 – under British leadership – even dealing with the poorest countries’ debt problem. However, since they are composed only of industrial countries (possible exception Russia), they lack legitimacy in the eyes of the world community, especially of the developing and emerging countries, to deal with truly global problems. But in spite of their lack of legitimacy, since they comprise most of the most powerful (in terms of politics and the economy) countries in the world, their contribution – while mainly dealing from developed countries’ point of view and not concerned with social or environmental problems – cannot be dismissed in any discussion of global economic governance.

2.5. Global and National Institutions and Legitimacy

While national sovereignty over economic and social decisions has been eroded as a result of the globalizing economy, clearly for a long time to come the nation state will remain the central locus of (national) decision-making. While there is widespread consensus that gaps in global decision-making need to be filled, there is also consensus that appropriate relations between global, regional, national and sub-national governance institutions need be found. As long as national governments are accountable to their citizens through election processes national politicians will prioritize the needs and requirements of their citizens.

Thus, in a formal sense, direct accountability and legitimacy will remain lodged at national levels, but the fact that global activities – or economic activities with externalities – affect individuals’ lives more and more requires a new division of labor between the different political entities. As a basic principle, subsidiarity serves us well, i.e. that political decisions should be taken at that level which is closest to the citizens concerned and which has decision-making capacity for the problem in question. Thus, many decisions of everyday life, e.g. the provision of local public services, should be taken at the local level; decisions which affect all inhabitants of a specific country, e.g. in which way to structure the pension system, at the national level, and those which concern regions, continents or the world as a whole (climate change, poverty alleviation, the fight against contagious diseases, fight against terrorism) should be taken at the global level by global institutions.

One problem with such latter decision-rules is the legitimacy and accountability requirements. On the one hand, it would not be possible that all citizens of the world elect the UN Secretary General, the World Bank President or the IMF Managing Director; this needs to

be effected by indirect mechanisms – in the same way that delegations to certain bodies exist already today at the national level in many decision-preparing and –making bodies. The inclusion of non-governmental institutions (civil society organizations) into these global decisions is, however, crucial to the acceptance and binding power of global decisions. The major problem lies in how to select the “relevant” NGOs, how to legitimize them, since their representatives are not elected in a general election and, for this reason, can quite easily be “captured” by special interest groups, especially those with financial means available.

One could imagine, as is e.g. done in the regular twice yearly meetings between World Bank Executive Directors and NGOs (before the Annual and the Spring Meetings), that a self-selection process is imposed on NGOs, i.e. that their organisations themselves select specific NGOs attending decision-preparing and –making meetings, depending on the issue at stake. All stakeholder processes encounter this problem, thus it is not unique to Global Economic Governance. Thus ways can be found to use the inputs from NGOs – which frequently do not enter the positions developed by the “usual” government representatives – in order to improve the quality of global decision-making.

A more visionary proposal comes from J. von Uexküll: Since the world’s populations have lost confidence in politicians and institutions, „we need a World Future Council of around 100 persons who still command confidence“ (Uexküll 2006, p.37). This Council would comprise „planetary elders“, experienced persons from all over the world and „leaders of tomorrow“, path breakers, pioneers, youths, all of whom are known for their integrity (p.37). This proposal is somehow reminiscent of Plato’s philosopher kings, persons who pursue the interests of the world at large without being influenced by particular interests.

3. A New Proposal for More Effective, Representative Global Economic Governance¹⁵

„Today’s global problems cannot be solved by yesterday’s institutions“ (Linn-Bradford, 2006, p.1). Such institutions must be „more representative, more inclusive, thus more effective“ (ibid. p.1). A functioning system of governance must provide appropriate rules and institutions to deal with global economic problems and with their connections to social and environmental problems. In order to find world-wide acceptance and legitimacy, but also in order to be able to deal with intricate problems both from the point of view of advanced, emerging and developing countries, the governance structure must in some way be more encompassing than the present patchwork, both in a representational sense, but also in terms of real influence. Since international NGOs are among the most vociferous and influential critics of the present system but represent frequently innovative solutions to global problems, they should be included into the governance structures.

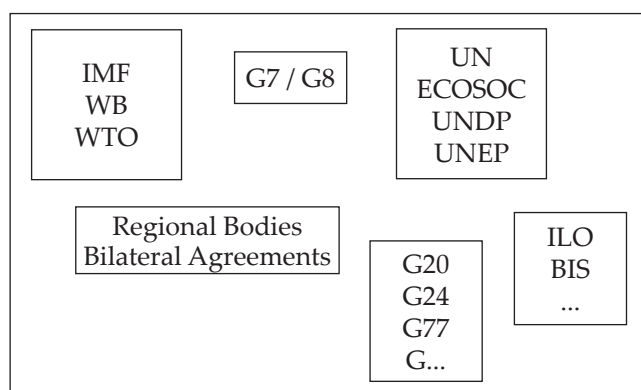
Political and decision science has recently developed the concept of „clumsy“ institutions which are defined as arrangements which attempt to include all types of voices, accept the principle of contestation as a result of plural policy responses and rely on quality of communication as an instrument to accept different viewpoints as „legitimate“ (see e.g. Verweij/Thompson, p. 19).

There is the legitimate question of whether and how to integrate existing institutions into revamped governance structure, whether to concentrate efforts on reforming existing institutions or overcome their weaknesses by new structures. In addition, the question arises of where to start, since it seems impossible to cover the whole wide field in one big effort: a sober glance at the world as it is today shows that there is no political will, let alone consensus, on how to approach this issue. While for this reason a “big bang” approach (à la Bretton Woods in 1944) is illusory, we need to have a clear sense of where we want to end up, in order to avoid fruitless cul-de-sacs.

The present proposal deals exclusively with institutional structures and leaves out issues of substance. Some of the substantial issues to be solved by global rules have been mentioned above in Chapter 2. Concentration on the design of inclusive, efficient and ef-

fective institutions will form an important first step. In the ideal world, these institutions will then approach the burning issues at hand and – hopefully – find solutions acceptable to all interests in an equitable way.

Figure 1: A Stylized Presentation of Existing Global Governance Institutions



Looking at existing institutions one can easily see that tradeoffs exist between degree of representativeness and efficiency in decision making. Take as an example the United Nations and the World Bank: while membership in both institutions is nearly identical (some UN members are not WB members) the one country – one vote rule in the General Assembly leads to very lengthy discussions, very cumbersome decision making and many inefficiencies. In the World Bank, as in the IMF and the regional development banks, as a rule countries are grouped into “constituencies” comprising from between 5 and 24 countries, each constituency group represented in the board of the institution by one executive director. The 24 directors have a much faster decision-making record than the UN, in spite of all frequently justified criticism about inadequate representation of developing countries, domination by advanced countries, especially the US, micro-management, etc. But it is a fact of life that deliberations among 25 (including the President of the Bank) are more efficient – and effective – than among 200 ambassadors. Constituency groups require the Executive Director to find common positions, thus they delegate much of consensus-building into the informal procedures agreed upon by the constituency member countries¹⁶.

¹⁵ In this chapter I draw heavily and eclectically on some of the proposals by others outlined above and in the Appendix. I will not quote the authors again, because I will also combine a number of separate proposals into one coherent one.

¹⁶ It should not go unmentioned here that the composition of the Bretton Woods constituency groups owes much more to historical accident than to clear logic. A clearer regional mix might be preferable, and it would be important to also turn the single-country constituencies (USA, UK, Germany, France, China, Saudi Arabia, Japan) into multi-country constituencies.

A re-engineered system of global economic governance also has to consider transparency and accountability problems. While efficient decision-making processes are desirable, their implementability depends on their acceptance by countries and groups affected by the decisions. This principle would militate for very open and transparent decision-building processes and clear lines of accountability. This is a difficult task for global institutions, but absolutely necessary. The example of the European Constitutional Treaty being rejected in two core countries of the EU shows the destructive effects of intransparent processes with insufficient stakeholder inclusion.

The major deficiencies in global economic governance were identified as fragmentation into too many uncoordinated institutions, gaps in solving problems, especially with respect to macroeconomic imbalances and increasing vulnerability of less developed countries, the adequate provision of global public goods, lack of representation of the interests of less developed and small countries in existing institutions, lack of overarching coordination linking economic, social and environmental problems. These gaps have left the world, and especially but not only its poorer populations, more vulnerable to economic crises, prone to increasing social and political tensions on account of widening income gaps and impoverishment of the majority of the world's population and vulnerable to man-made deteriorations of the environment.

Constructive proposals have been made during the past years, but decisive progress is still lacking for a variety of reasons¹⁷. The present geo-political climate does not seem to generate sufficient political will towards redressing these gaps. Still, the writings on the wall about the effects of these gaps are becoming clearer every day: the migratory catastrophes in the Mediterranean and on the Southern border of the U.S. and parts of Asia, the increasingly unstable political situation in the Middle East and parts of Asia; the increasing damages caused by climate-induced natural catastrophes and environmental degradation; the recurring financial crises with contagion effects in the speed of lightening around the globe, increasing trafficking in humans and drugs¹⁸, terrorism, among others.

The governance problem is clearly not only one of a lack of appropriate institutions (which is what we mainly address here). It is probably also one of the substances of the global development process, i.e. one of rules. Helleiner rightly argues, however, that care

must be taken that such rules do not attempt to „over-harmonize“ and propose „one size fits all“ approaches, but need to take account of the tremendous diversity in the world economy (Helleiner, 2000, p.6). While the appropriate way would be to devise “optimal” rules and then design the appropriate institutions to draw up these rules and implement them, this paper goes the contrary way by concerning itself more with “form” than “function”. Politically, this is a „chicken and egg“ problem. It is my contention that more representative and encompassing institutions will be better able to formulate the appropriate rules for the global economy. Thus, this is where we should start.

In what follows I will follow a pragmatic approach. But even a pragmatic approach presents a staggering number of hurdles and difficulties. The governance model which I propose comprises two echelons: a political Steering Institution and a number of Thematic Network Institutions, each dealing with specific problems. This clear separation between the strategic political guidance and the sector-specific deliberation and rules-designing bodies will not over-burden world leaders, but give them the chance to set definite goals to be worked at by expert committees which represent a large variety of expertise and interests.

3.1. An Enhanced G-20 as Global Governance Steering Group: „L-20 plus“

The existing G-20 Group¹⁹ is to be complemented by an „L-20 plus Grouping“ which comprises the Heads of State or Government of the G-20 country. This group should be tasked by the UN General Assembly to develop a strategy and supervise and monitor the global governance reform process from a political point-of-view. The present G-20 membership should be enlarged to include 3 less or least developed countries, one each from Asia, Africa and Latin America; this alternative would be preferable to one mentioned sometimes where the LDCs would be represented by the presidents of the respective regional development Banks, since their representation would be more immediate. As advisory members, the heads of the IMF and the World Bank and the major regional development banks (African, Asian, Inter-American DB) could be invited. In the lon-

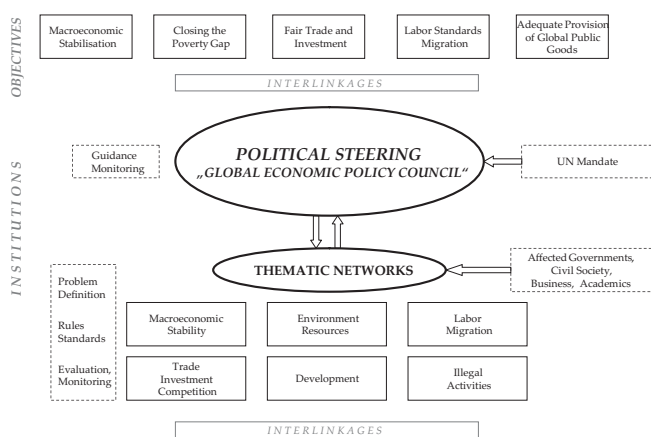
¹⁷ In addition to some of the proposals mentioned above, there are several more: They go from extending the G-7, the G-20, to „new diplomacy“ where national civil servants and budgets are designated for international cooperation, the creation of a World Parliament, an Economic Security Council of the UN, extension of G-7 by representatives from the most important regional economic associations; reform and streamlining of the UN ECOSOC, and others. A large number of UN-led Commissions (from the Brandt Commission to the World Commission on the social dimension of globalization) has over time dealt with similar governance problems (see Helsinki Process, 2003).

¹⁸ Rischard (2003) quotes estimates of sales of illegal drugs from between 150 bill \$ to 400 bill \$, about the same as tobacco and alcohol together (p.154).

¹⁹ The G-20 comprises Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi-Arabia, South Africa, Turkey, United Kingdom, United States. The EU is represented by the respective Presidency Country.

ger run, the four EU members could be represented by the EU Presidency, thus getting the total number once more down to a better manageable L-20. The (relative) small number of a maximum of 23 members (membership could be enlarged, but should for efficiency reasons not go beyond a maximum 25) would make such a Group effective. The „L-20 plus“ should have a small permanent secretariat which prepares the meetings and organises the work. Leadership in the L-20 could be on an annually rotating Troika basis, guaranteeing continuity and representativeness (Linn-Bradford, 2006; Fues, 2005, p.235).

Figure 2. A New System of Global Economic Policy Governance



The initial task of the L-20 plus would be to devise a road map of which issues to tackle, to distribute the work, etc. Once running, its most important task will be to ensure policy coherence among subject matters (networks), to give political direction and guidance and to advise the thematic groups (see 4.2.), especially where cross-cutting issues touching on several of these groups exist, and to make sure that agreed rules are implemented and to provide emergency guidance in case of crises.

There should be 2 annual summit sessions, where at least one day would be set aside for the leaders to talk among themselves (only interpreters present), so that informal discussions of substance are possible.

3.2. Thematic Networks for the major governance issues

The idea of some kind of „world government“ has received an additional blow with the negative referenda

by France and Netherlands on the EU constitutional treaty. In addition to the (at present) political impossibility of any centralized quasi-governmental global institution, global problems do not lend themselves to centralized decision-making, since they have to combine the widely divergent interest of a large number of countries in very different circumstances in addition to the need to use the globally best available know-how as a basis for their work. A very promising idea is to establish global thematic networks²⁰ to work on the most important problems requiring global governance²¹:

- Macroeconomic stability (exchange rates, balance-of-payments imbalances, financial sector prudential regulation, tax harmonization);
- Development (poverty reduction, inequality, sustainable growth, MDGs);
- Trade, investment and global competition issues (e-commerce, FDI, services; abuse of market power, cross-border M&A);
- Labor and migration (core labor standards, brain drain and brain gain problems, social sector);
- Environmental and health issues; access to vital resources (esp. water)
- Illegal activities (terrorism finance, drug trade, human trafficking, money laundering).

For each „problem area“ one Network is created with as little complexity and hierarchy as possible and with the ability to discuss and decide quickly. The advantage of single-issues thematic networks is that they could concern themselves with the issue at hand and not fall victim to „negotiation packages“ with non-functional linking of issues unrelated to each other (Griffin, 2003, p.11). It might be appropriate to establish an overarching network („network of networks“) which deals with the interactions between the individual topics.

Networks should be open as a matter of principle, so as to include and incorporate all relevant knowledge available. Networks have the advantage to be able to mobilize the best knowledge from different areas, to mobilize interest and ownership around the world on different issues. Membership in the Networks would come from 3 areas: governments of countries which are especially affected by the thematic problem or have specific experience; civil society representatives from all parts of the world; firms and academia with specific expert experience. Thus, these networks are not primarily interest-related lobby groups, but rather working groups devising state-of-the-art rules and norms for global problems.

The Networks would have to fulfil the following tasks sequentially: definition of the problem; design of

²⁰ The idea of this proposal I owe to J-F Rischard (2003), a number of other authors have advocated stakeholder approaches to governance problems.

²¹ The list which follows is open to negotiation and can certainly be extended; on the other hand, the list of „official“ Networks should not be too large, in order not to become unwieldy. They should be defined broadly enough to cover the global problem at hand in extenso.

appropriate rules and norms; implementation and evaluation. The „rules and norms“ would not have legal status, but rather would need acceptance and ownership both of the countries involved and of the individual global institutions which need to be involved in the formulation and implementation of these norms. The Networks would report to the L-20 who would provide the political backing to the Networks' work.

One could imagine the first phase (identifying problems, organizing membership) to take up to one year, the second one (design of rules and norms) 2-3 years; the third one goes on interminably: For this last phase new members could be invited and the Network could evolve into a kind of quality assurance group or rating agency which evaluates global developments and individual countries' compliance. During this phase the Network would also assess the adequacy of existing norms and compliance mechanisms and adjust them as appropriate.

The leadership of the Networks would have to be carefully chosen, rules of procedure devised and schedules and compensation set. If successful, this new governance structure could (slowly) replace some of the existing institutions, mainly by making them obsolete and by absorbing them into the new structure.

It could be useful to establish network secretariats, consisting – where available – of the existing global institutions, e.g. from the IMF for Macro Stability, from the World Bank for development, from WTO for trade and investment issues, from ILO for labor and migration, from UNEP for environmental issues, etc. This process of inclusion will, by necessity, be different between networks, depending on how well existing institutions function. While some of them function quite well, for some areas (e.g. global competition, migration) this is not the case. The Network of Networks could be served by a secretariat from the UN. Each network would also establish an internet forum, a global electronic „citizens assembly“ where all deliberations are posted, comments solicited and polls on pertinent issues conducted.

It is important to note that membership in the networks will not be fully representative in the sense that all countries are represented in each network, but that members are chosen on the criterion of being especially affected or having special knowledge.

Rischarde proposes for the first phase of the networks a membership of 10, for the second phase of 100, for the third phase of 1000 (Rischarde, p. 220).

3.3. Some Open Questions

How could such a structure work and in how far would it be better than existing ones?

3.3.1. Representativeness

While the L-20 plus is obviously less inclusive than the UN or the BWI, it is rather representative of the major regions and development states of the world, such that a wide variety of interests are represented. Fixed membership would increase continuity of the global governance project; rotating membership would increase global ownership. A mixed structure à la UN Security Council would, however, create two types of membership where the rotating ones would always be in a weaker position. This is to be avoided, since in this „open“ structure country ownership and wide acceptance are key pre-conditions. One could imagine each L-20 plus member to inform and canvass countries in its region or otherwise and obtain a „quasi-mandate“ from them, but also be accountable to them. In the longer run, one could imagine membership to be composed of representatives from regional blocks, i.e. EU, ASEAN, Union of African States, USA, Mercosur, etc., where each block determines its representation internally. Such a structure would „marry“ national with regional and multilateral considerations and create an efficient political super-structure.

3.3.2. Accountability

L-20 plus could be accountable to the UN General Assembly to whom it would report once a year. It would be important to install mechanisms which (also going beyond the Networks) would include civil society organisations, labor, and consumer and business groups into accountability fora. Internet technology could be used to inform „electronic citizen groups“ of the goings-on and decisions of both the Networks and the L-20 plus.

The Network membership should explicitly include civil society organisations and organize inputs from a wide variety of interests. Each Network would install publicly accessible internet platforms into which citizens from all over the world could bring inputs.

3.3.3. Transparency

It would be absolutely essential to maintain full transparency of the processes and preparatory structures. While confidentiality and informality of G-20 plus meetings is necessary in order to enhance open discussion among the members, the larger part of their meetings and the deliberations of the Networks must be open to the public via video transmission into the internet. Disclosure and public information policies must be adopted in an efficient manner.

3.3.4. Relations to Existing Global/Regional Institutions

The thematic Networks must be required to include the respective global/regional institutions in their field into their deliberation and decision structures. This is abso-

lutely necessary in order to gain access to the know-how of these institutions, to obtain their cooperation in implementation, and to avoid duplication. Existing institutions would have to accept the organizational leadership of the Networks and cooperate with them in an open manner. The proposal of this structure does in now way obviate the proposals for a reform of the existing global institutions, especially the UN and the BWI. Especially BWI reform must continue, in order to assure better representativeness, taking account of both the recent fast growth of a number of countries and the diagnosed gap in adequate representation of the poorest and least developed countries in these institutions.

Appendix: Review of Some Existing Proposals for Global Governance Reform

A1. WB and IMF reform

The most often-cited reform is that of the Bretton Woods Institutions, the International Monetary Fund and the World Bank Group. Reform proposals basically extend to two areas, their subject matter and their voting and influence structures.

IMF: There is widespread agreement, even among critics, that the IMF was a very successful organization until the breakdown of the Bretton Woods System, i.e. as long as fixed exchange rates and capital controls were the dominant financial sector regime (see e.g. Hufschmid, p. 123): this success was seen in an astounding rebound from the second world war of the world economy. The most vociferous voices on the left would opt for a re-regulation of financial markets, the re-introduction of capital controls, more own country-specific macro-economic strategies, a pre-dominance of investment in productive capital instead of financial capital (Hufschmid, p.130/131). A more conservative criticism comes e.g. from the U.S. Congress and the so-called Meltzer-Report initiated by it. This report looked at the IMF, the World Bank, the major regional development banks and the WTO. It was issued in early 2000 and caused a great stir. It recommended that the IMF should restrict its lending to providing short-term liquidity to countries in trouble, the World Bank lending should be limited to low-income countries lacking access to capital markets (IFC –International Finance Corporation – and MIGA – Multilateral Investment Guarantee Agency – should be closed down; grants should replace loans; no more finance for countries above 2.500\$ p.c. income), the World Bank should pull out of Asia and Latin America in favor of the Regional Development Banks, duplication of IMF and World Bank should be forbidden. While these recommendations were widely discussed, but never implemented, some of the recommendations keep creeping up, revealing the very critical position of the U.S. Congress towards the Bretton Woods Institutions.

On a more instrumental scale the discussion of voting rights and access to IMF resources in cases of crises („Quota issue“) has become more heated. The major problem there lies in inadequate representation of the less developed and emerging countries, the lack of change in governance structures to the rapid growth of emerging economies – and not least – to the charge of „over-representation“ of European countries on the boards of IMF and WB. While the EU, USA, China and Japan each have around 20% of world GDP corrected

for purchasing power, the EU has more than 30% of the votes and quota and 7 seats on the boards of the IMF and the World Bank, and has the right to nominate the managing director of the IMF; the US has 1 seat and 17% of the vote, China and Japan have one seat each and together 9% of the vote and quota (Pisani-Ferry and Sapir, 2006). So far Europe has reacted mainly defensively to calls for reducing its representation, relying on the fact that the required changes in the Articles of Agreement of the IMF need their consent. Pisani/Sapir (and many others) urge the EU to adopt a pro-active strategy, to unify their IMF representation, adjust their quota to their economic size and offer it to Asia (and possibly under-represented African countries) – with large political gains and the benefit of maintaining or strengthening the IMF’s role in crisis management.

The World Bank: The World Bank’s critics mainly criticize it for it having extended its portfolio under President Wolfensohn into too many fields where it had no comparative advantage, e.g. education, governance capacity building, legal reform, health reform, etc. Important NGOs criticize its “development paradigm“, i.e. the so-called Washington Consensus – which in the critics’ interpretation forces LDCs to open up their product and equity markets to industrialized countries’ firms, to eliminate vitally necessary subsidies in food and infrastructure services, to eliminate capital controls with their sometimes devastating massive inflows and outflows of volatile capital. Some critics want the World Bank to get out of middle-income countries’ lending and leave this to the private capital markets, concentrate on the poorest countries with grants instead of lending (see e.g. Einhorn, 2006, p.3; Meltzer Report 2000). Einhorn (2006) would shut down the WB operations in middle-income countries (IBRD) in the longer run; merge IDA (International Development Association) with IFC and MIGA to promote private sector activities „in novel ways“ and to also support initiatives for the global common.

The defenders of lending also to poor countries, however, point out that bank-type lending, even if heavily subsidized has a disciplinary effect on recipient countries and – in addition – make the poor-country arm of the WBG, IDA, more independent of the annual appropriation procedures of donor countries. The difficulties experienced during the most recent 2005 IDA replenishment, where a number of the largest donors did not maintain their share in IDA contributions, are proof to that effect. While it is true that the WB is engaged in too broad a portfolio (Bayer 2004), and in ad-

dition to its own operations, manages a large number of trust funds for other institutions (on health, on debt reduction, on environment and many others) this is also proof of the superior management and banking capacity of the WB assigned to it by the Trustees of these funds. Still, I would agree that self-restraint would strengthen the Bank significantly.

A more radical proposal (Fues, p.227) criticizes that the World Bank, and development policy in general, pursues a "Western", consumer-oriented development path for LDCs, which would exacerbate the already severe environmental problems and endanger global security. Fues proposes an global "contrat social" which balances the interests of industrial and developing countries, and permits participatory approaches to problem solving (p. 230), a replacement of the dollar as the world's major reserve currency by Special Drawing Rights, voluntary standards for transnational corporations, debt cancellations and more grants for LDC, plus – and this is an important new proposal – the inclusion of civil society into the major development organisations. (He is very brief on how this could be effectuated). Fues maintains that "only an integrated solution, dealing with ECOSOC, BWI and G 7/8 reform simultaneously, will be able to fill the governance gap in the global economy" (p.235, translation K.B.)

Another discussion goes in the direction of its cooperation, or better, division of labor, with the IMF, especially the fact that many of its operations are conditioned on existing IMF programs. This also implies that basically the World Bank takes over the IMF's macro-economic analysis and the macro conditions imposed on countries. It seems to me that more emancipation from the IMF would enhance the operations of the WB, especially when it comes to the trade-off between necessary government investments and stabilization needs: in some well-reasoned cases further government deficits might enhance an LDCs chances of entering into a sustainable growth path, thus "fiscal space" needs to be created – maybe sometimes against the advice of the IMF which prioritizes budget consolidation over growth prospects.

I would agree that both the IMF and the WB need to reform in order to remain relevant. Rich and poor countries alike need the BWI institution to globalize finance and to manage crises, to establish a minimum of global coordination (Woods, p.4). A principle of reform for both institutions must be to accept much more ownership by the countries the BWI are trying to help. For this, the BWI must listen more to the borrowers, streamline conditionality, and involve the borrowers more into decision-making (Woods, p.5/6).

The recent reform of the IMF which enables it to extend its surveillance function beyond individual countries to the exchange and balance of payment relations

between countries and country groups, is a step in the right direction, but more steps need to be taken.

In the IMF the problem of the predominance of industrial countries in the voting structure and the under-representation of many fast-growing emerging countries takes on additional importance relative to the WB, because in the IMF "quota", i.e. the amount of liquidity a country in distress can draw from the IMF is directly linked to the voting power. But in both institutions, the wish to enhance "voice and participation" of the developing and transition countries has been (unsolved) on the agenda for years. Basically, the voting structure in the BWI is still that of the after-WW II years and does not take account of many fast-growing countries' strength in the world economy, their relative reserve positions and trading strength.

Some proposals want a new quota formula, want a return to the much stronger weight of "basic votes" (their weight in toto has fallen over the years from about 11% to 2%) – which would give small countries better representation and would like to change the executive board composition, where European countries now hold 7 out of 24 chairs and the two Sub-Saharan African chairs have to represent 46 countries. The fact that both in the IMF and the World Bank recently many middle-income countries (whose debt repayments finance most of the administrative budget of these organisations, as well as transfers to IDA and the PRGF – Poverty Reduction and Growth Facility) have prematurely paid back their loans endangers the future income position of the BWI. Thus, they must make themselves more attractive to their potential clients (and co-owners) (see e.g. Griffith-Jones, p.10, Woods, p. 5). A recent Brookings Conference (2006) called for the executive boards to eliminate micro-managing, to focus more on strategic issues, to eliminate the virtual U.S. veto in board decisions, to introduce double-majority voting on important issues (majority of votes and countries), and also to open up the leadership selection process to the best candidates world-wide, whereas now there is a nomination "right" of the U.S. for the World Bank President and of Europe for the IMF Managing Director. Proposals also go in the direction of making BWI board sessions open to the public, make the voting of individual EDs publicly available, and also to eliminate the resident boards and replace them with non-resident directors, so as to limit their micro-managing and save costs.

One interesting proposal also goes towards establishing corporate governance best practices for minority (LDC) rights in the BWI and, among others, establish a separate "Borrowing Countries Audit Committee" which issues an annual report on the observance of minority rights in the BWI (Griffith-Jones, p.12). A similar proposal to mandate corporate accountability, also in

BWI, has been voiced by a number of NGOs (Global Exchange 2005). The Helsinki Process (see Sundman, 2006). Sees the agendas of the IMF, the WB and the World Trade Organization increasingly interlinked and asks for better cooperation and a joint annual report by these three institutions

Recently some movement has come into this debate insofar as there is general agreement to adjust some quota at the IMF during the Annual Meeting in Singapore (Sept. 2006) and embark on further reforms afterwards.

A2. G-7 plus enlargement

The G-7 was founded in 1978 as a steering group for dealing with economic imbalances between industrial countries; it was enlarged with Russia's admission (G8) in 1997; other countries are invited to the meetings, on an ad-hoc basis, e.g. BRICS (Brazil, India, China, sometimes South Africa). Increasingly G7/8 deal with global problems. Major criticisms are its lack of legitimacy, its ensuing non-representativeness of the world population and economy, its lack of effectiveness and real impact, partly as a result of increasingly formalized summit meetings (Linn, 2005, p.4). While it is obvious that the G7/8 countries at present combine some of the most powerful countries in the world, and most of the largest ones, projections show that by 2050 the additional 3 billion people will all be coming from developing countries, and the combined GDP of China, India, Brazil will be significantly larger than that of the G8. Thus, global governance institutions which do not include these countries (and other important ones) in their decision-making will not be effective, and if they do not include also smaller and poorer countries, will not have legitimacy.

A3. G-20 plus enlargements

In 1999, after the Asian financial crisis, the G-7 finance ministers founded the G-20, in order to be better able to address global financial crisis issues. Its membership in 2003 represented 2/3 of the world population and 9/10 of world GDP (Linn, 2005, p.6) and is representative of continents, industrial and emerging countries. Its core agenda is growth, trade liberalization, financial sector codes and standards, financial crisis management, poverty reduction, anti-terrorism finance, MDGs, debt cancellation, etc. Thus, its agenda has been widened recently to discuss and prepare a large number of issues important for global economic governance. During the

first half of 2006 it has also brokered the (limited) reform proposals for IMF ad-hoc quota increases.

Johannes Linn and Colin Bradford of the Brookings Institution have put forward a number of proposals for strengthening the role of the G-20 (Bradford-Linn, Linn-Bradford, and Linn). They plead for elevating the G-20 additionally to an L-20, i.e. a heads of government level grouping with G-20 membership (Linn-Bradford, 2006): this could widen the limitations of G-20 which deals mainly with Finance Ministry problems: since global problems increasingly cut across areas, an L-20 could be an appropriate steering mechanism. They maintain that to broaden an already existing and successful institution (G-20) would be politically easier than forming any new entity or broadening the membership of G-8. (p 3). The L20 would be both a global steering mechanism and a discussion and networking forum. Linn-Bradford claim that L-20 would be an optimal solution in the tradeoffs between representativeness and efficiency, especially if L-20 members could be made to also speak on behalf of regional groupings (such as e.g. the African Union, p.4). As for the agenda of L-20, they maintain that all issues dealt with by G8 today could devolve to L-20; but they name also examples like the Doha Round, global epidemic threats, Iran's intention to go nuclear, the (lack of) achievement of the MDGs, preparedness strategies against natural disasters, global warming, terrorist threats as matters of immediate urgency (p 4). In addition, L-20 could provide a forum to deal with reforms of the UN and the IFIs.

As alternatives to necessary summit reform, Linn-Bradford mention narrowing down summit membership for the sake of efficiency, (US-EU summits with or without inclusion of Japan and China; G-8 plus BRICS; or "variable geometries" comprising countries depending on the problem at hand). Variable geometries in their mind look attractive; suffer however from the problem of exclusion and the unsolved question who makes the decisions about ins and outs (p 6).

On implementation matters L-B strongly insist on the possibility of informal discussions among the leaders, in order to avoid the sterile, ritualized summit meetings of today: they propose that leaders (in whichever formation) should meet – at least occasionally – only among themselves, i.e. without other ministers or aides. The meeting agendas could be set (like those in the G-20 today) by a troika (past, present, future presidency); a permanent secretariat could be installed in one of the existing international institutions, e.g. OECD, UNDP or World Bank (p.6). In order to include the existing governance institutions into decision-making and implementation, they propose to include the heads of other global institutions, of the UN Security Council plus the heads of the BWI to the meetings.

A4. UN reform

Some observers maintain that the existing gaps in global governance institutions and the maze of existing ones establish a clear case for strengthening the UN (Adaba et al, p.10). They maintain that the UN Charter had been conceived as a normative model to ensure that international economic (among others) policies would be coherent, and thus provide solutions to international problems of an economic, social, cultural or humanitarian character, while promoting respect for human rights (UN Charter Art. 1.3). As a tool the UN system relies on the principle of specialization and coordination – which is at the root of the present problem, a large number of overlapping, non-coordinated UN agencies. ECOSOC was entrusted with the task to coordinate activities concerned with economic, social and ecological affairs (Adaba, p.11). It is charged with coordinating the work of the 14 specialized UN agencies, the 10 functional commissions and the 5 regional commissions. This role was never really fulfilled (Helsinki Process 2003). Industrial countries were reluctant to strip the BWI (where they hold majority influence) of influence, the number of UN members multiplies after the decolonisation process of the 1960s, where the one-member one-vote rule led to a voting preponderance of developing countries, but where also exactly this voting structure made decision-making lengthy, burdensome and inefficient. Incidents like the financial crises of the 1980s and 1990s and the BWI institutions interventions also showed the powerlessness and ineffectiveness of the UN in this field. In addition, the founding of the WTO in 1995 further increased the economic power (if not relevance) of specialized organizations outside the UN. One rebound of the UN was the decision on the Millennium Development Goals in 2000 – which were accepted as guiding principles by the other development organizations.

Negotiations among the UN and other global organisations, especially WTO, driving towards policy coherence have been ongoing, leading to some significant improvements, the 2002 Financing for Development Conference with its proposals was an important step into this direction.

Adaba et al. propose to include Civil Society Organizations into the UN process and to develop a strategic vision for making the UN the locus of high-level summits, instead e.g. of the G-7 meetings (Adaba et al, p.14). They would streamline the ECOSOC to below the present membership of 54, appoint an ECOSOC Steering Committee comprising three or four countries from each region and task this committee

with leading the coherence process with the BWI and WTO. They would thus promote over-arching policy coherence among the major economic/financial/social/environmental policy decisions. Thematic working groups should be installed for the most important global problems, where stakeholders, academics, governments, international organisations, civil society and the business sector would be involved (*ibid.*, p.15). These groups would deliver specific policy recommendations back to the ECOSOC. The Annual high-level meeting between ECOSOC and the BWI and WTO would become the major political forum ensuring consistency of policy (*ibid.*, p.16).

It is worth noting that the ECOSOC has been very diligent and successful in consulting with outside groups, be they academics, business representatives and more than 2100 registered NGOs.

A complementary proposal for the longer run is the establishment of a permanent global Economic and Social Security Council²² within the UN structure (see e.g. Dervis; Adaba, p.16; Langmore, p.2), incorporating e.g. 25 seats with rotating membership. The General Committee of the General Assembly could be re-invigorated into the major policy-making body of the UN. Since it has only 29 members (“G-29”) it could become an effective decision-making body (Adaba, p.17).

A complete revamp of the United Nations, encompassing most of the necessary functions conditioned by globalization, has been proposed, among others, by Kemal Dervis, the new UN Administrator for the UNDP: he also proposes the establishment of a UN Economic and Social Security Council, alongside the Security Council, a constituency system of governance for these Councils, a Stability and Growth Facility for middle-income countries, more and better development aid, with special emphasis on improvement in country governance, and a fair WTO-centered trading system which incorporates compensation of short-run losers in the promotion of free trade (Dervis, 2005).

²² This idea goes back to the first half of the nineties, voiced in the Human Development Report and the Report on Global Governance; the Zedillo Report for the Financing for Development Conference (2001) to the UN SG voiced a similar idea, but it has failed to be taken further.

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