A PRAGMATIC IDEAL FOR GLOBAL ECONOMIC GOVERNANCE REFORM

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ABSTRACT

This paper asks how the world of sovereign countries should arrange itself to address
global and international economic, financial, social or environmental problems. The
current system of institutions and arrangements, informally led by the Group of 20, as
convoked by the United States, is hardly ideal. The paper proposes a “pragmatic”
alternative with multiple checks and balances, but able to reach timely and effective
decisions on the full range of international policy issues. The paper concludes noting that
dissatisfaction with current arrangements has reopened intergovernmental debate; it is not
the same as undertaking reform, but it is a start.

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In 2008, as the financial crisis in the United States spilled over its borders and threatened a global economic breakdown, it became increasingly clear that a collective international response was needed. No international body existed that could organize such a response. The informal Group of 8 (G8) no longer had enough available economic muscle. The Security Council of the United Nations had no mandate in the economic sphere. The United Nations General Assembly was far too unwieldy to mobilize quick action and the Executive Board of the International Monetary Fund (IMF), in which all member countries are represented albeit inequitably, had a more limited and routine function. The President of France proposed opening the G8 to five additional countries with which the Eight had started a dialogue at the head-of-state level, making for a “G13”. The President of the United States countered with a proposal to upgrade a modest discussion forum of 20 finance ministers and central bank governors to a leaders’ forum. Thus, the new “G20” was born (Herman 2008). At their first meeting in November 2008 in Washington, D.C., the G20 leaders agreed to undertake a coordinated global economic stimulus and start a process of international financial reform. The stimulus helped stop a global economic recession from becoming a global depression, but initial promises and plans for the international reform of financial regulation were weakened and postponed.

Advocates of the G20 tout it as a more appropriate and more effective forum than the G8 (see, for example, Bradford 2009, Kirton 2010), but that seems faint praise. Surely, the world can do better. This paper asks, what do we mean by better? Actual reforms in global economic governance are inevitably compromises between an intended ideal or vision and the changes that reforming decision makers will tolerate. They are the result of the differential power of governments that are making the changes and the pressures they are under to reach compromises. But what is the ideal toward which they should work? That is, acknowledging that nations are what they are, that politicians are what they are, what might a system of global economic governance look like if the negotiators were under inexorable pressure to design a new system? The new system would have to be effective in responding to crises of various sorts. It should also engage the active participation—or at least passive voluntary acceptance—of all the world’s countries. In other words, it should be sustainable in the sense that the populations would not want their governments to seek to destroy it nor remove themselves from it. They should see value in

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1 Visiting Senior Fellow, Graduate Program in International Affairs, The New School. This paper grows out of a project of the Friedrich Ebert Stiftung (FES) in 2008-2009 when the initial version of the governance ideal presented here was drafted by a team comprising Esther Busser, Rudi Dicks, Vera Thorstensen, Yvonne Theemann and the present author (Freidrich Ebert Stiftung, 2009). An earlier version of the current paper was presented at the conference “Linkages between Trade and Financial Markets” at the Law School of Martin Luther Universität, Halle-Wittenberg, Germany, on June 17-18, 2010. Other ideas in the paper were first presented at a seminar organized at the United Nations by the Association of South-East Asian Nations and FES on May 1, 2009. The author is grateful for these and other opportunities to develop ideas presented in this paper.
it for their nation as well as for the world as a whole. They should see little risk to their vital interests or closely held principles. They should “own” it. In the following, we contrast the existing system with what such a “pragmatic ideal” might look like. We conclude by noting that opportunities for governments to ask themselves such questions are possibly re-emerging in 2011.

The Global Governance System Today

The world is increasingly a single economic area but with a decentralized and sometimes inconsistent set of arrangements and institutions that are individually meant, one way or another, to seek a smooth, effective and fair functioning of the global economy. It is hardly a radical assertion that the functioning has not been smooth, that some international instruments do not carry out their assignments effectively, and that no mechanism ensures international fairness. When the developed countries faced such problems during their development, they did not rely on the “invisible hand” of the market to address them but strengthened their national governments and created various laws and specialized bureaucracies to carry out the necessary oversight under strong central coordination. The global governance problem is that the world also requires an appropriate and coherent collection of institutions and relationships that emulate what nation states do internally, but without according to any authority the same powers at the global level that a central government would enjoy at the national level.

In fact, the victors in the Second World War explicitly joined together to create a new international system of institutions and forums that would function better than the weak or non-existent international entities of the pre-war era. Under leadership of the United States, the world’s largest economy (and least damaged by the war), the major market-oriented countries created most of the arrangements and institutions that to a greater or lesser degree still carry out international economic rule-making, oversight and operational functions. What came to be called the Western powers led in designing the IMF, the World Bank and later the regional development banks, the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO), and a host of United Nations and other agencies and programs. While the UN institutions and bodies are open to potentially universal state membership, others restrict membership to wealthy market-oriented countries (e.g., international standards for cross-border income taxation are devised in the Organization for Economic Cooperation and Development, which today has 34 member countries). In some cases, the wealthy countries also invite less wealthy but economically significant countries to join in crafting policy (e.g., international standards for banking regulation are set in the Basel Committee on Banking Supervision, currently with 27 member countries, up from its original “Group of 10”

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2 Some of the UN family of institutions set rules and procedures for routine international economic interaction (e.g., Universal Postal Union (established in 1874 and taken into the UN), International Civil Aviation Organization, World Intellectual Property Organization); others address global cooperation imperatives (e.g., World Health Organization, World Meteorological Organization (predecessor founded 1873), Office of the UN High Commissioner for Refugees); and others promote development (e.g., United Nations Development Program, United Nations Children’s Fund, International Fund for Agricultural Development).
Each of the institutions has its own governing body. The World Bank and IMF governors have votes in proportion to their financial contributions to the institutions, while in WTO and the UN, each member state has a single vote. For the most part, IMF is governed by finance ministries and central banks, the World Bank by finance ministries and development assistance ministries, the WTO by trade ministries and the UN by foreign affairs ministries. While the system is thus functionally decentralized, the UN Economic and Social Council (ECOSOC) is meant to serve as the intergovernmental forum for coordination of many of the activities of these institutions. However, few will say that ECOSOC is an effective coordinating body, let alone a policy-making forum.3

Whatever degree of intergovernmental coordination of the international system that does take place (and it is highly incomplete and not sustained), it is undertaken by the most powerful countries acting informally among themselves. In the mid-1970s the leaders of seven of those countries organized this arrangement into the Group of 7 (G7)4, a forum in which their heads of state and functional ministers could discuss joint economic concerns and indeed seek a measure of coherence on various policy dimensions (Bergsten and Henning, 1996). Essentially the same countries decided among themselves the shape of global agreements on trade liberalization in GATT; other countries had little choice but to accept the leadership of the trading nations with the biggest shares of world trade. The same countries, meeting as governors of IMF and the World Bank, had the voting power to directly adopt reforms (with only the United States having a veto over major changes). They were similarly the major (if not controlling) actors in setting policy in many other institutions and programs, in part reflecting their large role in funding the institutions.

The G7 has adapted to major international political and economic developments. Thus, following the collapse of the Soviet Union and the end of the Cold War, the Russian Federation was invited in 1998 to join the heads of state meetings of the G7, making the G8. And more recently, as noted earlier, the G8 opened membership to additional countries, including the major emerging market economies, becoming the G20.5 As also noted at the outset, the G20 organized a coordinated economic stimulus that stopped a global economic depression from unfolding. It acted in a moment of widespread fear and during a global financial panic. But once the fear subsided, so too, it seems, did the effectiveness of the G20. Simultaneously, the agenda of the G20 grew larger, for example,

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3 The first efforts to overcome ECOSOC’s weaknesses began almost as soon as it started meeting, which was in 1946 (Rosenthal, 2005). The most recent proposals to significantly strengthen the UN’s economic policy coordination function were by the Secretary-General’s High-level Panel on System Wide Coherence, which proposed creating a “Global Leaders’ Forum” of 27 heads of state of ECOSOC member countries (United Nations, 2006, paragraph 59) and by the Commission of Experts convoked by the President of the General Assembly (“Stiglitz Commission”), which called for a Global Economic Coordination Council at the UN, supported by an International Panel of Experts (United Nations, 2009, chapter 4).
4 As originally convoked in 1975 by the President of France, Valéry Giscard d’Estaing, the group included France, Germany, Italy and the United Kingdom from the European Union, Japan and the United States, which brought Canada into the group the following year.
5 The non-G8 members of the G20 are Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, Republic of Korea, Turkey and the European Union (which had also participated in relevant parts of G7/G8 meetings).
promising in 2009 to develop a charter for [socially] sustainable economic activity and in 2010 adding an “action plan” on development. Meanwhile, the G20’s annual achievements seemed to become smaller.\(^6\)

The case for global leadership by a relatively small group of powerful countries is that they can relatively quickly take decisive action that will have global impact, as they are small in number but control vast resources. To the degree that their decisions commit only themselves, they can be effective, as in the economic stimulus decision of 2008. But when they discuss reform of international organizations or of global standards, as for financial regulation, it affects all countries either in terms of changing the norms of their own regulation or subjecting them to the international consequences of others’ reform decisions. At that point the question of the group’s legitimacy arises. The G20 leaders are self-appointed (in fact, they were convoked by US President George W. Bush). They come from different regions, but do not represent other countries in their regions. They represent a large portion of world income and world population, but only 20 out of 192 UN member states. However, the G20 countries have not yet been able to forge the deals needed to conclude outstanding WTO trade negotiations, nor have they agreed to take the difficult steps to slow global warming under the UN Framework Convention on Climate Change, nor even make more than minor changes in the governance structure of the IMF and World Bank. If the G20 is meant to forge consensus among its members on economic policy and then transfer its solutions to the world as a whole, its prospects do not seem good. There is not only an evident lack of consensus within the group, but the new members do not seem to feel empowered to act on behalf of their neighbors near and far.

As the world does not replace something with nothing, one may expect the G20 to continue to meet and negotiate detailed joint communiqués, albeit with diminishing policy commitments, as was the case for the G8 before them. This observer’s hunch is that the G20 summits will become increasingly routine annual events (indeed, they began as semi-annual affairs and have now become annual gatherings). They may increasingly lack the political momentum to make significant international policy changes. In this regard, the governance of the structure of global institutions is no less incomplete and fragile than it was before the G20 leaders first met.

**A Pragmatist’s Version of Ideal**

Let us assume, what in fact may be the case, that the status quo in global economic governance as described above is not sustainable. Can we conceive of a set of structures that governments, which are charged first and foremost to protect their national interests, might wish to adopt? Can we posit a set of structures that might be favorably viewed by people across the globe and that governments might be willing to risk seeing emerge despite significant distrust of other governments, let alone of international bureaucrats?

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\(^6\) Independent monitoring of the implementation of G20 commitments indicates that member state compliance over 2008-2010 was relatively good in the areas of macroeconomic policy and international financial institution reform; modest in terms of trade policy, and poor in the areas of development cooperation, financial regulation and anti-corruption activities (G20 Information Center, 2010),
The system would need to allow specialized expertise to play its role, while incorporating checks and balances to prevent misuse of power in the guise of expertise. The system should be accountable to monitoring authorities and be held to accepted global principles of behavior, such as the Universal Declaration of Human Rights. As the current structure does provide important international public goods and services—if not as well or all that are necessary—the new design should build on what works and thus it would bear some similarity to the system as it now exists. Any resemblance below to actually existing institutions is thus fully intended, but the differences should be obvious too. The proposal might in this sense be deemed a radical reform.

The new global governance system envisaged here needs to have two levels. One level would contain a set of specialized international institutions to address technical policy matters, such as rules to govern international trade or reduce damage from potentially volatile financial flows. The system also requires an oversight level, based in what might be called the Global Governance Assembly (GGA). It would determine broad, overall principles to guide the set of specialized institutions, establish priorities and ensure through regular reviews that the system as a whole embodies a coherent approach to addressing them. Formally, government leaders would head their country delegations to the GGA and address the body from time to time.

At all levels, responsibility for decisions would reside with states, although the participation of non-state stakeholders would be guaranteed and routine during policy deliberations. It is also proposed that the oversight and decision-making authority of each body in the system employ a dual majority voting system, requiring both a specified majority of member states voting and a specified majority of votes weighted by economic significance as determined to be relevant for each institution. In such a voting structure, small states count and the importance of big states to the successful implementation of most decisions would be acknowledged (they will also likely need to pay a disproportionate share of the costs of running the institution). It is expected, however, that in most instances decisions could be reached by consensus, although having the voting rules in the background would be a helpful prod toward reaching consensus.

Figure 1 presents a conceptualization of the entities and their inter-relationships on the two levels. Four specialized institutions are identified as essential, complemented by a set of smaller agencies and programs. Each one is meant to be open to membership by all

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7 During the original discussions of this proposed redesign of multilateralism (FES, 2009), the authors split on whether to include non-state stakeholders in actual decision making, on the model of the International Labor Organization (ILO), where representatives of labor, business and government can vote separately in ILO decisions, or the Global Fund to Fight AIDS, Tuberculosis and Malaria, whose oversight board includes representatives of donor and recipient governments, non-governmental organizations, the private sector (including businesses and foundations) and affected communities. The text above reflects this author’s view that only states have the legitimacy to commit and the capacity to ensure implementation of multilaterally agreed decisions (e.g., whether or not businesses are represented by voluntary associations in international deliberations, they can be held accountable only by domestic or international courts backed by national states enforcing the multilaterally agreed obligations).

8 The United Nations family currently includes 15 specialized agencies, 4 “related organizations” (including WTO), 3 secretariats of international conventions and 2 trust funds, as well as 11 programs and funds, 4 research and training institutes, and 6 “other entities” that report to the General Assembly, not to mention the
of the world’s nations. While each of the organizations would have resident boards of oversight bodies, it is envisaged that there would also be regular meetings of member countries at the relevant ministerial level at a frequency that fit the needs of the institution.

One of the institutions identified in figure 1 is the Global Investment Bank. It would invest in public goods, which includes much of what is called “development financing” today, although it also includes investment in international public goods that might be located anywhere on the planet or its seas. Its governing board would assess and decide on investment proposals, as well as monitor project implementation. Non-official stakeholders would have access to the board, but decisions would be made by representatives of states, who would be investing public monies (even if the funds are mobilized by selling bonds in financial markets). A specialized but independent tribunal would handle disputes involving the bank’s investments or proposed investments. Non-official entities (civil society organizations, businesses) as well as states would be empowered to bring cases to the tribunal, which could reach monetary settlements or decide to prevent a project from going forward (e.g., based on findings of ex ante environmental or social impact studies).

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host of deliberative and expert bodies (http://www.un.org/en/aboutun/structure/index.shtml#note1). The opportunity to consolidate this plethora of entities would be taken in the reform exercise, and the important bodies outside the UN family that have restricted membership but set global policy norms would be folded into the new global system (e.g., international financial regulatory bodies would become part of the Global Financial Organization).
A second institution might be named the Global Environment Organization and would serve both as an intergovernmental forum to negotiate detailed environmental agreements (as on mitigating global warming or maintaining biodiversity) and oversee implementation of environmental commitments. All relevant stakeholders would be invited to participate in meetings of the forum, but agreements would be made exclusively by states, some of which will require ratification by national legislatures. While investment projects would be handled by the bank, the environmental organization would provide technical assistance and serve as a forum for experts to develop implementation strategies and policies. An independent tribunal would also be affiliated with the organization to enforce binding commitments made in international agreements and to punish actors who despoil the environment across borders, on the high seas or in the atmosphere. All relevant stakeholders would be empowered to bring cases to the tribunal.

A third essential institution would be the Global Financial Organization, whose primary aim would be a stable and fluid international monetary system. It would bring together international oversight of macroeconomic management and financial regulations, as well as provide its own counter-cyclical financing to countries in balance-of-payments need. It would establish committees to develop norms for national financial regulation (banks, non-bank financial institutions, key financial markets and ancillary institutions, such as credit rating agencies) and it would provide a norm-setting forum for macroeconomic policy making (e.g., on tax policies, medium-term fiscal programs, and debt sustainability). The board and committees would consult routinely with relevant stakeholders, but decision making would be the purview of government or central bank representatives that are responsible for such decisions at the national level. In addition, here too there would be an independent tribunal to resolve disputes, including providing arbitration or mediation services to facilitate restructuring the sovereign debts of member states when that becomes necessary.

A fourth institution is named the Global Trade Organization. It would negotiate global rules for trade in goods and services and set constraints on regional trading arrangements so as to limit the impediments they impose on non-member countries. As some areas of trade policy will always be closer to international agreement on enforceable policies than others, the forum should be empowered to negotiate voluntary guidelines as well as firm trade agreements; indeed, it would also undertake exploratory discussions. Again, relevant stakeholders should have access to the forum, and they may be expected to lobby government representatives, but the latter are the only people who can bind member states (conditional often on ratification of agreements by national legislatures). Again, there should be an independent tribunal to adjudicate disputes that arise under the organization’s agreements and assign countervailing penalties to governments that are found to have violated those agreements.

One may imagine a cluster of other second-level institutions, agencies, forums and programs, but more important to highlight at this point is how the first level would operate and interact with the second level. As already noted and as seen in the figure, the central institution would be the Global Governance Assembly (GGA). It would set the agenda for the multilateral system as a whole and formulate its general policies, to which the specialized institutions would have to conform. That is, while the second level bodies
would be self-governing, as described above, they would have to operate within the system’s overall context and principles.\footnote{In this regard, the Global Financial Organization, unlike IMF, would be required to contribute through its policies and actions to the progressive realization of agreed economic and social rights (c.f., Gianviti 2002).}

While the GGA is the primary deliberative body, it would structurally not have the facility for acting quickly or sufficiently forcefully during emergencies and thus a smaller Global Council is defined. It would handle complex political and economic emergencies, including social and environmental emergencies, as well as inconsistencies among the policy directions of the second-level institutions that needed to be addressed quickly. For example, in the midst of an international financial or environmental crisis the Council could instruct the second-level institutions to alter their policies or practices in particular ways to better cohere with each other or with global principles. They could also call upon governments to provide additional resources for second level institutions to meet emergency needs.

The Council could have 15 member states, including large states that would be elected for 10-year terms and smaller states elected for 2-year terms, with appropriate geographical representation. The longer terms for the large states would impart some continuity to the Council and help maintain the active interest of the large states in working within the system. No member of the Council would have a veto but a disappointed minority would be empowered to appeal a Council decision to the GGA, which under specified (and rare) circumstances could overturn the Council. Each state would have one vote, but a larger majority would be required for particularly consequential decisions, such as approving a military intervention to counter invasion by another country or invoking the principle of “responsibility to protect” (c.f., Patrick 2011). The Council would periodically meet at the level of foreign ministers and even at head-of-state level when the occasion warranted it.

In this conceptualization, the Council is an arm of the Assembly, acting on its behalf. Three additional bodies are considered necessary to round out the structure. First, it seems important to provide a mechanism for appeal from decisions of the specialized tribunals affiliated with the second-level institutions, as well as to respond to charges that states or international institutions violated principles adopted by the Assembly itself. Thus, a Global Tribunal was envisaged. Plaintiffs would bring cases to be heard by a sitting panel of judges appointed by the Assembly. In most cases, defendants would be states or international institutions, which would also be empowered to bring complaints to the court, as would non-state actors. In addition, an independent Global Evaluation and Auditing Office would monitor and report to the Assembly on the operations of the system as a whole. This Office would be a primary guarantor of the system’s transparency and accountability (parallel offices would exist in the major second-level institutions as well). Finally, a Secretariat would be needed to support the Assembly, the Council and the Global Tribunal. The Secretariat would be the executive arm of the first-level institutions, but should be protected from political influence in its operations; it would also be charged to bring emerging issues to the attention of its deliberative bodies. The bulk of the employees of the system would not be here, however, but in the operational institutions

\begin{itemize}
\item \textit{Global Financial Organization, unlike IMF, would be required to contribute through its policies and actions to the progressive realization of agreed economic and social rights (c.f., Gianviti 2002).}
\end{itemize}
and specialized deliberative bodies in the second level.

Reform Opportunity as the Global Governance Debate Resumes

Could such a set of institutions and inter-institutional arrangements actually be created? Today, one would have to say there is no consensus for such a dramatic reform and the degree of interest in any reform is unclear. However, there seems to be a growing unease about the system as it now exists.

A major focus of the preceding discussion was on strengthening the coherence and coordination of the policies and structures of the global system of institutions and forums. The recognition that this was a problem needing international attention was first addressed in a comprehensive and explicit way in a high-level forum when the United Nations met at the Conference on Financing for Development (FfD) in Monterrey, Mexico in 2002. Member states jointly declared in their Monterrey Consensus that:

“In order to complement national development efforts, we recognize the urgent need to enhance coherence, governance, and consistency of the international monetary, financial and trading systems. To contribute to that end, we underline the importance of continuing to improve global economic governance and to strengthen the United Nations leadership role in promoting development…” (United Nations, 2002, paragraph 52).

The Consensus continued with a number of specific commitments that governments have addressed with uneven success since then. Commitments were made at Monterrey because FfD had buy-in of finance and foreign ministries of rich countries and poor ones, plus the major global and limited-membership international institutions dealing with financial and trade matters. But these same governments set up a weak FfD follow-up process and with the gradual departure of key country representatives at the UN, as well as key supporters in the management of involved multilateral institutions and the UN Secretariat, FfD slipped into the deadening routines familiar in UN intergovernmental processes. The vision of FfD as providing a “coherence forum” for building political commitments to an integrated set of policies, including on “systemic issues”, slipped through the fingers of the international community (Herman 2006 and 2009).

However, intergovernmental discussion of global governance ebbs and flows. Today, it seems to be flowing again as governments have again put the matter forward for serious discussion; i.e., governments at the UN have agreed through a General Assembly resolution adopted in December 2010 (United Nations, 2010) to enter a new process of collective reflection on global economic governance which will occupy governments in 2011 and probably beyond. The discussions have been prompted in part by the efforts of

As of the time of writing, official discussions will start with an informal thematic debate on June 28, 2011 on global governance, which is being organized by the current President of the General Assembly, Joseph Deiss of Switzerland. Such debates can be one-off events, but the Secretary-General is requested in the aforementioned resolution to take that debate into account, along with inputs from member states and other stakeholders, in preparing a report on the matter for discussion in the Assembly in the fall. Governments have
a group of smaller middle-income and wealthy countries that are not members of the G20 to have their voices heard. This Global Governance Group (3G) seems not to have been willing to see the G20 establish itself as the self-appointed executive committee of the world economy without at least a means for non-members to interact with it (Menon 2010). The Group of 77, the developing country caucus at the UN, has expressed an even stronger dissatisfaction with the state of global economic governance (Suarez Salvia 2011).

If there is thus a spreading sense that governance of the world economy can be improved, this author can only concur. This paper posits what it alleges is a better and yet pragmatic organization of the global system. It is hoped the paper thereby contributes to more thinking about doable but meaningful systemic governance reforms. The world needs it.

already agreed to hold a “high-level dialogue on financing for development” on December 7-8, 2011, which could further consider the matter, as it speaks to a section of the Monterrey Consensus, in part quoted above.
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