

Governing The World Economy: The Challenges Of Globalization

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Globalization has created two different imperatives for policy-makers. The more 'technical' challenge is to adapt, reform and establish international institutions to manage new actors, forces, and vulnerabilities in the global economy. The second, more political challenge is to find a way to 'connect' or reconnect these institutions to voters and to a large number of citizens who increasingly see globalization as a threat to welfare and democracy in many parts of the world. This note explores both these challenges and seeks to explain how and why the two are linked.

It is tempting as scholars and practitioners of international relations to assume that global problems should have global solutions. In other words, to come up with rational solutions and to all upon international organizations to implement them. This paper challenges that assumption. The desired outcome is doubtless noble, however, the proposed means are anti-democratic - as has been recognized by both policy-makers and the stone-throwing public on the streets expressing public anxiety about globalization. The technical and political challenges of global governance are inseparable.

The thoughts below do not offer a comprehensive survey of what the world or institutions of global governance will look like (or should look like) in 2020. Rather, the note attempts to make sense of:

- why we need institutions in a globalizing world economy;
- what kinds of governance are emerging to manage globalization; and
- on this basis how we might think more critically about the nature and scope of new institutions.

Introduction: why the debate about governance and institutions?

Trillions of dollars worth of investments, capital flows, goods and services now make their way around the world economy. With the new opportunities, come new risks and powerful reasons for policy-makers to worry about globalization and its impact. What is globalization?

Globalization is the product of three changes: internationalization, liberalization, and a technological revolution. Internationalization has been occurring over a long period of time as states forge more links with one another as well as more international institutions to pursue

mutual goals. Liberalization has accelerated since the 1980s with governments the world over adopting policies which integrate their economies more closely into the world economy. For some countries this is more of a genuine 'choice' than for others who have liberalized under intense pressure from bilateral donors, and international institutions such as the WTO, the IMF and the World Bank. A revolution in technology and communications has fuelled change, making it easier for market actors, companies, non-governmental organizations and the like - not to mention criminal gangs - to operate transnationally.

The global economy is one in which policy-makers and their constituencies are less sure of what can be managed in the world economy and how. In the face of both new opportunities and threats, people across the world are beginning to focus more on governance in the world economy. Policy-makers worry that they are losing yet more control over their own economies and policy choices as key policy instruments seem to dangle just out of reach. They are turning increasingly to regional or international institutions in the hope that coordinated solutions will provide some respite.

On the streets, however, critics argue that policy-makers are wrong to seek refuge in international institutions. They argue that in so doing, governments are removing key decisions from the people and deciding them in a secretive and undemocratic way. At the popular level, we see this argument in the actions of protesters venting their fury on international organizations like the WTO, the IMF and the World Bank. Protesters accuse the international institutions of accelerating globalization primarily (if not purely) in the interests of big business. For this reason, globalization, injustice, and international fora have become synonymous and targets of an anti-globalization movement. The serious point here is that more issues are now being dealt with at the international level, posing a sharp question as to whether existing institutions of governance adequately represent the wide range of people and countries they now affect, and whether the agencies are adequately accountable to those they affect.

New forms of governance and how they might be used

Before moving to discuss specific institutions and their reform, it is worth stepping back and considering what kinds of governance are emerging in the world economy. This helps to identify the kinds of institutions which can be drawn upon in managing a new global economy.

Four models are presented below: US unilateralism; multilateral institutions; networks of experts; global democracy. The discussion highlights the way the world economy is now managed not just through government-centred institutions but also through market-oriented networks. At the same time, while all forms of global governance are now largely dominated by the United States (both government and private sector actors), the post-cold war embrace of democracy has fuelled new idealized visions of a global democracy. These models are worth examining in order to analyze their effectiveness as well as their legitimacy.

US leadership or unilateralism?

One strand of governance, currently dominating debate amongst analysts of world affairs, is the role, or better said the nature of US leadership. In the wake of the financial crises mentioned above, one strand of response was more US-unilateral than multilateral. Indeed, when the US Congress debated whether or not to allocate more resources to the IMF in 1997-1998, they made their approval conditional on the creation of an International Financial Institution Advisory

Commission. The Commission considered the future roles and structures of the IMF, the World Bank and other institutions and reported back (the so-called 'Meltzer Commission Report') in 2000. Notable about this approach to the multilateral institutions was the fact that the Commission undertook no consultation with other countries nor in particular those most affected by the work of the international financial institutions. Rather, this statement of how the institutions should be reformed is framed in an overall presumption (comparable to US positions on other UN agencies) that if the US is not 'tough' with multilateral institutions, then foreigners will take US taxpayers for a ride. The instincts are not isolationist (as some would describe them), but rather solidly unilateralist. The goal is for the US to bring the institutions, single-handedly under control. The new administration has already begun to set down its own new unilateralist terms for the international financial institutions: see the remarks of Paul O'Neill, Secretary of the Treasury 27 June 2001 (www.treasury.gov).

The democratic rationale for the unilateralist approach is that the American people elect their government to look after their own interests. Rather underplayed in this rationale is the fact that as the most powerful country in the world, the US is the only country which can (at least attempt) unilaterally to define multilateralism and international cooperation so as to meet its own interests. Democracy, stability, and growth in other countries may well be impinged upon by US policies. From anywhere else in the world, and indeed in many of parts of the US which now depend upon a globalizing world economy, this democratic rationale is strictly limited.

More importantly, given the new challenges of globalization, unilateralism is unlikely to work to fulfill even US objectives. Put bluntly, having more power than other countries does not mean that you can always control outcomes, bending other countries to the US will. This was learnt at great cost by the US in Vietnam. Coercion is a costly and often ineffective tool to extract compliance from others. It may work on some issues and with countries most directly within the US sphere of influence. However when it comes to the world economy, the aspirations of US businesses, investors, and consumers go beyond this, extending to countries and markets the US has to win over by persuasion not force. For this reason, participation in the multilateral institutions is essential to the US. For other countries, international institutions are vital as a way of ensuring that their own interests are considered. The extent to which they are depends upon the structure and efficacy of such institutions.

In summary, for reasons of both effectiveness and legitimacy US unilateralism is simply not an option for most aspects of a new global economic governance. US leadership and support will certainly be required if new institutions are to be created. The new administration's attitude should not be assumed to be all-constraining. As a former US Executive-Director to the IMF once remarked, every Washington DC administration starts out with a passive or negative view of the international financial institutions, until propelled by experience they begin to take a more favorable attitude.

The challenge for policy-makers is to balance the need for US support in fashioning a new global governance against disproportionate US influence and unilateralism which will erode both the legitimacy and effectiveness of new institutions. The experience of existing institutions suggests that both existing and new institutions can be reconfigured in a process of political bargaining which trades off the elements listed below:

Box 1: Dealing with US unilateralism: a new bargain about international institutions

Rather than chip away with ideas about efficacy and accountability, perhaps the time has come for an avowedly political approach to reorganizing multilateralism which puts all the politicized elements of organizations on the table and creates new bargains about apportioning the following benefits:

- the location of the headquarters (where the institution will be based accrues many spin-off advantages)
- locations of other parts of the organization
- headship of the organization (from which countries/region?)
- senior posts in the organizations
- decision-making rules (in whose favour) and capacity to veto decisions (who has the right?)
- seats on the governing Council or Board (how apportioned, who do they represent, how are they accountable?)
- voting rights of each member
- financial structure (who pays what to which part of the organization and at the behest of what kinds of political conditionality or agreement)

Cooperation among states

A second strand of governance which has played a central role in managing the new strains of globalization involves strengthened and institutionalized cooperation among governments. We have seen a new emphasis being put on institutions such as the IMF, the BIS, the World Bank, and the WTO, in the hope that through multilateral negotiation and technical expertise, solutions can be found to new vulnerabilities and these can be implemented through these agencies. Enthusiasts of international technical cooperation have proposed the creation of new institutions, such as a global financial regulator, a global bankruptcy court, global money and a global central bank to deal with the challenge of globalization.

The democratic rationale for this approach to governance is that it forges a cooperation which is in everyone's interests. International institutions enhance the mutual benefits to be gained from globalization. Agencies such as the IMF, the World Bank and the WTO smooth over the gaps and failures in the operation of markets, ensuring a more robust and stable global economy from which all benefit. Furthermore, this kind of governance is purportedly 'democratic' in the sense that each multilateral institution has a Board or governing Council which represents member governments. Beneath this Board, experts get on with the business of fostering greater cooperation and growth in the world economy.

The problem with this rationale is that it skips too lightly and quickly over the issues of representation and accountability. Large sections of the public do not buy the idea that they are represented in institutions such as the IMF, the World Bank and the WTO. And they are not

altogether wrong. In reality, representation and accountability have always been weak in these institutions. Now, however, the weaknesses are glaring because the institutions are being called upon by their powerful members to intrude much more deeply into areas which were previously the preserve of national governments. The IMF and the World Bank now seek to ensure 'forceful, far-reaching structural reforms' in the economies of their members (IMF, 1998). Trade negotiations within the WTO already include many issues-related domestic policy matters and working groups in the WTO are now working on issues such as competition policy, government procurement, and the environment for possible inclusion.

In both G-7 and developing countries, people are beginning to ask: by what right are these international institutions stepping into domestic policy? And when they do so, to whom are they accountable? The structures of the IMF and World Bank reflect their origins as essentially technical agencies dealing with issues of international coordination. The institutions are supposedly accountable to their member governments through representatives on the Executive Boards. Yet there are deep flaws in this structure. Only 8 countries are directly represented. As argued elsewhere (Woods, 2001), if their accountability is to come closer to matching their functions, the institutions need at least to have properly representative executive boards which actively control and monitor and are accountable for the work of the institutions, as well as open and legitimate processes for the appointment for the heads and staffs of the institutions. Indeed the UK government has been active in recognizing this imperative (DFID, 2000). Similar arguments can be made in respect of the WTO (Woods and Narlikar, 2001).

Multilateral institutions ideally provide opportunities for genuinely international debate and cooperation. In this they are a vital aspect of governance in the world economy. The challenge for policy-makers is to ensure that multilateral organizations not only take-up and institute new norms of governance, representation, and accountability, but that at the same time these institutions do not unnecessarily overstep their legitimacy by intruding into areas of policy better dealt with at more local, national or regional levels.

Box 2: Reforming multilateral organizations

Four principles must guide reform

-representation (especially of less powerful states whose cooperation is required for institutions to be effective)

-accountability and formal redress

-transparency and openness

-subsidiarity and devolution of power

The importance of the representative role of multilateral organizations is highlighted by contrasting them to the new 'networks of experts' which are emerging as a form of governance on some issues. Enthusiasts of these networks argue that they are a crucial remedy to the failure of international institutions to engage more directly with market-based actors such as investors and regulators as well as non-governmental organizations (NGOs). Let's explore this argument.

Networks of experts

A new strand of governance in the world economy draws upon less institutionalized forms of regulation and rule-making - the emergence of so-called 'networks' of market actors and governments in different combinations who enjoy the flexibility, expertise and a shared mind-set so as to be able to forge the kinds of rules and institutions which are necessary in a modern, globalizing economy. One (albeit rather state-centred and institutionalized) example is the Financial Stability Forum which brings together representatives of the G-7, the IMF, the World Bank, the Basle Committee on Banking Supervision, the International Organizations of Securities Commissions, the International Association of Insurance Supervisors, the BIS, the OECD, the Committee on Payment and Settlement Systems, and the Committee on the Global Financial System (formerly the Euro-currency Standing Committee).

The membership of the Financial Stability Forum highlights the great variety of institutions which has emerged in the international financial system, including networks of regulators and supervisors. An example of a more exclusively market-based network is the International Accounting Standards Committee (IASC), a London-based voluntary group of private-sector accountants primarily drawn from OECD countries. In a recent study, one scholar has detailed the way in which this market-based group edged out inter-governmental efforts to promulgate accountancy standards and subsequently became the key actor in standard setting in the global regulatory regime, with explicit recognition of this role being given to the group and its members by the G-7, the IMF and the World Bank in 1998 (Martinez, 2001).

The democratic legitimacy of 'network governance' relies on a new way of conceiving of democracy which some describe as 'deliberative democracy' which shifts the focus from the 'inputs' of the decision-making system (i.e. elections and representative government) to the quality of the 'outputs' of the system. In this vision, networks of experts provide the opportunity for high-quality deliberation which improves outputs and governance. This is because the process of deliberation is (ideally) one in which the best ideas can be aired, genuinely expert participants can partake (without the limitations of a representative system), and in deliberating participants can learn and come to understand alternatives and modify their own starting positions. For these reasons, scholars are using this framework to justify the inclusion of non-governmental organizations (NGOs) as well as private sector actors in multilateral negotiations. For example, in trade delegations we have seen private sector actors such as American Express taking part under the US auspices in negotiations over financial services. The argument is now being used to push for the inclusion in trade negotiations of environmentalists and other transnational NGOs seeking influence on specific issues.

The weakness of this rationale lies in its lack of concern about who defines the rules and outcomes of deliberation. Those who focus on 'outputs' pay too little attention to inputs and who sets the rules, such as: who determines who can participate in the exercise?; who sets the agenda?; and who sets the parameters within which acceptable outcomes must fall? In so doing, the network governance enthusiasts overlook deep problems of legitimacy and accountability which arise from these processes.

Let us take, for example, the FSF mentioned above. Although clearly an expert group, politically it is controlled by the G-7. In June 1999, the G7 broadened representation in the forum by inviting senior representatives from Hong Kong, Singapore, Australia and the Netherlands to participate. However, there is no question that the G-7 remains in control of the membership and the agenda of the group. Likewise the IASC remains heavily OECD dominated. Does this matter?

The significance of who controls networks lies in the content and impact of their work. The FSF has been working on three issues: capital flows, off-shore financial centres, and highly-leveraged institutions (see www.fsforum.org). All three have a direct impact on developing countries who are vulnerable to the systemic risks and issues involved, and some of whom will be directly affected by regulation in this area, such as that which would reduce offshore financial activities upon which some small developing countries rely. Likewise, the work of the IASC feeds into the assessments of investors, multilateral institutions, and bilateral donors upon whom developing countries rely. Doubtless all these issues needs investigation. Some could benefit from standards, others from regulation. However, the participation and commitment of 'recipient' states will be required to implement the findings of the FSF or the standards of the IASC and here there is a question of whether this is to be achieved through coercion or cooperation. Some would argue that participation in deliberations from an earlier stage make cooperation more possible, and a satisfactory and sustainable solution more likely.

Network governance has an important contribution to offer in managing the world economy, bringing as it does, considerable and varied expertise on increasingly complex issues. However, even in seemingly technical areas such as accounting standards, the nature and choice of outcomes are affected by the interests of those who control the process. In essence, network governance proposes substituting expertise for democratic accountability. The problems with this argument have been aired in popular concerns about the lack of accountability of the European Central Bank. These problems magnify when network governance is expanded to encompass wider policies which have the potential to create yet larger groups of winners and losers. This is not simply a normative problem. Strong public reactions against an institution or policy (or simply a lack of 'buy-in') can quickly render it powerless.

Box 3: Experts are useful but not 'apolitical'

Expertise and consensus-building need to be distinguished from accountability. Where the deliberations and consensus of a group produces the basis of policy directly affecting other groups, the mechanisms of accountability of decision-makers - for what they are accountable, to whom, and how is that accountability enforced - need to be clear. This may be relatively simple in the case of a Central Bank with a narrow mandate which is easily monitored. However, democratic decision-making can seldom be purely 'output-oriented'. Most policy needs substantial 'buy-in' to be effective.

Global democracy

Perhaps the most radical proposal for governance in the global economy is made by those who argue that globalization presents us with the opportunity - if not the need - to establish a more global democracy, or at the very least to enshrine human rights as the corner-stone of governance. From the bottom-up this means expanding the ways people can participate in decisions which affect them, and how they can shape and hold international institutions accountable. In recent debates we see this expressed in arguments for 'mainstreaming human rights', for improving the participation of NGOs, for ensuring that development strategies are empowering (see WDR 2000), and in a new questioning about how to enhance voice and accountability in economic decision-making (see framework of HDR 2002).

The real tension for the global democracy advocates lies in how they justify tradeoffs between

means and ends. The global democracy case typically includes both a strong case for the implementation of a universal set of moral values - a 'law of peoples' - and a clear set of principles regarding the nature and composition of implementing institutions (Held, 2001). However, in implementing the human rights agenda, some advocates heavily privilege the ends over the means. In other words, they propose that existing institutions such as the IMF, the World Bank, and the WTO, however unfairly or unaccountably constituted, should be used to push a further agenda of conditionality in the area of human rights. Their critics argue that this smacks of imperialism, pointing out that international institutions already have too much power vis-a-vis their developing country (borrowing) members and are too unaccountable and too unrepresentative to impose further conditionality. The implication is that advocates of global democracy through a human rights approach need carefully to distinguish their argument from, say the unilateralist assertions of the US Congress. Using effective power and leverage to achieve 'good' ends casts profound questions not just about whether the ends are appropriate but equally as to whether there will be unintended consequences (which may cancel out the 'good' ends). This is not to say that might and right are always at odds, but rather that advocates of this position have carefully to pick their way into this argument.

One solution proposed by advocates of global democracy is to reform from the bottom-up as well as from the top-down by creating a new over-arching political institution - such as an Economic and Social Security Council - which would oversee and monitor the work of the IMF, the World Bank, the WTO and all other institutions of global economic governance, holding them accountable to particular human rights goals (Commission on Global Governance, 1995; Stewart and Daws, 2000). Such an ESSC would be more representative and accountable than the existing institutions, hence mitigating some of the means/ends problems discussed above. However, an ESSC would not necessarily mitigate the more powerful sense of political alienation and powerlessness currently being expressed in the anti-globalization movement.

In summary, as a set of ends or goals it is difficult to see by what means global democracy might be brought about. As a process, it is hard to envisage a form of global democracy that might overcome the sense of political alienation lying at the heart of public scepticism about globalization.

Box 4: Can global governance be democratic?

No! But it can be more 'legitimate'. It is important to consider both 'top-down' and 'bottom-up' legitimacy. An Economic and Social Security Council might confer greater top-down legitimacy if it could conform to principles of adequate representation and accountability (as set out above, see Box 2). 'Bottom-up' legitimacy, however, requires a closer political connection between the governors and the governed: global institutions and citizens of nation-states.

Principles derived from the emerging forms of governance

Overall, the above discussion of emerging governance highlights three principles which should guide our consideration of new or reformed international institutions for 2020. These are:

1. Local democracy (or a new version of 'subsidiarity'): decisions should be made and implemented at as local a level as possible, since global institutions have the least potential to fulfil the requirements of democracy. This is particularly important in responding to the public

angst and alienation from global economic governance. Do new institutions and the roles ascribed to them meet this criteria?

2. Representation: global institutions should adequately represent all their member-shareholders, as well as ensuring mechanisms by which those most directly affected by the decisions of the institution have some voice in decision-making.

3. Accountability: minority shareholders without recourse to formal decision-making should be able to hold global institutions to account; to different degrees so should other affected parties.

What new institutions or reforms are required in the global economy?

Globalization demands strengthened coordination, a better institutional response, or new institutional arrangements in a number of areas a few of which are highlighted below. It is worth now looking at the new exigencies which international organizations are being called upon to manage. In each case, we might measure up (against the above principles) the necessary institutional developments.

1. Managing the new financial crises

The debate over how to manage financial crises has shifted dramatically in the last decade. At the end of 1994, the Mexican peso plummeted (depreciating by 50 percent within one week) causing reverberations in Washington DC and New York, as well as in other Central and South American countries worried about a 'Tequila' effect - a contagious loss of confidence in economies across the region which would cause the crisis to spread (French-Davis, 1997). In the case of Mexico, the US Treasury and the IMF were able rapidly to put together a large assistance package in order to shore up confidence in the Mexican economy - a reaction facilitated by the magnitude of US interests in Mexico. However, the Mexican case immediately raised concerns about how to deal with financial crises if they occurred in other parts of the world. Who would provide the resources for an orderly debt workout? Should there be a global lender of last resort?

Policy-makers' concerns about financial instability proved well-founded. In 1997 a financial crisis sparked by the devaluation of the Thai baht spread across East Asia. This was soon followed by a crisis in the Russian rouble in the summer of 1998 and a financial disaster within the United States - the collapse of an investment group called 'Long Term Capital Management' (LTCM). Each of these events focussed attention on how rapidly the volume of international capital flows was increasing and how immediately such flows could reverse. When crises occur, it has become clear that an avalanche of claims on public funds is risked unless some more orderly way of working out such crises is established.

In the early 21st century the G-7 governments have voiced a determination to limit the use of public funds in financial crises. This means that some form of standstill or workout procedure in an crisis is now, perforce, on the agenda. In other words there has been a fundamental shift from the 1980s when any talk of 'default' or 'moratorium' was taboo.

The new orthodoxy on debt workouts reflects the fact that globalization has broadened the kinds of debtors who have access to international finance well beyond bond-issuing governments. The crises of the 1990s were marked by international flows into the private sectors of emerging markets. Globalization has also broadened the range of investors attracted into the whirlpool of

these markets. Banks have now been joined by investment houses, security brokerages, hedge funds and asset managers in the new financial crises.

At the same time policy-makers (and their voters) have become increasingly aware of the unfairness of the 1980s 'adjust and continue to pay' model. In using the IMF to sponsor and enforce adjustment in debtor countries, G-7 policy-makers have too often let creditors off the hook. In the early 21st century there is a new determination to ensure that the burdens of bad loans are shared by investors and borrowers alike. A more equitable or symmetrical debt workout requires not just public financing to 'tide over' the debtors and creditors whilst debts are rescheduled, but legal arrangements which permit a 'standstill' (a freezing of all parties' commitments), and an arbitrator of some kind to make impartial judgements as to what constitutes a symmetrical apportionment of losses and adjustment. Several proposals have been made in this regard.

New or reformed institutions?

Some kind of arbitration in debt workouts is now needed. This might take one of two forms. An international arbitrator or bankruptcy court on government debt (as proposed by Jubilee Plus/Ann Pettifor, Raffer 2001). An alternative is to use a reformed IMF. Obviously the IMF as it stands is not impartial (since it is a creditor in most crises). However, some kind independent arm of the IMF such as an independent affiliate, Committee, or ombudsman within the IMF could be envisaged which is appropriately accountable to all members (WG3 of GFGI).

In addition to considering a new institutional role, it is worth thinking about parallel institutions for developing countries so as to further a more balanced debate and innovation. For example, a Financial Stability Forum for developing countries (to discuss overarching standards and codes etc), and stronger regional monetary institutions would be two ways to ensure better critical input into the evolving debate. Crucial to this latter point is the question of what are the necessary pre-conditions (regional and global) for such institutions to emerge.

2. Making genuine progress towards free trade

It has been estimated that trade barriers (and most especially barriers to the largest industrialized country markets such as the agricultural and textile markets of the European Union and the United States) are costing developing countries at the very least around \$130 billion per year, a figure which dwarfs aid flows. (Anderson, Francis, et al, 2001; Francois, 2000) These trade barriers are the traditional agenda of international negotiations pursued in the GATT and now in the WTO. Yet these institutions have failed to deliver free trade in huge tracts of international commerce and thus developing countries remain closed out of markets in much of what they produce.

Industrialized countries are now pressing for an ever broader, agenda for the WTO including trade in services, intellectual property, trade-related investment measures, and labour and environmental concerns. Many of these issues either do not necessarily need resolving at the international level, or can (and should) be dealt with by other international institutions (such as the International Labour Organization). Until the WTO delivers on the core, international trade issues for which it was founded, its agenda should not be further broadened.

The WTO is also now the target of protests which demand that it be more participatory, open and equitable. The protesters are right in pointing to severe limitations in the WTO in these regards (see Woods & Narlikar, 2001). For this reason, the reforms below are advocated as part of a 2020 vision.

Reforming the WTO

A focussed free trade agenda needs to be imposed on the industrialized members of the WTO so as to ensure that liberalization in agricultural products and a full retraction of the MFA occurs before any 'new issues' are added.

Developing countries need better advocacy in the WTO's dispute resolution functions, as argued in the Zedillo Panel Report which proposes legal aid for the smallest and poorest countries.

Better representation of developing countries is also required within the informal mechanisms of decision-making which dominate the WTO. Here clearer processes of consultation and mechanisms of transparency and accountability would be advantageous, at the same time as better informed and better organized group bargaining by developing countries.

This proposal clearly rejects calls for 'constitutionalizing' the WTO or moving towards a more 'expert' and 'output-oriented' characterization of the organization and its various arms on the grounds that the items above are pre-requisites for any such move.

3. More effective alleviation of under-development and poverty

Poverty and indebtedness have achieved more public attention than any other issue on the global economic agenda. The success of Jubilee 2000 and the ongoing public support for debt relief in poor countries highlights public concern about globalization and its potential to marginalize the poor.

Proper trade access is probably the most important aspects of a global development strategy which might alleviate poverty in developing countries. Equally important for the many countries relying on trade in commodities is provision for emergency financing or insurance against fluctuations in global commodity market prices which can wipe out gains in a poor economy faster than any amount of aid flows or debt relief can replenish.

At the same time a sensible debt relief strategy is vital. At present the Highly Indebted Poor Countries initiative is proceeding in its new 'Poverty Reduction' phase. However, the institutional features of the this are inadequate. In spite of all the talk of better 'donor coordination', overburdened poor countries are still finding that their time is spent in debt renegotiations rather than in the policy planning and development they are being urged to pursue. For example, debtors with approved HIPC debt relief programs still have to negotiate with each of their Paris Club partners. More generally in respect of aid a plethora of aid-giving agencies, each requiring multitudinous conditionalities, monitoring and negotiation, are all over-stretching highly precious time and resources. Here there is a need not only for genuine coordination among donors but also for some independent monitoring of their actions and their follow-through on commitments.

The UN/Zedillo Panel Report propose a reestablishment of ODA targets and the reaching of those targets as well as a new approach and content to conditionality, and to the provision of public goods through common pools of resources. (UN/Zedillo Panel Report, 2001) These proposals hint at a vision of a future in which donors are more coordinated, and in which development funds might be more efficiently channelled.

Helping the poor

At least three elements of the institutional framework should be developed:

- further trade liberalization through a refocused WTO;
- commodity price insurance or protection for dependent countries who can be wiped out by fluctuations in global commodity markets (the World Bank should develop this);
- rationalization of debt relief and better independent monitoring of creditors and aid-givers.

4. Taxation in a globalizing world

One aspect of the globalizing economy which has only just begun to receive the attention it deserves is the need for global tax coordination. Individuals, corporations, hedge funds and international criminal organizations can all exploit globalization so as to avoid a plethora of responsibilities. Taxation is one of them and is particularly significant if states are to maintain the capacity properly to govern their own economies.

The UN/Zedillo Panel Report proposes study of an International Tax Organization. This idea should be further explored and elaborated.

5. Environmental protection

Others will surely focus on this. Obviously proposals abound for more global coordination and cooperation on climate change and economic incentives/sanctions related to the mitigation of environmental degradation. The UN/Zedillo Panel Report proposes a Global Environment Organization (including a carbon tax-collecting capacity: UN/Zedillo Panel Report, 2001).

But can a global strategy substitute for local strategies? In the wake of the US refusal to ratify Kyoto, various scholars highlighted the Pyrrhic nature of the treaty if it were not followed up with local level initiatives, funding and progress on these issues (Victor, 2001). Here there is a danger of overlooking the subsidiarity issue - necessary not for legitimacy but for basic effectiveness.

Conclusions

Anarchists and vandals aside, the anti-globalization movement poses two serious challenges about governing the global economy which many other commentators have expressed in less newsworthy ways. The first challenge is for politicians and policy-makers to spell out their endgame, or at least their assumptions, about globalization. The second is to turn their minds to

the processes by which globalization is governed.

Already G-7 countries (and many others) are actively pushing measures which accelerate globalization, through increased capital flows, freer transnational investment and production, increasing liberalization, incentives for the wider dispersion of new technologies, and a broadening of trade access into services, trade-related investment and so forth. It is not unfair of their electorates to ask, what are they aiming for? What are their assumptions about the impact of these changes?

Nobody is persuaded by a first-year economics textbook answer that the goal is a free market in which an invisible hand will produce benefits for all. Yet this kind of assumption still underpins a lot of policy-making. Policy-makers often seem to be opting to muddle along towards a more global economy, managing whatever unfortunate side-effects they can along the way. But experience demonstrates that markets become freer not as a matter of inevitability but as a matter of political choice and priorities. Witness the failure to open agricultural markets in the EU and USA after fifty years of trade liberalization, or the reluctance to free up immigration and permit the free movement of people. On the flip-side, we might note the considerable energy being expended by some G-7 members to open up trade in financial services. There is a vision, or at least a scenario in respect of the world economy underpinning these choices which politicians have not spent much time expressing or justifying to their constituencies.

As I understand the challenge of the 2020 Vision project, it is to think about a vision both of the endgame of globalization and of the management and governance of globalization. This seems to me to break down into three questions:

- (1) What can be managed? Which of the new actors and flows can and should be regulated?
- (2) At what level of governance? Does the problem require international management or can it be dealt with at local or regional level? On this issue we need to develop a principle of international subsidiarity.
- (3) By whom? Which international institutions should be involved and how should they be constituted? What are the yardsticks we should use to assess their legitimacy and effectiveness?

This note argues that we cannot answer these questions individually, and sketches out how we might bring them together.