Strengthening global economic governance

by Eva Hanfstaengl, SocDevJustice, 2011

In spring 2009 and 2010 the Economic and Social Council discussed with the Bretton Woods Institutions ways to ameliorate the impact of the global financial and economic crisis on development and strengthen global governance structures, which includes strengthening the Financing for Development process at the UN. UN country representatives considered in 2009 the recommendations of the Commission of Experts on Reforms of the International Monetary and Financial System convoked by the President of the General Assembly and chaired by Prof. Stiglitz.[1] With this background, and with knowledge of the agreements reached at the London Summit of the Group of 20, delegations are facing the need to agree on the substantive content of the "concise outcome" that emerged from the UN Conference on June 1-3 2009 on the World Financial and Economic Crisis and its Impact on Development.[2]

Delegations at the Economic and Social Council meeting in 2009 also decided on one specific aspect of the global governance agenda, namely on modalities to strengthened the Financing for Development (FfD) process, which the General Assembly has been requested to act upon in its fall session.

The central question for the discussions today is: how can the UN help strengthen global economic governance? After the financial crisis in 2009, governments and civil society see the need for substantial improvement in the coordination of global economic policy. Global economic integration has outpaced the development of the appropriate political institutions and arrangements for governance of the global economic system. The global financial and economic crisis requires an unprecedented global response. We need policies that can build just, participatory and sustainable societies. This requires far-reaching reforms of the international financial architecture, which cannot be decided by the G-8 nor G-20 alone, but needs response from the entire international community. These reforms must be participatory of all governments, inclusive, comprehensive, and transparent. Welcoming the ongoing international discussions on global economic governance structures, governments acknowledged already in 2008 "the need to ensure that all countries, including low-income countries, are able to effectively participate in this process." (Doha Declaration, para 78[3]).

Legitimacy and proper governance are the first requisite for the proper financial architecture and any necessary expertise can be built accordingly. Expertise alone, as the Bretton Woods institutions, cannot replace political decision-making. Governments and civil society therefore expressed the need a "**Second UN Bretton Woods Conference"** on monetary and financial issues. The first one was held after World War II in Bretton Woods in 1944, before the adoption of the UN Charter itself.

So far, recommendations to strengthen the role of the UN have focused on three potential areas for change: 1) reforming ECOSOC, 2) creating a new UN-based economic governance body and 3) strengthening the Financing for Development follow-up process. All of these proposals embody opportunities for meaningful reform.

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1 http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf
2 http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/63/303&Lang=E
3 http://daccess-dds-ny.un.org/doc/UNDOC/LTD/N08/630/55/PDF/N0863055.pdf?OpenElement

1. Reforming the Economic and Social Council

ECOSOC has a mandate for economic coordination. For a variety of reasons, including jurisdictional disagreement, inability to make decisions, size and representational structure, ECOSOC has been ineffective in global economic governance. Nevertheless, many proposals have been made for reform and strengthening the role for ECOSOC, such as changing its size and structure, empowering it to make binding decisions, changing its schedule of meetings, enhancing its relationship with the IFIs and WTO, eliminating jurisdictional overlap with the GA, linking it with the G20/L20 and creating an executive committee.

One of the proposals, to make ECOSOC a forum for policy-making with balanced representation, was made in 1995 by the UN Commission on Global Governance and has been reiterated since then on several occasions. The 2005 World Summit recognized the need for a more effective ECOSOC as a principal body for coordination, policy review, policy dialogue and recommendations on issues of economic and social development. The "High-level UN Panel on System-Wide Coherence" in November 2006 recommended creation of a Global Leaders Forum (L-27) of heads of state and government under ECOSOC, comprising the leaders of half of the ECOSOC membership, rotating on the basis of equitable geographic representation, with the participation of the heads of the major international financial institutions.

2. Creation of a new economic governance body within the UN

Proposals here range from the 1995 Commission on Global Governance's Economic Security Council to the proposal made by Chancellor Angela Merkel early in 2009 that a new **"**Global Economic Council" be established under the auspices of the United Nations**.** In March, the UN Expert Commission chaired by Prof. Stiglitz proposed to set up an International Panel of Experts as a measure that was doable in the short term and to create a Global Economic Coordination Council in the medium term. (Expert Report, para 25[4]) They argue that a new UN body will be more legitimate and effective than reforming existing institutions.

Following the successful model of the Intergovernmental Panel on Climate Change (IPCC), the Stiglitz Commission proposed that the General Assembly to immediately establish an "International Panel on Global Systemic Risks in the 21st Century" which should provide ongoing evidenced-based research and advice to the UN and other multilateral bodies on a wide range of interconnected transnational threats. It could help policy makers and the private sector to recognize threats at an early stage and prompt them to act in a preventive mode. At the same time, such a panel would contribute to foster a constructive dialogue and offer a regular venue for fruitful exchange between policy makers, the academic world and key international organizations. The panel should comprise well respected academics from all over the world, appropriately representing all continents, as well as representatives of international social movements (Expert Report, para. 22-24).

In fact, the UN already has a body that could be upgraded into this proposed instrument in the Committee for Development Policy. Originally, in the 1960s, it was formed as the Committee for Development Planning and its members were the most prominent economists in the world working on planning issues (the initial chair was Jan Tinbergen of the Netherlands). In addition, with the semi-annual meetings of Project LINK, hosted by DESA, there is a network of national and international institution economic forecasters who already meet regularly to compare their forecasts and discuss emerging policy issues.

The proposed "Global Economic Council" would receive reports from the new technical body as a major input to its deliberations on international economic, social and environmental issues. The Council would

[4] http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf

"constitute a globally representative forum to address areas of concern in the functioning of the global economic system in a comprehensive way." It would meet annually at head of state and government level to assess developments and provide leadership in economic, social and environmental issues. It would promote development, secure consistency and coherence in the policy goals of the major international organizations and support consensus building among governments on efficient and effective solutions to global issues. Such a Council could also promote accountability of all international economic organizations, identify gaps that need to be filled to ensure the efficient operation of the global economic and financial system, and help set the agenda for global economic and financial reforms. Representation would be based on the constituency system, and designed to ensure that all continents and all major economies are represented. At the same time, its size should be guided by the fact that the council must remain small enough for effective discussion and decision making. All important global institutions, such as the World Bank, IMF, WTO, ILO and members of the UN Secretariat dealing with economic and social issues would provide supporting information and participate in the Council. It could thus provide a democratically representative alternative to the G-20 (Expert Report, para. 26).

Such a Council would be responsible for the division of labour between international organizations as well as the determination of common objectives and monitoring of implementation efforts. A parallel proposal from the International Trade Unions Confederation would have the General Assembly adopt a "Charter for Sustainable Economic and Social Development" as the overall normative framework of global governance, which would establish principles for the world economy and for mechanisms of international cooperation in response to mutual economic vulnerabilities. Such a new Charter could provide a synthesis of the guiding economic principles of various international bodies, referencing standards such as the core labour standards of the ILO and the OECD's Guidelines, Anti-bribery Convention and Principles for Corporate Governance. It could combine rules concerning market behaviour with the complementary elements regarding employment and enterprise development, social protection and sound labour rights.[5]

So far, however, it has been the G20 at its Summit in London on April 2 which recommended taking the lead in developing a "***Charter on Sustainable Economic Activity***": "In addition to reforming our international financial institutions for the new challenges of globalization we agreed on the desirability of a new global consensus on the key values and principles that will promote sustainable economic activity. We support discussion on such a charter for sustainable economic activity with a view to further discussion at our next meeting. We take note of the work started in other fora in this regard and look forward to further discussion of this charter for sustainable economic activity."[6]

3. Strengthening the Financing for Development follow-up process

Given the current state of the international economy and lack of inclusive alternative forums for debate, the case for strengthening the FfD process has never been stronger. Financing for Development can be the platform for debating global economic governance reform, building on member state commitments and an agenda that aims to address inequality in the global economic system. The Monterrey Conference in 2002 was unique in bringing together leaders, ministers of finance, foreign affairs and trade of developed and developing countries, the heads of the key international institutions, and senior representatives from civil society and the private sector. It reached an unprecedented political consensus to bring new momentum toward coherent international cooperation for development. The FfD process currently appears to enjoy a certain momentum and political support.

However, as the Doha document acknowledges, the follow-up process remains too weak, which makes it

[5] ITUC statement to the G20 Summit, London, April 2, 2009.

[6] London Summit – Leaders' Statement, 2 April 2009 (para 21).

difficult to produce substantive outcomes. Strengthening the follow-up requires a permanent mechanism tasked to produce substantive negotiated outcomes as the crucial intermediary step to meaningful global economic governance reform. Achieving a strengthened follow-up process requires not only the maintenance of the FfD process' multi-stakeholder approach, but also the creation of a mechanism attached to the General Assembly or ECOSOC that can produce substantive negotiated outcomes and actionable recommendations. Creating such a permanent FfD Committee might be politically feasible, and could provide the much-needed intermediary step to build political support for global economic governance at the UN.

In this context, in 2009 the Secretary-General of the United Nations has proposed establishment of a "***Financing for Development Committee***" in his report to ECOSOC meeting. The details of his proposal are: to create a more effective and robust mechanism for FfD follow-up and a mechanism that has at its center a representative, multi-stakeholder 'Financing for Development Committee', subsidiary either to ECOSOC or to the General Assembly. In order to keep it as dynamic as possible, the Committee's composition could be relatively small; one possibility would be to have 18 members drawn from UN delegations, 6 representatives from the World Bank Executive Board and 6 from the IMF Executive Board, one each from the WTO and UNCTAD, one from other relevant UN agencies, including the regional commissions, one from other IGOs, and one each from the civil society and business sector communities. This would give the committee a total of 36 members...In order to keep the participants' selection as simple as possible, it would be further suggested that the 18 representatives from UN delegations — equal to one third the number of ECOSOC members — be drawn from the Council's membership in an automatic way, according to a formula whereby each Member State elected to ECOSOC would be asked to serve in the FfD Committee for one year, during the second year of its three-year Council term. This would also ensure transparent and democratic rotation in the representation, without the need for any separate election process.

In a similar vein, the six representatives of the World Bank and IMF Executive Boards could assume the function under a rotating arrangement to be agreed by them. It should be remembered, of course, that both Bank and Fund Executive Directors normally represent constituencies, rather than individual countries, and that appropriate ways and means would have to be found to take this into account in any selection/rotation formulas... A Financing for Development Committee as outlined above might serve the objectives of effectiveness and inclusion set out in the Doha Declaration. It can be based on the generally-agreed criteria outlined earlier, and take into account existing proposals on the matter. It could meet in New York for one week twice a year — sometime before the Bretton Woods meetings, as suggested by the Rio Group — which would have minimal cost implications. Such a new Committee would of course replace both the spring High-level meetings of ECOSOC with the international financial and trade institutions, and the biennial High-level Dialogues of the GA. Its recommendations would be submitted to the parent organ.

Such a new mechanism within the UN would provide the opportunity for a holistic and serious cross-ministerial, cross-institutional, public and private sector discussion of global economic and financial concerns. It could be the first step toward more integrated, effective and democratic governance of the world economy.