

## GLOBAL ECONOMIC GOVERNANCE

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The remarkable growth in the extent of international economic integration in recent decades has far outpaced the existing capacity for global economic governance. The intensification of globalisation has increased the inadequacy of the institutions of global economic governance and their policies. This became especially apparent during the Global Financial Crisis, also known as the Great Recession, which began in 2008 and the destructive effects of which still continue. The crisis showed that contemporary national and international economic institutions could not achieve stability let alone other goals. In fact, some of the policies multilateral economic institutions have been commending during the last thirty years contributed to the contagion which spread globally from the US where the crisis began. The frequency and speed with which economic problems in one country spill over to others indicates the importance of strengthening international institutions sufficiently to ensure that they are capable of taking swift, effective corrective action.

John Maynard Keynes, the most respected economist of the twentieth century and the principal negotiator for the British at Bretton Woods would have expected this. The issues about which he was attempting to persuade the US and other countries attending the Bretton Woods conference in 1944 were much the same as those with which the world still has to wrestle:

The challenge ... which ... faced Keynes was to devise a plan to lock the USA into a system which would maintain balance of payments equilibrium between all countries without trade discrimination but also without forcing deflation, unemployment or debt-bondage on the deficit countries. (Skidelsky, 2000, p. 182)

Keynes proposed an elaborate plan for an International Clearing Union, the principal purpose of which was to ensure that countries with either current account deficits or surpluses had an incentive to settle their accounts through an International Clearing Bank. This would have removed the deflationary bias of a system which depended on adjustment only by deficit countries. Balances would be settled through a new form of “bank money” later called “bancor”. Harry Dexter White, the leading American negotiator, also had a plan. This proposed the establishment of two institutions, an International Stabilization Fund and a Bank for Reconstruction. The fundamental difference was that the Stabilization Fund quotas set the amount of capital to be subscribed and so the right to buy currencies, while the Clearing Bank enabled currencies to be purchased as a claim on an overdraft.

Although Keynes’ proposal was intellectually the stronger, the US was politically more powerful and it was White who largely prevailed. Skidelsky concludes that the final Agreement reflected the views of the US Treasury rather than the British, and was shaped by the US desire for an updated gold standard (one that fixed the value of gold against the dollar) as a means of liberalising trade. “If there was an underlying ideology, it was Morgenthau’s [the US Treasury Secretary’s]

determination to concentrate financial power in Washington”, writes Skidelsky. (Skidelsky, 2000, p. 357) Keynes acquiesced because his greatest concern was to lock the US into a rule-based post-war financial order. The location of the Bretton Woods Institutions (BWIs) in Washington rather than New York, where they would have been close to the UN Economic and Social Council, symbolised the American determination to control them rather than to allow internationally inclusive governance. The Bretton Woods agreement has determined the institutional framework of global economic governance ever since.

The purpose of this chapter is to discuss the way in which national policies impinge on other countries and make the effectiveness of international economic governance a high priority issue. It also discusses the question of the adequacy of the institutions available early in the second decade of the twenty-first century for addressing these spill-overs and governance goals and the potential that institutional reforms might have for strengthening the capacity to mutually enhance global economic governance and hence people’s wellbeing.

### **The Imperative for Effective Global Economic Governance**

In an integrated world, economic events in one country - and especially the larger ones - affect others. For example, if a major developed country reduces its interest rate to stimulate domestic demand its attractiveness to foreign capital its exchange rate will tend to fall. This in turn will discourage imports as their price rises. It will also increase the competitiveness of exports. The exports of competing countries will therefore tend to fall, damaging not only their balances of payments but also their growth rates and employment. Yet externalities like these - to the economy of the initiating government - are often disregarded there.

The Great Recession is the most spectacular recent example of such interdependence. Many groups in the US and the UK were responsible for the Great Recession through a combination of greed, hubris, conformity, extreme individualism, market fundamentalism and passivity. Amongst the powerful actors were greedy, bullying bankers who increasingly lent to borrowers who did not have sufficient savings or the earning capacity to service their loans if anything went wrong – creating “subprime” house mortgages. Both bankers and borrowers naively expected that the value of these houses would go on endlessly appreciating. Bank managers thought they had a better understanding of financial risks than ever before, based on highly sophisticated models of risk and return. Yet their assumptions were unrealistic. Basically, hubristic financial market dealers in the global financial centres of New York and London massively under-estimated the risk. Substantial proportions of this new lending were financed by short-term borrowing. Banks put large numbers of mortgages into packages suitable for selling to other investors. The combination of toxic assets, hubris, testosterone and herd behavior led to a shadow banking system which had no basis in productive economic activity. The misjudgments were compounded by duplicitous credit rating agencies which were grading the corporations that were paying them for their ratings.

Naïve or misguided politicians and their official advisors were seduced by the most powerful lobbyists (and by a simplistic neo-liberal ideology) into excessively deregulating the financial sector. For example, the repeal of the US Glass-Steagall Act in 1999 allowed commercial banks to run large investment banking businesses. Sleepy regulators failed to rigorously apply even the limited available regulatory framework so failing to constrain the reckless activities of the financial markets.

Ignorant or unrealistic mortgage borrowers failed to rigorously assess their borrowing capacity and self-indulgent consumers borrowed massively until household debt in some countries grew to be one and a half times the national income. Like the frog in the bowl in which the temperature of the water is rising, the point at which a stop should have been called, the point of clear moral and technical failure, was difficult to detect with clarity. In 2004 – 2006, financial services in the US accounted for twenty to twenty one per cent of national income compared with about twelve to thirteen per cent for manufacturing.(Phillips, 2008, p. viii) In the US in 2007 “the financial sector claimed 41 per cent of all corporate profits”.(Morris, 2008, p. xviii) In the US the share of national income going to the top one per cent grew from nine per cent in 1980 to twenty per cent in 2006, and by far the largest proportion of that went to the top 0.1 per cent – nine per cent of the total national income.(Morris, 2008, pp. 152 – 3) Never before in human history have so many people become so rich so quickly.

The rationale for these activities was the ideology of economic neo-liberalism. Neo-liberals principally recommend minimizing the role of the state by reducing public expenditure and taxation, privatizing public enterprises, and deregulating the financial and corporate sectors. At its extreme, neo-liberalism becomes market fundamentalism, which often involves making marketisation an end in itself rather than a means to other economic and social goals.

The bankers, regulators and politicians described above were misled by neo-liberal economic theories of “rational expectations” and “efficient markets”. Anatole Kaletsky, editor-at-large of *The Times*, writes that with “... those two reassuring adjectives, rational and efficient, the victorious academic economists erected an enormous scaffolding of theoretical models, regulatory prescriptions and computer simulations that allowed the practical bankers and politicians to build ... towers of bad debt and bad policy”.(Kaletsky, 2009)

The rational expectations hypothesis sees immutable economic laws governing markets. The theory was developed by disciples of Milton Friedman at the University of Chicago who posited that Keynesian policies would not work because the belief had become general that stimulatory government spending would be inflationary. Whenever public spending was increased, they argued, business would follow “rational expectations” and raise prices and wages, so preventing an increase in employment. Though the theory could never be proved empirically, belief in it continued because it suited those who opposed active public sector regulation and the provision of services.

Similarly the efficient market hypothesis was based on the belief that financial market participants, who were rational and competitive, would set prices that took account of all available information. It was asserted that because “the market” knew more than anyone else there was no point in regulators attempting to prevent or control market imperfections. The theory survived, despite repeated large-scale financial turbulence and periodic breakdowns, because it conveniently justified the free market ideology (and allowed executives to pay themselves huge salaries and bonuses). It survived, that is, despite the diversity and ubiquity of market failure, often through the distorting externalities which are not reflected in market prices.

The relevance of this to global economic governance is that the Great Recession was the most destructive economic catastrophe for nearly eighty years. Yet the assumptions and models underlying it were those that were not only being commended by the most powerful international economic institutions and their dominant member states, but were also the basis for the conditionality which countries borrowing from the IMF and World Bank were required to accept. At the

same time some countries which had steadily maintained their own models and resisted the pressure from the Anglophone states and institutions to conform (and even mockery when they refused to do so) continued their steady growth paths - China being the most outstanding example. One result is that the IMF predicts China's real economic output will overtake that of the US in 2016, long before the predictions being made before the Great Recession. (IMF, 2011)

The consequences of the Great Recession have been unevenly destructive. Tens of millions of people have become unemployed; poverty has increased; many developed and some developing countries contracted; most countries experienced a trade shock; there were large and volatile movements in exchange rates; tax revenues declined causing growing budget deficits and consequent constraints on public services; remittances to some developing countries declined; and confidence in financial institutions fell. A collapse of trust in the banking system has led to reluctance on the part of financial institutions to lend to each other, so that the availability of credit has become restricted. There have also been major social effects which will last for longer, including loss of dignity and of the capacity for self-reliance because of the growth of unemployment, exclusion, and disrupted family and community relationships. One of the most striking consequences has been the way the global balance of economic power between countries has shifted significantly away from the US and some other developed countries towards the larger developing countries. This will eventually lead to changes in the pattern of global economic governance.

There are major lessons for global economic governance from the Great Recession. One is about the importance of the political accountability and the transparency of economic institutions, both public and private. If the international financial institutions (IFIs) had been more rigorous in assessing the impact of their policies they would have recognised more quickly both the frequently destructive consequences of the undifferentiated application of contractionary structural adjustment policies as well as of the pro-cyclical impact of their macroeconomic policy recommendations during economic crises. Major damage was caused to many economies before the IMF and World Bank began to systematically examine the consequences of their policies and to apply the lessons from that empirical observation.

There are two kinds of representational problem: that major global economic and financial institutions – the IMF, WB, WTO and Bank for International Settlements for example – are still controlled by the industrialised countries; and second that the poorest half of humankind and the smaller one hundred and seventy countries are marginalized. A rule-based international system is vital for economic and social development but a necessary condition is that the rules be equitable and inclusive.

Another lesson is that there are still major sources of instability within international economic arrangements. Whenever the US has relaxed its monetary policy and reduced its interest rates to stimulate domestic economic activity, as it did after the Great Recession, confidence in the dollar has declined causing global exchange rate instability. After the Asian financial crisis in the late nineties such instability motivated those developing countries which could do so to accumulate enormous foreign exchange reserves, totalling \$3700 billion by 2007. (UN, 2009, p.113) Since those reserves were held in developed countries, and principally the USA, this caused a transfer of financial resources from developing to developed countries, the total of which is far larger than all overseas development assistance

(ODA). Greater pressure on current account deficit countries to reduce their imports, rather than on those with a surplus, also caused a global deflationary bias.

The Third World debt crisis is another issue that remains unresolved. It is three decades since the Third World debt crisis began, yet there is still no fully adequate mechanism for enabling indebted countries to work-out their debts. Arrangements negotiated through the Paris Club often require that indebted countries adopt an IMF-approved structural adjustment strategy, yet they are obliged to base their projections on excessively optimistic assumptions about growth that give them very little debt relief. This is partly the result of the inadequacy of the resources which poorer developing countries are able to mobilize, either internally or through external, concessional assistance.

Perhaps the most important lesson from the Great Recession is the necessity of being clear about goals, and firm and consistent in the determination to work towards them. Few would disagree that stability is vital: more might dispute that equity between countries and peoples is vital, but it is hard to argue otherwise convincingly. As Keynes well knew, vigorous disagreement is more commonly about the means of achieving goals than about the goals themselves. As soon as issues of power and sovereignty become involved, conflict is inevitable. The next step, therefore, is to review the existing economic institutions so as to assess more concretely where reforms are necessary.

## **Institutions**

The functions, policies and problems of the IMF and the World Bank (the BWIs) are discussed elsewhere - including in this volume. They have been well documented. (See, for example, Buirra, 2003) The governance of both institutions suffers from a lack of equity and inclusiveness. In the case of the IMF, this inadequacy can be identified in several areas. Firstly, voting power grossly favours Western nations, especially Europe and America. The top twenty nations account for 71% of IMF votes, leaving the remaining 166 nations with 29% of voting power. (IMF, 2009) This imbalance marginalises the voice of both large and smaller developing nations. This difficulty is further exacerbated by the unfair majority rules, which require an affirmative vote from the US to pass major decisions. Without the effective input of developing nations, the BWI's policies are lopsided in that they favour the wealthier countries of the global North. They do not represent comprehensive strategies that benefit all economies.

Some reforms are under way, such as the intention to end the tradition of selecting the managing director of the Fund from Europe and the president of the World Bank from the US. Marginal changes are also being made in the distribution of quotas so as to take small steps towards greater representational realism. Those changes underway will still leave developed countries in a more dominant position than their relative economic or population sizes warrant, however. Despite the addition of a third African Board member at the Bank there continue to be asymmetries in the structure of the boards, with most member states being members of a group in which developed countries more commonly represent the members than developing countries. The result is that "participants from smaller countries [feel] that there is no role for their authorities in actively contributing to the formulation of their constituency position." (Woods, 2009) With so many countries clamouring for the attention of one director, it is inevitable that many voices are diminished if not

drowned out. It is clear that there is a democratic deficit in the operation of these institutions. Yet the BWIs, especially the IMF, have been given an enhanced role by the G20 in response to the Great Recession.

The Americans were strong advocates of the establishment of the UN Economic and Social Council (ECOSOC) during the negotiations about the UN at Dumbarton Oaks in 1944 but they lost interest when their control was eroded because of increasing developing country membership of the UN. ECOSOC was designed to be the principal international forum dealing with global economic coordination. With every state privy to the Council's dealings, it has also been the inter-governmental body with the greatest potential to link the "silos" into which international economic, financial, trade, social and environmental organizations have tended to settle. Meetings of ECOSOC are held in public so it is more transparent and accountable than most other international economic and financial forums. By being the most comprehensively representative global economic forum it is also well placed to reflect global economic concerns.

Yet no one would claim that it is even close to fulfilling its functions adequately. With 54 members it is too large to act swiftly and decisively; its principal session is held once a year during July; high level participation is limited to two or three days; the world's major economies are only episodically engaged with its activities at senior levels; and it has few powers and no resources with which to implement its decisions. There was even debate for some years about whether attempting to reform ECOSOC was worth the effort, given the unwieldy size of its membership and its failure to establish the political authority needed for effectiveness. The Commission on Global Governance and other commentators have proposed the establishment of an economic and social security council which would have similar status to the UN Security Council. (See below)

Following the 2004 report of the High-Level Panel on Threats, Challenges and Change, Secretary-General Kofi Annan made modest but valuable suggestions for upgrading the work of ECOSOC by making annual ministerial assessments of progress towards mid-range development goals; by recommending the convening of timely meetings to address crises; and most importantly, by asserting leadership in driving a global development agenda that is able to provide direction for the International Monetary Fund (IMF), the World Bank and other agencies. Kofi Annan's suggestions were accepted by the Global Summit in September 2005. Consequently the effectiveness of ECOSOC has been improved in recent years with the inauguration of Annual Ministerial Reviews to speed up the implementation of international development goals such as the Millennium Development Goals; the establishment of biennial Development Cooperation Forums; the convening of high level dialogues with the IMF, the World Bank, the WTO and UNCTAD; the holding of more short meetings on high priority issues during the year; and the improvement of procedures and preparation.

Attempts have also been made to develop systems of global economic governance outside the UN. Amongst the most notable have been the G8, and later, the G20. The G8 was formed in 1975 at the initiative of the French and German governments. Its initial membership of seven (Canada, France, Germany, Italy, Japan, UK, USA) was expanded to eight with the addition of Russia in 1997. The grouping has met annually, at head of government level, as a forum for developed economies to discuss and develop common policies in many areas. Although able to meet exclusively for many years, the increasing interdependence of the global economy led the G8 to broaden both its agenda and invitees in recent years, with international

organisations first invited in 1996, and other non-G8 nations in 2000 (the UN, World Bank, IMF and WTO were first invited in 1996; Mexico, Nigeria, Algeria and Senegal were invited to the 2000 G8 meeting. (Kirton, 2008) Once a powerful club of economically dominant nations, the grouping became increasingly anachronistic in the 21<sup>st</sup> century world, its static membership more reminiscent of “a European dinner club of the rich and decreasingly powerful” (Walker, 2009) than the global power balance. Lack of membership of key nations such as China, India and Brazil has caused increasing irrelevance for the G8 as a steering committee for the global economy. Its formation more than 35years ago may have seemed like a natural step for its large industrialised members at the time, but its exclusive elitism became a scandal to much of the rest of the world, which only limited consultation with large developing countries did little to allay.

The formal down-grading of the G8 took place at the 2009 Pittsburgh G20 Summit, where the Group of 20 Finance Ministers and Central Bank Governors (G20) was anointed as the pre-eminent international economic council by its members. This grouping first met in Berlin in 1999 at the initiative of the then Canadian Prime Minister Paul Martin. It was originally constituted as a meeting at finance minister level with the stated aim of “supporting growth and development across the globe [through] the strengthening of [its] financial architecture and [the] providing [of] opportunities for dialogue”(G20, 2011). The grouping convened at this level until 2008, when it was elevated to a meeting of member heads of government.

Selected exclusively by the American and Canadian finance departments, the G20 membership includes both emerging nations and the developed member countries of the G8. The full membership officially consists of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States of America and the European Union. Additionally, the CEOs of a number of international institutions participate in G20 meetings in an official capacity. (These include the CEOs of the IMF, the World Bank, and the International Monetary and Financial Committee). Whilst this membership does not necessarily include the twenty biggest national economies in the world at any given point, it does account for 85% of global GDP, 80% of international trade, and two-thirds of the world’s population. The G20 note that their membership includes “countries and regions of systemic significance for the international financial system, [as well as] geographical balance and population representation” (G20, 2011). Member states’ constituent governments are also diverse. They include multi-party democracies, transitioning economies, a monarchy, and a Communist one-party state. This diversity of membership and broadened scope are a significant representational improvement on the G20’s predecessor body, the G8.

Additionally, the host of each G20 summit invites other states, international institutions and regional groupings to attend as observers. For example, the South Korean government invited several non-G20 countries (Ethiopia, Malawi, Singapore, Spain, and Vietnam); international institutions (the Financial Stability Board, the International Labor Organisation, the International Monetary Fund, the Organisation for Economic Co-operation and Development, the UN, the World Trade Organisation, the World Bank); and regional forums (ASEAN, the African Union, and the New Partnership for Africa’s Development); as ad hoc observers to the 2010 Seoul G20 Summit. The presence of these entities broadened the scope of G20 engagement with a range of international economic issues.

Indeed, the elevation of the G20 from a meeting of finance ministers and central bank governors to the level of heads of government can be viewed as recognition of the utility of this body across a range of issues and a validation of its composition. The greater prominence afforded to developing nations in the G20 configuration has meant that issues pertinent to the global South have a greater chance of featuring on the agenda of this powerful grouping. Developing economies have used their opportunity to chair G20 meetings to advance their own issues. For example, in 2005 China put on the agenda issues most relevant to developing countries – “demographic challenges, brain-drain, migration and innovative financing mechanisms for development” (Rubio-Marquez, 2009). The broadening of the G20 focus to encompass a broader range of global economic and social issues can only strengthen the legitimacy of the body.

The G20 has also enjoyed a certain degree of success in achieving reform in areas where other forums might have failed. For example, work that had stalled at the OECD on tax havens and transparency was advanced through the G20 after a combined German/Australian initiative that overcame existing roadblocks (Beeson & Bell, 2009). Most notable were the initiatives developed by the forum in response to the Great Recession. G20 member states took concerted, co-ordinated steps to support the global economy. “Massive fiscal stimulus programmes were implemented, central banks injected vast amounts of liquidity into the economy; and the means available to international organisations to assist emerging and developing countries were greatly expanded”(G20, 2011). The G20 also developed a Framework for Strong, Sustainable and Balanced Growth and a financial regulation plan to address the root causes of the crisis. G20 meetings have also produced agreement on a limited overhaul of the voting and governance structures of the Bretton Woods institutions. These actions demonstrate the G20’s capacity to effectively respond to global economic matters of concern.

This is not to say, however, that the G20 is without problems. Issues of accountability and transparency, for example, affect the legitimacy of the G20 as the pre-eminent body in the international economic order. Despite general recognition that this body is an improvement on its G8 predecessor, the autocratically selected, static membership and lack of transparency undermine the G20’s ability to provide representative economic governance. The G20 has a static membership with no provision for change over time. Member states were chosen through a secretive process by the Canadian, German and American finance ministries (Martinez-Diaz, 2007). Lacking broader global consultation, this process stamps the G20 with a democratic deficit which is difficult to ignore and ultimately undermines its authority as a representative body. As there is no articulated process for change or renewal, the membership remains static with a limited ability to respond to changes in the global dynamic. A similar arrangement diminishes the relevance of the G8 over time.

Whilst the strengths of the G20’s current composition have been noted, the grouping lacks formal input from medium and small developing nations, especially low income countries. As ministers from 34 nations have noted: “the G20 must be democratised to include low-income members and ensure that the issues of key concern to them are addressed” (*Australian Financial Times*, 2009). The exclusion of one hundred and seventy nations from critical financial governance decisions is a matter of great concern for G20 effectiveness.

Although it has been noted that non-G20 member entities can and have been invited to participate in G20 summits, several regions do not have adequate representation. Nordic countries are amongst the largest contributors to global



development budgets but have not yet been invited to any G20 summit. Former Soviet bloc nations, including the non-Russian transitional economies and western Asian 'stans' are unrepresented. Similarly, regional powerhouses throughout Asia and Africa are denied representation. While debate will continue regarding G20 membership, the current static constitution of the grouping will undoubtedly call into question its ability to mount a truly global response to critical problems.

Like the G8 the G20 lacks a formal secretariat. There is therefore no international bureaucracy to prepare meetings and develop agendas. This task is performed by the host nation of each summit. Member states are then tasked with the responsibility of implementing decisions arising from these summit meetings. This arrangement has several results that diminish the standing of the G20. Firstly, there are few accountability mechanisms to ensure that meeting outcomes are implemented. Secondly, different hosts afford different issues varying priority. Accordingly, it can be difficult to get traction on any particular issue as agreement at one summit may not be followed up at the next (Rubio-Marquez, 2009). Both of these factors undermine the effectiveness of the G20 as a robust body of international economic governance.

Although G20 governments have lauded the grouping's actions in the face of the great Recession, certain criticisms can be made of G20 decisions. The reforms enacted by the group have not sufficiently addressed the longer-term structural problems that gave rise to the crisis. Indeed, "the G20's attempt to face the features of the monetary system that give rise to global imbalances can be predicted to lead to more of these imbalances" (Caliari, 2009). Additionally, despite great potential to focus on broader issues of development, the grouping's agenda has become increasingly narrow, focusing solely on financial reform. Two days ahead of the 2010 Seoul summit, former UN Secretary-General Kofi Annan expressed concern. "Naturally", he said, "it is my profound hope that the principles of fairness, balance and the common good will also inform these discussions – and not only those on issues such as undervalued currencies, lopsided trade statistics or skewed consumption patterns, however important they may be. Unfortunately, the signs are decidedly mixed" (Chaturvedi, 2011). In retrospect, his doubts proved justified.

The G20 also lacks an enforcement mechanism of its own. Its reliance on the IMF to carry out its financial decisions contributes to the group's inadequacies, given the Fund's own issues with skewed policy and accountability. The lack of far-reaching reform in the face of the crisis, its narrow financial focus, and the absence of an implementation structure, all suggest that the G20, as currently constituted, is less effective than required for comprehensive global financial management.

The G20 is undoubtedly an important step in the development of global economic governance. Its enhanced membership and the scope of its capacity to enact reform enhance its potential value. Countering these strengths, however, are its static, undemocratic membership, and accountability issues that diminish this potential. Although a positive step, the G20 ultimately does not adequately resolve the democratic deficit in this area. As a consequence eminent international economist José Antonio Ocampo concludes that: "The G20 has been a step forward ... but its representation is inadequate and, particularly, lacks the legitimacy that is required for global consensus building". (Ocampo, 2011, p. 18)

## **Potential Reforms**

Since the start of the eighties the developed Anglophone world has given much freer reign to the economically powerful to do as they wish. The philosophical

justification has been provided by those who regard maximisation of individual income through improvements in competitive efficiency as the preferred economic goal. It is now clear that the hubris and sense of entitlement which this generates has established mechanisms for severe financial instability, ecological erosion, growing injustice and the entrenchment of a global underclass. Radical reform is essential.

The key features of a renewed paradigm of a global economic structure would be of the most general value if they focused on equitable improvements in personal and national wellbeing. These are genuinely broad and more fully inclusive goals than simply seeking maximisation of the incomes of the already privileged and expecting the benefits to flow down to the rest. Means to the ends of improving both equity and economic efficiency would involve restoring a better balance between the market and the state. In addition, recognition of the value of diversity in economic strategy would reduce the tendency towards hubris in the centres of capitalist power. Perhaps the rest of the world has lessons to learn from China as well as to teach it. It is vital also to acknowledge the necessity of carefully judged regulation in contributing to reducing the risks of economic and financial instability and abuse. In certain areas restoring strong regulatory frameworks are a priority.

A particularly clear example of an issue which could only be effectively addressed through international regulation is the tax evasion facilitated by banking secrecy. It has become commonplace to blame tax havens in developing countries for this practice but in practice the principal centres enabling international tax evasion are within developed countries. Any country guaranteeing banking secrecy could be providing the context for tax evasion: for example, it is well known that the states of Delaware and Nevada in the US make establishing anonymous accounts relatively easy. The biggest cases relating to money laundering have involved banks in London, New York and Zurich, and the European Commission has referred four small member states to the European Court of Justice for failing to implement a 2005 anti-money laundering directive. (UN, 2009, p. 83) Tax competition undermines the tax policies of developed countries even more than of developing countries because the former consider that they can afford to make larger concessions. While he was Managing Director of the IMF, Michel Camdessus said (in 1998) that: “estimates of the present scale of money laundering transactions are almost beyond imagination – 2 to 5 per cent of global GDP would probably be a consensus range”. (Baker, 2005, p. 162) Applied to global GDP of \$58 trillion in 2009 this indicates international money laundering in the range of \$1.16 trillion to \$ 2.9 trillion annually. (Another example of culpable tax evasion is corporate transfer pricing. Raymond Baker estimates that mispricing and abusive transfer pricing alone are worth in the region of US\$500-750 billion annually, US\$200-250 billion out of developing and transition economies. [Baker, 2005, p.172])

The OECD argues that it should be allowed to continue to control this area of international policy and during the last couple of decades it has been undertaking useful work doing so. But the issues are global and the OECD has focused on the interests of its own member states and developing country tax havens rather than the interests of all countries. Demonstrably the current preoccupation with tax evasion through offshore tax havens without simultaneous attempts to tackle the more substantial examples of tax evasion within developed countries is both inequitable and inefficient.

What is required is the establishment of reciprocal international agreements on issues of tax secrecy, the sharing of information, and decisions which are enforceable by international courts. International transparency about cross-border financial flows

is currently poor. Agreements like those mooted above would substantially improve the revenues received by both developing and developed nations. The EU has already established such a system. International rules are also necessary requiring multinational corporations to publish country-by-country reports that show the profits and taxes they have paid in each country in which they operate.

This is the case of strengthening global institutional arrangements for international tax cooperation and harmonising regulations. Establishing an international tax organisation would be the most effective step. An obvious way to do this would be to upgrade the UN Committee of Experts on International Cooperation on Tax Matters into an intergovernmental body. Such a body would have an elected governing council, representative of member states, and responsible for drawing up broad objectives and major issues of policy (with the help of a highly competent staff.) This issue is already on the agenda of ECOSOC and it could also usefully be discussed by the G20. An agreement to strengthen international tax cooperation would be of value to every country, developing or developed, that is seeking to increase its revenue, to reduce tax evasion and to strengthen equity.

Enhanced global economic governance would be a key component of renewing the dominant discourse in international political economy. The most cost-effective national economic policies work partly because they are of benefit to other countries, but many are only possible if other countries adopt them too. For example, if all countries collaboratively introduce expansionary macroeconomic policies these then become mutually reinforcing, without damaging asymmetrical externalities. The most widely recognised example amongst economists is that of “beggar-thy-neighbour” tariff increases. When introduced to protect national manufacturing or agriculture, they do so at the expense of reduced global trade, with the aggregate effect being the retardation of economic recovery everywhere.

Several reforms have been suggested to enhance the effectiveness of the G20. The host nation for the 2011 meetings, France, has been actively advancing the notion of a G20 Secretariat to oversee the implementation of decisions. This follows the enthusiasm of the previous host nation, South Korea, for such a proposal. Such a secretariat would also provide a more reliable forum for those nations excluded from G20 membership to participate in the grouping’s work.

The Global Governance Group (3G), a collection of non-G20 nations, has proposed several modest practical actions that could be taken quickly without significant alteration to current arrangements. These steps aim to consolidate linkages between the G20 and the UN and broaden the representational credentials of the G20 (see Menon, 2010).

The 3G has suggested that the G-20 should undertake consultations as widely as possible with non G-20 members before the G-20 Summits, through regular and predictable channels. This has increasingly been the case, and has been made a priority by the French hosts of the 2011 summit. Additionally, there have been enhanced efforts to update the UN membership on the preparations for and outcome of G20 meetings. These are positive steps, although further action could be taken to enhance G20 engagement with the UN. Whilst the UN Secretary-General and his staff have been regular participants at the G20 meetings, their attendance at the summits and their preparatory meetings respectively could readily be formalised. Additionally, the participation of established regional organizations in G-20 Summits could also be regularized. Finally, there is ample flexibility in the G-20 process to provide for the participation of non-G-20 members in discussions on specialized issues. This would

ensure that deliberation on key issues of global concern engage all the relevant parties.

Comprehensively collaborative economic policies cannot be achieved by G20 members alone, however, which is why the Stiglitz Commission on Reform of the International Monetary and Financial System argues that: “it is absolutely essential to create better institutional arrangements for coordinating global economic policy”. They suggested the establishment of a Panel of Experts and a Global Economic Coordination Council.(UN, 2009, p. 137) “There is a need for global collective action to address not only ... issues of global ‘externalities’ but also the provision of global public goods. Among the global public goods are the stability of the global economic system and fair trading rules. ... without coordination, countries do not have sufficient incentives to invest in global and regional public goods ... The same is true for common social objectives such as combating poverty. Among the most important of the global public goods is preservation of the environment.”(UN, 2009, p. 88)

The Commission’s proposed Panel of Experts could be established quickly, using experts from all continents in order to pool the knowledge and research results of a large number of acknowledged experts, the way the Intergovernmental Panel on Climate Change has done. The Council could also be established “at a level equivalent with the UN General Assembly and the Security Council ...” with the purpose of providing “leadership in addressing economic issues requiring global action while taking into account social and ecological factors”. (UN, 2009, p. 91) Membership would be by election through a constituency system designed to ensure that all continents and all major economies are represented. It would actively consult with the other institutions of global economic governance.

While this proposal is very attractive there is insufficient concrete detail in the original report for it to be an operational proposal yet. The framework seems sound, however, and the rationale for establishing such a Council is clear.

The Stiglitz Commission makes many other desirable recommendations, amongst them radical reform of the global reserve system. Not only has the current system favoured the US but it has also worsened instability. If the dollar falls it reduces the value of reserves held in dollars by other countries. When exchange rates were floated in the seventies and eighties this reduced countries’ capacity to achieve full employment. Some leaders, including those of China, have suggested that the best method of eliminating these problems would be to do as Keynes proposed and to create a supranational/international reserve currency. The Stiglitz Commission says that “this is an idea whose time has come”. One method would be to steadily increase the number of Special Drawing Rights issued by the IMF, for which the \$250 billion which the G20 authorised is an important start. Many issues would have to be worked out and negotiated first, but the initial step would be to decide to start the discussions.

## **Conclusion**

To conclude, the Great Recession has clarified the extent of the gaps, distortions, asymmetries and other failures in global economic institutions and policies, and the enormity of the costs which they have caused. The imperative for major reform is therefore clear, though some sectional interests argue otherwise. The question is whether there are sufficient wise, disinterested and influential people and countries to be advocates for addressing the challenges of establishing effective global economic governance.

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