10.07.2009

Position paper:

The case for better coordination of international economic policy

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1. Introduction

The globalisation of markets is far advanced. Globalisation has made countries highly interdependent in terms of their economic development. There is nothing new in this. The financial and economic crisis, however, has shown that the existing international regulatory framework has not kept pace with this trend.

The financial crisis has with staggering speed spread to become a crisis in the real economy, too. There are several reasons for this:

- The financial markets were inadequately regulated as a result of competition between nations to offer the most favourable conditions for financial investors.
- There are glaring imbalances in trade and balance of payments. While the United States financed their consumption on credit, China and Germany, in particular, continued to increase their export surpluses.

Measures had to be taken around the world to respond to the economic crisis in order both to stabilise the financial sector and to prevent demand collapsing any further. The first structural reforms were also embarked on. The first signs are now emerging of measures to introduce tougher regulation of the financial markets and to discourage tax competition by clamping down on tax havens.

A debate has also begun in the field of international monetary policy on whether a new international reserve currency should be introduced with the eventual aim of reducing dependency on the dollar. Prompted in part by the Stiglitz Commission,[1] the International Monetary Fund is now also considering creating an international reserve currency of this sort in the "long term" on the basis of the IMF's special drawing rights. Newly industrialised countries such as China, Russia and Brazil are backing this move.

There has also for years been discussion over reforming the governance structures of the International Monetary Fund and the World Bank. Discussions have centred in particular on increasing the voting rights of developing and newly industrialising countries and on refocusing the Bretton Woods institutions. In light of the challenges of climate change and the lack of progress in reducing global poverty, there is a need to ensure that these institutions take greater account of social and ecological criteria. The World Trade Organization, too, needs to be further developed. Its rules should promote rather than block sustainable development.

The world economic crisis has also shown, however, that reforming the governance structures of the IMF, the World Bank and the WTO is not enough. The existing global governance structures failed to provide proper early warning of risks in the area of economic and financial policy. The international community also for its part failed to respond to the crisis with the necessary coherence and resolute action. We therefore believe that there is an urgent need for action to enable better coordination of international economic and social policy.

[1] In reaction to the financial and economic crisis, the UN General Assembly last year established a commission of experts to analyse the causes of the crisis and to submit a report on reforming the international monetary and financial system. The commission is headed by Joseph Stiglitz, holder of the Nobel Prize in Economics.

Furthermore, the Green New Deal proposed by us calls for better coordination of economic and financial policy with environmental and social policy. For this reason, too, it is crucial to have international institutions which are in a position to ensure this coordination.

2. Key problems in the coordination of international economic and financial policy

1. There are many organisations and bodies in the area of international economic policy whose policies are not coordinated with each other:

The UN Economic and Social Council (ECOSOC) – responsible for coordinating the specialised agencies of the UN in the area of international economic policy – has few powers and with 54 members is too big to work efficiently. It has only very limited decision-making powers and no influence on the numerous UN specialised agencies such as the IMF, the World Bank and the International Labour Organization. These specialised UN agencies function largely autonomously and are only to a limited extent bound by the political goals of the UN. This has led to a situation in which the UN for its part is committed to reducing world poverty, while on the other hand the IMF imposes structural adaptation programmes on countries which have led to rising poverty and the dismantling of social services. Social security systems would have been extremely important during the crisis as automatic stabilisers. Other organisations such as the WTO are completely outside the UN system and are not bound by the UN's major political goals such as, for example, the Millennium Development Goals. This fragmented structure in the area of economic and financial policy prevents the international community from acting coherently. Concerted action, however, is vital both in terms of social and economic policy and for the resolute enforcement of environmental policy concerns.

2. The "G groups" which have the necessary scope for political action are outside the UN system and have no global democratic legitimacy:

The meetings of the G8 industrialised countries have increasingly shown that they are no longer able to take preliminary decisions which are then accepted by the "rest of the world". The economic and financial crisis has enhanced the status of the G20. Previously G20 meetings were at finance-minister level; now it is the heads of government who meet together.

The G20 are more representative than the G8 or G7, particularly in terms of share of the population and economic performance. This means they are systemically relevant in terms of solving global problems. Nevertheless, they still exclude many countries from the decision-making process. Apart from the major emerging economies, the developing countries and the African continent – with the exception of South Africa – are not represented at all. Thus these bodies have absolutely no global democratic legitimacy.

3. There is no properly functioning global early warning system to flag up risks to the international economy. There is no doubt that the fault lines in the global financial system were detectable a long time before the crisis. The resulting risks, however, were not recognised and not heeded or else were intentionally ignored. The same

applies to the more deep-seated causes of the crisis, such as huge imbalances in trade, the negative distribution effects within national economies created by globalisation and the economic instabilities which resulted at least in part from these factors. The only way the economic crisis could have been averted would have been if the distortions in the global economy had been recognised early enough, the possible risks identified through thorough examination and the necessary conclusions drawn. This obviously did not happen.

4. The problems of coordinating international economic policy are also reflected in the countercyclical measures taken by the various nations and the measures to stabilise the financial institutions. The economic stimulus programmes and measures to prop up the financial institutions, while they may not have been directly protectionist, are having a negative impact on developing and newly industrialising countries.

Another problem in terms of coordination is that in an interdependent global economy the positive effects of a stimulus programme cannot be restricted to one country. Thus it is possible that some countries will benefit from the stimulus programmes of other countries without having fully exploited their own possibilities in terms of countercyclical measures. Apart from the fact that this can lead to unequal burdens, it is also doubtful whether, without proper coordination, the optimum volume can be achieved to correct the economic cycle.

3. Putting reform of global economic governance on the political agenda

There have already in the past been numerous debates about and commissions set up on reforming the international institutions in the area of economic and financial policy and improving the coordination of international economic and financial policy. To be highlighted in this respect is the high-level commission of experts established by the then Secretary-General of the UN, Kofi Annan, which tabled concrete proposals three years ago on how ECOSOC could be reformed and upgraded. These proposals included slimming down the Council to 27 heads of government representing all the continents and making it responsible for coordinating the activities of the different UN organisations and international financial institutions.

For the most part, these proposals were shelved. The worldwide economic and financial crisis, however, has now refocused the spotlight on the question of how multilateral coordination of economic policy can be improved.

Federal Chancellor Angela Merkel is calling for the establishment of a new UN economic council and a UN charter on sustainable economics. Unfortunately the details of these demands have not been fleshed out or followed by any action and exact details of what is envisaged are still unclear. The Federal Government has not yet made any statement on the composition, remit and jurisdiction of such a body, even when requested. Merkel’s proposals have also provoked controversy in the Federal Cabinet. The Foreign Office, the Federal Ministry for Economic Cooperation and Development (BMZ), the Economics Ministry, the Finance Ministry and the Federal Chancellery all have different opinions as to whether there is a need for a new UN economic council and what its remit should be.

At international level, the discussion on reforming global economic governance has been revitalised by the work of the Stiglitz Commission set up by the UN. In its report, the Commission proposes the creation of a new world economic council. We are taking up the proposals of the Stiglitz Commission and the commission of experts appointed by Kofi Annan.

Combining the first concrete steps with a long-term perspective

In the current situation, it is crucial not to miss the opportunity to make a sustainable improvement to the coordination of international economic and financial policy. As any radical reform of international governance structures in this area is certain to meet with resistance from many sides, it is important to define an achievable interim goal which can serve as a preparatory step towards sustainable and far-reaching reforms and also to sketch out development paths for radical reforms.

Setting up an international panel of experts as a first step

As a direct step towards a coherent and effective global governance structure in the area of economic policy, the Stiglitz Commission proposes setting up an intergovernmental panel of experts whose remit would be to analyse systemic risks in relation to the global economy, their causes and the effects on human development. While the panel's main focus would be on economic issues, it would also take into account social and ecological implications. The panel would be a forum providing a comprehensive social, ecological and also development-related perspective on the global economy.

The panel would be modelled on the successful example of the Intergovernmental Panel on Climate Change (IPCC). Like the IPCC, it would comprise experts not only from the OECD countries and emerging economies but also from the developing countries.

Setting up an intergovernmental panel of this kind would be a first important step towards improving the coordination of international economic policy. Compared with a world economic council, it would be able to start work in a substantially shorter time.

Perspective: A world economic council

We are in favour of setting up in the medium to long term an efficient international economic and financial policy coordination body – a world economic council. For us the central issue is that this body should have democratic legitimacy. It must therefore be located within the framework of the UN.

The world economic council should have equal status with the Security Council. This means it must also be on a par with the UN General Assembly. With this, we want to ensure that the world economic council has a similar political importance in coordinating international economic and financial policy as the Security Council has for security issues. The above-mentioned intergovernmental panel of experts would sit alongside the UN economic council as an advisory body after its establishment.

The UN world economic council should comprise heads of state and government from all continents and include the governing bodies of selected specialised UN agencies and special organs such as the IMF, the ILO, the World Bank and the WTO. It must be able to work efficiently. Experiences with ECOSOC indicate that it must not, therefore, be too big. For this reason, in line with the proposals made by Kofi Annan's commission of experts, we favour a council comprising 27 members. All the world's regions – industrialised, newly industrialising and developing countries – must be represented proportionately.

A permanent executive board should be created within the council to which governments would second ambassadors. The board should be vested with decision-making powers, for example, where environmental law clashes with trade law. The major industrialised countries and also developing and newly industrialising countries should have a permanent seat on the executive board. In addition to permanent members, further non-permanent members would be seconded to the board using the constituency system.

The world economic council should tackle current economic, environmental, financial and development problems and create guidelines for international economic, monetary and trade policy. A central concern for us in this respect is the incorporation of ecological and social issues.

These should then be voted on by the General Assembly and made obligatory for all the UN's specialised agencies (IMF, World Bank, etc). In order for these guidelines to be applicable to the WTO too, the latter must be integrated in the UN system as a specialised agency.

4. Four routes to a world economic council

Creation of a new world economic council:

The first route towards the world economic council, as proposed by the Stiglitz Commission, is to found a new body from scratch. The world economic council should have the same importance as the Security Council and the General Assembly. This new beginning would have the advantage of not having to take into account existing UN structures, thereby making it possible to establish a body which is both efficient and democratically legitimated. This would, however, entail an amendment to the UN Charter which would then have to be accepted by all the UN members. It is also open to question whether the existing informal groupings (G8 and G20) would be dissolved following the establishment of a new world economic council under the aegis of the UN, or whether they would continue to exist as parallel structures. Their continued existence would restrict the importance of the world economic council.

ECOSOC as a starting point:

The existing UN Economic and Social Council (ECOSOC) could serve as a starting point for establishing a world economic council. ECOSOC currently comprises representatives of 54 countries as members and is too big to be able to take effective action. It would be necessary to streamline debates, focus on strategic themes and set up an executive committee with an effective steering function. It would also be important to reduce the amount of overlapping between the ECOSOC mandate and the work of the Second Committee (Economic and Financial) and Third Committee (Social, Humanitarian and Cultural). These steps would strengthen ECOSOC, even without the subsequent creation of a world economic council building on it (Kofi Annan 2005).

It would also make sense to broaden ECOSOC's mandate. It could monitor the implementation of internationally agreed development goals (including the Millennium Development Goals) and the efficiency of the international institutions; it could analyse trends in international development policy; and it could also promote coherence between the different development goals. ECOSOC's status would also be considerably enhanced if it were to formulate guidelines for economic, monetary and trade policy (Green Youth 2007). In order to enable the guidelines to become fully effective, they could be adopted by the General Assembly and hence made mandatory for the IMF and World Bank.

In this way, it could be raised from its subordinate status to become a body which is mandated to make decisions with binding effect without the need to alter the UN Charter. This would, however, require the political will of a majority of the UN Member States. And even if this variant were to be adopted, it is likely that parallel structures (G8, G20) which defend their dominant position would continue to exist.

The G8 and G20 as starting point:

A further possible starting point in terms of setting up a world economic council are the summit meetings of the major industrialised countries (G8) and of the industrialised and newly industrialised countries (G20). In order to circumvent the criticism and diminishing legitimacy of the G8, there are suggestions of enlarging the group in order to increase its legitimacy and effectiveness. The influence of the G8 on the global economy is dwindling while the major powers of the southern hemisphere are growing in importance.

It would therefore make sense to incorporate the G8 in the G20 and to raise the existing G20 of finance ministers permanently to the level of heads of state and government. In a further step it would then be necessary to abandon the principle of the G20 selecting new members themselves and replace it with a system whereby new members would be selected from groups of countries. This would ensure, for example, that African countries were adequately represented. Ideally, the G20 should be strengthened, but only if this enlarged G20 were to be incorporated in the UN.

Simultaneous reform and subsequent merging of ECOSOC and the G20:

ECOSOC and the G20 could also be reformed in tandem and dovetailed together in a transformation process. ECOSOC, with its relatively restricted scope for action and high level of legitimacy and the G20, with its considerable scope for action and low level of legitimacy, would complement each other. The old grouping of major industrialised countries, the G8, could be disbanded or retained as an informal network within the G20. In a further step, the G20 would have to be expanded to include representatives of developing countries and incorporated within the UN organisation. In the medium to long term, a world economic council could then emerge from a synthesis of the G20 and ECOSOC; this body would come very close to the proposals presented in 2006 by the commission of experts set up by Kofi Annan.

5. Resistance, obstacles and steps forward

The UN Conference on the World Economic and Financial Crisis (New York, 24-26 June 2009) demonstrated that the debate about reforming global governance structures is pervaded by unexpectedly fierce clashes of interest. While virtually all developing countries welcomed the proposals of the Stiglitz Commission and pressed for the UN to take a stronger role in economic and financial questions, many industrialised countries were pulling in the other direction. The USA even denied that the UN had the right to formulate guidelines on economic and financial policy beyond questions of development aid on the grounds that it had neither the mandate nor the expertise. The US ambassador referred to the permanent institutions which existed for this purpose such as the IMF and the World Bank, and the effectiveness of tried and tested informal groupings (G8 and G20).

The reactions of the Federal Government were contradictory: while the development minister, who in her private capacity is a member of the Stiglitz Commission, spoke in favour of strengthening the United Nations, other departments, most notably the Economics Ministry, were sceptical and, like the Americans, British and French, defended the dominance of the IMF, the G8 and the G20.

In the outcome document, negotiated after much wrangling ahead of the conference, there is no mention of the creation of a new world economic council. Instead, however, ECOSOC is called on to investigate the establishment of a permanent intergovernmental panel of experts on the lines of the IPCC and, if appropriate, to make concrete proposals to the UN General Assembly. This panel, in which economists from different regions of the world and different schools of thought would be represented, would have the task of identifying risks in the global economy and elaborating proposals for creating greater coherence in global governance.

While many NGOs and the representatives of the ALBA countries (including Ecuador, Bolivia, Venezuela, Nicaragua and Cuba) appeared disappointed at the sparse results of the UN Conference in New York, for Joseph Stiglitz, holder of the Nobel Prize in Economics, the glass is more half full than half empty. Anticipating a blocking stance by important industrialised nations, he had not expected any groundbreaking decisions, he said after the conference. Nevertheless, he thought there was now an opportunity that the permanent commission of experts proposed by the Stiglitz Commission would be set in motion by ECOSOC.

We believe ECOSOC should now act swiftly and run with this ball. This will not happen on its own but only if reform-oriented industrialised and developing countries forge alliances and join together in ECOSOC to table sound proposals outlining the mandate, concept and composition of a permanent panel of experts of this nature.

If this is successful and a panel of experts mandated by the UN General Assembly starts work, this would add impetus to the debate on necessary reforms to global governance in the area of economic and financial policy. For this to happen, however, the panel would need to be as successful as the IPCC has been in reaching an audience. With Joseph Stiglitz at the helm, we believe that, while it may take time to move the process forward, it will in the end be unstoppable.

Whether or not a world economic council with real clout will eventually exist under the aegis of the United Nations depends on whether the G8 and G20 states give up their exclusivity and at least a part of their privileges. A key role will be played here by the emerging economies. Many G8 states have recognised that they can no longer meet global challenges without the most important emerging economies. They are therefore appealing for an enlargement of their informal grouping. The question is whether the emerging economies as the "nouveau riche" would rather become permanent members of an "exclusive club of the rich" (G13-20) or whether they would prefer to play a pivotal role in helping a few more representatives of developing countries to join in the rotation process. In this way the G20 and ECOSOC could be reformed and dovetailed together, transforming themselves into a world economic council under the umbrella of the UN.

The original proposal put forward by the Stiglitz Commission for the creation of a new world economic council without reference to old burdens and structures may be attractive, but the New York UN Conference and, in particular, the actions of the G8 states, have shown that this swift and bold master plan is unfortunately not viable. Without losing sight of the ultimate goal, we believe that the right way forward is to take the painstaking route within the existing institutions. We are therefore calling for a process involving the parallel reform and transformation of the G20 and ECOSOC.

Even when taking this route there will be plenty of obstacles and resistance. The only way of overcoming these obstacles is for reform-oriented governments, parliamentarians and social movements to join together. The enormous global challenges we face – economic, financial, resource and food crises, as well as climate change – make it clear that "business as usual" is not an option. We must pool all our efforts to make the global governance structure more coherent. For this, we need institutions and instruments which have significantly greater powers to coordinate international economic and financial policy and which can give globalisation a human face. There is no alternative.

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