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Reform of Global Governance: Priorities for Action

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ABSTRACT

Many of today's international institutions were created at the end of World War II, more than 60 years ago. Since then they have responded in many significant ways to the challenges arising during the second half of the 20th century, including decolonization, the end of the cold war, global security, environmental threats, and global poverty. Even though many new global and regional organizations were added since 1945—when the United Nations was created and the Bretton Woods organizations opened their doors—very little has been altered in the basic structure of these global institutions.

Global institutions are not working well individually and as a group. For example, the global institutions at the core of the international system, such as the United Nations, the International Monetary Fund, the World Bank and the G8 Summit are, to varying degrees fragmented, unrepresentative and ineffective, and generally suffer from an corosive decline in their legitimacy. They are increasingly fragile and unable to address the global challenges of the 21st century.

The creation of legitimate global institutions involves multiple goals: First, the institutions must be *representative.* Second, the institutions need to be *effective*. Third, collectively the international institutions need to serve as an effective global governance *system*. Finally, the international institutions should offer opportunities for national and international *leaders* to forge coalitions for action and reform.

What is needed is strategic guidance, vision, and leadership for institutional and summit reforms identified here, taken together, these factors can create a global governance system able to achieve the focus, coherence and coordination required to meet global challenges. The creation of a global governance system which reflects the new economic and demographic realities and responds effectively to new global challenges of the 21st century is urgently needed to help avoid crises and create a better future.

Changing global challenges and institutional stalemate

Among the global changes, four are most prominent:

First, a new balance of demographic and economic powers is emerging. By 2050, 3 billion more people will be added to the world's current population of 6 billion, most of them in the developing countries. Moreover, if China and India continue their rapid economic growth of recent decades, as they seem poised to do, they will surpass most, if not all, of the current industrial countries in economic size. Global institutions need to reflect the changing demographic and economic balances in the way they are governed.

Second, global interdependencies have expanded dramatically with rapidly growing trade and capital flows, as well as in the energy markets, in health, migration and illicit drugs, and in the environmental and security arenas. Global cooperation is needed in all these areas if major opportunities and risks are to be managed effectively.

Third, there are increasing links among these global issues. Stove-piped global institutions, operating on issue-specific mandates, will not be able to deal with these interrelationships. Institutions need to work effectively across sectoral and thematic lines.

Finally, new and growing global risks have emerged that need urgent attention, including global financial imbalances, energy insecurity and global warming, and threats of global epidemics.

In the face of these changes, global institutions are not working well individually and as a group. The United Nations and the UN Specialized Agencies, the International Monetary Fund, the World Bank and regional development banks, the World Trade Organization, the World Health Organization, and the G8 Summit—to mention only the most visible among the global institutions—are to varying degrees fragmented, unrepresentative and ineffective, and generally suffer from an erosive decline in their legitimacy. They are increasingly fragile and unable to address the global challenges of the 21st century. Their legitimacy is further undermined by two factors: First, inaction afflict many key global problems, including deadlocked trade negotiations under the Doha Round, persistent global financial imbalances, global warming, and deadly conflicts. Second, there is a stalemate on reform in most global institutions, despite repeated initiatives to restructure them. *As a result, what we have today is an international system composed of an array of international institutions fulfilling discrete mandates. What is needed is strategic guidance, vision, and leadership for institutional and summit reforms identified here, taken together, these factors can create a global governance system able to achieve the focus, coherence and coordination required to meet global challenges.*

Looking ahead it will be essential that reforms of the global institutions break this deadlock. This policy brief summarizes the current prospects and priorities for reform in a number of key global institutions. We focus on the IMF, the World Bank, the UN, and the G8 Summit. Other important global institutional challenges could and should be addressed. But these institutions are at the core of the international system.

The goals and prospects of global governance reform

The creation of legitimate global institutions involves multiple goals: First, the institutions must be *representative*, meaning they must give an adequate role to the major countries of the globe. At the same time, they should give small countries an effective voice, so as to provide them with protection for their interests and to avoid driving them out of the global governance system and becoming "spoilers" or "rogue states." Second, the institutions need to be *effective*, i.e., show results in their mandated tasks, be responsive to changing global needs, and act transparently and accountably. Third, collectively the international institutions need to serve as an effective global governance *system*, i.e., act cooperatively and consistently across institutional boundaries and in the spirit of subsidiarity (assuming as global functions only those that really do need global action, i.e., cannot be handled nationally or regionally). Finally, these international institutions should offer opportunities for national and international *leaders* to forge coalitions for action and reform, which requires the engagement of key players – especially heads of state – to work together to address the overarching global issues of the day.

Of course, meeting these objectives will not be easy. So, it is no wonder that reform initiatives of international institutions have been difficult to put in place. Nonetheless, some recent movement, albeit small and halting, gives some hope that more significant changes might be possible. A key question now is whether the energy that seems to have been injected recently into the global governance reform process will be maintained and accelerated as a matter of gradual and deliberate progress, or whether it will fall prey to the forces of stalemate--a stalemate that could perhaps be broken only by a major world crisis. It was, after all, the crisis of World War II—in part an outcome of the failure of global governance following World War I—that led to the creation of the current structure, which is now ossified after 60 years of existence. Gradual reform to address the urgent global challenges is much preferable to acting in response to crisis. We therefore summarize below what we see as an ambitious, yet realistic, agenda for reform in the IMF, World Bank, UN and G8.

IMF reform – uncertain progress

After the 1997/8 East Asia financial crisis, substantial progress was made in establishing sound macro financial policies around the globe (with the exception of the serious imbalance between the US current account deficit and the surpluses of East Asia). As a result, the need for IMF funding has dramatically shrunk for now. However, as the disturbances in the global financial markets during the summer of 2007 have made clear, the need for the IMF's macro surveillance, financial sector advice, and stand-by financing capacity remains. Unfortunately, the IMF suffers from a legitimacy deficit because of an out-dated distribution of ownership shares and votes—giving too little to the rapidly growing emerging economies, especially in Asia, a restrictive leadership selection process, and an unsustainable way of financing its operations.

At the IMF/World Bank Annual Meetings in Singapore in September 2006 some initial progress was made in rebalancing shares and votes by giving small increases to China, Korea, Mexico, and Turkey. Now the challenge is to make sure the process continues with a serious additional rebalancing of shares and votes. This should include the restoration of so-called "basic votes" for small countries, to provide a protective minimum floor under the shares and votes that each small country may hold. Strengthening the financial base and the surveillance functions for the IMF are also under consideration. The IMF/World Bank Annual Meetings in October 2007 will show whether process along these lines is likely.

In addition to these important and urgent steps, others are needed for the IMF truly to reform itself. An unrestricted, merit-based selection of the Managing Director, a strengthened focus on its core mandates, and a reduced number of directors' seats on its executive board are important ways to strengthen the effectiveness of the IMF and enhance its legitimacy beyond the rebalancing of its shares and votes.

These reforms will mean that some IMF member countries, especially the Europeans as a group, will see their long-standing and now outsized influence reduced. A key question is how to help these countries accept this reduction. One way would be to combine the reform with a large increase in IMF quotas so that no country looses absolute numbers of shares. This is, in any case, justified in view of possible financing needs, should a new global financial crisis erupt. Beyond this, however, in view of the significant loss of European voice in the IMF, we have advocated a "grand bargain". This would involve, first, the US giving up on its veto right at the IMF and the World Bank in exchange for the Europeans giving up shares, votes, and chairs. Second, the US would give up its prerogative to name the World Bank president, combined with the Europeans foregoing that right at the IMF. Parallel changes could be made at the regional development banks (which would mean concessions by other countries, including Japan). Finally, it would be helpful to break the traditional parallelism in IMF and World Bank share allocations, since, as we argue below, there are good reasons to have the European donors (along with other large donor countries) retain a greater voice in the Bank than in the IMF.

World Bank reform – a possible response to a crisis of leadership and legitimacy

The long-standing debate about the role of the World Bank was revived in 2007 during the leadership crisis under its former president, Paul Wolfowitz. The World Bank's traditional leadership role in global development aid has been eroded for many reasons. As with the IMF, its legitimacy has been undermined by an outdated distribution of shares, votes and chairs, and by the US prerogative to name the Bank's president. The Bank's relevance has also been threatened by the decline in demand for its loans by middle-income developing countries, by increased competition from many new aid institutions for the poorer countries, and by the rise of competing sources of development knowledge and advice. Furthermore, the Bank's supposed lack of focus, depth, and proven development impact has been widely criticized.

Nonetheless, there are plenty of reasons why the World Bank should continue to function as a financier and adviser for global development. The first and most obvious reason is that the development problems and the challenges of global economic, social, and environmental issues are ever more pressing. Second, there is no other international institution which combines the distinct features of the World Bank that make it an instrument uniquely suited for the global challenges of today. Its universal membership, its comprehensive and cross-sectoral focus, its experience with a large array of financing instruments, and its high professional and technical capacities in the analytical and advisory arenas are unmatched by any other institution on the globe.

Of course, the World Bank needs to use these capacities effectively. This requires reform. First, the Bank needs an unrestricted, merit-based selection of its president. It also should give greater voice and vote to recipient and new donor countries, while at the same time maintaining a lead role for major donors. This could be achieved by building on the fact that IBRD (the Bank's commercial loan window for middle-income countries) and IDA (its soft loan and grant window for poor countries) already have legally separate shares, votes, and boards. For the future, IBRD should follow broadly the IMF reforms, while IDA should introduce a double-majority voting system that gives the smaller and borrowing countries a greater voice, while at the same time offering the donor countries (especially the generous European countries) a veto over how IDA resources are utilized.

Second, the relevance and effectiveness of the Bank could be improved in various ways. For middle-income countries it should simplify its lending instruments, provide easier access to sub-national government entities, and offer loans in local currency (to avoid undue currency risk for borrowers who cannot easily hedge such risks). The European Investment Bank provides a suitable model for this approach. For the poor countries, the Bank should urge donors to channel more of their aid resources through IDA. For the support of global public goods – a key role which the Bank needs to strengthen – a new "Global Public Goods Fund" should be organized to provide incentive-based funding for global public goods around the world. The Bank could also improve its policy advice by linking its research and analytical work more closely with its operational activities. Finally, it needs to improve its operational effectiveness by a focus on key lines of business; by a more sustained engagement for long-term and scaled-up interventions, rather than short-lived, one-time fixes; and by pursuing more aggressively partnerships with other donors, including new official donors, such as China and India, and private donors from the foundations and NGO community.

UN Reform – fading hopes for a new beginning

If reform of the international financial institutions is a difficult task, it pales in comparison with the up-hill battles of UN reform. A major effort to reform the UN system was launched in preparation for the UN "Millennium+5" Summit of 2005. It included initiatives to broaden the Security Council membership, turn the hitherto dormant Economic and Social Council (ECOSOC) into an effective global economic and social policy coordinating body and streamline the many fragmented UN agencies. Unfortunately none of these important goals were attained at the Summit. A more limited agenda of reform of the development, humanitarian and environment activities of the UN was subsequently developed by a high-level panel which reported to the Secretary General in November 2006. The one recommendation which is currently being implemented on a pilot basis is the panel's "One UN" concept, which aims to bring together the various UN agencies active in each country in order to better coordinate activities. The panel also recommended the establishment of an ECOSOC leader's forum, which might serve as a broader summit-level body than the G8 for consultations and agreements on global economic and social issues. *However, there is for the moment little prospect that this or other far-reaching reforms at the UN, such as Security Council membership reform, ECOSOC reform, or a rationalization of overlapping UN agency mandates can overcome the political gridlock which unfortunately impedes serious reform initiatives at the international body.*

G8 Summit reform – the momentum is growing

Aside from reform of the international financial institutions and the UN system, there are many other important institutions and areas for global governance reform, among them the WTO and the WHO, as well as the environmental and energy areas. *But in our view no other area is as ripe for reform and as important as is that of the G8 Summit.* We argued in two earlier Brookings policy briefs (BPB #131, April 2004, and BPB #152, April 2006) that the G8 summit has outlived its usefulness as a global consultation forum and steering group, especially as the G8's focus has increasingly turned from coordination issues among the group's members to global economic and political issues.

With the changing balance of demographic and economic power in the world it is now painfully obvious that the G8 leaves out essential players who must be at the table if such issues as global security, financial imbalances, trade negotiations, global environment, global poverty, debt and aid, the Middle East, and Africa are to be discussed and agreements reached that can be implemented in a meaningful way. We also note the growing urgency and interconnectedness of global challenges and the stalemate of reforms of the major individual international institutions. Therefore, the creation of an effective global apex forum is now crucial to the creation of a global governance system which connects the international institutions to each other and ensures that they effectively address the interconnected challenges they face. We therefore proposed that the membership of the G8 be expanded, perhaps most readily by gathering the same group of countries that make up the G20 group of finance ministers.

Since we made these proposals starting in 2004, the need for an expanded summit forum has not only become more obvious; there is now a momentum for change. In 2007, under the German Presidency, the so-called "Outreach Process," under which selected heads of state of non-G8 countries were invited to parts of the G8 summits--was converted into the more formal "Heiligendamm Process," under which five non-member countries (Brazil, China, India, Mexico and South Africa) will be permanently associated with the G8. Also of note is that the Presidents of France and Russia separately have since called for a broadening of the membership of the G8 (following earlier such calls by the now departed Canadian and UK Prime Ministers). It also has become clear that broader leadership forums can effectively push for institutional change in individual international organizations, as has been the case with the G20 of finance ministers pushing for IMF reform.

We therefore now see a much greater momentum for broadening the G8 membership. It will require leadership from key G8 members, especially from the US. Unfortunately, there is little hope that the current US Administration will take up this matter. However, assuming a new U.S. president takes a hard look at the global realities in 2009, it will be clear that G8 reform is in the interest of the US as it seeks to address global challenges through broader global partnerships.

Does it matter whether the G8 becomes a G13 (with Brazil, China, India, Mexico and South Africa), or whether it is expanded to a G20 (with Argentina, Australia, Indonesia, Korea, Saudi Arabia and Turkey also added) or, as some have argued, whether it is replaced by a "variable geometry" of summits. Variable geometry means including different additional countries over and above a smaller core group, with the additional members depending on the subject matter under consideration. For us, this is an interesting, but largely academic question. The main issue is that the G8 needs to be broadened, and any significant expansion (such as the G13) would be a major improvement over the current situation. Whether another option – G20 or variable geometry – would be ideally preferable, is not really relevant, if the G13 option is the only one that can actually be implemented in the near term.

CONCLUSION

We see renewed energy in the debates and even some progress on global governance reform. Whether this pace of change is sufficient, or whether it will take a major crisis to bring about fundamental changes in the global order and in global governance remains to be seen. We hope the specific ideas which we presented above can help speed up the gradual process. We know from history and bitter experience that global crises cause devastation and suffering. The creation of a global governance system which reflects the new economic and demographic realities and responds effectively to new global challenges of the 21st century is urgently needed to help avoid crises and create a better future.

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