4 *Global Economic Governance and a New UN Economic and Social Security Council*

To master globalization, we have to answer three basic questions. What institutional architecture do we need for international governance? How can we achieve legitimacy in the decision making? How can we arbitrate between domains?

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La Flamme et la Cendre, 2002, p. 155.

Looking back at the six decades since John Maynard Keynes and Harry Dexter White launched the Bretton Woods institutions at the heart of global economic governance, one must recognize that the original design has proved remarkably durable. The International Monetary Fund (IMF) and the World Bank have remained active, relevant, and important to the global economy since their conception. Both have been controversial institutions, and their activities have been more criticized than praised, but they have not been irrelevant. The basic nature of the original design was more flexible, and has allowed for adjustments more easily, than has been the case for the United Nations Security Council. Decisions taken by the Executive Boards of the Bretton Woods institutions have affected economic, social, and political life in a vast number of countries. The Board of Governors meetings in the fall of each year, as well as the more restricted meetings that take place each spring, have always been important occasions and have often led to decisions that would affect the lives of billions.

The Bretton Woods Sisters: The Need for Renewed Legitimacy and Leadership

Continuity and a Central Role

A review of the last few decades shows that the Bretton Woods institutions adopted a number of highly significant and innovative policies. The

setting up of the International Development Association (IDA), special drawing rights (SDRs), the Brady Plan, and the Heavily Indebted Poor Countries (HIPC) and Poverty Reduction Strategy Papers (PRSP) initiatives come to mind. These initiatives show that the Bretton Woods institutions are less likely to be deadlocked over important decisions than the UN Security Council, which often finds itself unable to act due to permanent member vetoes, as discussed in previous chapters.

The IDA was not part of the original design of the World Bank Group. The initial years of the World Bank were mainly devoted to helping Europe recover from World War II by extending long-term reconstruction loans. As Europe recovered, World Bank resources became more available to the developing countries. Yet many of these countries did not have the capacity to service the loans on the nonconcessional terms offered by the Bank. At the initiative of the United States, a group of Bank members came together to set up what was to become the IDA with the capacity to extend concessional loans to countries below a minimum level of per capita income. The IDA's Articles of Agreement went into effect in 1960, and the first loans were approved in 1961.

A second example of innovation within the Bretton Woods framework was the creation of special drawing rights. The IMF initially created SDRs to support the Bretton Woods fixed exchange rate regime in 1969.[1] The supply of international reserves, US dollars, and gold was not keeping up with the expansion of the world economy. SDRs were issued as a world reserve currency with the hope that they would supply the required liquidity. The problem was not just one of liquidity, however, and the creation of SDRs did not, in fact, prevent the collapse of the "dollar standard," the

1. The creation of SDRs was a response to what was also called the "Triffin dilemma," named after the famous international economist Robert Triffin and based on his testimony before the US Congress in 1960. The dilemma arose because the dollar was the only currency countries wanted to keep as a reserve currency, and, therefore, the US payments deficit needed to increase in order for international reserves to increase. But the US deficits undermined the credibility of the dollar's gold convertibility and hence weakened confidence in the international monetary system. The Bretton Woods exchange rate regime was an adjustable peg and a gold exchange standard. The US dollar had a central role in this system. IMF members kept their exchange rates fixed within a narrow band by buying and selling US dollars. In return, the dollar was convertible into gold for official currency holders. The United States was expected to sell or buy gold for $35 per ounce. The "Triffin dilemma" was not an issue until the end of the 1950s. As European and Japanese economies recovered from the war and progressively improved their balance of payments positions, their dollar holdings grew. The increase of US gold reserves was not keeping up with the increase in the cumulative dollar holdings of other countries, casting doubt on the value of the dollar in terms of gold.

system whereby exchange rates were fixed with respect to the dollar, which in turn was convertible into gold at a fixed price. Nonetheless, SDRs did become an international unit of account and still have the potential to play a larger role. Initially defined in terms of the dollar, the value of SDRs was redefined after the collapse of the dollar standard as that of a basket of currencies in fixed proportions (the euro, the yen, pound sterling, and the dollar). SDRs were allocated to member countries in proportion to their IMF quotas. The first allocation (SDR 9.3 billion) was distributed in 1970–72, and the second (SDR 12.1 billion) in 1979–81 at the height of the second oil crisis. Throughout the 1980s, countries holding close to two-thirds of the votes in the Executive Board favored making further allocations, but support continually fell short of the required 85 percent (Boughton 2001, 945).

In 2003, 126 members that make up 76 percent of the total voting power accepted an amendment for a special one-time allocation of SDRs to enable all members of the IMF to participate in the SDR system (one-fifth of the members joined the Fund subsequent to the 1981 allocation). But this "majority" was still short of the required 85 percent super-majority.

Another "innovation" related to the 1980s debt crisis. The recycling of petrol dollars by commercial banks, which lent the resources coming from the oil-rich countries to a number of middle-income countries, followed by a domestic rise in US and world interest rates, had caused a massive debt servicing problem for many countries, particularly in Latin America. In the early 1980s, there was an urgent need for a new debt strategy. US Treasury Secretary Nicholas Brady and his deputy, David C. Mulford, who drafted the new debt relief plan, were aware that a radical approach was needed to deal with the debt problem. Brady's proposed debt relief plan, to be implemented within the framework of Bretton Woods–supported economic programs, included five novel elements. First, commercial banks would agree to a "general waiver of the sharing and negative pledge clauses for each performing debtor" to enable individual banks to "negotiate debt or debt service reduction operations." Hence, small creditor banks could not block agreements and cause endless negotiations. Second, the IMF and the World Bank would dedicate a portion of loans to qualified countries "to finance specific debt reduction plans." For the Fund, this proposal was to become known as the provision of "set-asides" and primarily used to help countries buy back their commercial bank debts at a discount. Third, the Bretton Woods institutions

would "offer new, additional financial support to collateralize a portion of interest payments for debt or debt service reduction transactions," a suggestion that would become known as "augmentation." Fourth, Brady signaled a shift in the US position toward favoring an increase in Fund quotas to support the provision of resources for the new debt strategy. Fifth, he called upon the IMF to reconsider the policy of requiring firm financing assurances to be in place before approving a stand-by. The banks and the country should negotiate the type of financing needed, and if arrears accumulated while those negotiations proceeded, the Fund should not let that problem prevent it from approving a financial arrangement.[2] The plan was soon accepted in a regularly scheduled Group of Seven (G-7) meeting after the United States agreed to limit the proposal for the additional use of the IMF resources to the support of reduction in the debt that reflected accumulated interest only, rather than interest and principal. After the G-7 endorsement, the Interim Committee[3] formally endorsed the Brady Plan and requested that the IMF Executive Board consider the matter urgently. The Executive Board members were concerned with the specifics of the Fund's involvement in four areas: magnitude and treatment of additional access to Fund resources; the handling of set-asides; eligibility of countries for the plan; and modifications to the policy on financing assurances. The Executive Board spent four days negotiating the details. Germany and the United Kingdom, backed by some other European countries, sought to limit the degree to which the Fund would modify its procedures and intensify its involvement in the debt strategy; the United States, backed by other industrial and most developing countries and by the managing director, sought to retain as much as possible of the original proposals. In the end, the Brady Plan was adapted in a form quite close to the original.

A more recent example of significant innovation by the Bretton Woods institutions has been the launching of the Heavily Indebted Poor Countries initiative, accompanied by the Poverty Reduction Strategy Papers. Economic performance in the poorer developing countries declined

2. The five elements of the Brady Proposal are taken directly from Boughton (2001, 493).

3. The Interim Committee was transformed into the International Monetary and Financial Committee (IMFC) in 1999. The IMFC has 24 members who are IMF governors (generally ministers of finance or central bank governors). The membership reflects the composition of the IMF's Executive Board. Each member country that appoints, and each group of member countries that elects, an executive director appoints a member of the IMFC. A number of international institutions, including the World Bank, participate as observers in IMFC meetings.

significantly in the 1980s and early 1990s. The total foreign public debt burden of these countries reached proportions that were clearly unsustainable. Moreover, a significant fraction of this debt was debt owed to the Bretton Woods institutions and the regional development institutions. These institutions shared with Bretton Woods a basic policy of not rescheduling or reducing debt owed to them, a principle that had been adhered to with only minor exceptions and that protects the credit rating of the Bretton Woods institutions and regional banks, allowing them in turn to extend credit on relatively favorable terms or, in the case of IDA funds, to extend new IDA credit.

By the mid-1990s, it had become clear, however, that many of the poorest countries were caught in a debt trap that made further growth impossible and the debt unsustainable. What was needed was a concerted effort by all creditors aimed not just at rescheduling but also at actually reducing the debt burden of these countries. A group of nongovernmental organizations had started an effective campaign for such debt relief, which gathered increasing momentum. In response to these developments, the World Bank and the IMF jointly launched the HIPC initiative in 1996, agreeing to reduce the debt owed to them alongside other public debt provided certain conditions were met by the countries concerned. This was a radical but necessary departure from previous practice. Debt reduction would be conditional on countries preparing and committing themselves to poverty reduction strategies summarized by the countries themselves in strategy documents that would have to be approved by the Bretton Woods institutions.

The degree of success of this initiative will be discussed later in this book. What needs to be underlined at this stage is that the Bretton Woods institutions were able to change course and innovate in the face of changing needs and the pressure of public opinion, as had previously been the case with creation of the IDA, issuance of SDRs, and implementation of the Brady Plan. None of these innovations has led to a pure success story, but all constituted responses to new demands emanating from the world economy and showed how the Bretton Woods institutions could evolve over time given the right impulses from their leadership and shareholders, as well as public opinion.

What have been some of the key factors explaining this continuity and endurance?

First, the fact that the Soviets and their allies opted out of the Bretton Woods system in 1946 meant that the deep fault line at the United Nations during the Cold War was absent at the IMF and the World Bank.

The Soviets and their allies were simply not present, and decision making was therefore much easier. There were differences of view but no ideological clash inside the Bretton Woods institutions. It was only after the collapse of communism, when the social-liberal synthesis had become dominant and history had "ended" in the sense described in chapter 1, that the successor states of the Soviet Union and the ex-communist Eastern European countries joined the IMF and the World Bank.

A second important factor that facilitated decision making is the system of governance based on constituencies and weighted voting. The essential design of the Bretton Woods governance system has worked reasonably well for decades because it has allowed participation by all, even the small countries, and has not explicitly endowed the richest countries with a different status (as has been the case in the UN) while at the same time reflecting the reality of their power and wealth in their shares in the overall vote. The system has progressively lost legitimacy, as will be argued in detail below, but its flexibility has allowed it to accommodate change. Moreover, the absence of veto power for individual shareholders, except in votes where an 85 percent majority is required, has allowed decisions to be taken that have sometimes even overruled the largest shareholder.

The governance structures of the World Bank and the IMF are very similar. The World Bank is run like a cooperative, with its member countries as shareholders. A country's number of shares is based roughly on the size of its economy. The United States is the largest single shareholder, with more than 16 percent of the total votes, followed by Japan, Germany, the United Kingdom, and France.[4] The Executive Board is responsible for conducting day-to-day business and is composed of 24 directors, appointed or elected by member countries or by groups of countries, and the president, who serves as its chairman. The five major shareholders each appoint an executive director. Currently, Saudi Arabia, China, and Russia also choose their own executive directors.[5] The rest of the members group themselves into constituencies, and each constituency elects its own executive director. Regular elections of executive directors are held every two years, normally in connection with the Bank's annual

4. See appendix B, table 1, for voting strengths of each member country. Distribution of voting shares is almost the same for the IMF.

5. Certain member countries, such as Italy and Canada, have more or equal voting power as compared to Saudi Arabia, China, and Russia but are represented as part of a constituency.

meetings. Increases in the number of elected executive directors require a decision of the Board of Governors by an 80 percent majority of the total voting power. In 1992, after a large number of new members joined the Bank following the fall of the Berlin Wall, the number of elected executive directors increased from 17 to 19. The two new seats—Russia and a new group around Switzerland—brought the total number of executive directors to its present level of 24. The Bank's president is, by unwritten agreement, a national of the largest shareholder, the United States. Elected for a five-year renewable term, the president of the World Bank chairs meetings of the Board of Executive Directors and is responsible for overall management of the Bank.

Similarly, each IMF member country is assigned a quota, which is the country's participation in the capital of the Fund. These quotas determine member countries' voting power. The original formula used for the calculation of the quotas included national income, reserves, external trade, and export fluctuations. The quota formula was revised in the 1960s such that national income gained greater weight in the formula for most industrial and other large countries, while current payments and the variability of current receipts became important components for small economies with high shares of foreign trade to their GDP and for most developing countries. Since the early 1980s, the variables in the quota formula have included GNP, official reserves, current external payments and receipts, the variability of current receipts, and the ratio of current receipts to GNP.

All powers of the IMF are vested in the Board of Governors, which in 2003 had 184 members. Each member appoints a governor who is usually the minister of finance or the governor of the Central Bank. The Board of Governors delegates most of its powers to a full-time Executive Board, housed in the buildings of the IMF, which is responsible for the general operation of the IMF, excluding matters clearly reserved for the Board of Governors by the Articles of Agreement as being of a fundamental or political nature, or that may have a profound economic impact, such as the power to admit new members, require a member to withdraw, revise quota distributions, allocate or cancel SDRs, and change the number of executive directors to be elected. The IMF Executive Board is elected in the same way as the World Bank's, and the constituency groupings are the same. The Executive Board elects the managing director, who, by unwritten rule, has had to be a Western European. Most of the actual policymaking is done at the level of the Executive Board, which is also

quite influential through the recommendations it makes to the Board of Governors. Although ordinary decisions require just a simple majority, certain decisions require a 70 or 85 percent majority to be adopted by the IMF. The original Articles of Agreement specified only nine categories of decisions that needed special majorities, but over the years the number of categories has risen to 50.[6]

A third and very important factor that has sustained the relevance of the Bretton Woods institutions is that these institutions have had *serious resources* committed to them, both in terms of their administrative budgets (the quality and number of staff) and the funds they can make available to borrowing members. In other words, they have intellectual and financial clout. The fact that these institutions have such resources is not unrelated to the existence of broad ideological consensus and the functioning of the governance system referred to above.

A few figures serve to give an idea of the scale of these institutions. The World Bank has around 7,000 employees in Washington and over 3,000 employees in the country offices. The annual net income of the Bank exceeded $1 billion for more than 15 years. The administrative budget for fiscal 2002 was over $1.589 billion, net of reimbursements, and included $176.9 million for the Development Grant Facility, a special fund that extends small grants rather than loans. In the same year, the IMF had approximately 2,700 employees from 141 countries. Its total quotas amount to $299 billion and loans outstanding were $107 billion to 56 countries, of which 38 were on concessional terms as of the summer of 2003. The administrative budget of the IMF for 2002 was $695.4 million.

It is useful to stress, however, that the Bretton Woods institutions remain mid-size bureaucracies when compared to the large private banks. For example, Citigroup Inc., the world's largest bank measured by assets, has around 275,000 employees spread across more than 100 countries, and its total assets were $1.32 trillion as of March 2004. The operating expenses of Citigroup in 2002 were $37.3 billion, more than 20 times the operating expenses of the World Bank.

The Challenge of Legitimacy

Despite the central role the Bretton Woods institutions have played in the world economy throughout the post–World War II period, and the

6. This section on IMF governance is based on Van Houten (2002), who provides a very useful up-to-date overview.

resilience and capacity to adapt they have shown as circumstances have changed, they have never been able to overcome fundamental doubts about the legitimacy of their role and the impartiality of their advice. With respect to the perception of the Bretton Woods institutions, it is useful to divide the world into four broad categories of countries: the borrowing countries, the European Union, Japan, and the United States. In the borrowing developing countries of Asia, Latin America, Africa, the Middle East, and southeastern Europe, the public perceives the Bretton Woods institutions as belonging to and furthering the interests of the rich countries. They are also perceived as entirely "external" forces, despite the fact that the borrowing countries as a group actually "own" more than 38 percent of the shares of these institutions, as described above.[7] In opinion polls taken throughout the borrowing countries, the share of individuals with a positive view of the Bretton Woods institutions is quite low. In many countries with active IMF programs, that percentage falls to the 10 to 15 percent range.

There is a small but consistent difference between the World Bank and the IMF, with the former viewed more positively in many countries. But even the World Bank alone does not even get close to a 40 percent "approval rating," despite important public relations efforts over the last decade and a substantial opening to dialogue with civil society and the press. In Europe, the Bretton Woods institutions are viewed critically for somewhat different reasons than in the borrowing countries. Europeans tend to view the Bretton Woods institutions as "American," despite the fact that the 25 nations of the European Union have almost twice the voting strength of the United States on the boards of these institutions, and the fact that, while the president of the World Bank has always been an American, the managing director of the IMF has always been a European! Left-leaning Europeans perceive the Bretton Woods institutions as furthering the interests of high international finance and multinational corporations rather than the interests of ordinary citizens. The populist right has an equally negative perception, viewing the Bretton Woods institutions as imposing an American-led and at the same time cosmopolitan world order on nation-states that are trying to resist globalization and preserve national identity and tradition. The situation is not very different in Japan, with most Japanese having perceptions similar to those of

7. The voting share of developing country borrowers in the IMF is 38 percent, and in the World Bank it is 38.8 percent (Birdsall 2003, table 1). Also, see appendix B, table 1, for individual country shares in the World Bank.

Europeans, although official Japanese policy has generally been very supportive of the Bretton Woods institutions. Finally, even in the United States, which is perceived by the rest of the world as dominating the Bretton Woods institutions, the public is not very sympathetic either! The IMF and the World Bank are perceived by most Americans as using US money to subsidize the rest of the world, and as large bureaucracies beyond the control of US authorities.

Gallup International's 2002 Voice of People Survey interviewed 36,000 people across 47 countries from six continents statistically representing 1.4 billion people. Almost half of the respondents did not trust the Bretton Woods institutions (or the World Trade Organization—WTO) to operate in society's best interests. Interestingly, the WTO, the target of the most aggressive antiglobalization demonstrations, was perceived slightly more favorably. In 2002, Latinobarometro respondents in Latin America gave the poorest evaluation among international institutions to the IMF with a 5.10 score on a 0 to 10 scale. The best performing institution was the United Nations, with a score of 6.86. When results are broken down to the country level, the most discontented nations are also the ones that had the most significant IMF interventions, such as Argentina (2.16) and Brazil (3.98). In a similar fashion, Afrobarometer asked respondents to evaluate international institutions using a scale of 0 to 10. In Africa, half of the respondents had never heard of the institutions they were asked to evaluate, a list that included the UN, the Bretton Woods institutions, the EU, and a few other regional organizations. But among the remaining half who had some knowledge of these institutions, the World Bank and the IMF fared better, scoring 6.78 and 6.40, respectively, only a little below the UN. The Global Poll Multinational Survey of Opinion Leaders commissioned by the World Bank in 2002 found that more than half of the respondents in sub-Saharan Africa, South Asia, the Middle East and North Africa, and Latin America believe that economic reforms recommended by the World Bank hurt the poor more than they help them.

An optimist might say that this almost universal lack of popularity is a good thing and argue that it shows that the Bretton Woods institutions are steering a middle course, striking difficult compromises between divergent interests. The optimist will suggest that it is their very impartiality and pursuit of "economic virtue" by the Bretton Woods institutions that gets them such low approval ratings! The Americans, Europeans, and Japanese are unhappy because the Bretton Woods institutions refuse to be totally subservient to their respective interests, and people in

the developing countries are unhappy because there is too much influence by the rich countries and too much conditionality linked to repayment capacity. If the Bretton Woods institutions tried to make developing country citizens too happy, their resources coming mostly from the rich countries would quickly dry up, and not necessarily be used effectively by borrowing countries. If, on the other hand, they tried to make Americans, Japanese, or Europeans too happy, they would be criticized even more for furthering the interests of one of these powers at the expense of the others, and for even greater "technocratic harshness" towards the populations of developing countries.

There is something to this optimist's argument. International institutions have to be "honest" brokers between often antagonistic parties and therefore keep a certain distance from any of the parties concerned. This will not make them wildly popular anywhere. One cannot let matters rest at this, however. The United Nations, for example, has a much higher approval rating than the Bretton Woods institutions everywhere in the world except perhaps recently in the United States,[8] despite the fact that it faces similar trade-offs and constraints. The approval and support enjoyed by the various specialized agencies such as the World Health Organization (WHO), International Labor Organization (ILO), or organizations such as the United Nations Educational, Scientific and Cultural Organization (UNESCO) is even stronger.

A very interesting result from a survey recently taken in Turkey is intriguing and revealing of the general problem: only 12 percent of Turks have a positive view of the IMF (19 percent for the World Bank) compared to almost 50 percent with a positive view of the European Union.[9] This despite the widespread perception that the EU has unfairly favored the Greek side on Cyprus and despite doubts among a majority of Turks until recently about the EU's willingness to accept Turkey as a member. It is also worth stressing that Turkey has been a member of the Bretton Woods institutions for more than five decades and is represented on the Executive Boards, whereas it is not a member of the EU and, so far at least, has zero say in EU governance. Moreover, the EU has provided very few financial resources to Turkey, whereas the Bretton Woods institutions provided close to $30 billion in reasonably favorably priced credits over 2000–03! Such survey results illustrate the deep-seated problem of

8. Note that the widespread perception that the UN has had no support among US citizens is not correct. See Brzezinski (2004) and Nye (2004) on this point.

9. Strateji-Gfh poll, October 2003, Istanbul.

legitimacy faced by the Bretton Woods institutions that undermines their effectiveness and limits the benefits they bring to the world economy.

Governance and Legitimacy

A fundamental set of reasons explaining why the Bretton Woods institutions have such a serious problem with legitimacy relates to their governance, both in terms of the actual articles of agreement and more informal *de facto* arrangements. By informal agreement, the president of the World Bank has always been an American citizen nominated by the US presidents, and the managing director of the IMF a European nominated by a complex and not very transparent process in Europe. These two individuals have great personal internal power over their organizations. The fact that these appointments are purely discretionary political appointments, with the nominations taking place behind closed doors in the rich countries and excluding everyone outside Europe and the United States, certainly does not add a sense of worldwide legitimacy to Bretton Woods governance.[10]

Another important factor is the location of the Bretton Woods institutions in Washington, a five-minute walk from the White House and the US Treasury and State Department. This enhances the view of these institutions as "American" institutions. There is indeed little doubt that the involvement of the US government, and in particular the US Treasury, in week-to-week operations of the Bretton Woods institutions goes much beyond what the 17 percent voting power of the United States would

10. Kahler (2001) argues that the strength of the nationality principle cannot be explained by calculations that common nationality will serve as a conduit for influence between a government and the head of the organization. He believes that the main reason for persistent attachment to this principle (by the United States and the Europeans) lies in domestic politics: patronage, a symbol of international influence for the country to its domestic audience, and national status. Among the Bretton Woods insiders Kahler interviewed for his 2001 book entitled *Leadership Selection in the Major Multilaterals,* a surprising number suggested that this US-European convention was crumbling. But the potential demise of the current convention does not guarantee more legitimacy if selection of Bretton Woods leadership is then solely made by G-7 countries. Moreover, some argue that effective leadership requires a managing director or a president from a creditor country. In an interview with Kahler, former IMF managing director Jacques de Larosiere said that if he had been from an emerging-market country during the 1980s debt crisis, his ability to deal with that crisis on behalf of the IMF membership might have been impaired. Larosiere claimed that his longstanding relations with other G-7 finance ministers and central bank governors provided a reservoir of trust that could be relied upon to deal with financial crises. Others would argue that while a career that inspires trust is essential, the job should be open to all who have had such a career, irrespective of nationality.

suggest, and that it is qualitatively different in intensity from the involvement of any other country. This is indeed partly due to proximity. It has always been very easy for a Bretton Woods official to meet over lunch with an official from the US Treasury. There are no time zone problems and it is easy to talk over the phone, sometimes several times a day. Quite naturally, personal friendships can develop more easily than with colleagues in Paris, Tokyo, or Delhi. Modern communications technology has no doubt reduced the importance of the proximity factor, but it does not abolish the role of location. Personal contact remains important, despite e-mail and the reduced cost of phone calls. It still takes about eight hours to cross the Atlantic and 11 hours to fly from Washington to Tokyo.[11]

Another dimension of the problem relates to the fact that although there may be "groupings" on the board, countries tend to act individually, leaving the United States with its close to 17 percent share of the vote as, by far, the single most important player. In particular, the EU does not really exist as a cohesive actor on the boards of the Bretton Woods institutions. There are executive directors for Germany, Great Britain, France, and so on, but no European executive director who would compete in voting power with the US executive director. This reinforces the image of the Bretton Woods institutions as American-run institutions.

Then there is language and education. English is, of course, the working language of the Bretton Woods institutions, and no one without a very strong command of English can hope to rise in the ranks of the organizations, even if he or she were to speak several other languages perfectly. The overwhelming majority of the highly qualified staff of these institutions have an Anglo-Saxon university education and, particularly at the IMF, a large majority are economists. The language factor should not be stressed as only negative. It contributes to greater speed, effectiveness, and cohesion. But it does also further strengthen the "American" image of the institutions.

Alongside these factors related to location, education, and culture is the very important role played by the G-7 countries in the governance of the Bretton Woods institutions. Starting in the 1970s and increasingly thereafter, the G-7 have organized themselves to be the real governing *directoire* of the economic and financial sphere of the international

11. The United States was determined to have the Bretton Woods institutions located in Washington and pushed hard to achieve that during the Bretton Woods negotiations.

system. It is at G-7 summits that policy directions are set and that new initiatives are taken, endorsed, or blocked. In fact, the influence of the G-7 goes way beyond the setting of strategy at summit meetings. Through regular contacts of G-7 "deputies"—as the deputy undersecretaries for international affairs in the treasury ministries are called—the G-7 strongly influence the operational management of the Bretton Woods institutions, thereby sidelining the much more "global" Executive Boards and crossing the line between *governance* and the *management* of day-to-day operations. G-7 deputies often organize conference calls during which they try to reach consensus on country and policy matters, even though time zone problems may lead to sleep deprivation! If consensus is reached during those conference calls, Bretton Woods management and staff are informed, and it becomes practically impossible for staff to act in a way that is different from the direction set by the G-7. Needless to say, the subsequent Executive Board meetings become pure formalities.

Another important factor that one must add in this context is the overwhelming weight carried by treasuries and central banks in the activities of the G-7 with respect to the Bretton Woods institutions, as well as the importance of these economic institutions worldwide in influencing the boards more generally. As seen by critics, given the close working relationship and professional links that treasuries and central banks have with the private *financial* sector, the governance of the Bretton Woods institutions is dominated not only by the G-7 governments, but also more generally by the financial world and the world outlook of financiers, unencumbered by the likes of ministers of education or transport!

All the factors mentioned above coalesce to create the prevalent view of the Bretton Woods institutions as rich country institutions, strongly influenced by financial sector interests within the rich countries and with the US Treasury playing a leadership role.[12]

How closely these views reflect reality is arguable. The management and staff of the Bretton Woods institutions have, in fact, a great deal more autonomy than most outsiders believe. A lot depends on the top management. Institutional leaders with personal stature and charisma can develop and defend independent positions, *particularly if there are differences of opinion among the G-7,* creating room to maneuver.[13] Moreover, a great

12. See Woods (2003); Woods and Narlikar (2001); Birdsall (2003); and Buira (2003a) for discussion.

13. See Mallaby (2004) for an account of how the World Bank has functioned over the last 10 years. There are some vivid examples in this account of management and staff taking the initiative and acting quite independently.

number of the staff of the institutions have a sense of mission with respect to development and international cooperation, making them a large and fairly cohesive group of people, many with common values dedicated to global public service. There have also been G-7 and other wealthy country officials who have used their influence with great vision and courage to further the goal of global development and poverty reduction, rather than pursue narrow national interests. Among many examples, the ones that I recall most vividly are British chancellor of the Exchequer Gordon Brown's strong support for poor country debt reduction in the late 1990s, as well as his more recent initiatives to generate greater upfront resources allocated to development, and the remarkable efforts by the British, Scandinavian, Dutch, and German development ministers in support of resource mobilization for poverty reduction since the mid–1990s.[14] This is definitely part of the story that should not be ignored. Unfortunately, these positive examples have not been sufficient to generate a perception around the world of the Bretton Woods institutions as positive and legitimate. Episodes such as the various bailouts of Russia in the mid–1990s, despite obvious and serious governance problems and massive capital flight and profiteering at that time, or the Bretton Woods institutions' continued support for the Argentine Currency Board when it had clearly become unsustainable, are examples critics often use to vindicate their negative assessment. It is important to stress that during both these episodes, the Bretton Woods decisions were determined by G-7 pressure and *not* by the professional judgment of the staff working on Russia and Argentina or by a consensus among a wide range of shareholders.

Policy Prescriptions and Legitimacy

The nature of the governance of the Bretton Woods institutions is important both because of its impact on how Bretton Woods policies are *perceived,* as well as the *actual nature* of these policies. Perception is important in itself, because if policy prescriptions are perceived as being driven by illegitimate "foreign" interests, it is impossible to build a sense of

14. Many in the international community, developing countries, and civil society recognize the hard work of four women development ministers from Europe who founded the Utstein Group. The women are Clare Short, former secretary of state for international development of the United Kingdom; Eveline Herfkens, former minister for development cooperation of the Netherlands; Hilde F. Johnson, minister for international development of Norway; and Heidemarie Wieczorek-Zeul, federal minister for economic cooperation and development of Germany. The Utstein Group is organized around the principle that coherence in wealthy nation' polices—such as trade, anticorruption, conflict management, and foreign aid—is critical for support of development in poor countries.

domestic *ownership* to support these policies. Without sufficient ownership there is always the danger of policy reversal, and reforms that are otherwise quite justified will suffer from being viewed as imposed from abroad.

True stories from Turkey and Morocco will illustrate the point. During 2001, Turkey had implemented far-reaching reforms in agricultural support policies as part of the overall economic program supported by the IMF and the World Bank. The old system of *price* supports to many crops was replaced by a system of *income* support to farmers, capped by an upper limit in terms of land worked on. The reform was designed in line with international best practices and had the objective of bringing domestic prices closer to world prices, shifting resources into activities where Turkey had greater comparative advantage, as well as targeting government support to the poorer farmers. The design was correct and supported by Turkish economists with an understanding of agricultural issues, although implementation was difficult because of administrative problems in ensuring that the new income support actually reached the intended beneficiaries. Moreover, the issue of comparative advantage is not a simple one given the role rich country agricultural subsidies play in distorting world prices. Nonetheless, the reform was a good and necessary one, supported by reform-minded experts inside the Turkish Treasury and Agriculture Ministries.

Two separate events happened in early 2003. A newly formed government had trouble getting to closure with the IMF on budget measures needed to achieve the budget targets for the year, and Turkey hesitated about joining the US-led coalition that was preparing to intervene in Iraq. In order to come to closure with the IMF on the budget, the government drastically reduced the amount of expenditures originally earmarked for the direct income support to farmers. The IMF accepted the government's proposal. The World Bank's resident country director, however, strongly and publicly objected to this budget cut, arguing, quite correctly, that it would completely undermine the agricultural reforms and break a clear promise that had been made to poor farmers. The World Bank country director was quite right on the substance of the matter. The budget targets could and should have been met by other revenue or expenditure measures, rather than by undermining the difficult but essential agricultural reform process and openly breaking a promise to poor farmers that had been endorsed by the Bretton Woods institutions. Unfortunately, the World Bank's support for a subsidy directed at poor farmers did not "fit"

its image as one of the Bretton Woods sisters subservient to financial sector and rich country interests. So, some in the press found an interesting explanation for the dispute between the IMF and the World Bank. Several columnists developed a conspiracy theory according to which the IMF's *European* managing director wanted to make sure IMF financial support got disbursed so that Turkey would be less dependent on possible US financial contributions that were being promised in exchange for Turkish support in Iraq. The World Bank's *American* president, on the contrary, wanted to undermine the budget compromise reached between the government and the IMF and thereby delay Bretton Woods financial support in order to maximize American leverage over Turkey at a critical time! Instead of arguing about the merits of agricultural policies and their links to fiscal policy, the public was encouraged to speculate about what influence the US-European (Franco-German) disagreement over Iraq had on the Bretton Woods institutions' behavior towards Turkey.

Another rather funny example I experienced took place in Morocco. In 1987, the new World Bank president, Barber Conable, a jovial, very well meaning ex-congressman from upstate New York, was on his first visit to Morocco. One of the hot topics to be discussed during that visit was a new large dam that the Moroccans were hoping to build with the support of a French-led financial consortium. The staff of the World Bank working on Morocco was doubtful about the project, given Morocco's already high level of indebtedness at the time, as well as environmental concerns that were negatively affecting support for these kinds of projects worldwide. King Hassan II received President Conable with great formality in his palace in Rabat. After a few brief welcoming remarks the king opened the meeting, in French, by asking President Conable why he had let the Soviets into the Middle East, creating so many problems everywhere. Having volunteered to be the interpreter, I had to translate the question into English and was quite puzzled at first, wondering what Hassan II had in mind. I could not see how or when Barber Conable had in any way helped to enhance Soviet influence in the Middle East. I was in the middle of translating the king's words when I remembered the Aswan Dam! Yes indeed, in the mid-1950s, World Bank management, under the strong influence of the British, French, and US governments, had refused to finance the Aswan Dam, leading Nasser's Egypt to accept a Soviet offer to finance and build that dam, thus, in King Hassan's words, "letting the Soviets into the Middle East"! After I explained the reasons for the king's remark, Barber Conable assured Hassan II that he had had nothing to do

whatsoever with that decision made three decades earlier and the conversation turned to other matters. Mr. Conable did not argue about the new dam Morocco wanted to build, and Hassan II had thus skillfully achieved his objective of making the World Bank president feel guilty about the way the institution had allowed itself to be pressured in the past by some of its large shareholders!

These examples are not uniquely Turkish or Moroccan. Similar episodes have been reported from throughout the world. They all illustrate how suspicions about Bretton Woods governance infect the necessary debate about economic policies and reforms. Instead of arguing about the nature of economic and social policies, people argue about the possible *motives* of World Bank and IMF management and staff, as well as about various foreign plots behind the given policy advice. This is not at all helpful for a healthy and professional policy debate, which is so necessary to the formulation and design of policy reforms.

"Washington Consensus" or "Washington Contentious"

As described above, *perceptions* of how the Bretton Woods institutions are governed are inextricably intertwined with the debate on the actual *content* of the economic policies advocated by these institutions. This explains why the term "Washington consensus" has had such great resonance. John Williamson originally coined the term "to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989."[15] For Williamson, the Washington institutions included the IMF, the World Bank, the Inter-American Development Bank (IDB), and the US Treasury, and the consensus he referred to did summarize accurately the essence of the policy advice given by the Bretton Woods institutions with general support from not only the US Treasury but also from other major shareholders. The message that these policies originated in *Washington* helped make the term "Washington consensus," in the eyes of much of the global public, synonymous with the neoliberal policies pushed by US interests.[16]

15. Williamson (2000) is cited here. Williamson (1990) is the original article where the "Washington consensus" concept first appeared.

16. Williamson's original "Washington consensus" policies were fiscal discipline; a redirection of public expenditure priorities toward activities offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; tax reform to lower marginal rates and broaden the tax base; financial liberalization, the ultimate objective being market-determined interest rates; a competitive exchange rate; trade liberalization; the abolition of barriers impeding the

While this focus on political motivations persists among some critics of the Bretton Woods institutions as well as in the press, there have also been further analytical work and publications by economists focusing on the economic merit and results of the policies pursued.

Williamson himself, with Pedro Pablo Kuczynski, edited a book in 2003 entitled *After the Washington Consensus,* which takes a careful look at what did not go right in Latin America in the 1990s and revisits the substance of the Washington consensus recommendations. The authors generally emphasize the need for "crisis-proofing" economies, particularly by staying away from fixed exchange rate policies; the need for more countercyclical fiscal policies; and, very important, the need for second-generation reforms emphasizing better income distribution. Moisés Naím, the editor of *Foreign Policy* magazine, has argued that no consensus actually exists and emphasizes that economists are divided over issues such as the causes of the East Asian crisis, the need for an international financial architecture, and the effectiveness of "open" trade policies, reflecting more of a "Washington confusion" than consensus (Naím 2000). Rodrik (2000) augments the original 10 points with an additional 10, summarizing what he interprets to be the consensus as of 1999.[17] One concrete policy proposal for "augmentation" has been put forward by Birdsall and de la Torre (2001), who focus on 10 "Washington contentious" reforms that would improve equity without reducing growth.[18] Much of this debate is conducted in "reformist" terms, accepting the basic framework of the social-liberal synthesis and the basic architecture of the international system.

There are also more extreme critics who argue for much more radical changes in policies and architecture, including those who want to abolish the Bretton Woods institutions altogether.[19] Activist movements in favor of

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entry of foreign direct investment; privatization of state-owned enterprises; deregulation in order to ease entry by new firms into the market and increase competition; and secure property rights. There is a mistaken view that the consensus included capital account liberalization and single-minded minimization of the role of state.

17. The additional 10 points cited by Rodrik (2000) are legal/political reform; regulatory institutions; anticorruption; labor market flexibility; WTO agreements; financial codes and standards; "prudent" capital account opening; nonintermediate exchange rate regimes; social safety nets; and poverty reduction.

18. See also Stiglitz (2001). For a recent and comprehensive analysis, including "reformist" proposals for change in both governance and policies, see Griffith-Jones and Ocampo (2004).

19. See Ziegler (2003); Green (2003); Harvey (2003); Khor (2002); and the report of the International Forum on Globalization (2002).

abolishing the Bretton Woods institutions such as the "Global Exchange" and the "50 Years Is Enough" groups accuse these institutions of causing widespread poverty, inequality, and suffering by ensuring open market access for corporations while cutting basic spending on education, health care, and production credits to poor farmers. The "50 Years Is Enough" group goes one step further and calls for a "Truth Commission" to investigate the Bretton Woods institutions and demands that they pay reparations for structural adjustment and social and ecological devastation.

Critics of the World Bank and the IMF are not just those to the left of the political spectrum. The US Congress created the Meltzer Commission in 1998 in the context of an $18 billion increase in the US capital contribution to the IMF. Led by conservative economist Alan Meltzer, who in a 1998 Brookings conference called for the abolition of the IMF, the commission's duty was to assess the mission and performance of the World Bank and the IMF. The outcome of the commission's work, published in 2000, concluded that the World Bank had become irrelevant to poverty reduction and that the IMF had become more of a problem than a solution. The report emphasized the danger of moral hazard due to IMF lending and argued for a drastic reduction of the IMF's policy role.[20]

In the face of such often extreme criticism coming from both the right end the left of the political-ideological spectrum, the Bretton Woods institutions are trying to chart their course for the coming years, subject to many external pressures and in the context of a governance regime that needs reform. The Bretton Woods institutions continue to have a very important role in both the emerging-market economies and in the poorer developing countries. To play that role effectively, they must be able to deal with the root of the problems, not just the superficial symptoms. In doing so they must be supported by a renewed, more legitimate governance framework that promotes in-depth solutions and allows their implementation with much greater domestic "ownership" and backing from public opinion, both local and international.

Reforming Bretton Woods governance must go hand-in-hand with reforming important parts of the strategies and policies supported and pursued by these institutions. Governance reform will encourage courageous thinking and initiative among the staff of these institutions, which has often been frustrated by the conservative bias of existing governance structures, and will allow much greater substantive give-and-take

20. The Meltzer Commission's report is available at www.house.gov/jec/imf/meltzer.htm.

between these institutions and civil society, as well as dialogue with parliamentarians and activists from the developing world. Over the last decade, Bretton Woods management has made an effort to open the institutions to dialogue and criticism. There is widespread conviction, however, that the decision-making process remains remote from this more open debate. If reformed governance were to succeed in conferring much greater legitimacy on the Bretton Woods institutions, allowing people throughout the world to feel that these institutions are indeed *their* institutions, reform policies pursued in developing and emerging-market economies could enjoy real domestic support *even if* they are implemented as part of Bretton Woods–financed economic programs. This would greatly increase the long-term effectiveness of these reforms and programs and thereby be good for both "creditors" and "borrowers," "donors" and aid "recipients."

A great deal of effort has gone into improving the policy advice and the quality of the conditionality in Bretton Woods–supported programs, but some of the most difficult issues remain unresolved. At the root of the problem one often finds a schizophrenic attitude toward conditionality. Nowhere is this more obvious than in some of the more radical critiques of the Bretton Woods institutions. These critics argue against conditionality as an unacceptable way to "subordinate" the developing countries to the will of the G-7-led Bretton Woods institutions. The same critics will also, however, often criticize Bretton Woods for not imposing *enough* conditionality when it comes to democracy and good governance. The quote below from Walden Bello (2002), a prominent sociologist from the Philippines and a leading critic associated with the International Forum on Globalization, illustrates the point:

> [T]he claim that the Bank was concerned about good governance was contradicted by the exposure of its profound involvement with the Suharto regime in Indonesia, to which it funneled over $30 billion in 30 years. According to several reports, including a World Bank internal report that came out in 1999, the Bank tolerated corruption, accorded false status to false government statistics, legitimized the dictatorship by passing it off as a model for other countries, and was complacent about the state of human rights and the monopolistic control of the economy.

The critics fundamentally disapprove of the Bretton Woods institutions' practice of attaching conditions to loans as infringing on the sovereignty

of the borrowing countries. The problem is that one cannot be against conditionality in the economic domain because it infringes on sovereignty and, *at the same time*, argue that the Bretton Woods institutions should impose tough social and political conditions on the borrowing countries. Such contradictions have been very evident in the debate about the Poverty Reduction Strategy Papers in low-income countries. At the center of these difficulties lies the problem of legitimacy. If the governance of these institutions were considered *more legitimate*, conditionality would become *more acceptable* and the debate could focus, in a much healthier way, on the nature of policies and conditionalities without always being hijacked by apprehension about motives and intentions.

That is why the reform of *policies* must be linked to the reform of *governance* and vice versa. Courageous policy reforms are needed to solve the systemic problems that threaten global economic development: the *debt trap* of the *emerging-market economies* and the *state failure* and danger of *exclusion* from the global development process of many of the *poorest countries*. The necessary policy reforms can only be implemented with accompanying governance reforms, however, because otherwise, lack of sufficient legitimacy will hamper both the design and implementation of the most effective policies.

Real progress in the direction of much greater effectiveness for the Bretton Woods institutions will be possible with courageous governance reforms that meet the challenge of legitimacy and succeed in changing the perception of these institutions. The world of the 21st century needs these institutions more than ever. They have accumulated very valuable experience. They have financial and human resources that can be leveraged even further. They are instruments of public policy on a global scale in a world where global issues require global policies. They can be used to stabilize the world economy and counteract the tendency of financial markets to exhibit herd-like behavior. They can be instrumental in ensuring that global standards and policies reflect the needs and aspirations of all. Despite considerable efforts, however, these institutions have been unable to establish sufficient trust and gain the support of the billions of people they are trying to serve. East Asian countries are building huge amounts of foreign exchange reserves with the hope that these reserves will protect them from ever again requesting IMF assistance. In Latin America, there is widespread disillusion with the "Washington consensus," which is identified with the Bretton Woods institutions and the US Treasury working closely together. In Africa, the situation is similar, despite the Poverty

Reduction Strategy Papers, the Heavily Indebted Poor Countries initiative, and the very substantial amount of resources Africa receives from the Bretton Woods institutions on concessional terms. Even sensible economic programs become impossible to "market" to public opinion when they acquire the label of "IMF programs."

For all this to change, the governance of the Bretton Woods institutions and of the international economic system as a whole must be allowed to change. Governance arrangements should meet the challenge of legitimacy and conform to a much greater extent than today to norms that the billions of people they serve will accept as fair. Of course, as is the case for UN Security Council reform, the change in governance cannot simply ignore the power balance that exists in the world. New governance arrangements must reflect a reasonable compromise between those who provide the lion's share of resources to the system and those who are on the receiving end of these resources. It is not only public opinion in the developing countries that must support the Bretton Woods institutions and the WTO, but also public opinion in Europe, North America, and Japan.

The need for reforms that would broaden the top governance of the international economic system beyond its current, essentially G-7-driven, architecture is actually widely acknowledged. The G-7 themselves have started inviting selected other countries to their meetings. Russia now is a regular guest invited to participate in some of the summit sessions, and the G-7 become the G-8 when it participates. While the G-7 reserve some meeting time to themselves as a group, they now regularly invite several developing countries to parts of the summit meetings. Another more regular "broadening" exercise has been taking place through the G-20, a "club" in which a dozen of the most important developing countries join the G-7 and the EU for semi-annual meetings as well as follow-up work in between meetings. The G-20 include Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, and Turkey, in addition to the G-7 and a representative of the EU. Together the member countries represent around 90 percent of global gross national product, 80 percent of world trade (including EU intra-trade), and two-thirds of the world's population. This is clearly a much more inclusive club than the G-7. The problem is that neither the broadened summit meetings nor even the more structured G-20 meetings have real decision power. These are forums for discussion and, in the case of the G-20, for some very good follow-up work, but they do not substantially

affect the governance system. Moreover, even the G-20 somewhat arbitrarily exclude a large number of countries without any real justification beyond practicality. The G-20 have been a very useful step forward and they should no doubt continue the work they have started, but more is needed in terms of overall governance reforms.

A United Nations Economic and Social Security Council

A radical but desirable step would be to make the top governance of the Bretton Woods institutions and other global economic institutions part of the overall framework of a reformed and renewed United Nations. The system of constituencies and weighted voting has worked well for the Bretton Woods institutions, allowing a considerable amount of adaptation and flexibility. Without destroying the positive features of the existing system that, on the whole, has served them well, it is desirable, however, to bring the Bretton Woods institutions under the broad, legitimizing umbrella of the United Nations.

The best way to achieve this would be through the creation of a new United Nations Economic and Social Security Council (UNESC) similar to the renewed UN Security Council but responsible for the economic and social sphere of the international system.[21] The new UNESC would be constituted at a much higher level than the existing ECOSOC, with a much stronger mandate. It would be a "twin" of the UN Security Council. The UNESC would function with a system of weighted votes and constituencies similar to that of the UN Security Council, the only difference being that *"military capability" would not enter into the formula* determining the voting strength of a country. Thus voting strength would be determined by a country's share in world population, GDP, and contributions to the UN global goods budget. India's weighted vote would thus be:

$$Z_{INDIA} = b_1 (P_i) + b_2 (GDP_i) + b_3 (B_i),$$

21. Proposals along this line have been made, notably by the Rasmussen Report (2003). A similar recommendation can also be found in the final report of the Commission on Global Governance entitled *Our Global Neighborhood* (1995). The commission's proposal was later endorsed by the Panel on Financing for Development led by former Mexican president Ernesto Zedillo. Joseph Stiglitz also has supported such a UNESC in various speeches and articles.

Table 4.1 *Voting strengths on the proposed UN Economic and Social Council*

	Factors determining voting strength (percent of total)			*Result*
Countries	*Contribution to global public goods*	*Population*	*GDP*	*Weighted vote*
Permanent members (6 seats)				
EU and official candidates (28)[a]	0.37	0.09	0.31	25.7
United States	0.22	0.05	0.27	17.8
Japan	0.19	0.02	0.17	12.8
China	0.02	0.21	0.03	8.7
India	0.004	0.17	0.01	6.3
Russian Federation	0.01	0.02	0.01	1.5
Constituencies (8 seats)				
Other Asia (40)	0.05	0.18	0.07	9.9
Latin America, Caribbean, and Canada (35)	0.08	0.09	0.08	8.5
Africa (43)	0.005	0.10	0.01	4.0
Arab League (21)	0.02	0.05	0.01	2.6
Other Europe (19)	0.03	0.02	0.02	2.2

a. The numbers in parentheses represent the number of countries in that constituency.

where $b_1 + b_2 + b_3 = 1$ and P_i, GDP_i and B_i are the shares mentioned above. The weights attributed to each of the variables can all be equal, as was proposed for the UN Security Council, or they can be different. If they were equal, India's weighted vote in the UNESC, ZINDIA above, would be 6.28 percent, compared to India's 5.162 percent voting strength in the renewed UN Security Council as described in chapter 3. Table 4.1 describes the voting strength of the various constituencies in the UNESC, using equal weights for population, GDP, and contributions to the UN budget, and can be compared to tables 3.1 and 3.2 describing voting strengths in the UN Security Council in chapter 3.

If the UNESC proposal were adopted, how could it fit in with the existing Board of Governors of the Bretton Woods institutions as well as the existing Executive Boards? What exactly would the UNESC do? At what level would it function? These questions have so far not been sufficiently

addressed in the proposals to create a UNESC. To make progress in this direction one must provide explicit and practical suggestions that go beyond the general idea of an Economic and Social Security Council.

As proposed for the renewed UN Security Council in chapter 3, the UNESC would function at two levels. It would normally meet at the level of *heads of government* once a year during the annual meetings of the United Nations in New York in September. Principals here would be the *same* as those in the heads of government level meeting of the UN Security Council. In addition, every second year, at the General Assembly meeting, the world community would elect the UNESC for a two-year period in exactly the same way it elects the UN Security Council, but with the different voting strengths as described above. The UNESC would thus consist of 14 council members who would meet very regularly and would be assisted by a small staff. These 14 council members would have to satisfy certain criteria in terms of experience with designing and implementing economic and social policies at the national, regional, or global level. These criteria should be explicit and binding. One difference between the new UNESC and the UN Security Council is that the council members would not be the ambassadors of these countries to the United Nations. It would be important that the new structure cut across existing bureaucracies, be they foreign ministries or treasury departments. The council members would be senior officials with distinguished careers in the economic and social sphere. Council members would be expected to have had ministerial experience in their countries or be top business, civil society, or academic leaders still active in their fields and enjoying strong national and international recognition. When the UNESC meets, what the world should see is a diverse group of men and women with the prestige, skills, and dynamism to act as global leaders in the economic and social domain.

The UNESC would be the governance umbrella for *all* specialized economic and social agencies currently in the UN system, such as the ILO, the UN Development Program (UNDP), the UN Conference on Trade and Development (UNCTAD), etc., as well as the Bretton Woods institutions and the WTO. The job of the UNESC would be to provide an overall framework of coherence and efficiency to international institutions and cooperation in the economic and social sphere. It could and should play a crucial role in putting together the global package needed to augment the resources that can be mobilized for development. The UNESC would elaborate guidelines to avoid duplication, work on long-term reform and

cooperation strategies, evaluate the effectiveness of all institutions and their programs, conduct some comparative research focused on effectiveness, and be accessible to civil society networks and their criticisms and proposals for changing the policies and practices of the various institutions. It would also, and this is crucial, *appoint all heads of institutions* with the help of transparent search procedures and criteria, which would include professional qualification and experience, a track record of leadership and good management, and overall gender, race, and geographical balance in the top management of international institutions. The *de facto* requirement that the head of a particular institution should come from a particular country would no longer apply. All positions would be open to talent from across the world subject to tough criteria known to all and subject, of course, to the ability to get elected by a UNESC in which the "big players" would still retain a dominant vote. The UNESC would not just reflect the world of finance but would represent the world as a whole: officials with experience in agriculture, the environment, or education would be as qualified and relevant to become council members as former ministers of finance or leaders in the financial sector. Given that the Bretton Woods institutions and the UN Security Council are headquartered in the United States, it may be desirable for the UNESC to have its permanent seat somewhere else—for example in Geneva, which is already the seat of important agencies and institutions such as the WTO, the ILO, UNCTAD, the WHO, and others, or perhaps in an Asian city where there are other international institutions and to which there is easy access. (Shanghai, Singapore, Manila, or Kuala Lumpur come to mind.) On the other hand, there would be advantages of having the UNESC also headquartered in New York, close to the UN Security Council. Periodically, the two Security Councils should have joint meetings on issues with overlapping security and economic dimensions, as already mentioned in chapter 3. Subcommittees with representatives from both councils may have to be created, and geographical proximity may be a facilitating factor.

What is proposed here is a UNESC that acts as a strategic board for the entire international system in the economic and social sphere, and a UNESC that has the very important function of appointing heads of agencies and which also reviews performance, promotes cooperation, evaluates effectiveness, and supports research on effectiveness. It would do so very independently of any one agency and reflect the hopes, aspirations, and concerns of humankind as a whole rather than of any one particular group or set of interests. It would be a source of strengthened legitimacy

for all institutions, particularly the Bretton Woods institutions. The UNESC would *not interfere*, however, in the workings of the institutions themselves. Having appointed the chief executives, the UNESC would not go beyond providing strategic guidance, promoting communication and public discussion, and evaluating performance. The UNESC would not have any executive function at all. It may be useful to discuss how this could work, for example, in the case of the Bretton Woods institutions and the ILO.

In the case of the Bretton Woods institutions, what would change would be the appointment procedure of the chief executives and the shifting of some of the external evaluation function to the UNESC. Beyond that, the UNESC would be able to suggest and analyze, but would have no decision-making role. The Board of Governors of the IMF and the World Bank would continue to exist and function, although there should be some changes in the voting weights of the Bretton Woods Executive Boards themselves, reflecting current economic and demographic realities and giving greater weight to the developing countries.[22] It is not necessary, however, to have the same voting weights for the Executive Boards of the Bretton Woods institutions as for the UNESC, and it may also not be necessary to harmonize the weight in formulas and country groupings. Appendix B, table 1, compares voting strength under the existing Bretton Woods system and the proposed UNESC system. Some of the differences are significant. In the proposed UNESC, there is a significant and desirable increase in the voting strength of the developing countries as a whole. Some movement in that direction is also very desirable for the boards of the IMF and the World Bank, although it need not be in the same magnitude. EU countries are clearly overrepresented there, and eventually a move towards joint EU representation could also be the occasion to correct the anomaly that inter-EU trade counts as international trade in the Bretton Woods weighting formulas. This would allow some redistribution of voting power to the developing countries on the Bretton Woods boards themselves.

The International Monetary and Finance Committee and the Development Committee, which are the high-level policy committees of the Bretton Woods institutions, could continue to meet semi-annually with the addition of the current chair of the UNESC participating in the meetings.

22. See Woods and Narlikar (2001) and Buira (2003a and 2003b) for in-depth discussion of the composition of the Bretton Woods boards.

The Executive Boards would continue to oversee the day-to-day operations of the Bretton Woods institutions and approve many of the management decisions. These boards would continue to reflect the world of central banks and treasury departments, with the usual addition of development ministries for the board of the World Bank, because these departments control the resources and formulate the monetary and fiscal policies. Many of these policies may need to change or evolve, but it would not be feasible or appropriate to separate the Bretton Woods institutions from the departments that deal most closely with financial and fiscal issues in the home countries. The results of these policies and the performance in implementing them would be evaluated, however, by the UNESC in a truly independent and arm's-length manner and with a broader and more interdisciplinary spirit. Moreover, having been appointed by the UNESC, the chief executives are likely to show sensitivity to broad strategic UNESC guidance and suggestions.

Taking the International Labor Organization as another example, creation of the UNESC would not affect the internal governance mechanism of this agency, except, again, for the selection of the agency head and the addition of the arm's-length evaluation process by the UNESC.[23] The director-general of the ILO would be appointed through the same transparent process as all other heads of agencies. Without interfering in the

23. The ILO has three main bodies, all of which encompass the unique feature of the organization, which is its tripartite structure (government, employers, workers). The member states of the ILO meet at the International Labor Conference every year, and each member state is represented by two government delegates, an employer delegate, and a worker delegate who are accompanied by technical advisors. It is generally the cabinet ministers responsible for labor affairs in their own countries who head the delegations, take the floor, and present their governments' points of view. The governing body is the executive council of the ILO and meets three times a year to take decisions on ILO policy. It establishes the program and the budget, which it then submits to the conference for adoption. It also elects the director-general. It is composed of 28 government members, 14 employer members, and 14 worker members. Ten of the government seats are permanently held by states of chief industrial importance. Representatives of other member countries are elected at the conference every three years, taking into account geographical distribution. The employers and workers elect their own representatives, respectively. The International Labor Office is the permanent secretariat of the ILO and the focal point for the overall activities that it prepares under the scrutiny of the governing body and under the leadership of a director-general, who is elected for a five-year renewable term. The office employs some 1,900 officials of over 110 nationalities at the Geneva headquarters and in 40 field offices around the world. In addition, some 600 experts undertake missions in all regions of the world under the program of technical cooperation. The office also constitutes a research and documentation centre and a printing house, issuing a broad range of specialized studies, reports, and periodicals.

day-to-day management and functioning of the ILO, the UNESC could, however, suggest new directions for the agency's work program and look into coordination problems and coherence between the work of the ILO and other agencies, notably the WTO. There has been a great deal of debate, for example, on labor standards, including child labor, and in particular on whether or not to link the issue of labor standards to trade and market access negotiations under the WTO. There is also the overlap between international practice and law regarding refugees, which comes under the jurisdiction of the United Nations High Commissioner for Refugees (UNHCR), policies with regard to migration, which currently are not the responsibility of any UN agency in particular, and policies with regard to workers' rights, which are directly in the ILO's domain. The UNESC would and could clarify responsibilities in these areas by suggesting, for example, to put the ILO rather than the WTO clearly in charge of dealing with labor standards, if that is what the majority weighted vote at the UNESC indicates. It could also augment the domain of responsibility of the ILO by giving it a mandate to oversee cross-border migration issues, including migrant rights as well as international cooperation to prevent illegal migration.

Another major function of the UNESC would be to help raise the resources needed for the better functioning of the international system in the economic sphere. At the Millennium Summit of the United Nations in 2000, the international community adopted the Millennium Development Goals (MDGs). World leaders set specific targets to reduce poverty, disease, hunger, and illiteracy, improve the environment, and promote the rights and participation of women by 2015. The International Conference on Financing for Development, held in Monterrey, Mexico, in 2002, made recommendations on how to achieve the MDGs based on a report prepared under the leadership of Ernesto Zedillo, former president of Mexico (known as the Zedillo Report).[24] The consensus in Monterrey was that about $50 billion in additional resources was needed annually for the MDGs to be met.

Since then, many proposals on how to increase the resources devoted to development have been put forward, ranging from simply increasing the development assistance budgets of the rich countries to ideas about the introduction of international forms of taxation (on carbon emissions,

24. The Zedillo Report is available at www.un.org/reports/financing/.

arms, currency transactions), and including a revival of the older idea of channeling SDR allocations to development and other forms of financial engineering. While there has been a lot of debate, actual progress with any of these ideas has been very slow, and the world is far from raising the additional $50 billion a year needed for the MDGs. The proposed UNESC could take a leadership and coordinating role in designing institutional and policy innovations to help raise resources for global development, put some order into all the competing initiatives and proposals, and ensure the required institutional linkages.

The reform proposed here for the governance of the economic and social sphere of the international system does have the merit that it could be implemented without major disruption to existing institutional arrangements and administrative budgets. This is an advantage, of course, since any major disruption would be a formidable obstacle to reform, whatever the merits the reform may have in the long run. Despite the *relative* modesty of the proposal in terms of institutional arrangements, it could bring much greater legitimacy to governance of the international system in the economic and social sphere. The Bretton Woods institutions and the WTO would no longer be totally outside the UN system, and they would benefit from the legitimacy of the United Nations. The fact that the managing director of the IMF and the president of the World Bank would be appointed by the UNESC alongside all other agency heads through a tough and transparent procedure open to talent worldwide would confer tremendous *legitimate* strength to these top managers of the international system. The evaluation and research support role of the UNESC would be perceived as more objective and impartial with respect to the various institutions, and therefore more credible than current evaluation procedures still tied to the institutions themselves. The UNESC would also be able to provide much needed impetus to coordination between various agencies, streamlining and promoting coherence and efficiency in the use of resources. The UNESC could act as a facilitator and, at times, as a regulator for civil society activism in the economic and financial sphere. The UNESC could play a leading role in promoting resource mobilization for development. The donor nations would retain sufficient control over resource amounts and use through their weight in both the new UNESC and on the Executive Boards of the Bretton Woods institutions to make the proposal politically reasonable and feasible. At the same time, directly and indirectly, global democracy

would have made a big step forward and people across the world could start perceiving not only the various existing UN agencies but also the Bretton Woods institutions as *their* institutions rather than simply the instruments of the G-7 (or the G-1, as the United States is sometimes called!). This would greatly strengthen the effectiveness of these crucial institutions—and their effectiveness is needed more than ever for the overall good performance of the world economy and for achieving a better globalization.