Global Governance: New Players, New Rules

Why the 20th-century model needs a makeover

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IN the summer of 2007, millions of homeowners in the United States discovered that the terms on their mortgage loans had worsened at the same time that the market values of their homes were declining. The squeeze quickly led to a sharp rise in foreclosures, and many families lost their homes. Within weeks, the turmoil spread to other advanced economies with complex financial systems, where businesses and individuals found that loans were harder to obtain and were unexpectedly expensive. Suddenly, the solvency of major banks and other financial institutions was being questioned.

What is surprising about this episode is that most people seem to have thought that advanced financial systems were sophisticated enough to absorb risks and to spread them widely enough to prevent a sudden drying up of liquidity. Bank runs happened in the 1930s. They were not supposed to happen in the 21st century. What is not so surprising is that once the problem began, it spread around the world before any one country could resolve the matter or protect itself from contagion. What began as a banking crisis spilled over into equity markets, destabilizing stock markets in industrial countries and raising fears that emerging markets could also be at risk.

The financial turbulence of 2007 illustrates—not for the first time—both the benefits and the risks of financial globalization. The global pooling of money has made it possible for companies in Tanzania, for farmers in Vietnam, for entrepreneurial women in villages in Bangladesh, and for young families in American cities to realize dreams that were beyond the reach of earlier generations. But it also has made them vulnerable to shifts in invisible forces that they cannot be expected to understand, much less influence or control. In this instance, quick responses by major central banks may have isolated the shock before it spread too widely. The episode thus illustrates another important point: in a world of globalized financial markets in which a systemic weakness in one country can affect many other markets, oversight and regulation should be acknowledged as a global responsibility.

Of course, the international community needs to grapple with much more than financial governance issues. The removal of barriers to international trade creates new employment opportunities, but it also raises thorny questions about labor standards and other social concerns. The destruction of old-growth hardwood forests to meet a growing world demand imposes environmental costs around the globe. Most frighteningly, contagious health risks respect no borders, whether the risks derive from AIDS, tuberculosis, or influenza. In each case, hard decisions must be made about whose welfare, which rights, and what goals matter most. This makes global governance—whether it pertains to finance, trade, the environment, or health—one of the most vital and difficult challenges of the modern world.

What is global governance?

The ideal of global governance is a process of cooperative leadership that brings together national governments, multilateral public agencies, and civil society to achieve commonly accepted goals. It provides strategic direction and then marshals collective energies to address global challenges. To be effective, it must be inclusive, dynamic, and able to span national and sectoral boundaries and interests. It should operate through soft rather than hard power. It should be more democratic than authoritarian, more openly political than bureaucratic, and more integrated than specialized.

Neither the concept nor the difficulty of global governance is new. After the First World War ended, the leaders of the victorious allies gathered in Paris in 1919 for six months of talks aimed at redrawing many of the world's national borders and establishing a permanent forum—the League of Nations—to deal with future issues and problems. More than 30 countries sent delegations to the Paris peace conference, but the four great powers of the winning side—France, Italy, the United Kingdom, and the United States—dominated and controlled the proceedings.

A quarter of a century later, as the Second World War drew to a close, allied delegations gathered again to set up new institutions to replace the failed League and to prevent the economic disasters that had characterized much of the interwar period. From those storied discussions, most of which were held in and overwhelmingly influenced by the United States—at Bretton Woods, New Hampshire; at the Dumbarton Oaks mansion in Washington, D.C.; and in San Francisco, California—emerged the multilateral agencies that would mold economic and political relations for the next six decades: the United Nations, with its Security Council and its specialized agencies; the Bretton Woods institutions—the World Bank and the IMF; and the General Agreement on Tariffs and Trade (GATT). This model of global governance, in which the few countries that sat at the apex of the world economic pyramid invited others to participate without ceding much control, became the prevailing paradigm for the postwar era.

The system is out of date

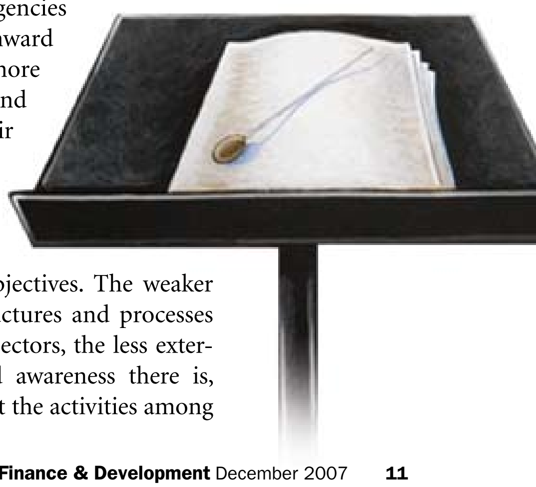
This dominance model of global governance was a reasonable and practical model for much of the 20th century. When the century began, London was the center of international trade and finance. At mid-century, the center had drifted westward across the Atlantic, but the Euro-American core had become even stronger. By the end, however, it was the periphery that was gaining strength. New regional and even global powers had risen to challenge the old, but the governance system failed to keep up with these changes.

The five permanent members of the UN Security Council hold a veto over actions such as the imposition of multilateral sanctions on states that violate UN resolutions and the sending of multilateral forces to maintain peace in volatile regions. The membership of that body has not changed in six decades. Control has broadened a bit more in other agencies, but far from enough. In the IMF, for example, in 1946 the United States and the United Kingdom together held a hair under 50 percent of the voting power on the Executive Board. Today it takes at least eight Directors representing 35 or more countries to constitute a majority. The United States alone has a veto over major financial decisions, but any coalition of three or more members with a total vote of 15 percent can do the same. Nonetheless, changes in the distribution of votes and influence have lagged far behind the evolution of the world economy, with the consequence that the oversight of the international financial system has become less and less accepted as politically legitimate.

A second issue is that the international system by which national governments come together to oversee global issues is fragmented and specialized, without an effective, broad overview. Like its predecessor, the GATT, the World Trade Organization deals with trade. The World Health Organization (WHO) oversees health issues. The UN Security Council responds to situations that threaten world peace. The World Bank and regional development banks provide official financing to developing countries. The IMF oversees the functioning of the international financial system. Notwithstanding the extensive consultation and cooperation that take place regularly among these and other agencies, each one acts independently within its own sphere.

In sum, what we have today is a multiplicity of independent actors, both public and private, each pursuing its own objectives and priorities, with its own clientele and constituency, with its own technical language and organizational culture, with its own mandate and specialized focus. These attributes may have been appropriate for a time when international relations focused on several important issues but just a small number of important countries. The lasting effect, however, is that we have inherited a system that is fragmented and that relies heavily, perhaps too heavily, on market forces, competition, and ad hoc public reactions to try to channel energies and allocate resources.

In this setting, agencies become more inward looking, focusing more on how to evaluate and try to improve their own performance than on how to work together with partners to achieve common objectives. The weaker the governance structures and processes are within specific sectors, the less external orientation and awareness there is, and the less coherent the activities among



different actors. Each agency becomes less effective, and the system as a whole suffers.

The problems and the challenges of the 21st century—absorbing demographic change, reducing poverty, expanding the provision of safe and clean energy without aggravating climate change, alleviating health risks, and many others—require far more coordination than is possible within such a system. Each of these challenges, even if addressed locally or nationally, has the potential to affect the lives of people everywhere. Specialized technical expertise by itself is unlikely to be fully effective if it is not guided by a global and holistic vision.

The vacuum represented by the lack of a comprehensive system of oversight has been filled in part by a succession of ad hoc groups of states purporting to act as a steering committee for the world economy (see map). That effort began with the formation of the Group of Ten (G-10) main industrial countries in 1962. A subgroup formed in the 1970s as the G-5, which broadened to the G-7 in the 1980s and to the G-8 in the 1990s. To try to counter the powerful influence of these groups of industrial countries, developing countries formed the G-77 in 1964 and then a subgroup, the G-24, in 1971. In 1999, the G-7 invited a number of emerging market developing countries to join them in a new G-20 grouping.

Most of these groups still meet regularly and issue pronouncements on how national governments and the various multilateral institutions should act to deal with a variety of issues, such as the financial turbulence of 2007. In addition, nongovernmental organizations have proliferated to represent the interests of civil society, business, labor, and religions on issues such as environmental protection, property rights, workers' rights, poverty reduction, financial stability, and the promotion of democracy and transparency in government. Many of these organizations, both governmental and civil, are effective advocates for the interests that they represent, but none can be said to represent the interests of the world as a whole.

The problems will worsen

These shortcomings in global governance, if not addressed, will only worsen in the years to come and could undermine the progress that globalization has brought. As the historian Harold James (2001) has shown, history is replete with episodes in which international commerce and finance have flourished and generated bursts of economic growth and development, only to be reversed because of popular backlash. Those who believe in the benefits of globalization will be more likely to prevail if they engage in a real dialogue and a partnership with those who fear that their own interests will be swamped by the rising tide.

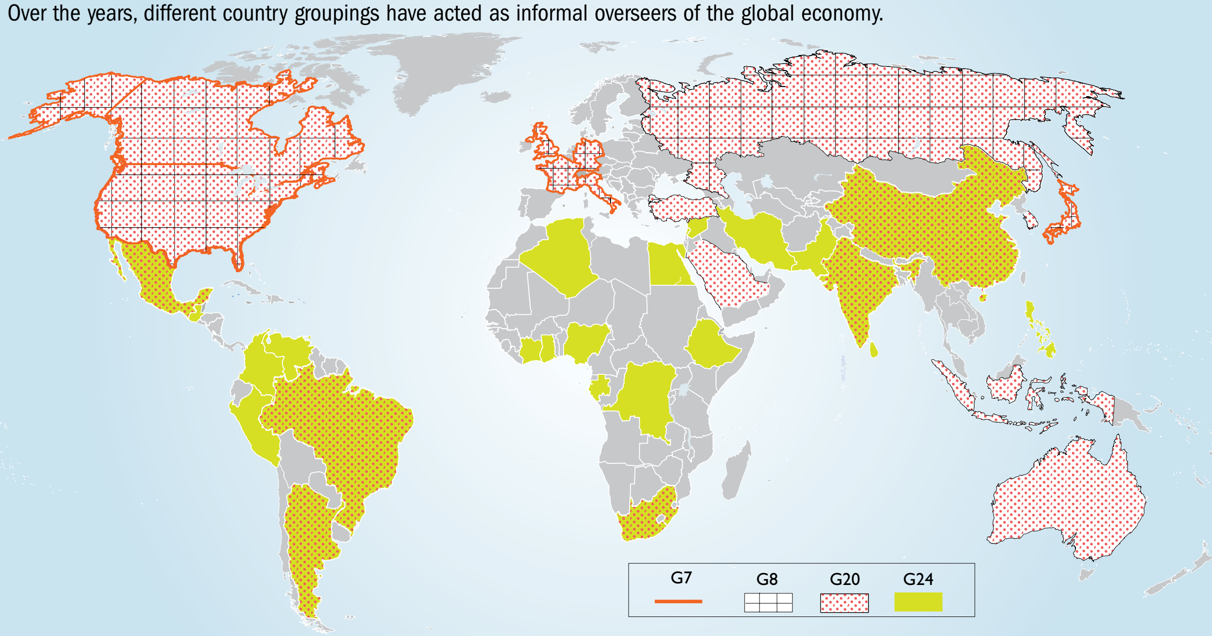
To see how these weaknesses are likely to worsen, consider the ongoing effects of population growth, rising energy demands, and global health risks.

Demographic change. The coming generation will see an immense and challenging transformation in the world. The overriding challenge will be to absorb a huge increase in population. Demographers in the UN and elsewhere project that world population will grow by half, from 6 billion people in 2000 to 9 billion in 2050, before leveling off (United Nations, 2005; and U.S. Census Bureau). Much of the discussion of demographic trends in recent years has focused on the inexorable rise in the elderly population and the effects this will have on tax burdens and the provision of health care and other social services.

Even more overwhelming is the expected pressure on development prospects. All of the additional 3 billion people will be living in developing countries, where the majority today live in conditions of poverty. The primary Millennium Development Goal (MDG), endorsed by almost all of the

Who the "G's" are

Over the years, different country groupings have acted as informal overseers of the global economy.



world's national leaders in 2000, is to reduce the rate of extreme poverty by half between 1990 and 2015. The goal is being met globally, and even those regions that are lagging are now at least achieving growth in per capita incomes. Sustaining that progress throughout the transformation over the coming decades will require leadership in, and cooperation among, rich and poor countries, multilateral institutions, the private sector, and civil society.

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These stark demographic realities are adding fuel to the polarization of attitudes regarding the benefits and costs of globalization, and regarding the creation of winners and losers from the globalization of economic forces identified with the spread of market-oriented ideas. Doubts about the human face of globalization, about whether it really produces widely shared benefits and reduces world poverty, risk recreating the backlash against the whole process that reversed previous episodes of global integration and that flared up widely and ominously just a few years ago.

Energy. Another vital and growing global challenge is the provision of energy. Already, for example, 2 billion people have no access to electricity. Add 3 billion more people to the world by 2050, and there will be 5 billion potential new customers, which is a billion more than the number who have access now. The scale of the effort in the electricity sector alone that will be required to meet this new incremental demand is daunting, even leaving aside the related tasks of modernizing transportation (more reliance on hybrid cars that use electricity), reducing pollution, and minimizing climate change stemming from human activities. The scale of investment in new sources of electricity generation and distribution required to meet the rising demand will be massive, even without considering replacing and upgrading existing capacity or adopting cleaner technology.

The energy challenge for the future cannot be met without strong leadership and coordination. A global energy market exists, with global institutions that monitor markets and represent different parties. Even so, since most energy investment, whether in oil, natural gas, biomass, nuclear power, or alternative energy sources, is managed by private companies or parastatal enterprises, private sector and national interests are more strongly represented than are global public interests.

In a field anticipating lumpy, long-term, massive investments with major spillover effects on the environment and on the profitability of other investments in the same or related sectors, there is no system for global energy governance. No locus exists where private and public sector entities can gauge the importance of the impact of others on their actions and determine their own actions and adjustments in a longer-term perspective than markets operating alone can provide.

Health. The importance of spillover or contagion effects in global health is even more self-evident. The splintering of institutional approaches in global health is worrying. The fact that philanthropists and special funds are providing additional resources for disease eradication is, of course, a welcome development. The proliferation of donor-funded programs does, however, raise issues for ensuring accountability. In addition, a danger arises that these efforts could end up chasing specific diseases rather than addressing the underlying causes of global health threats, namely poverty, institutional weaknesses, and underinvestment in public health systems, especially in developing countries (Waldman, 2007).

The premier global public health agency, the WHO, is underfunded, overearmarked, and ill equipped to deal with investment in health institutions and public health systems. The World Bank can and does pick up part of the slack, but its lending for health is independent of, and not formally coordinated with, the WHO. The need for intersectoral, interministerial, and interinstitutional approaches in global health governance is clear.

What can be done?

Strengthening the governance of global interactions requires action on three fronts: rationalizing the relationships among sovereign states, updating the existing multilateral institutions, and creating an effective oversight body.

It is no longer possible to argue that the current oversight of international relations is adequate for the 21st century. Ministerial bodies such as the Development Committee, the International Monetary and Financial Committee, the Council of the Organization for Economic Cooperation and Development, and the World Health Assembly play important roles within the organizations they guide, but each one represents interests that are specific to those institutional mandates. Above those committees, none of the regular summit groupings is sufficiently representative to provide legitimate global leadership.

Much attention has been focused recently on reforming international institutions to make them both more effective and more politically legitimate. If those reforms are to lead to real improvements in performance, a means must be found to integrate the sectoral focus of these institutions into a comprehensive framework for dealing with common global challenges. That consideration suggests a need for a new governance mechanism at the apex of the global system. Designing such a mechanism will not be easy, nor will it be without controversy. At this time, only the broad outlines can be plainly sketched.

The first and most important front is to reform the process by which national political leaders come together at the summit or ministerial level to discuss common concerns. Responsibility for shaping the global system rests much more with national governments than with the international institutions as separate entities. Those institutions are membership organizations that are guided and directed by national authorities, by ministers of finance, energy, health, and development, among others. Until the interactions among those authorities reflect the interconnections among the problems of finance, poverty, health, energy, and security; and until they reflect the reality of the broadened and globalized world of the new century, no effort to reform the institutions can possibly make enough difference. Furthermore, it is unlikely that reforming the international institutions and global governance generally will be fully successful without expanding the membership of summits and energizing their mandate.

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Leadership at the highest level of public responsibility that is uniquely invested in heads of state is necessary to provide the strategic guidance required for national and international institutions to be effective in managing the multisectoral nature of global threats. Because the only truly powerful group—the G-8 summit—is composed exclusively of rich, industrial countries, mostly from the North Atlantic, there is a "democratic deficit" in the current summit grouping and, as a consequence, a void at the apex of the international system. To bring the international institutions together in a new configuration to address the pressing issues of our times coherently, it is essential to expand the summits to include countries from other major regions and cultures as equal members.

The second front is to update the system of multilateral institutions. Some, like the IMF, are seen as efficient but lacking in political legitimacy; others, such as the UN, are seen as just the opposite.

Over the past two years, the IMF has set out a specific reform agenda that—if it is fully and boldly implemented—could respond to the questions that have been raised about its political legitimacy. The principal governance-related elements of this agenda are to shift influence more toward the dynamic and fast-growing regions and away from previously dominant countries whose role in the world economy has waned relative to the emerging market economies, and to adopt more open and transparent procedures for selecting its own management. In addition, the IMF has revised its conditionality guidelines with the aim of becoming less directive and intrusive and more cooperative in its dealings with the member countries that depend on it most heavily.

Similarly, in 2004 the UN initiated an effort to strengthen what Florini and Pascual (2007) have called "a fundamentally unsound institutional base." Those reforms included an expansion of the Security Council, substantial internal management reform, and a wide range of specific proposals aimed at making the UN system more coherent. As with IMF reform, the chief remaining challenge is to generate the broad political support that is required to bring these initiatives to life.

The third front is to generate a new mandate for relating the panoply of international institutions to global challenges. Generating this new mandate should be a priority task for a new global steering committee of heads of state. The MDGs provide an example of a comprehensive, multisectoral approach to fighting global poverty, integrating as they do goals for gender equality, universal education, health, and environmental sustainability. The forthcoming Financing for Development Summit to be held in Doha, Qatar, in 2008, could provide world leaders with an opportunity to intensify the global effort to achieve the MDGs and provide a framework for coordinated action among the major institutions, agencies, and actors. A reformed, expanded summit grouping, with help from the institutions themselves, could monitor, evaluate, and guide the implementation actions agenda for the MDGs going forward.

The fragmented international system of today is composed of multiple institutions, agencies, and actors with specialized mandates. What is required is a transition to a global system of reformed institutions and new governance mechanisms that can harness diverse energies and resources in a cohesive way to respond effectively to urgent global challenges in the age of massive economic and social transformation that lies ahead. The recent election of new leaders in the United Kingdom, France, and Japan; the prospect of elections in some other G-8 countries; and the selection of new heads of the Bretton Woods institutions and other agencies together establish an opportunity to move the governance reform agenda forward to create a global system congruent with the problems that must be addressed. ■

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