‘IT’S DEMOCRACY, STUPID’

The trouble with the global economy – the United Nations’ lost role and democratic reform of the IMF, World Bank and the World Trade Organisation

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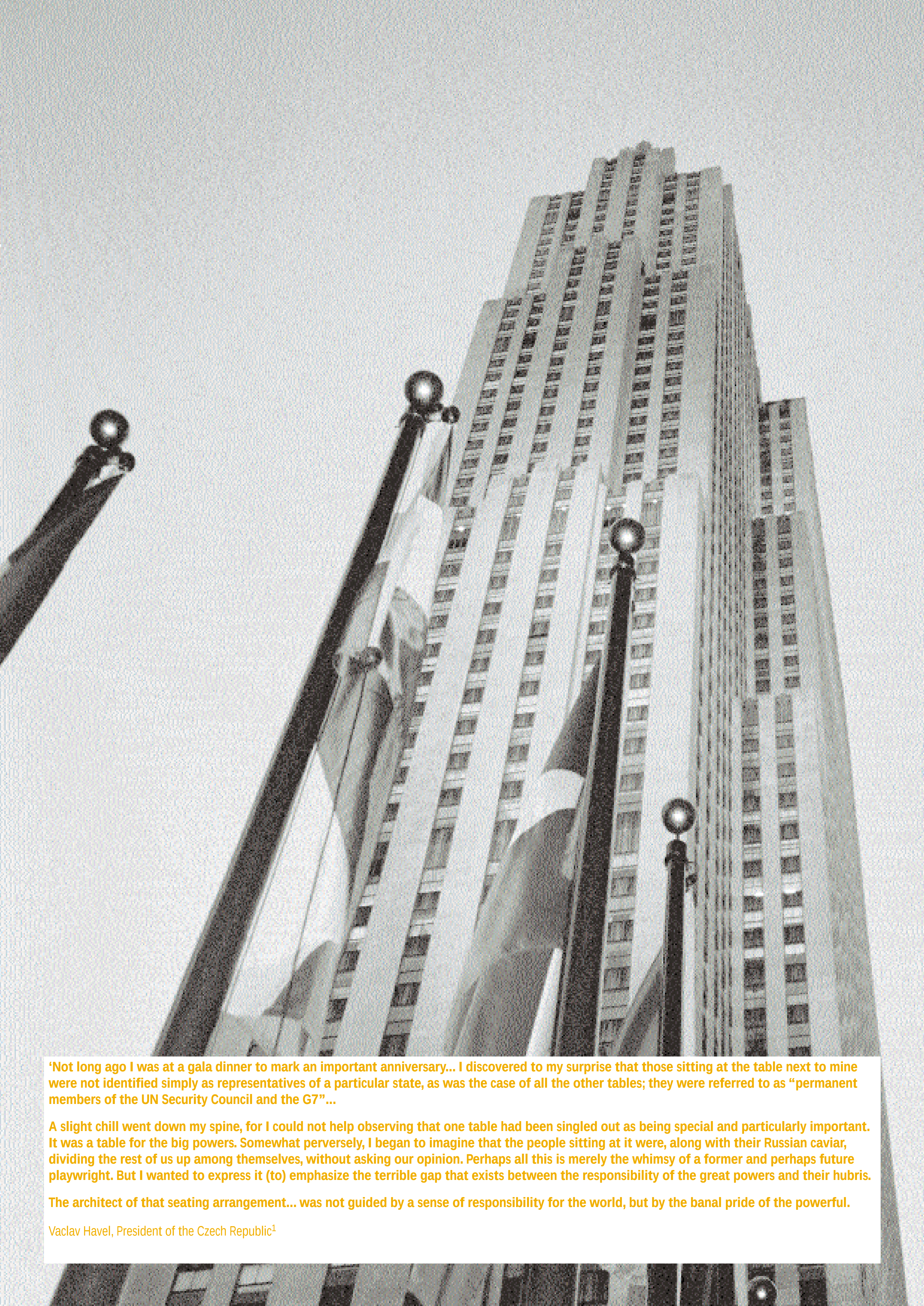

'Not long ago I was at a gala dinner to mark an important anniversary... I discovered to my surprise that those sitting at the table next to mine were not identified simply as representatives of a particular state, as was the case of all the other tables; they were referred to as "permanent members of the UN Security Council and the G7"...

A slight chill went down my spine, for I could not help observing that one table had been singled out as being special and particularly important. It was a table for the big powers. Somewhat perversely, I began to imagine that the people sitting at it were, along with their Russian caviar, dividing the rest of us up among themselves, without asking our opinion. Perhaps all this is merely the whimsy of a former and perhaps future playwright. But I wanted to express it (to) emphasize the terrible gap that exists between the responsibility of the great powers and their hubris.

The architect of that seating arrangement... was not guided by a sense of responsibility for the world, but by the banal pride of the powerful.

Vaclav Havel, President of the Czech Republic[1]

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'Of the truths that remain hidden though useful, knowledge of temporal world governance is most useful and most unknown.'
Dante Alighieri, De Monarchia[2]

'American voters are going to choose a president - not just of the United States but really the leader of the entire world'
George Bush, former US President[3]

It's democracy stupid

The United States presidential campaign that took Bill Clinton to the White House had as its slogan 'Its the economy, stupid'. It was the answer to the unasked question 'what's the big issue?'

If the same question was asked about globalisation today, the answer would come back, 'It's democracy, stupid.'

None of the problems thrown-up by globalisation: the strong getting stronger and exploiting the weak who grow weaker; an unpredictable and turbulent global economy; and increasingly life threatening environmental issues – can be effectively tackled without accountable and representative institutions for global governance.

Yet the most powerful multilateral bodies shaping the global economy – the group of seven, sometimes eight, nations (G7/8), the International Monetary Fund (IMF), World Bank and World Trade Organisation (WTO) are also among the least democratic and inclusive.[4] As the mainstream news media point out, the only truly representative forum in the international system remains the United Nations.[5] But its effectiveness has been continually undermined, crippled by either super-power politics and the glaring anachronism of the Security Council, or the setting up of parallel institutions that capture the influential levers of global governance.

Today, we are paying for the original sin of separating into competing global institutions economic issues from social, political and security concerns.

The failure of the old system, and hence the poor reputation of the UN, and the current inability to either manage globalisation or handle the ongoing crises of environment and development can be put down to three deficits:

- **The cold war deficit** – the hangover from the super-power stand-off which froze international co-operation and played politics with whole continents leaving a still-visible legacy of conflict, poverty and weak global institutions
- **The peace deficit** – dying superpower animosities failed to create new hope and opportunity. In the last decade, rich countries turned their backs on the poor countries that once proved useful pawns in their power games. The accumulative shortfall in aid since 1992 based on previous trends amounted to $88 billion by 1998.[6]
- **The democratic deficit** – inequality in the global economy is a mirror of the rich country domination of the multilateral economic institutions. The haphazard growth of global governance also means that no democratic mechanism yet exists to priorities between narrow economic interests and international agreements on environment, poverty reduction and human development.

Real democracy is efficient because it allows competition between ideas, criticism and for review from within a system. But agents like the G7 or the IMF operate like fossils from a pre-democratic era. They are 17th century parodies of representative government from a time which only recognised the rights of aristocrats and big land owners.

Global economic governance has several critical challenges that demand democratic reform if they are to be achieved:

- The rapid and extreme concentration of power in the global economy into very few hands
- The increasing volatility and turbulence of the global economy along with the suffering it causes, and
- The inability of conventional economics to manage life-threatening external environmental problems such as climate change, let alone lesser but persistent problems such as the questionable poor country debt crisis

A cause of chaos – the architecture's missing foundation

This report argues that institutions like the World Bank, IMF and WTO – the cuckoos in the nest of global governance – must undergo democratic overhauls if they are to help achieve stated global goals of equitable and sustainable development, or even to run with rudimentary efficiency. They must also learn to recognise the legitimate authority of truly representative bodies and international agreements arrived at during the 1990s, such as the Earth Summit treaties and international poverty reduction targets. These were agreements arrived at by the most open and inclusive negotiations that the international community has yet achieved.

Even if the Bank and Fund start to practice the 'good governance' they preach, there still needs to be a thorough clarification of the hierarchy of international commitments, for example to trade liberalisation, as opposed to environmental protection and social commitments. Only the United Nations, for all its problems, has the mandate to balance the economic, social, political and security demands of the global community. The need is both for open, truly representative global institutions, and to clarify which should come first, our larger freedoms or vested economic interests.

The myth of the WTO's democratic structure and its lack of transparency were both laid bare at its 1999 meeting in Seattle. Delegates from developing countries were marginalised and left uninformed, literally out on the streets, as the major trading nations played power politics that ended in disaster.

In this report, we also describe the lumbering progress of the European Union toward setting up supranational government, its pitfalls and problems. The EU's experience acts as a guide to what can go wrong with broad-based economic governance and points toward some basic principles to follow to avoid their worst mistakes.

During the 1990s at the 50th anniversaries of both the UN and the Bank and Fund, these problems were widely analysed in a flurry of critiques by groups such as the Commission on Global Governance. Numerous proposals for a better system were made. Just as the suggested reforms were ignored, the prediction of fundamental threats to worldwide stability and security, looming on globalisation's horizon, proved correct. For that reason, it is time to revisit the analysis.

The former head of the WTO, Renato Ruggerio, said, "We are writing the constitution of a single global economy."[7] If it is time for a new constitutional settlement, it will have to be born out of a wider discussion than the current chattering between a distant class of elite technocrats, at bodies like the G7-inspired Financial Stability Forum and G20 group of countries.

Such a broader debate, involving over 1,500 civil society organisations, was organised to feed into the World Bank's once-a-decade flagship report on global poverty – the World Development Report 2000. Disturbingly, given the Bank's public commitment to participation and accountability, the report's author, Ravi Kanbur, resigned on principle when he came under pressure to downplay critical views of globalisation.

A new constitutional settlement

In 1945, the major powers badly mishandled an opportunity to set up a coherent, democratic system to tackle global problems. Efforts towards a more fair international economic order were again deliberately frustrated in the 1960s and 70s. Complacency at the end of the cold war let another opportunity slip away.

Past attempts were inspired by visions of a better world. But today, in spite of the moral need, a new constitutional settlement for the global economy is a matter of survival. Without it we will be unable to manage the conflict born of inequality, economic disasters born of financial instability, or life threatening environmental problems such as climate change.

As important as a new settlement is, the process leading to it must be democratic. The collusion between states and big institutions for the last half a century failed and sold the global citizen short. It is not enough for states to share information among themselves. To overcome the democratic deficit, global architecture must be made of glass and visible to all.

This report is not a manifesto of proposals, even though it suggests broad themes for reform. The policy-maker's shelf is already heavy with suggested tools (see box *The proposal queue* on page 21). The report says that, to work, a new constitutional settlement can only come from an open, democratic process, not limited to governments, institutions or even non governmental organisations. For real accountability, models like the Citizen's Jury are revolutionising decision-making and putting people, rather than elites, back in the political picture (see box *It's not just votes* on page 5). Such initiatives are an answer to the World Bank's awareness that successful human development depends on real participation.

Experience, for example in Europe, shows that openness, accountability and democracy are necessary preconditions for a legitimate constitution to be grown, along with institutions equipped to safeguard and implement it. For that reason we support and promote **Charter 99 – the charter for global democracy**, included at the end of the report. Three immediate challenges are:

- Democratic reform of voting and decision-making in the multilateral economic institutions
- Return of the big three economic organisations from being maverick agents of the industrialised countries to a coherent and democratic family of global institutions for tackling global problems – cleaning up the confused hierarchy between the UN and the WTO, World Bank and IMF
- Growing a new constitutional settlement for the world economy from the roots up – with citizens not civil servants setting the pace – a declaration of democracy for the brave new economy

The chorus of disapproval

"The IMF likes to go about its business without outsiders asking too many questions. In theory, the fund supports democratic institutions in the nations it assists. In practice, it undermines the democratic process by imposing policies."

"With the IMF insisting its policies were beyond reproach – and with no institutional structure to make it pay attention – our criticisms were of little use. More frightening, even internal critics, particularly those with direct democratic accountability, were kept in the dark."
Joseph Stiglitz, former chief economist and vice president of the World Bank, April 2000[8]

"International economic policy ends up having very little to do with economics. It becomes an exercise in amateur psychology, in which the IMF... and the Treasury Department try to convince countries to do things they hope will be perceived by the market as favourable. No wonder the economics textbooks went right out the window."
Paul Krugman, Professor of economics, MIT, May 1998[9]

"The lords of world finance – international bankers, central bankers, finance ministers, and, since 1945, the International Monetary Fund... faced with currency crises that endanger both financial systems and whole economies, ... invariably give priority to finance. Their standard remedies, fiscal stringency and punitive interests rates, are devastating to economic life."
James Tobin and Gustav Ranis, September 1998[10]

"The Fund acts on occasion as if self-doubt is an impossible concept. Its prescriptions, enshrined since the end of the cold war in the Washington Consensus, have probably ruined as many economies as they have saved."
Financial Times, 16 June 2000[11]

"The appearance (is) that the IMF is acting in an arbitrary and capricious fashion in interpreting its articles. It also results in the IMF encroaching into areas of expertise of other specialised agencies such as the World Bank, the ILO, UNESCO, WHO without any clear mechanism for resolving these jurisdictional conflicts."
Prof. Daniel D. Bradlow, Washington College of Law, American University, April 2000[12]

"The IMF's management and oversight board are not distinct, its deliberations are not public, and formal votes are rare. If G7 finance ministers can agree on a policy that they wish to pursue, for whatever reason, they can use the IMF as the instrument of the policy."
The US Congress Meltzer Commission Report[13]

"The Fund and Bank... have become a more explicit tool of western, and particularly American, foreign policy."
The Economist, 18 September 1999

"The paradox of economic freedom, which makes possible the unrestrained exploitation of the poor by the rich... results in the almost complete loss of economic freedom by the poor."
Karl Popper, *the Open Society and it's Enemies.*

Why democracy works – why institutions don't work without it

The philosopher Karl Popper, author of *The Open Society and its Enemies* has a conservative reputation, yet his emphasis on the need for 'free institutions' provides a devastating critique of the World Bank and IMF.

Democracy is a system, he says, whose greatest virtue is that it supplies "governments of which we can get rid without bloodshed," because the "social institutions provide means by which the rulers may be dismissed by the ruled."[14] As important as electoral systems, which can be corrupted and lead to the dictatorship of the majority, are truly free institutions. Such institutions are better at problem solving. They allow for bold trials and experiments, subjected to criticism and the elimination of errors followed by the genuine possibility of change.

The financial institutions as enemies of open global society

From this perspective, the common view that too much democracy in international institutions is a luxury we cannot afford is both irrational and counter-productive.

Popper thought that "a policy is a hypothesis that has to be tested in the light of reality and corrected in the light of experience," and that with the best will in the world it is only normal for policies to have unintended consequences. It is unlikely that desk officers at the World Bank and economists at the IMF actually wanted to hurt people when they designed structural adjustment programmes for poor countries over the last few decades, but the economic contraction at the heart of adjustment nevertheless closed some schools and hospitals and put others beyond the reach of people in living poverty. And the Bank has, after all, been publicly committed to fighting poverty since at least the 1970s. But undemocratic institutions find it difficult to solve problems and achieve their aims because they lack a feedback mechanism to learn from. Popper's analysis begins to explain how agencies like the World Bank make the same mistakes over and over again.

One of Popper's biographers characterises his analysis this way: "There is a need for a political technology as well as a political science, one that embodies a permanently but constructively critical attitude to organisational means in the light of changing goals. The implementation of every policy needs to be tested: and this is to be done not by looking for evidence that one's efforts are having the desired effects but by looking for evidence that they are not... Rationality, logic and a scientific approach all point to a society which is 'open' and pluralistic, within which incompatible views are expressed and conflicting aims pursued; a society in which everyone is free to investigate problem-situations and to propose solutions; a society in which everyone is free to criticise the proposed solutions of others, most importantly those of the government, ...and above all a society in which the government's policies are changed in the light of criticism."[15]

The emphasis of the Bank and Fund on rigorously policing the presentation of policy denies this logic. The way dissenting voices such as former World Bank chief economist, Joseph Stiglitz, and co-ordinator of the Bank's *World Development Report 2000*, Ravi Kanbur, left the institution after embracing views that ran counter to the orthodoxy, suggests that these are lessons still to be learned. The incidents were merely the latest examples of self-conscious 'paradigm maintenance' at the Bank.[16]

The US Congress Meltzer Commission recently went as far as to conclude that the IMF 'has undermined national sovereignty and often hindered the development of responsible, democratic institutions that correct their own mistakes and respond to changes in external conditions.'[17]

Free markets as enemies of open global society

Popper's work not only provides an elegant critique of the institutions but also their policy paradigm of progressive market liberalisation:

"Unqualified freedom, like unqualified tolerance, is not only self-destructive but bound to produce its opposite – for if all restraints were removed there would be nothing whatever to stop the strong enslaving the weak. So complete freedom would bring about the end of freedom, and therefore proponents of complete freedom are in actuality, whatever their intentions, enemies of freedom."

"The paradox of economic freedom, which makes possible the unrestrained exploitation of the poor by the rich... results in the almost complete loss of economic freedom by the poor." His understanding of how to bring about an open society, and how to protect it from its enemies relates directly to the policies underlying the World Bank, IMF and WTO, and the balance of power between them and the UN system. He says there "must be a political remedy – a remedy similar to the one which we use against physical violence. We must construct social institutions, enforced by the power of the state, for the protection of the economically weak from the economically strong... This of course, means that the principle of non-intervention, of an unrestrained economic system, has to be given up...

"If the state does not interfere, then other semi-political organisations... (monopolies, trusts, unions etc) may interfere, reducing the freedom of the market to a fiction... Economic planning that does not plan for economic freedom in this sense will lead dangerously close to totalitarianism."[18]

If the "sine qua non of democracy" is the removability of the government by the governed – it is clearly not the case with regard to the influence of the Bank and Fund over developing countries.

The UN system is more open to poor countries. But for the reasons discussed in this report it has been consistently obstructed, undermined and kept at arms length from key economic issues. The conclusion of Popper's work according to biographers is that "any attempt to render such institutions ineffective is an attempt to introduce authoritarian government and should be prevented."[19]

Out of control who decides our economic destiny

Conservative of estimates from the 41 countries with arrangements under the IMFs Enhanced Structural Adjustment Facility (ESAF) during 1999, puts 543.2 million of the worlds population without full control over their economic destiny. This figure excludes countries such as India, the World Banks largest single borrower, with a population of over 1 billion, which has undergone adjustment since 1991. Brazil and Thailands complicated dealings with the Fund effect their combined populations of 227.1 million. Surprisingly, given the impact of Fund and Bank policy and their commitment to transparency, no definitive list of countries under adjustment is currently available – either to the public, or even to many of the Banks own staff. In the absence of official information, Lance Taylor of MIT estimated that: "Half the people and two-thirds of the countries in the world lack full control over their own economic policy".

Sources: IMF Annual Report 1999, Arrangements Under the Enhanced Structural Adjustment Facility in Effect During Financial Year Ended April 30, 1999.

It's not just votes – growing democracy and accountability from the roots up[20]

Neither greater official competence for the UN or more democracy in terms of fairer voting structures on the boards of the World Bank and IMF will solve the problem of bad global economic management.

This is true for the simple reason that the bureaucratic elites who formulate policy in any international forum rarely have to live with its consequences. They are insulated by well paid jobs, political connections and their lifestyles.

Without new ways to connect the majority who live at the receiving end with the process of economic policy making, bad choices will continue to be made and solutions will continue to evade us.

But now in many different ways people are experimenting with new models to make those connections. At one end of the scale are calls for a World Future Council to make people alive today responsible for their actions to future generations.[21]

At the other is the spread of citizen's juries, issue forums and 'democs'. The thing they all have in common is bridging the gap between purely representative democracy – a cross in a box once every five years if you are lucky – to truly participative democracy. They largely represent people's initiatives rather than solutions imposed by government or agencies. Already:

- Citizen's juries are being used in India to debate the future of farming and the impact of genetically modified crops. The uptake of citizen's juries by local authorities in Britain increased five fold during the 1990's, from just 20 authorities using them in 1991 to 110 in 1997.
- In South Africa, the Truth and Reconciliation Commission was another experiment at involving people to manage a society in political and economic transition
- In the US there are 3,200 issue forums on topics of national and local concern held each year organised by over 1,300 community organisations
- A similar issue forum was used in the Russian city of Vologda to examine its housing crisis

These models have profound implications. The World Bank has long acknowledged that without real participation at the local level, its projects invariably fail. Yet its approach has been the opposite when designing macroeconomic policies, a task which has been left for deliberately insulated technocrats, and often even at the local level when projects are actually implemented.

Feedback to the World Bank from thousands of citizens' juries before policies are set in concrete could become a reality. It would be just the kind of tonic that the Bank, and the Fund, need to raise themselves from their current malaise, and become the free and efficient institution, capable of learning and changing, that Karl Popper believed should be at the heart of an open society.

By contrast, current reforms of the financial institutions have focussed on 'rather weak forms of accountability.'[22] The new Financial Stability Forum and G20 discussion group are seen as 'little more than a gesture' toward greater consultation by the G7, who will most likely concentrate only on 'crisis prevention and management,' rather than equity and funding development. The smallest, poorest countries and citizens groups are still left out.[23]

Increasingly vehement and visible criticism by NGOs is perhaps the best indicator of the lack of democracy in the global economy. As Kofi Annan said:

"Barely had the pepper fog settled over the Seattle protests before NGOs were branded as confrontational or even contrarian, disruptive or even destructive, anti-technology or even anti-progress. Those labels overlook the pioneering role of NGOs on a range of vital issues, from human rights to the environment, from development to disarmament. We in the United Nations know that it was [them] who set the pace on many issues."[24]

Real reform will require identifying the whole range of people who have a stake in the Bank and Fund. The list will include everyone from national health and education departments to UN agencies, unions, taxpayers, businesses, NGOs, citizens' groups and member governments. The next step will be to work out a properly weighted system of accountability to each group of stakeholders.

1. Trouble at the UN and the origins of unequal global governance – between a cold war rock and an IMF hard place

When the marginalised and maligned UN Conference on Trade and Development met in Bangkok in February 2000, it was in the shadow, or depending on your point of view, sunrise after the WTO's disastrous meeting in Seattle late in 1999. The heads of the World Bank, IMF and WTO, all missionaries for the role of deregulated markets who saw Seattle as a setback, turned up. Although the UN is underfunded and undermined, the rich country dominated economic institutions still need it to confer legitimacy on their global plans.

The problems that beset the UN's developing country members also beset the UN. For this reason, if the World Bank and IMF fail to co-ordinate realistic debt relief, and if the WTO fails to deliver on trade promises made to the poorest countries, there is little the UN can do to achieve its own promises on meeting human need. Talking down the UN is both a useful distraction from the real problems and a self-fulfilling prophecy.

If there is justification to change the shape of global governance and the UN's role, the proposals should be considered on their own merit. Problems of implementation through a financially weak UN, with demoralised staff and problems with corruption are separate. The EU suffers corruption but is not dismissed – in spite of the entire Commission once being sacked. Government departments throughout the developed world experience corruption but continue. There are frequent wholesale failures in the private sector, in the food industry for example. But something about the psychology behind reputations has left the UN uniquely saddled with a bad image

Who sits in the big chair?

By habit, the top jobs at the IMF and World Bank are shared between Europe and the US. An American heads the Bank and a European the Fund. In fact, an implicit racism informs policy making at the IMF according to a former vice president of the Bank. IMF staff look down on developing country economists and 'act as if they are shouldering Rudyard Kipling's white man's burden.'[27]

When the first developing country candidate emerged to head the WTO a political storm broke. The US supported Mike Moore from New Zealand against Supachai Panitchpakdi from Thailand. US President Bill Clinton explained that "in evaluating the candidates," he had "focussed on their positions on issues of importance to us." According to Clinton this consideration was synonymous with, "what we believe would best serve the needs of the WTO. The 'bitter contest,' during which the US threatened paralysis until agreement was reached, also became a watershed when a final compromise led to both candidates sharing a split term of office.[28]

Over the last decade the UN has woken up from the long winter of the cold war to find itself blocked by the rocks of the big economic institutions. Examples abound, for instance in the conflict between the work of the UN's World Health Organisation and the struggle to meet new global health targets, and the negative effects of Bank and Fund designed economic adjustment measures on health services in the poorest countries.[29]

Since the financial crashes in Asia and growing awareness of the murderous reality of the debt crisis, there has been a near universal call for the costs and benefits of globalisation to be more equally shared. But the UN finds itself unable to meet the suppressed hopes and real needs of the majority of its members because the keystones of the international financial architecture are occupied and guarded by the wealthy minority of nations.

The original vision and mandate for the UN that included responsibility for economic well-being is more relevant now than ever after decades of failed policy and project interventions in poor countries by the Bank and Fund. The way that Europe's imperfect but more rounded governing structures give more equal weight to non-economic concerns such as health and social cohesion is also a guide.

There is a danger that techno-fixes to the management of global markets will substitute for answers to genuine political and moral questions which, if left unaddressed, will come back to haunt a divided and unstable world.

How the West won – undermining the UN's economic mission

- As early as 1951, an expert group reporting to the UN Secretary General called for an International Development Authority to make grants available to poor countries. It would meet the huge need for capital in poor countries and 'supplement (or supplant) the World Bank' whose structure and policies, even then, were considered 'too burdensome' for many. In 1959 a compromise, the much smaller UN Special Fund, was established, eventually becoming the UN Development Programme. But the energy of the debate also led to the International Development Association in 1960, but this was manoeuvred to be an agency of the creditor controlled World Bank.[30]

- From the beginning, the World Bank and IMF emerged independent of the UN and its charter. Though the Bank was to become technically a specialised agency of the UN, it refused in 1946 to sign an agreement similar to the other agencies. The agreement it did have was 'more a declaration of independence'. Since then, the Bretton Woods institutions have not subjected themselves to 'substantive co-ordination by the UN,' and not only are they 'attempting to expand their sphere of operation,' but have found 'a willing and yielding partner in the UN.' This is in spite of the fact that the UN is acknowledged, even by the G8, as the only place where economic, social, political and security issues can be discussed coherently.[31]

- A visible product and champion of the South's call for a new international economic order during the age of independence in the 1960s was UNCTAD, the specialist UN trade and development body. Then came the oil shocks, declining commodity prices, rising interest rates and the debt crisis. As the influence of the World Bank and IMF in poor countries grew stronger as a result, throughout the 1980s and 1990s, UNCTAD was 'rationalised' and 'transformed into a pale shadow of its former self.[32]

What happens around the world in a day?

- Around $1.5 trillion changes hands, or rather computers, in foreign exchange trading
- 30,000 children die from mainly preventable causes[25]
- Heavily indebted poor countries pay $60 million to the world's wealthy[26]

Cuckoos in the Nest – the financial institutions

'As new discoveries are made, new truths discovered and manners and opinions change with the change of circumstances, institutions must advance also to keep pace with the times.'
Thomas Jefferson [33]

The United Nations addresses food and agriculture, health, education, the environment, and employment. It has developed comprehensive systems to support emergency relief and economic development. In all these activities the UN is struggling toward the hopes of those who called for a new international body at the end of the Second World War.

The UN goes beyond its predecessor, the League of Nations, and has almost universal membership. US President Truman described the lesson learned by the international community in setting up the UN:

'A just and lasting peace cannot be attained by diplomatic agreements alone, or by military co-operation alone. Experience has shown how deeply the seeds of war are planted by economic rivalry and social injustice. The Charter has set up machinery of international co-operation ... to help correct economic and social causes for conflict.'[34]

Yet key levers to manage the global economy – the management of financial stability and the provision of loans for development – did not find a home within the UN family, but came to rest in the Northern dominated World Bank and IMF. This was no accident, the most influential countries saw the benefits of controlling the Bank and Fund by keeping them outside the UN. Though technically more democratic, the history of the management of international trade through the GATT and now the World Trade Organisation, has much in common.

Many flash-points and glaring contemporary problems stand as evidence of the original sin of separating economic from social and security concerns.

- The collapse of international trade talks in Seattle
- The failure to end the debt crisis of poor countries
- The growing gap between rich and poor and the unequal distribution of the costs and benefits from globalisation
- The lack of trust and co-operation between industrialised and less developed countries in tackling life-threatening environmental crises like climate change

In the middle of this division, specific conflicts emerge between the free trade and liberalisation agendas of the economic institutions and the broader social and environmental commitments of the UN system. For example, the US proposed in Seattle that the WTO initiate work on biotechnology and develop a set of core labour standards – areas already covered by the Biosafety Protocol to the UN Convention on Biological Diversity, and the International Labour Organisation respectively. Merely having a World Environment Organisation or a stronger UNCTAD would be no resolution to such clashes. The problem is rich country dominated economic organisations which are not bound by the balanced will of the global community.

Some of the difficulties that are becoming increasingly apparent have their roots in the arrangements made in the 1940s and 50s. The UN started recognising that a broader understanding of security was necessary if war and instability were to be avoided. But elements of this structure were fenced off at the outset, and placed under the control of a much smaller group of powerful countries. We now see the results of those exercises in self-interest, but for two good reasons the UN cannot be abandoned.

- **enlightened self-interest** – just as Truman praised the UN Charter for providing the means by which to tackle economic and social causes for conflict, so now we have to make the case for a global body which can effectively tackle the root causes of injustice and inequality. Only the UN has the capacity and the authority to play this role.

- **greater accountability** – while the UN is increasingly open to civil society organisations, the same is variously much less true for the IMF, the WTO and the World Bank. Yet accountability to these broader groups is a key test of the long-term legitimacy of these institutions.

- Another of the small victories for developing countries was the creation of the post of Director General for International Economic Co-operation and Development. The posts 'summary abolition' after protracted and careful deliberation in the General Assembly to create it, was a 'sign of the times.'

- The growing influence of multinational corporations in the global economy makes the fate of the UN's Centre for Transnational Corporations (UNCTC) even more poignant. Years of research and consultation by the UNCTC led in 1992 to a proposed code of conduct for multinationals. But the code was never adopted and the UNCTC was disbanded and its residual staff transferred to the weakened UNCTAD. The current UN sponsored Global Compact for the private sector is a heavily diluted successor to the former code.

The vision for the United Nations

'We do not think the United Nations is a failure. We think it has never been tried.'
Senator William Fulbright [36]

In his 1941 State of the Union address, US President Roosevelt talked of the world he would like to see after the Second World War had finished. He identified four essential human freedoms: freedom of speech and expression; freedom of religion; freedom from want; and freedom from fear. These were, he said, not a vision for 'a distant millennium,' but 'a definite basis for the kind of world attainable in our own time and generation.' [37] Roosevelt committed the US to use its foreign policy to promote these freedoms, and supported creation of a United Nations which would make them achievable. The same ideals motivated many people who experienced the depression of the 1930s and the atrocities of Nazi Germany, and wanted to create a global institution which would prevent them from happening again.

UN Charter Article 55:
'With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:
(a) higher standards of living, full employment, and conditions of economic and social progress and development;
(b) solutions to international economic, social, health, and related problems; and international cultural and educational co-operation; and
(c) universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.'

The idealism of the pre-war League of Nations had done little to halt fascism or economic collapse, and it had been ineffective in finding ways to end colonialism peacefully. Despite this, the need for a global body was more clear than ever, but with the authority to back up its rhetoric.

A key pillar in gaining this authority was the claim that the UN represented the interests of all peoples, and that the machinery had been created to deliver their basic rights in practical and relevant ways. The pre-eminence of the Security Council over other parts of the UN system, and the subordination of experts to politicians make clear that the UN was predominantly a political organisation from the outset, but the original design was clearly intended to map out a broader world order than had existed previously.

Do the rich countries want the UN to be just a tourist attraction?

Why it is time to renegotiate who has the last word in global governance

There are many reasons why now is the time to look again at the relationship between the UN and the global economic institutions, and the nature, or lack of democracy and accountability in the global economy.

- A UN process called Finance for Development has begun and will result in a major international summit in 2001or 2002. It marks both a 'more active United Nations voice on global economic issues' and 'closer co-ordination between the United Nations and the Bretton Woods institutions.'[35] The process has its own secretariat with staff seconded from the World Bank and UNCTAD. Its mission is to establish working relationships with 'stakeholders.'

- 2002 marks the tenth anniversary of the UN Conference on Environment and Development, the Earth Summit. The original summit produced multilateral environmental agreements that have clashed with the trade and economic policies of the economic institution ever since. A continuing lack of a clear hierarchy between institutionally entrenched economic principles and international commitments on environment and development would doom the ten year review, and any that follows, to failure.

- The 2015 international development targets on poverty reduction, environment and human development, that grew out of the decade of UN conferences in the 1990s, are hostage to macro-economic policies formulated at the World Bank and IMF.

"In the first few years Mobutu received millions of dollars from the CIA... The CIA knew all along he was pocketing huge amounts of money."
John Stockwell, former Zaire CIA Chief

Barriers to success – The Congo, Cold War and corruption[38]

The history of this part of Africa shows how the imbalance of Northern and Southern voices, and the contradictory perspectives of the UN and the Bretton Woods institutions historically has made coherent global governance impossible.[39]

Playing politics with peace

Dag Hammerskjold, UN Secretary General from 1948 until his death in 1961, took steps to reassert the principles of the founders, against great opposition, in critical areas which were marginalised in the Cold War. The most pressing problems were in newly independent states with little capacity to assume their new role and many post-colonial difficulties to confront. The most critical of these was in the Congo in the early sixties, precisely the kind of situation that the UN was created to deal with.

On 12 July 1960, 12 days after Congolese independence had been proclaimed, a telegram signed by the President and Prime Minister of the new state was sent to Dag Hammerskjold appealing for military assistance. 'The essential purpose of the requested military aid is to protect the national territory of the Congo against the present external aggression which is a threat to international peace', it stated. It was evident that the intention was formally to indict Belgium, the former colonial power with a long and brutal history, as an aggressor.

The Belgians had done least of all the colonial powers in Africa to give Africans political training and experience of government. In January 1960, with little warning, they announced that the Congo would receive independence in six months. The country is vast, occupying much of central Africa, with borders with many other states considered strategically significant by Cold War participants in 1960. It had great economic potential and mineral wealth, but was under-populated, with the majority of the population living close to its periphery and many of the tribes and ethnic groups straddling borders. The potential for civil strife was immense.

Dag Hammerskjold wanted to avoid the creation of a new Cold War front by averting direct US or Soviet involvement, and to halt the slide towards a civil war. For the first time in the UN's history Hammerskjold invoked Article 99 of the UN Charter, which enables the Secretary General to bring a matter before the Security Council directly, rather than through Council member states. In doing this he was asserting the political role of his post and of the UN. Hammerskjold was granted a rather vague mandate by the Security Council to use UN intervention to stabilise the country and remove remaining Belgian officials, troops and mercenaries.

By many measures the UN was successful, though not without some problems on two fronts. First, in acting impartially in resolving disputes between the various actors; and secondly, in achieving resolution to the crisis without raising the ire of permanent members of the Security Council. A communiqué from Moscow in February 1961 stated that 'he deserves only the contempt of all honest people', while an earlier attempt was made to replace the Secretary General with a troika of officials.

After Hammerskjold's death in a plane crash in Congo in November 1961, UN diplomacy and troops, principally from India and West Africa, established a measure of equilibrium, even though France and the UK expressed grave reservations.

The operation was rapidly wound up in 1963.

By weakening efforts to realise a stable transition to post-colonial government, the principal Cold War actors greatly reduced the UN's capacity to act authoritatively, while the absence of any coherent UN involvement beyond the immediate crisis allowed Mobutu to assume control. Worse still, by actively seeking to create and prop up client states in sensitive areas the major powers put their weight behind despotic rulers such as Mobutu, and ruled out the possibility that the UN could come to play a constructive role in achieving the transition from colonialism to democracy.

The right hand undoes the left, and the West fuels corruption

Marshal Mobutu Sésé Séko seized power in 1965 and held it until 1998, skilfully playing off East against West during most of this period while amassing a vast personal fortune and ruthlessly quashing any attempt to challenge his corrupt regime. The Congo, or Zaire as it was renamed during his reign, became one of the poorest countries in the world despite its natural wealth.

During his reign he received massive financial support from Western governments and their financial institutions. The head of the IMF's Africa department said, "In the late 1970's and early 1980's there were some very bizarre things going on." But even before Mobutu seized power the former CIA chief in Zaire, John Stockwell, reported that, "In the first few years Mobutu received millions of dollars from the CIA," possibly between $20-25 million and, "The CIA knew all along he was pocketing huge amounts of money". The UN's efforts to bring peace to the Congo were therefore being covertly undermined from the outset. Similar observations can be made about the superpowers fuelling conflict in Angola.

The Belgian prime minister during the 1970's, Leo Tindemans, described the policy of the West, led by the US, after Mobutu took control of the country as to help him, "as much as possible."

Then in 1979 and 1982, a senior German banker seconded to the central bank of Zaire reported to the IMF on corruption at the heart of the state. In1982 his 'damning portrayal of the routine plunder of state finances was ignored by both foreign donors and governments,' according to the *Financial Times*. The report was kept secret within the IMF. Between 1967 and 1982 the IMF gave nine loans to Zaire. After the key 1982 report on corruption the IMF continued to lend at 'an accelerating pace', three times as much was lent to Mobutu over just the next seven years. Western governments supported loans totalling $3.9 billion between 1982 and 1991.

'The more money you put in, the more votes you have'.[42]
Harry Dexter White, US Treasury Department.

The Reality

Almost immediately, the UN became caught up in the emerging Cold War. As the front line in the ideological confrontation between East and West, the UN was unable to put into practice many of the ambitious hopes of its founders. Among these was the UN Charter's expectation that specialised agencies in the 'economic, social, cultural, educational, health and related fields, shall be brought into relationship with the United Nations'.[40]

Something lurking in the forest – the Bretton Woods institutions

In July 1944, representatives from 44 countries met at Bretton Woods to create the International Monetary Fund and the International Bank for Reconstruction and Development (the World Bank). The IMF was charged with promoting international monetary co-operation and the balanced growth of international trade. The World Bank's principal responsibility was to support capital investment to revitalise economies ravaged by the war and to increase development of facilities and resources in less developed countries.
In their early years, three key factors helped to shape the roles played by the Bretton Woods institutions:

- they were closely associated with Western, and specifically US, values and priorities
- a 'semi-detached' relationship with the United Nations was established from the outset
- funding and support for reconstruction in Europe took precedence over provision of aid and concessionary loans for what later became known as the Third World.

The Soviet Union took a close interest in negotiations at Bretton Woods as a prospective beneficiary, but did not become a member of the IMF or the World Bank. The US assumed a dominant role, making sure that both the methods employed by the new institutions, as well as the staff, and their objectives were largely its own.

The voting procedure which was adopted reinforced the US position. Each member was allotted 250 votes, plus one vote for each $100,000 contributed. Thus in an IMF meeting 90,000 votes could be cast, of which the US had 27,750. In the World Bank, the US controlled 32,000 of the 102,000 total.[41] In each case, the US vote alone was well in excess of that available to all recipient countries – as Harry Dexter White of the US Treasury Department put it at the time: 'the more money you put in, the more votes you have'.[42] That situation remains today.

After the formal establishment of the IMF and the World Bank in late 1945, it took two years before a special agreement with the United Nations was signed. Both rejected the status of Specialised Agency, as this would entail political control by the UN General Assembly. They also resisted attempts by the General Assembly to provide 'advice.'

For example, the seventh session of ECOSOC in 1948 concluded that international development warranted greater attention, and that the World Bank should grant loans on easier terms to less developed countries. But it was clear that the US priority was to use the Bretton Woods institutions to support the Marshall Plan for European reconstruction. World Bank Governor Eugene Black later reflected that;

'the idea of development aid for the poor countries of the world was more or less an afterthought. Reconstruction was the dominant concern immediately after Bretton Woods.'[43]

Although by 1948 the Bank had identified the need for increasing attention to development in Asia, Latin America, the Middle East and Africa and stated that these should be the main areas for its activities, it took years for this objective to be realised. By 1953, two-thirds of the World Bank's total loans of $1,560 million had supported post-war reconstruction.[44]

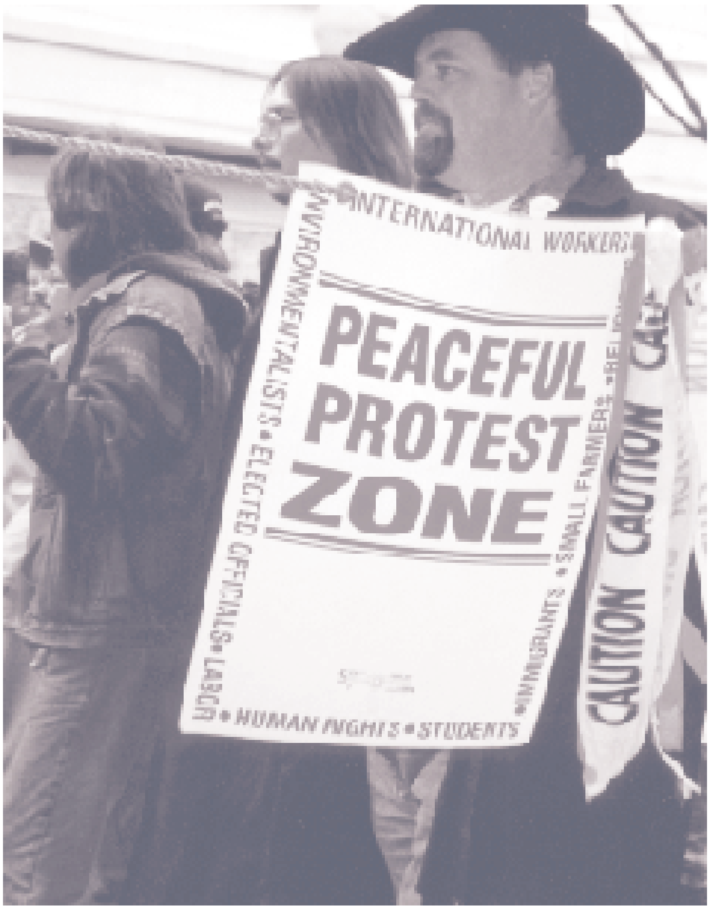
Balance lost at birth – the International Trade Organisation (ITO)

In December 1945, the US Government published its 'Proposals for expansion of world trade and employment'. These became the basis of preparations by ECOSOC for an international conference. A committee of 19 countries was charged particularly with 'taking into account the special circumstances of countries where industrialisation is only in an early stage of development'. The regulation of commodity markets was also recommended for their attention.[45] These were major additions to the initial American proposal; by the time the conference eventually took place in Havana in March 1948 many other issues had been put on the agenda.

The United Nations Conference on Trade and Employment was the first major event at which the emerging numerical advantage of developing countries in the UN became significant. Numerous proposals intended to safeguard industries and allow imposition of trade restrictions were tabled. A charter was eventually negotiated to the satisfaction of most delegations by which the ITO would become a world economic forum to regulate trade. Special rules were adopted allowing limited trade protection for developing countries to adapt to a freer trade regime.

At the closing session W.L. Clayton, head of the American delegation said: 'The charter is complicated and difficult, it is long and detailed and technical. But behind its many chapters and its scores of articles there lies a simple truth. The world will be a better place to live in, if nations, instead of taking unilateral action without regard to the interests of others, will adopt and follow common principles, and enter into consultation through an international organisation when interests come into conflict.'[46] But President Truman refused to even place the Convention before the US Congress for ratification. According to development academic Hans Singer, a cold war moon was to blame for casting a shadow over the internationalist sun:

'Although it was quite smoothly negotiated in Havana and accepted there by all concerned, the mood in the US Congress by the time it was presented for ratification had begun to swing against the UN and international institutions. The internationalist Roosevelt / Truman era was coming to an end and the McCarthy era was beginning to cast its shadows. The ITO charter was not brought to the US Congress in time to catch the favourable tide. By the time it was brought to the US Congress, ratification had become hopeless and the ITO



The UN flag is yet to fly as high as the Manhatten tower blocks in it's home city, New York.

When the Seattle protestors moved to Washington D.C. in April 2000 to demonstrate against the World Bank and IMF, former Bank chief economist Joseph Stiglitz said they "have a point".

The latest UN secretary general could be the first to see the organisation break free from it's undermining influences.

was abandoned even without a vote. The other countries were all set to ratify but had waited for the US Congress to ratify first. Thus the Bretton Woods system was incomplete from the beginning, lacking its intended third pillar. The GATT was a poor substitute and did not fill the gap as, for example, it had no functions for the stabilisation of commodity prices or regulation of commodity markets.'[47]

The latter failing has since become more, not less, significant for global prosperity. Since the USA controlled 25 per cent of world trade, most other countries concluded it would be pointless to continue without them.

The GATT was envisaged as a temporary measure, until ratification of the Havana Charter. But the US manoeuvre sank attempts to create an influential trade organisation within the UN, and GATT continued to function. It also galvanised developing countries into greater co-operation. The vacuum in world trade created by the demise of the ITO, and dissatisfaction with GATT provided developing countries with a focus of common interest and the impetus for action.

There is a lasting irony to the ITO's still birth. A major reason that new WTO talks failed in Seattle in 1999, was suspicion of the attempt to introduce a comprehensive agenda into a forum geared to the interests of the few major economic powers. Yet, all those years ago, the ITO was intended to have just such a comprehensive mandate.

■That the IMF, under G7 control, has ceased to act as a mechanism of equilibrium and redistribution of economic forces between surplus and deficit countries and almost exclusively bears down on the deficit countries, does not discredit the original design... A combined, properly and equitably functioning IMF and ITO could have avoided most of the major causes of actual world crisis – failure to stabilise commodity prices, including oil; the steady sinking of developing countries into debt both through manipulation of interest rates and the continuous frustration of their efforts to earn through exports; ...the sharply eroded terms of trade; and the new vulnerability of national currency reserves to totally unregulated electronic speculation for private gain.'
Erskine Childers and Brian Urquhart, *Renewing the United Nations System*[48]

The end of Western control of the UN

By the 1960s the numerical advantage of the Non-Aligned Movement in the UN General Assembly was secure. Where previously the Western states had held the majority, now developing nations were able to co-ordinate and set the agenda for the principal UN body.

During the early Cold War period, the balance of the membership, rather than the nature of the issues, determined nearly every outcome. From the early '60s onwards, East-West ideological confrontations were increasingly replaced by North-South divisions, as the balance of the members changed. New machinery was created within the UN to fill gaps left from the earlier period – the UN Conference on Trade and Development (UNCTAD) and the UN Development Programme (UNDP) picked up the issues not covered by the GATT, Bank or Fund.

There was, and remains, no mechanism to either implement the post-colonial vision of a new international economic order, or even to protect poor countries from a dark cavalcade of external shocks. From the oil crisis to crumbling commodity prices, and from currency attacks to the manipulative burden of debt – poor countries are still on their own.

Cuckoos in the nest that never learned to fly[49]

The IMF was never the global monetary manager it was meant to be

- The original proposal was for a Fund with resources equal to one-half of world imports. In actual practice, by the mid-1990s the IMF controlled liquidity equal to 2 per cent of world imports.
- The IMF was meant to be a world central bank, issuing its own reserve currency. But Keynes' concept was never accepted, and even the later attempt of the IMF to create special drawing rights (SDRs) in the 1970s was stillborn because of persistent US trade deficits. Today, SDRs constitute less than 3 per cent of global liquidity.
- Keynes placed the burden of adjustment on both surplus and deficit nations, envisaging a penal interest rate of 1 per cent a month on outstanding trade surpluses. In actual practice, deficit nations (mainly developing countries) have had to bear the principal burden of adjustment.
- Fixed exchange rates were the heart of the global monetary system the IMF was meant to manage – but they finally disappeared by 1973. The Fund's attempts to manage the instability of floating rates have been clearly on display in recent years.

The World Bank is also long removed from the original vision

- The Bank was set up to 'recycle resources to poor nations' using its creditworthiness and by building up countries' own creditworthiness. Poor management of the debt crisis probably had a long-term opposite effect.
- While there was a global surplus of $180 billion in 1990, the World Bank recycled only minus $1.7 billion to developing countries. Private capital markets did most of the recycling towards a handful of already better-off creditworthy nations.
- While the number of absolute poor has been going up, the real IDA resources per poor person have been going down – underscoring the disturbing reality that the resource profile of the Bank and the poverty profile of the developing world are completely out of sync.
- In spite of recent changes to international debt relief measures, the World Bank still does not possess the policy instruments to deal with the debt problem of the developing countries.

The third pillar, the GATT, even with the addition of UNCTAD – proved marginal. Its successor, the WTO is in deep trouble

- The International Trade Organisation (ITO) would not only maintain free trade but also help stabilise world commodity prices. Keynes linked the value of his world currency – bancors – with the average price of 30 primary commodities, including gold and oil. In practice, GATT excluded primary commodities altogether and a belated effort was made to include them in the Uruguay Round of trade negotiations. In the meantime, commodity prices hit their lowest level since the Great Depression, and continue downward.
- Today the WTO has both a creeping mission and a crisis of legitimacy. While the core trade concerns of poor countries remain on the shelf, the WTO is stretching into new areas like intellectual property that are dealt with elsewhere, for example at the World Intellectual Property Organisation. Technically it is more democratic than the Bank and Fund with one country, one vote. Yet the WTO was condemned by developing countries at its 1999 Seattle meeting for exclusive and secretive decision-making, controlled by the so-called 'Quad' of major trading powers.

2. Power, instability and the real world
– new millennium challenges

The Open Global Society and its enemies

■Half the people and two-thirds of the countries in the world lack full control over their own economic policy.
Lance Taylor, MIT[50]

■Participation in global economic policy making is embedded in a world of grossly unequal economic and political power.
UNDP Human Development Report 2000

To manage the global economy we will need open institutions that are capable of addressing both the current huge inequalities of power and wealth, and the volatile markets that can push whole regions suddenly into social chaos and economic reverse. We need institutions which understand that human well-being, stable communities and viable ecosystems come first and that markets must be their servant.

To be responsive to new challenges and crises, as well as correcting abuses of power by the industrialised countries, they need to be democratic and accountable, open to new ideas and able to learn from their mistakes. What we have today is, in many ways, the opposite – a deliberately insulated (in such a fashion that it is seen as a virtue) technocratic global bureaucracy which has set the agenda for global governance.

The problem of power

■"The real debate associated with globalisation is, ultimately, not about the efficiency of markets, nor about the importance of modern technology. The debate rather, is about inequality of power."
Prof Amartya Sen, Nobel prize winning economist, June 2000[51]

Many of the problems in the global economy can be traced back to imbalances, or more fashionably 'asymmetries,' of power – between governments at multilateral institutions, between different social groups within countries, between men and women and beneath the shadow of ever fewer, larger corporations that dominate markets. The problem is also that with time power builds up, becomes entrenched, and harder to deal with. Witness the glacial progress of reform within the existing financial institutions.

Increasingly detailed conditions attached to debt relief, (such as the new poverty reduction strategy papers) and financial assistance gives rich creditor countries ever more control over the less developed. Growing domestic gaps between rich and poor around the world is creating a kind of economic apartheid with little faith in voting. Concentration of corporate power fills the pages of the financial press everyday.

■All countries – rich, poor, stagnant, dynamic and in transition – face the challenge of ensuring that the voices of the people are heard above the whir of spin doctors and the lobbying power of corporations and special interests.
Human Development Report 2000, UNDP

Democratic deficit

During the English civil war in the 17th century there was a debate about how the country should be run once the monarchy was put in its place. The grandees in Cromwell's army argued against the Levellers proposal of votes for all. The spokesman for the generals argued that, "no person has a right to an interest or share in the disposing or determining of the affairs of the kingdom, and in choosing those that shall determine what laws we shall be ruled by... that has not a fixed interest in this kingdom." In other words, if you didn't have a financial stake or own property you had no right to vote.[52]

What seemed a logical state of affairs to those who benefited from the system then, seems to us today like an inexcusable denial of rights to the majority.

Over 350 years later the same debate is being played out on the stage of governing the global economy. And the same arguments are coming from the grandees of the victorious forces of the rich industrialised countries.

Voting rights at the World Bank and IMF are still overwhelmingly determined by the size of the financial stake held by countries in the institutions. The Group of Eight (G8) industrialised countries alone wield 49.4 per cent of votes on the board of the IMF.[53] On top of the voting cartel of the major industrial powers is the archaic and untransparent way in which the IMF actually takes decisions. In a long-standing piece of peculiar theatre, actual votes very rarely happen. Members of the board merely indicate how they would vote if a vote were to take place.

If the agreed challenge is a more inclusive global economy, making the Bank and Fund more representative, is an issue at the top of the agenda.

An independent panel of experts has written an 'options paper' on voting reform, yet to be made public. The probable result is likely to be a grudging allocation of more votes to the larger emerging market economies. Such a move shouldn't be misinterpreted as greater commitment to democracy, because these countries increasingly can pose systemic risks to the interests of the major powers and need to be taken into account. As with the new consultation mechanisms promoted by the G7, such as the Financial Stability Forum and the G20, the review is unlikely to scratch the fundamental issue of a deep-rooted democratic deficit and lack of accountability.

What sets the Bank and Fund apart from other institutions which regulate the global economy – such as the G7/8, IOSCO and the Bank for International Settlements – is "their universality and claim to represent nearly all countries in the world."

The WTO is different with a significant and growing membership where each country, at least technically, has an equal voice.[54] Although it is worth noting that for many developing countries, they come to join an organisation whose rules and underlying principles were already agreed before they turned up, and whose agenda is still set by the Quad – the block of major, industrial trading nations.

But the voting structure of the Bank and Fund, "is at best ambiguous and lacks a clear sense of who the institutions represent and why. More critically, the structure is unfair in the sense that it cannot be justified in terms of defined standards (economic or political)."[55]

The original articles of agreement of the Bank and Fund were written to protect the economic and political freedom of countries to choose their own paths. Since the Bank and Fund's lending became increasingly conditional on particular policy

'A United Nations-appointed study team has labelled the World Trade Organisation a "nightmare" for developing countries... The rules of the 137 member WTO "reflect an agenda that serves only to promote dominant corporatist interests that already monopolise the area of international trade."
Financial Times, 15 August 2000

Voting shares at the UN and Bretton Woods

Organisation	Developing and transitional countries share of overall votes	Basic or membership votes as a share of total votes
United Nations General Assembly	83 per cent	100 per cent
World Bank (IBRD)	39 per cent	3 per cent
(IDA)	(39 per cent)	(0.8 per cent)
IMF	38 per cent	3 per cent

Source: N. Woods 1997

frameworks, it is hard to see how they can "reconcile their mandate with respect for members' sovereignty." More clearly, how is it possible to justify that the countries who use the Bank and Fund most, have the least say in how the institutions are run?

The situation has also got worse over time, with the small countries' share of 'basic votes' being eroded from a high of 14 per cent in 1955, to currently around 3 per cent.

Not only is this lack of balance guaranteed by the voting structure in the institutions. It is also guaranteed by the way that staff are recruited. At the IMF, 90 per cent of staff with doctorates were awarded them by US or Canadian universities.[56] Cultural and economic bias is built into the system.

"Since the end of the cold war, tremendous power has flowed to the people entrusted to bring the gospel of the market to the far corners of the globe. These economists, bureaucrats and officials act in the name of the United States and the other advanced industrial countries"
Joseph Stiglitz, former chief economist and vice president of the World Bank, April 2000

A study for the Group of 24 countries on international monetary affairs concluded that good governance for institutions should be based on three core principles:

- **Constitutional rules:** ensuring proper representation and participation of all stakeholders
- **Working practices:** are needed that help identify and achieve goals, built on transparency, and the fair and impartial application of rules
- **Adaptation and change:** the ability to adapt to changing circumstances, keep the commitment of members and learn from mistakes

There is evidence of the Bank and Fund failing against all three criteria:

- The voting structure prevents proper representation
- In spite of new 'participatory' methods, the resignation on principle over attitudes to the costs and benefits of globalisation of the World Bank's lead author for its flagship World Development Report 2000, who pioneered inclusive techniques suggests a major problem with working practices
- There is very broad criticism of the institutions for harbouring detached technocrats, whose insulation is the result of deliberate policy, and renders both institutions largely incapable of adaptation and change

If the Bank and Fund continue to promote 'good governance' and democracy to member governments they will have to embrace a radical reform agenda for themselves. Or they will be saying 'do as I say, not as I do' and lose any legitimacy. For the Bank and Fund:

"the challenge is to reshape their practices so as to underline... through changes in staffing, voting rules, and decision-making rules – their 'universal character, upon which rests their claim to a unique position in managing and advising countries throughout the world economy."[57]

The problem of instability

"We have entered a period of global disintegration, only we are not aware of it yet"
George Soros, investor and speculator, 1995[58]

Two years after George Soros published his autobiography, the world became very aware of disintegration when the Asian economies crashed. The weaker an economy, the more it will be affected by instability. Predictable commodity prices and capital flows are the foundation of economic planning for developing countries. But creeping trade and capital liberalisation are accompanying the opposite, increasingly less reliable international markets. Lower commodity prices and harder access to capital on favourable terms are also characteristics.[59]

Increased deregulation of international capital has contributed to international crises with severe impacts on poor and developing countries. After the Asian crises, the number of people in poverty in Indonesia rose to 40 million, while between 1996 and 1998, the number doubled in Korea. In Thailand the number of unemployed tripled. The response of industrialised countries is to concentrate on new codes and standards designed to improve the transparency of banking institutions and the flow of information. But some argue that, without actual controls on capital flows, this could merely increase instability and the contagion characteristic of crises.

'Were all humanity a single nation-state, the present North-South divide would make it an unviable, semi-feudal entity, split by internal conflicts. Its small part is advanced, prosperous, powerful; its much bigger part is underdeveloped, poor, powerless. A nation so divided within itself would be recognized as unstable. A world so divided should likewise be recognized as inherently unstable.'
The Challenge to the South, Report of the South Commission[60]

Cuts in commodity prices brought on by the collapse of demand in Asia, meant that countries far removed were also affected, the original crisis also spread randomly like a virus through the capital markets. Countries that followed a different path to the market integration mantra were initially less affected.[61]

'Cuts in commodity prices brought on by the collapse of demand in Asia, meant that countries far removed were also affected, the original crisis spread randomly like a virus through the capital markets.'

The underlying problem with commodity prices points back to the failure to fulfil the original vision for the International Trade Organisation that incorporated mechanisms for market management along with gradual reduction of trade tariffs. Commodity agreements were a core demand of poor country exporters, but were resisted by rich country importers. Their failure signalled "the extinction of the last flicker of hope" for the new international economic order planned in the 1960s and 70s.[62]

No foreseeable solution to these trade problems leads many to suggest the localisation of trade – to the appropriate regional, national or sub-national level – as an alternative to globalisation.

Meanwhile the failure of the OECD multilateral agreement on investment, coupled with continuing controversy over the role of foreign multinational corporations in developing countries, leaves another unsolved problem. Without a rules based system, corporations and industrial countries can simply set their own terms in the global economy, playing countries off against each other. But the wrong set of rules will simply entrench existing inequalities of power. An investment agreement is needed which balances the needs of citizens, the environment, host countries and investors. Frameworks for such an agreement have already been produced by civil society organisations.

New playgrounds of power – monopolies in competitive clothing

Like uninvited guests at a party that everyone is to embarrassed to deal with, the dynamics of globalisation continue to throw up increasingly hard to ignore market failures.

For a market driven system to work and live up to its claims of allocating resources with maximum efficiency, certain conditions have to be met. It is just the same as for a plane – to fly from London to New York specific things need to be in place, like wings, wheels, fuel and a pilot. Without those things in place you are not going to get from where you are, to where you want to go.

Most of the necessary conditions for free markets, such as perfect competition between firms and perfect information on market conditions, have never existed. But for some, the prospects are disappearing over the horizon of the globalising economy. Markets don't work without competition. But the dynamics of global production and service delivery are dramatically concentrating power and market share in to the hands of ever fewer, larger corporations, and doing so increasingly quickly.

In 1995, the *Economist* magazine declared that 'Big is back' in a survey of multinational corporations. Around the same time a study showed the trend toward concentration in 12 global industries. It looked at what proportion of the global market was controlled by the five largest corporations. In consumer durables the top five controlled 70 per cent of the world market. Similarly, over 50 per cent of the markets for cars, airlines, electronic components and the steel and electrical industries were in as few hands, and the figure for media control, oil and personal computers was 40 per cent. Notoriously, Microsoft has over 90 per cent of the market for computer operating system software.[63]

Since that time, across sector after sector, virulent consolidation has gripped the corporate world like an ugly, unavoidable fashion that makes the 1970s craze for flared trousers look almost appealing. A mere ten companies now control over 80 per cent of the global agrochemical market, and consolidation in the food industry is occurring so fast that the market friendly newspaper, the *Financial Times*, said it should be ringing alarm bells in national capitals.[64]

New protectionism – intellectual property and technology

The emerging regime of intellectual property protection causes particular concern to developing countries. Two issues are foremost: what can legitimately be patented and who ends up owning the patents. Patents grant monopoly powers over products and processes and most patents are held by the multinational corporations of industrialised countries – 97 per cent world wide.[65] Property rights are also a right of exclusion. In an era of rampant corporate consolidation the potential for the abuse of monopoly power and a kind of 'intellectual protectionism' is huge. There remain unresolved cultural and ethical questions about what should and should not be patented.

The WTO, with all its attendant problems of access for the poorest countries, has become the battleground where these issues are being fought over. Trade related intellectual property rights (TRIPS) are both complex and costly. As a system, TRIPS are most easily exploited by economies with well-funded research sectors and well developed legal services. Poor countries are automatically disadvantaged. TRIPS at the WTO lean towards a US style system. They are criticised for both embedding inequality and hampering technology diffusion. [66]

While the built-in WTO agenda of giving poor countries better trade access to rich country markets goes unaddressed, stretching the WTO's mandate in these problematic directions is a case of institutional abuse.

The incredible disappearing tax base

Multinational corporations have also developed sophisticated strategies to minimise the amount of tax they have to pay, either in host or home countries. This loses scarce revenue to developing countries but is also a problem in the industrialised world. When the British government tried to halt this kind of tax avoidance in 2000 it ran into the classic problem of corporations being able to play states off against each other. In response to a combined attack by industry associations and global accountancy firms, the government "delayed" plans to "tighten tax rules for multinationals."[67]

The network of offshore tax havens is more than embarrassment to rich countries. Development specialists say that it has 'contributed to the rising incidence of financial crises' that destroy poor people's livelihoods.

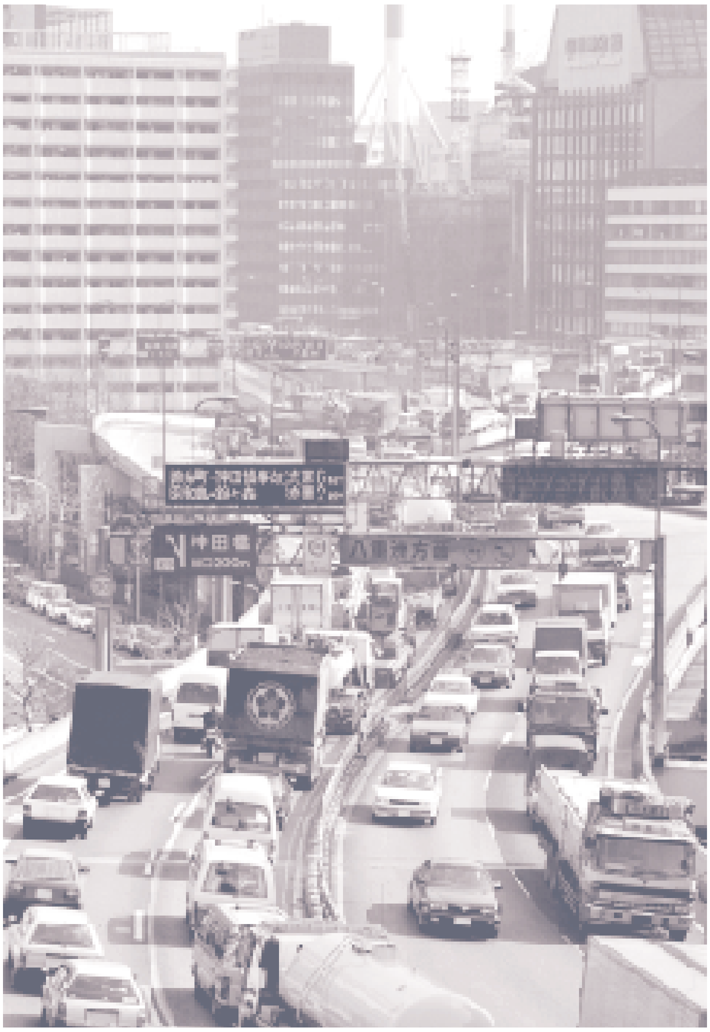
Rupert Murdoch's conglomerate News Corporation, for example, has around 60 subsidiaries based in various tax havens. Its complex arrangements result in only 6 per cent tax being paid, while basic rates in the three main countries where it operates are over 30 per cent. One subsidiary based in Bermuda with apparently no 'employees, nor any obvious source of income from outside Mr Murdoch's companies,' made a $1.6 billion net profit over seven years.[68]

The small matter of a big world

Possibly the greatest challenge facing global governance will be to negotiate a solution to life-threatening climate change. The cause is overwhelmingly agreed to be human burning of fossil fuels in rich countries. The common consequence is human suffering in poor countries, where 96 per cent of deaths from so-called disasters happen. Global warming is already a serious reality for millions, its potential according to some is apocalyptic. The best international solution on cutting pollution agreed to date will only move a tiny step towards what climate scientists say is needed to prevent disastrous global warming, according to the Red Cross, World Disasters Report 2000.

Any solution has to be worldwide, or will suffer the problem of polluting free-riders. A global limit on carbon dioxide emissions must be set, and then decisions made about who can pollute how much. The choice will be between allowing rich countries to continue polluting at a rate of over fifty times more per person than the poorest countries, or moving to a system where everyone has an equal entitlement to the atmosphere's services. The influence of industrialised countries and their multinational corporations in the UN machinery has, so far, prevented a solution based on internationally agreed standards of equity from emerging.

Responses to the Asian financial crises of 1997 and 1998 exposed differences of culture, economics and power between the IMF and it's developing country clients.



3. Lessons from the European Union – economic governance and democracy, looking both ways

Means without ends?

The problem of economic democracy is not confined to global institutions. The issues are mirrored in Europe in the creation of the European Union (EU). At the moment the EU is looking in two directions: in one towards a regional version of the unaccountable institutional mess that exists on the global stage; and in the other, offering the potential for more democratic control of economic life.

We can learn from the EU's successes and failures. For example, in the face of big differences in wealth among its member states, what lessons from its redistribution between members does EU experience suggest to an emerging global community?

Economic governance always lay at the heart of the European 'project'. From the beginning, the stated goal was the "ever-closer union of peoples" with economic integration used as the principal lever for change. Binding the economies of Europe together was meant to avoid the wars that killed 60 million people in the first half of the 20th century. For the past 50 years, an economic two-step has been carried out: removing national barriers to goods, people and capital on one hand and, with the other, installing common policies for increasingly large sections of the economy, starting with coal and steel, moving on to agriculture and culminating in January 2000 with the launch of the euro.

Looked at schematically, Europe's record to date along the three axes of economic governance, which mirror challenges at the global level, can be summarised as:

- **Countering market instability:** This remains part of the core rationale for further economic integration and the driving force behind the euro. But market opening has itself generated new forms of destabilisation, notably for locally rooted producers.
- **Challenging the concentration of market power:** Here, the commitment to market principles has been compromised by the perceived need to build European champions, corporations of a size to compete with those in the USA and Asia.[69]
- **Bringing social and environmental 'externalities' back into the accounts:** After two decades of effort, the EU is now legally committed to sustainable development. But social and environmental initiatives continue to be relegated as secondary 'dimensions' of the internal market.

"The present dominant vision for the EU — of further integration of markets and currencies — is a set of means without ends,"
Ian Christie[70]

Yet the current model of European economic governance is in crisis. On the surface, the problems are ones of personality and pride: is the President of the European Commission Romano Prodi up to the job? Can France and Germany regain their historical position as the motors of onward progress? Will the euro become a serious currency?

But look more closely and serious fault lines emerge. The top-down model of integration is under assault. The popular reaction against the Maastricht Treaty in the early 1990s highlighted the gulf between elite visions of integration and citizens' concerns – underlined by voter apathy in the five-yearly European Parliament elections. Finally, the resignation of the entire Commission in 1999 following charges of corruption and nepotism has come to symbolise the enduring image of Brussels as a self-interested gravy train, free of traditional notions of public accountability.

Amongst the strange new terminology born of the European Union, it is the phrase 'democratic deficit' that has lodged itself most deeply.

"Whatever the constitutional models advanced for the Community, its development into a strong authority in response to the globalisation of economic life requires a solution to one of the central political problems of the EC – the democratic deficit,"
John Grahl and Paul Teague[71]

The result is an absence of vision or any sense of connection between 'Brussels' and the citizen, in spite of theoretical protestations about 'subsidiarity'. The European arena continues to be largely the domain of self-selecting political and commercial elites, unconstrained by a shared public opinion or civic voice.

There is still no common culture in which to embed the common market. The market-led model of integration actually tends to "crowd out alternative conceptions and measures of the good life."[72] the roots of the problem – and their solution – lie in the constitutional morass that the European Union has created for itself, opaque to all but the initiated.

A constitutional cat's cradle

Three characteristics make the European Union unique among international organisations: its bureaucratic vanguardism, its dynamic evolution and its hesitant steps towards supranational democracy.

"It has been famously said of the EU that if it applied to join itself, it wouldn't get in. The EU doesn't meet the democratic criteria it demands of its members."[73]

For a start, the European Commission has a peculiarly privileged position compared with the United Nations and the Bretton Woods organisations in that it has the sole right to propose new legal initiatives – and once adopted, European law trumps national sovereignty. This has enabled a strange kind of bureaucratic vanguardism to emerge, with the Commission self-consciously extending the reach of European integration free from the standard political oversight at the national level.

"Brussels became a giant supranational hydrocephalus. In their glass boxes the commissions, committees, and subcommittees played an absurd billion-dollar bridge game. All entirely without democratic legitimation: those who had power had not been elected, and those who had been elected had no power."
Hans Magnus Enzensberger[74]

But a second characteristic is equally important: the dynamic nature of European governance. With increasing regularity, the foundations of first the EEC, then the EC and now the EU, have shifted through a series of treaties – most recently at Amsterdam in 1997, and soon to be joined by a new treaty to be signed in December 2000 in Nice, designed to take account of the imminent arrival of new member states from Eastern Europe. But this means that the Union remains an increasingly unwieldy work in progress, a collage of treaties and institutions that is always unfinished.

"There is mythical Europe and a real Europe. The first is what the 10 countries of Eastern Europe hope to join and which is fed by a permanent debate on its institutional future. The second is merely a regional version of neo-liberal globalisation, submitted to the imperatives of bankers and multinationals, without any consultation with citizens or parliaments."[77]
Bernard Cassen, *Le Monde Diplomatique*

Finally, for all its limitations, the European Parliament remains the only real example of supranational democracy. Most international organisations are driven by a collusive relationship between secretariats and states. In the case of Europe, the Parliament enables elected representatives to intervene directly in international decision-making, even if they are heavily constrained.

Starting with a limited mandate of coal and steel and now encompassing almost every aspect of public life to a greater or lesser extent, the Union has built up a byzantine system of decision-making.

This is most clearly seen in the countless different ways in which decisions are now made, due to the diversity of arrangements for the involvement of the Commission, the Council (which represents the member states) and the European Parliament, depending on the issue. In some cases, notably the environment and the single market, the Parliament has significant influence through the co-decision procedure to bring democratic scrutiny to European decisions. But in the critical areas affecting economic governance – notably international trade and the management of the euro – the Parliament is still kept in the anteroom of power, consulted, but without ultimate influence. And in those issues closest to the old trappings of national sovereignty, foreign policy and home affairs, the Commission itself is still given a minor role.

The European Union is now suffering the consequences of decades of crude economic determinism – believing that institutional solutions will inevitably follow market integration. For the American writer, Larry Siedentop, Europe's current leaders have failed to address the need for a proper constitutional settlement, founded on the democratic principles of dispersal of authority, checks and balances and significant local autonomy. According to Siedentop, "European elites are in danger of creating a profound moral and institutional crisis in Europe – a crisis of democracy – which may even call into question the identity of Europe" [75]

Filling the void

From the beginning, what has been peculiarly magnetic about the European ideal has been its essential emptiness: lacking any defining features beyond geography, Europe could always be invented and re-invented for many different, and often opposing, interests. Thus in the 1980s, three competing visions struggled for the soul of Europe, according to historian Mark Mazower:

"Some – perhaps one might call them the descendants of Albert Speer – saw the Community building up world class industries on a European scale...; others, the free marketeers, saw trade liberalisation as the key to Europe's post-war growth...; finally, European social democrats like Jacques Delors saw the Community replacing or supporting the nation-state as the guarantor of welfare and social solidarity." [76]

Today, the struggle is perhaps more basic. In the words of Bernard Cassen, writing in *Le Monde Diplomatique*: "there is mythical Europe and a real Europe. The first is what the 10 countries of Eastern Europe hope to join and which is fed by a permanent debate on its institutional future. The second is merely a regional version of neo-liberal globalisation, submitted to the imperatives of bankers and multinationals, without any consultation with citizens or parliaments"[77].

As the people of Europe wake up to this state of affairs, Cassen foresees a situation where the twice yearly European summits will become the focus for civil society and trade union protests that have till now been directed at the WTO and the World Bank.

■ **"Are we simply making Europe safe for bankers, consultants and managers?"**
Larry Siedentop, 2000[78]

Learning from the EU model

The European Union is not immune to the fast-developing bankruptcy of both ideology and accountability that is affecting all international institutions in the age of globalisation – most notably the World Bank, the International Monetary Fund and the World Trade Organisation. But it has within it a greater chance for self-renewal than those other organisations for four main reasons:

- There is a political acceptance – by no means honoured in practice – that economic integration should be a means and not an end in itself: this recognition is urgently needed at the global level to fill the vacuum of purpose that surrounds efforts to expand growth and further liberalise the international economy.
- For all the constitutional chaos, there are shared mechanisms for balancing economic imperatives with social justice and environmental sustainability – and for putting these first rather than growth alone. This is wholly lacking at the global level, with decision-making on the world economy, for example in the WTO or the IMF, institutionally divorced from both environment and labour policy, which are made in the far weaker UNEP and ILO.
- The process of market integration is seen to be insufficient to achieve economic progress – and needs to be complemented by significant public investments. Though both the Structural and Cohesion Funds often exhibit profound weaknesses, they reflect an aspiration to build up the human, technological and infrastructural capacity in poorer regions to cope with the free market. Again, there is nothing equivalent at the global level, with aid flows declining, and developing countries not surprisingly blocking any linkage between trade, the environment and social standards, until suitable public investments are forthcoming.
- Finally, there is the reality of democratic input into decision-making through the European Parliament. This could be further enhanced by establishing a European Senate, an upper house for the Parliament, comprising representatives from national assemblies, as Larry Siedentop recommends. This democratic potential clearly sets Europe apart from the state-dominated system of global governance – and offers the possibility for Europe to be an agent not only of its own renewal, but that of the globe as well.

Davos Man or Citoyenne Jeanne?

At the start of the 21st century, the European Union has a seriously split personality. It is both an agent of corporate globalisation and a hope for a more balanced and accountable management of European interdependence. It is suffering the after-shocks of a rapid process of economic integration during the

1990s that was never rooted in popular consensus or a common culture – a backlash that the Bretton Woods institutions and the WTO are facing in a more acute fashion. In Ian Christie's fine phrase, Europe is currently too closely tied to 'Davos Man', responding to the interests of a self-selecting elite rather than to the priorities of 'Citoyenne Jeanne'. Facing both ways, it languishes in limbo: now is the time to choose.

"Will the EEC become a powerful agent for improving living standards and opportunity in solidarity with less fortunate countries? Or will it remain a select inward-looking club of some of the world's richest nations? Will it continue to produce 'bigger, faster and more' for 'some' to the detriment of the global environment and the welfare of the 'rest'?"
Sicco Mansholt [79]

A number of efforts to reform the Union are already underway, notably the current IGC on enlargement, the proposed Charter of Fundamental Rights, preparations for the first sustainability strategy and a governance white paper. But the debate is already jumping ahead, recognising the need for a coherent vision to guide the EU as a whole. Germany's Foreign Minister Joshka Fischer called for a federation and an elected EU president, while French President Jacques Chirac talked of a new convention to review the Union treaties, leading to a 'European constitution'. These are important contributions. Yet, the real challenge is to start the process from the bottom up, to place the citizen in the driving seat and to form new alliances with the civil society networks that are today's primary source of democratic innovation. That would invert the traditional process of European integration bequeathed by Monnet, and show how the central challenge of our age – democratising interdependence - can be achieved.

4. Democracy day? recommendations

"Multilateralism can be shown to benefit everybody only if some mechanism exists for distributing the gains both within and between nations."
Richard Gardner, *Sterling-Dollar Diplomacy 1996*[80]

The proposal queue

Three broad futures are imaginable for global economic governance.

- A future where the big three – the IMF, WTO, and World Bank – retain and even increase the influence and control they provide to the minority industrialised nations
- A more plural system could emerge respecting the UN's potential for an integrated approach to the world's problems, its unrivalled universal character, and adding civil society into the equation or
- A more dismal future is also conceivable, where there is a retreat from internationalism and return to a strongest-takes-all global economy

The democratic crisis growing list of throws up a huge variety of proposals to manage the global economy. The growing list of manifestos indicate very different understandings of what lies behind the problems:

• The Commission on Global Governance

World leaders ranging from Nelson Mandela to Vaclav Havel welcomed the1995 report of the independent Commission on Global Governance. It made recommendations ranging from reform of the UN, to international law, nuclear weapons and migration. It also recommended specific reforms to 'manage economic interdependence.' Building on the principle of equity they included:

- A new **'Economic Security Council,'** to give political leadership and ensure more consistent policies from World Bank, IMF and WTO
- A **'Global Competition Office'** to deal with the rising power and concentration of multinational corporations
- A **democratically reformed IMF,** with more realistic funds to manage instability
- Environmental, including carbon, taxes to implement the **'polluter pays principle'**– including charges for use of the global commons
- To pay for the needs of the 'global neighbourhood' and reduce economic instability, a tax on foreign currency transactions, and 'the creation of an international corporate tax base among multinational companies'

• The G7

Current G7 proposals for strengthening the international financial architecture concentrate on establishing and then monitoring codes and standards for financial markets. Groups like the new Financial Stability Forum and the informal G20, representing the 'systemically important countries', will talk, research and report on questions of stability. The G7 proposals concentrate on 'strengthening' the existing architecture rather than doing anything particularly new or different. They call for greater accountability and transparency within the IMF and World Bank, and they contain oblique references to how the Fund's legitimacy, credibility and effectiveness' are affected by its decision making structure. But the G7 stops short of the kind of structural reform that would make the institutions 'free' and friends of an open global society in the sense imagined by Karl Popper.[81]

• The IMF

The IMF's own proposals that followed the Asian crises of 1997-1998 suggest there is no inherent problem with the increasingly uncontrolled flow of capital in the world system, and shifts the blame for crises largely onto governments. The Fund is one of the strongest voices arguing in favour of capital liberalisation, which many blame for financial crises, but the Fund uses the fact of crises to justify a larger role for itself in managing the global economy. Its central proposals are:

- stronger, western-style, domestic financial systems
- more IMF surveillance of cross-border capital flows
- governments to make available more data to the IMF, and maybe the public
- more resources to the IMF to intervene when crises happen
- more burden sharing, involving the private sector to help resolve crises

• The UN

General Assembly Resolution:
'Towards a stable international financial system, responsive to the challenges of development, especially in the developing countries.'

At the height of debate on financial crises, the UN General Assembly, with its majority of developing countries, passed a resolution with a view to more fundamental reform. It asserted the 'important role' the UN would have to play to restore stability and promote 'economic and social equity.' Its priority was 'broadening and strengthening the participation of developing countries in international economic decision making.' It sought a devolution of power away from the Washington based Bank and Fund, emphasising the importance of 'regional and sub-regional' bodies. Whereas the IMF point to regulatory weaknesses in developing countries, the UN resolution stresses 'in particular' the responsibility of 'major industrialised countries' to bring about stability and recovery. It also calls for greater aid, debt relief, market access and other financial support for the poorest countries.[82]

Task Force Report: Towards a new international financial architecture[83]

This special task force report went further than the General Assembly. "The current international financial system is unable to safeguard the world economy from financial crises of high intensity and frequency and devastating real effects... volatility is inherent in the functioning of financial market... existing institutions are inadequate," it said, and they suffer from 'systemic deficiency'. Standard IMF policies applied at times of crisis actually 'generates instability – economic and political, national and international.' Its programme of action advocated:

- more consistent global economic policies
- IMF reform and an end to interference in sovereign policy choices
- preserving developing countries' autonomy over their capital accounts
- new regional and sub-regional organisations to manage monetary and financial issues – (there had already been proposals elsewhere for an Asian Monetary Fund and an African Monetary Fund to break the IMF's Northern regional bias and stranglehold on policy)

"Increasingly people's lives are threatened by 'global bads' over which no single nation can have control – surges of financial volatility, global climate change, global crime.

UNDP Human Development Report 2000.

- new 'standstill' measures to help poor countries in debt
- a World Financial Authority with broad membership.

'Across-the-board liberalisation' of capital proposed by rich countries through the OECD, WTO and IMF, said the task force, was urged 'contrary to their own historical experience.'

• The G77 and China

In April 2000, in Havana, Cuba, the largest Third World coalition in the United Nations, the G77, called for reform of the financial institutions and democratisation of the UN. Nigerian President Olusegun Obasanjo, chairman of the G77, said the G77 'will not consider any social, economic, financial or political architecture decided without equitable representation.' Without proper representation, he said, 'such fora have no authority under international law to take binding decisions.'[84] Among the G77 demands were:

- Permanent membership in the Security Council for developing countries and transparency in its work
- Restoring the primacy of the UN General Assembly and a greater role for the UN in socio-economic development
- An end to 'unachievable conditions' attached to financial support from the World Bank
- Equitable participation in the international economic system
- To strengthen their collective voice a Co-ordinating Commission of the G77 council was created including the heads of regional groups such as ASEAN, CARICOM, OAU, NAM, the Arab League, and others.

• Charter 99

Charter 99 – the charter for global democracy – emerged out of the frustration of years of failed reforms. Just like the Jubilee 2000 coalition debt campaign, it has grown quickly from the spark of an idea to have the support of individuals and organisations in well over 100 countries, and the growing recognition of world leaders. Reproduced below is the full text of the Charter's call for real democracy and accountability in global institutions.

An agenda for action

Reconciling the UN and the big three

Many of today's problems and suggested solutions are so well-rehearsed that the script has worn thin. Even at the original1944 Bretton Woods conference, "Keynes advocated a world trading currency, strict controls on private capital flows and a tax mechanism for redistributing exchange from surplus to deficit countries, all designed for a world system biased towards growth, stability, employment expansion and development."[87]

Since then,new problems have emerged and some old ones got worse – unstable capital markets and the dramatic rise between rich and poor, up from a ration of 3-1 between countries in 1820, to 30-1 in 1960 and 74-1 in 1997[88]. But countless detailed solutions to these problems have been worked out too.

We argue that effective solutions have not been applied because of the jigsaw's missing piece – democracy and accountability in the dominant institutions of global economic government. If this is dismissed as the result of the unavoidable exercise of diplomatic power by the richest countries – war by other means – it misses an obvious point.

A point that recently drifted into Manhattan island, New York home of the UN, along with the mosquitoes carrying West Nile fever. Conflict, disease, climate change, financial instability – none of the great problems we face, or the fall-out from them, respect national boundaries. They demand collective action. Real democratic accountability is needed because it is right, equitable and just. But it is also needed because it is better at solving problems than the opposite – institutions which are closed, ideologically entrenched and who run from criticism.

The message of this report is that as important as all the new tools and institutions needed to manage the global economy is that all our international institutions be democratic and accountable – and answerable to all their stakeholders.

Such a process of change requires a framework. Today's major multilateral environmental agreements were born out of UN process that led to the Earth

The power of purse strings – and the need for independent UN finance

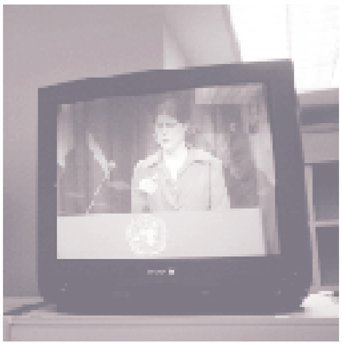
The UN says there are many reasons why member governments do not pay their dues. It could be 'budgetary technicalities' or 'simple poverty.' Others more disturbingly, it says, refuse payment as a 'pressure tactic or to make a political point.' The result is a UN in a 'precarious state' unable to 'fulfil the mandates given it' by members.

In May 1999 the largest debtor, with two thirds of the outstanding debt,was the United States. It owed $1.6 billion. If a country systematically fails to pay it loses its right to vote in the General Assembly. Cynically, in 1998 the US paid just enough to avoid losing its vote. UN Under Secretary General Joseph E. Connor, who was appointed to implement stringent US demands for budget cuts, said that 'Unstable conditions hold hostage the financial future of the United Nations."

In spite of the UN's bureaucratic reputation, it says its staff has shrunk in size since the mid-1980s from 12,000 to around 8,700. Given its enormous responsibilities this leaves the UN reportedly with fewer workers than the New York Fire Service, and probably fewer than the local authority of any average European city.[85] The 'intractable' funding problem of the UN that so clearly holds it 'hostage,' is the strongest argument to find new, more reliable and independent ways of funding.

Many proposals are in circulation, all yet to find sufficient political will and consensus to be implemented. Various schemes for taxing either foreign currency speculation or environmentally damaging resource consumption are most often mentioned. In 1995 The Global Commission to Fund the United Nations published *The United Nations: policy and financing alternatives*. It promoted these and other initiatives such as taxes on international air travel and freight, and for use of the global commons such as oceans, space and the electromagnetic spectrum.[86]

At the WTO's 1999 meeting demonstrators chanted 'this is what democracy looks like.'



The UN is more open to Civil Society.

In spite of protest, power still concentrates in the global economy and there are still few international regulations on big business.

Summit in 1992. In late 2001 or 2002, the UN holds a summit on Finance for Development (FfD). It is an opportunity to have the debate on a more democratic and accountable new financial architecture. No single conference can solve all the world's economic problems but it could set in motion a process to heal the post-war rift and pay back the democratic deficit. These questions at least should be addressed:

- What is the appropriate relationship between the UN and the multilateral economic institutions?
- What democratic reforms are needed at the Bretton Woods institutions?
- What new agreements, tools or institutions for the global economy are necessary?

UN things to do check list...

A minimum list to discuss on finance for development

- A Framework convention on international investment
- A Framework convention on competition
- Comprehensive debt relief under a fair and transparent process
- How to manage commodity prices on world markets
- How to tax foreign exchange currency trading and prevent tax evasion by multinational corporations
- Tackling global warming by the contraction and convergence of fossil fuels used by and between countries
- Voting reform at the IMF and World Bank
- New rules of engagement between the UN, its agencies and the financial institutions
- The IMF to report to the Finance for Development conference on its contribution, or otherwise, to the Earth Summit goals and the international development targets

Political leadership

The UN has coordinating structures that, reinvigorated by broader democratic reform, could play a stronger role. Former Secretary General Boutros Boutros Ghali called the UN's Administrative Committee on Co-ordination (ACC) which includes the heads of agencies and programmes, "a cabinet for the UN." But these people are unelected civil servants. The head of UNCTAD said that the agency should become 'a world parliament on globalisation.'

Machinery already exists for a more inclusive debate on managing the global economy. The Commission on Sustainable Development (CSD), now a mostly forgotten backwater, was set up after the 1992 Earth Summit with the biggest job on global governance. With Ministerial level membership it was meant to be the focal point for national action and multilateral coherence on achieving targets for environment and development? It was to knock heads together in the UN family, highlight obstacles at the multilateral level, make warnings, and make recommendations.

The CSD, supported by the Interagency Committee on Sustainable Development (IACSD), still has potential to act like an audit office focusing on the implementation of, and dragging out the impediments to, meeting agreed global goals.

Making up is hard to do – the dialogue between the UN, the World Bank and the IMF

April 1998 marked a very special occasion. The wheels of global institutions turn slowly but this was on a new scale. Its official history said it was 'truly a historic premiere.' It had taken around fifty years to arrange a 'large-scale meeting between high-level policy makers' of the UN Economic and Social Council and the Bretton Woods institutions, even though 'all three have a mandate to manage economic and social issues on a global scale.'

Such is the caution with which they treat each other. The tension results from the contradiction of the Bank and Fund being both fiercely independent and yet technically specialised agencies of the UN under Article 63 of the UN Charter.

1998

The first meeting (there have been two since) was in the shadow of the Asian crises. The dominant topic was too rapid capital market liberalisation causing instability and how to make global financial integration safe for development. A consensus grew that the IMF handling of the crisis had made matters worse, to which the UN Secretary General, Kofi Annan, implicitly added his voice, questioning whether the 'penalty imposed' on the crisis countries was appropriate. Annan called for greater co-operation with the Bank and Fund asserting the UN's role in easing the impact of crises but also, crucially, in 'long-term' prevention. Recognising an ideological divide he raised the 'different perspectives' shared by the institutions.

1999

The context for the second meeting was set by Nitin Desai, UN Under-Secretary General. He gave a hefty critique of the IMF: it was the job of rich countries to stop the 'contagion' effect of crises and that existing IMF approaches were not 'sufficient.' When developing countries needed credit at times of crisis, the conditions attached by the IMF had been 'excessive', and undermined the legitimacy of the Fund. More use of capital controls should be allowed. The voices of poor countries should be heard more and their circumstances taken into account. The financial system needed more 'democratic governance' and the UN should set the 'broad principles', that underlie the technical decisions taken at the Bank and Fund.

One of the most representative developing country voices comes in the joint statements of the G77 and China. At the 1999 meeting they described being 'excluded and unable to participate' in the debate on solutions to crises. Countries that were not large enough to pose a systemic risk still 'did not have access' to the top levels at the Bank and Fund. Participation in decision-making was still an unmet priority.[89]

2000

Opening the third high level meeting in April 2000, the President of the UN Economic and Social Council said again that, 'Inclusion, participation and a greater share in the global decision-making processes were the great challenges facing the international community.' The current system was challenged, he said, by the imperatives of development and equity in the global economy. New codes and standards promoted by the IMF were now at the centre of the debate, but they were undermined according to the representative from Italy because of the 'reduced legitimacy of the institutions that were preparing standards.' A more 'democratic way' was needed and was to be found 'on the floor of the United Nations.' The Austrian representative pointed to the UN's Finance for Development summit as a 'chance to establish new working methods.' From South Africa, Trevor Manuel pointed out the discrepancy between who controls the Bank and Fund, the rich countries, and who uses them, the poor. Necessary change could 'not be managed by the management of the Bank and Fund,' he said, also pointing toward the Finance for Development event as an opportunity to promote fundamental reform.

The Netherlands observed that the even the new forums created to discuss the financial architecture, 'excluded the majority of the world and could constitute a step backward for the Bretton Woods Institutions.'[90]

A Bretton Woods for All?

One of the first products of increased dialogue was the publication in June 2000 at the five year review of the UN Social Summit of a joint report from the UN, OECD, IMF and World Bank. Called 'A Better World for All' it was commissioned by the previous year's G7 summit and reviewed progress toward the 2015 international development targets.[91] A storm of protest from NGOs greeted publication, as the report seemed to endorse the Bretton Woods bias toward deregulated market approaches to poverty reduction. Instead of 'A Better World for All', the report was critically dubbed 'A Bretton Woods for All.' Privately, UN officials conceded they had made a possible strategic error.

Conclusion – from political freedom to economic democracy

The next step

"Economic policy is today perhaps the most important part of America's interaction with the rest of the world. And yet the culture of international economic policy in the world's most powerful democracy is not democratic."
Joseph Stiglitz[92]

"If...the UN failed to become a forum for effective negotiation on world problems, or to find the means to solve them by consensus, and if it therefore failed to reach any decisions at all on many questions, it is the Western majority who must take the main share of the blame for it."[93]
Evan Luard, A History of the United Nations, 1989

In the years following 1945 the ideals of the UN came into conflict with the realities of the Cold War. But now, there is no excuse for developed countries to abuse the principles of equality and freedom on which the UN was founded. Yet the drive to insulate the institutions dealing with trade and finance, and put them out of reach of the UN, continues unabated.

The WTO is only following the pattern set by GATT, the World Bank and the IMF. In part, it is a reflection of the growing influence of multinational companies in international affairs. It has become clear that trade and finance should be integral parts of the UN's work. The original vision is still relevant, but the role has changed – new issues have assumed importance since 1945.

"It was, and it remains, entirely appropriate to envisage the global strategies for the work of the IMF – and an International Trade Organisation – being negotiated and agreed at the United Nations. That this original intention was blocked early on does not discredit its validity."[94]
Erskine Childers and Brian Urquhart

Change happens. In 1955, the Freedom Charter was the beginning of the end of apartheid in South Africa. In 1977, a document was written that further defined a zeitgeist. Charter 77 was a plea to make real the post-war promise of political freedom. With Vaclav Havel as one of its spokespeople, it was a "free informal, open community of people of different convictions, different faiths and different professions united by the will to strive, individually and collectively, for the respect of civic and human rights in our own country and throughout the world."[95]

At the Charter's 20th anniversary, Czech historian Vilem Precan said: "the Charter... reminds us of the openness of man's fate and of history, of the need for active citizenship... and that freedom depends on the extent to which citizens are prepared to defend it both against direct attack and against gradual erosion." He added that, "nothing is lost which people do not consider lost."

The UN Charter forms the basis of much national and international law. But dealing with a different world and the institutional mess of global goverance demands an overhaul.

The question is, what is missing? The answer? 'It's democracy, stupid.' Already many people are upsetting the quiet collusion between governments and institutions to change the course of the global enonomy.

The new century has begun with a plea that once again catches the spirit of frustrated ambition for a better world. Charter 99 is an appeal to realise the promises of economic justice and equity that form the foundations of countless international agreements signed over recent years. It is a charter for global democracy that can guide the builders of the new economic architecture.

An emergency exit at the UN headquaters – now a bolder future for the UN?

Charter 99 A Charter for Global Democracy

Our call for international accountability, equality, justice, sustainable development and democracy

This Charter is addressed to all the governments and peoples of the world. It is a demand for global democracy. Throughout the century now coming to an end there have been well meaning and sometimes eloquent calls for world government; calls which pointed to the unfairness, inequality and injustice of the present distributions of wealth, power and policy making – which mean that today one in five of us lives in absolute poverty; calls which emphasised the dangers to peace and even to human survival. If only we could work as one world, then we could solve the world's problems together.

If only! Sometimes with a sigh, sometimes with contempt, these calls have been dismissed as impractical. But during the 1990s, demands for international government have taken on a new energy and precision:

- The Commission on Global Governance made an unprecedented international effort to draw up a framework for global politics.
- The Earth Summit in Rio, Agenda 21, The Earth Charter, The Real World Coalition, EarthAction's Call for a Safer World, The One Planet Initiative, Citizens' Public Trust Treaty, and many other declarations are uniting people's efforts for global democracy and sustainable development.
- The Hague Agenda for Peace represents a worldwide coalition committed to replace the causes of war with a culture of peace and non-violence.
- The campaign against landmines successfully changed international law, although much remains to be done.
- International conferences at New York, Vienna, Cairo, Copenhagen, Beijing and Istanbul have put issues of gender equality, disability, family, employment, social and all human rights on the international agenda.
- The Inter-Parliamentary Union adopted the Universal Declaration of Democracy, endorsed by most parliaments in the world.
- Jubilee 2000 has co-ordinated a worldwide campaign to cancel the unpayable debts of the world's poorest countries.
- The International Commission on Rights and Responsibilities made a distinguished and expert attempt to codify Human Duties and Responsibilities.
- After fifty years of campaigning, a statute to create an International Criminal Court was adopted at Rome in 1998 to reinforce international criminal law.
- The International Chamber of Commerce, World Business Council for Sustainable Development and others are promoting higher standards in international business.
- The Human Development Report 1999 recommended an agenda for action including a more coherent and more democratic architecture for global governance in the 21st century.

In addition, a growing scholarly literature on all aspects of globalisation has begun to explore how governments can regulate and democratise international affairs. There are now detailed, practical measures which set out an ambitious agenda for democracy in international decision-making, now increasingly known as 'global governance'. We believe that there is a profound and important reason for this historic shift. It is that in many ways we now have world government.

It is not to be found at the United Nations. Rather, the UN has been sidelined, while the real business of world government is done elsewhere. Global policies are discussed and decided behind closed doors by exclusive groups, such as the G8, OECD, the Bank of International Settlements, the World Bank, the International Monetary Fund, the World Trade Organisation and others. These agencies are reinforced by informal networks of high officials and powerful alliances. Together they have created what can be seen as dominant and exclusive institutions of world government. All too often they are influenced by transnational corporations which pursue their own world strategies. These agencies of actual world government must be made accountable. If there are to be global policies, let them be answerable to the peoples of the world.

We call on you, therefore, to start the new century by initiating the process of democratic global governance following fundamental principles:

- openness and accountability
- environmental sustainability
- security and peace
- equality and justice.

The first aim is to make the already existing processes of world administration and governance accountable. We want to know what decisions are being taken and why. We want the decision takers to know they are answerable to the public in every country which feels the breath of international bodies.

Then we want all decisions to be compatible with public criteria of environmental sustainability. We also want the UN to ensure that its core mandate, 'to save succeeding generations from the scourge of war', applies equally to all the peoples of the world.

Finally, if most ambitiously, we want global governance to be compatible with the principles of equality, human rights and justice, including social and economic justice. What we want from the Millennium Assembly and Member States is decisive action to put these principles into practice.

We therefore call on you to create effective mechanisms to hold every agency of actual world government to account. These include international economic alliances, military alliances, the central banking system and agencies for environmental, financial, social, sporting or other activity: All should have to answer regularly for what they have done and intend to do, for their impact on the world community and for their adherence to the UN Charter and international law. We want action to start the process now.

We do not think these principles will be easy to achieve. We do not have all the answers. But we believe the difficulties can and must be overcome. In our era everyone is linked through our shared environment, trade and communications. We live together as neighbours, and as neighbours we must respect the rights of all persons to address common problems. A joint effort of learning and negotiation, of trial and error, will be needed.

Many vital issues can best be tackled effectively at a global level, such as the environment, biodiversity and climate change; international security and disarmament; international trade, finance and labour rights; epidemics; communications; and international crime.
The first question is where should we start? We believe that the answer has to be at the United Nations. The inadequacy of the UN is well known. All around we see the principles of the UN subverted, sidelined and suppressed. Since the UN Charter was signed, more than 30 million people have been killed in war, most of them unarmed civilians; millions more people have been slaughtered in genocide and ethnic conflict; over 100 million people have fled their homes due to conflict or persecution, with over 20 million remaining as refugees today; permanent members of the Security Council have armed belligerents and engaged in war; governments have invested more in preparing for war than in strengthening peace; human rights have been violated with little redress.
Nevertheless the United Nations as an institution can hardly be blamed for the appalling behaviour of its member states. Without the UN, wars would have been even more frequent; they would have gone on longer; there would have been a greater number of victims, and many more refugees living without hope. The UN is the only arena in which all countries sit side by side. For all its weakness, it retains an unmatched legitimacy in world affairs.
The UN's founding Charter mandates you to achieve international co-operation in solving international problems of an economic, social, cultural or humanitarian character and to be a centre for harmonising the actions of nations (Article 1).

The creation of democratic global governance may be complicated. But the need for it is simple and urgent. Global problems will only get worse if international decision-making is left in the hands of the present undemocratic, exclusive institutions. Therefore we will continue to press for action and public support around the world.

Worldwide campaigns have led to the end of apartheid in South Africa, to the Statute for an International Criminal Court, to the ban on landmines and some debt-reduction for the world's poorest countries. The time has come to make democratic reform of international affairs our priority, both as an end in itself and as a means of solving many serious social and economic problems.

Charter 99 is already supported by individuals, organisations and some heads of state in well over 100 countries.

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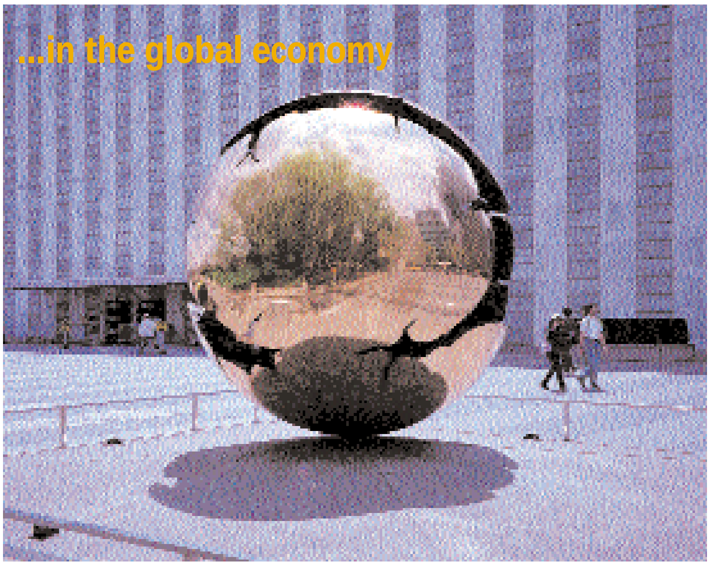
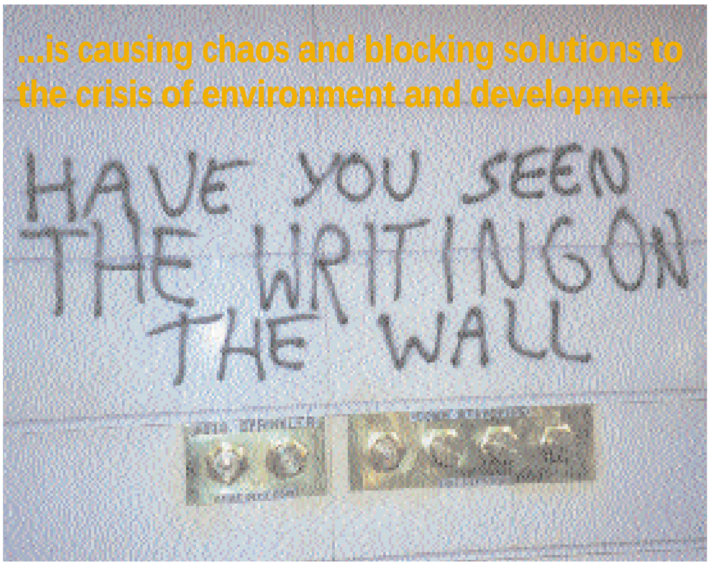
‘As new discoveries are made, new truths discovered and manners and opinions change with the change of circumstances, institutions must advance also to keep pace with the times.’

Thomas Jefferson





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