

## **GLOBAL ECONOMIC COOPERATION AND GOVERNANCE**

### **A Submission To The Independent International Commission On Global Cooperation And Governance**

#### **On Behalf Of The New Economics Foundation**

### **INTRODUCTION**

In recent years an international "new economics" movement has emerged. It is based on a new approach to political economy, enabling for people and conserving for the Earth. It reflects the concerns of citizens' movements and non-governmental organisations (NGOs) in every part of the world. These include environment, development, social justice, the role of women, appropriate technology, the empowerment of local communities, political and economic decentralisation, and the rights and culture of indigenous peoples. Economic orthodoxy, and its assumptions, institutions and imperatives, are experienced as threats, and obstacles to progress, in all these fields.

A milestone in the growth of the new economics movement was the first meeting of The Other Economic Summit (TOES) in London in 1984, as a more representative counterpart to the annual G7 Summit. TOES, held annually in the same country at the same time as the G7 Summits, is now an established fixture in the new economics calendar. The New Economics Foundation, set up in London in 1986 in association with TOES, is a centre for disseminating and supporting new economic practice and thought. It has links with other such bodies in many parts of the world.<sup>1</sup>

This note has been prepared on behalf of the New Economics Foundation. It indicates some of the questions which we believe to be relevant to the Commission's work. If members of the Commission would like us to go into any of these questions in greater depth, we will do our best to respond.

### **SUMMARY**

A strategy for equitable and sustainable world development is now needed, based on new goals of economic policy, and a new understanding of economic progress.

Reformed and reorientated institutions of global economic cooperation and governance - including the World Bank, the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT) and the Group of Seven (G7), as well as the new Commission on Sustainable Development - are needed, to enable the world community to frame and implement this strategy and monitor its progress.

Reform and reorientation of these institutions should aim to secure their closer coordination with other components of a more effective and more democratically

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accountable UN system, better matched to the changed world situation fifty years after the end of the Second World War.

The need for such changes is linked to possible changes in the present methods of controlling and financing the Bretton Woods institutions, and of financing the UN system as a whole. These must be considered in the context of possible future developments in the world financial system, including possible moves towards global taxation and a global monetary system.

## **THE NEED FOR A NEW DIRECTION OF WORLD ECONOMIC DEVELOPMENT**

The present world population is using resources and polluting the environment to an extent that already threatens the planet's ecosystems. It is projected to rise to twice, and perhaps three times, the present number before it eventually stabilises.

Conventional economic development encourages everyone to aspire to today's rich-country lifestyles, involving per capita consumption and pollution levels many times higher than those of today's majority world. Twice or three times the world's present population, living at today's rich-country levels of consumption and pollution, is an ecological impossibility. The premise underlying conventional economic progress is dangerously false.

The need to switch to a new, more sustainable development path is now widely accepted. But it must also be more equitable. It must enable people and localities to take more control of their own resources and economic wellbeing than they can do today.

In 1987 the Brundtland Commission recognised that a precondition of sustainable development is that people control their own resources and environment, and exercise responsibility for their using them sustainably (*Our Common Future*, p. 63). Since then, conventional economic progress has increasingly been identified as a cause of the absolute poverty in which over 1 billion people now live. The conventional approach to wealth creation creates poverty too. Conventional economic development reinforces existing patterns of dominance and dependency. The World Bank, IMF and GATT are being increasingly criticised on this score.

Enabling and conserving should thus be seen as key features of the new path of economic development now needed. The two principles, enable and conserve, should shape the world community's strategy for equitable and sustainable development.

## **A STRATEGY FOR WORLD DEVELOPMENT IN THE 21ST CENTURY**

A strategy for equitable and sustainable world development was not fully worked out and agreed at last year's Earth Summit (the UN Conference on Environment and Development - UNCED). A four-point strategy is needed, on the following lines.

- 1) The nations of the rich industrialised world (the so-called First World) must reorientate their own economies in a new enabling and conserving direction. This will require them:
  - a) to make fuller use of their own unused resources, including human resources now unemployed;
  - b) to cut environmental pollution and make more efficient use of natural resources, including energy and land; and
  - c) to enable local economies (like cities) to make use of currently unused local resources to meet currently unmet local needs.

The scale of this reorientation is suggested by the need for North Americans and Western Europeans to cut their use of fossil fuels by 90% by the year 2040, to meet the target for CO<sub>2</sub> reduction suggested by the International Panel on Climate Control (IPCC).
- 2) The nations of the South and the former communist bloc (the so-called Third and Second Worlds) must similarly now reject the high-consumption, high-pollution development model that has been typical of the industrialised West, and switch to enabling and conserving development policies. In the South, these should specifically include population policies that empower women to take greater control of their lives and their fertility.
- 3) The rich nations of the industrialised West must help the Third and Second Worlds along this new development path. They must do so for reasons of self-interest and moral obligation alike. Continued maldevelopment in the South and East, e.g. destruction of tropical forests or reliance on dangerous nuclear power plants, threatens the future of people in all parts of the world. The damage done by the West to natural ecosystems in the course of its own development over the past few hundred years, and the economic damage it has done to non-European peoples over that period, have contributed to the environment-and-development problems of the South today. Practical ways of helping will include advanced new small-scale environmental technologies for sustainable, self-reliant local economies, and - as part of the whole strategic package - relief from the burden of Third World debt.
- 4) The UN system will have to provide the world community with an effective institutional framework for this new path of development. This will have to attract the trust and confidence of the majority of nations. It will have to enable them to negotiate targets, agree programmes and monitor the progress of sustainable development at global and national levels. In this context, the roles of the new Commission on Sustainable Development, the new Global Environment Facility (GEF) of the World Bank, the World Bank's other activities, the IMF, the GATT, the Economic and Social Council (ECOSOC), UN Environment Programme (UNEP), the UN Development Programme (UNDP) and other relevant UN agencies and programmes, will need to be clarified and coordinated (and, perhaps, rationalised). So will their relation to other parts of the UN such as the Security Council, the General Assembly, and the Secretary-General.

## **THE BRETTON WOODS INSTITUTIONS**

The Bretton Woods institutions (World Bank, IMF and GATT), or whatever successor institutions take their place in the coming years, will play a key role in global economic cooperation and governance in the changing conditions of the 21st century. For that

reason, the criticisms now being made of their performance, their philosophy, and their position within the UN system, must be seriously considered.

It is now widely argued that the policies of the World Bank, IMF and GATT have damaged and, unless changed, will continue to damage the livelihoods and environments of many peoples in the South. Reflecting orthodox economic principles and conventional economic philosophy, they have imposed an approach to development based on externally financed mega-projects, export-led growth and "free" trade with the rich industrial countries of the North - except when rich-country interests dictate otherwise, as in agricultural products, textiles, etc. This has reinforced the economic dependency of many Southern countries on the North and made them increasingly vulnerable to external economic factors beyond their control, such as low export prices, high world interest rates, and barriers - including non-tariff barriers - against new exports.

In many cases the resulting financial pressures, including most obviously Third World debt and the need to earn foreign currency to repay it, have led directly to environmentally damaging exploitation of local natural resources such as tropical forests. As noted already, absolute poverty resulting from this model of development now afflicts well over a billion people - which besides being intolerable in itself, results in further ecological degradation.

For the future, this same approach - exemplified by the GATT Uruguay Round's proposals on Trade-Related Intellectual Property (TRIPS) and Trade-Related Investment Measures (TRIMS) - would reinforce the economic dependency of Southern countries on the North, by forbidding them to protect their infant industries in the new advanced technology and financial services sectors.

So far as the position of the Bretton Woods institutions within the UN system is concerned, in 1990 Sir Brian Urquhart and Erskine Childers, both recently retired from service with the UN, publicly expressed doubt if the UN's tasks could be carried out effectively "until the work of the IMF, the World Bank and the GATT is conducted in harmony and co-operation with the rest of the UN system".<sup>2</sup> In 1991 the "Stockholm Initiative" supported the proposal "that the IMF and World Bank be coordinated, among themselves and with the UN system and GATT, with the aim of a clearer division of labour, better harmony and full universality in their work".<sup>3</sup> Following UNCED in 1992, the need to evolve and implement a global strategy for sustainable development has underlined the importance of that proposal.

The present detachment of the Bretton Woods institutions from the rest of the UN system reflects the dominance of the G7 group of rich industrial countries, in financing and shaping the activities of those institutions as in the world economy more generally. This raises two further questions. The first is about the role of the G7 in relation to the UN system and the need to democratise it. The second is about global finance, including the financing of the Bretton Woods institutions and the UN system.

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<sup>2</sup> See their paper, *A World In Need Of Leadership: Tomorrow's United Nations*, published in 1990 by the Dag Hammarskjöld Foundation, Ovre Slottsgatan 2, S-753 10 Uppsala, Sweden.

<sup>3</sup> *Common Responsibility In The 1990s: The Stockholm Initiative on Global Security and Governance*, April 22 1991, published by the Prime Minister's Office, S-103 Stockholm, Sweden.

## **THE GROUP OF SEVEN (G7) AND A MORE DEMOCRATIC UNITED NATIONS**

At their 1990 Economic summit meeting at Houston the G7 leaders proclaimed the 1990s to be "the Decade of Democracy". In 1992 the comparative failure of UNCED demonstrated the need for more democratic global economic institutions, enjoying the confidence of the South as well as the North in the negotiation and management of "our common future". Against that background the following questions must now be faced.

Should patterns of world development, trade and finance continue to be dominated by rich, high-consumption, high-pollution countries like the USA, Britain, Germany, Japan, France, Canada and Italy? Should that group of countries continue to have so much influence over the management and policies of the Bretton Woods institutions? Should the G7 Summits now begin to evolve into a more representative form of World Economic Council?<sup>4</sup>

How would such a World Economic Council relate to the other parts of the UN system? How would it fit in with proposed changes in the functions and membership of the Security Council, to include ecological and economic security, and to reflect more accurately the balance between the continents and nations of the world today compared with 1945?

How would a World Economic Council fit in with other proposals to democratise the UN? For example a Second Assembly has been proposed, to which the peoples of the world would elect their own representatives, alongside the existing General Assembly in which governments are represented by their appointees.<sup>5</sup> A People's Council for Global Sustainability has been proposed by Jakob von Uexkull of the Right Livelihood Foundation, as a "third leg" for the UN, based on people, alongside the legs based on wealth (the Bretton Woods institutions) and on nation states (other UN institutions).<sup>6</sup>

Questions concerning the possible role of NGOs and individual "world citizens" in a more democratic UN system have also been raised. What part might they play in the sphere of economic cooperation and governance?

## **GLOBAL FINANCE**

We are not in a position at this stage to suggest specific answers to these questions about the institutions of global economic cooperation and governance in the context of a more democratic UN. The answers will be linked to whatever new arrangements may evolve

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<sup>4</sup> See *World Economic Summits: The Role of Representative Groups in the Governance of the World Economy*, a 1989 report from the World Institute for Development Economics Research (WIDER) of the United Nations University, Annankatu 42 C, SF-00100 Helsinki, Finland.

<sup>5</sup> This was one of a wider range of proposals put to the Independent International Commission in October 1992 by CAMDUN (Conferences on A More Democratic United Nations), 308 Cricklewood Lane, London NW2 2PX.

<sup>6</sup> Unpublished paper, January 1991, by Jakob von Uexkull, 7 Park Crescent, London WIN 3

for financing those institutions and the UN system as a whole. The two following points are relevant.

First, the world community now faces a question with regard to the UN that nations have had to face as they have evolved towards greater democracy: how to balance the larger financial contribution made by the wealthy to the tasks of governance, including economic governance, against the rights of the not-so-wealthy to have their interests fairly represented in the decision-making process.

Second, as the world community begins to move - as it soon must - towards developing a global taxation system and a global monetary system, this will open up new possibilities for financing the activities of the UN, including the Bretton Woods institutions. (On the principle of no taxation without representation, it will necessarily have implications for the democratisation of the UN.)

Among possible global taxes are:

- taxes on activities that exploit international resources, such as ocean fishing and sea-bed mining; (other uses of international "commons" which might be taxed in due course, would include the use of airwaves for international communications, and the use of space for various purposes;)
- taxes on activities that pollute and damage the global environment, or that cause hazards across national boundaries, such as emissions of CO<sub>2</sub>, oil spills, and dumping wastes at sea; and
- a uniform tax (perhaps at 1% of value) on international currency exchange transactions.

On the question of moving towards a global monetary system, one possibility will be to introduce a world unit of account for use by the UN and others who would find it convenient, much as use of the ECU is now evolving in the European Community. This unit of account (a "Globe"?) could be based on a weighted "basket" of major national currencies, as the ECU is. It might evolve in due course into a common (though not a single) world currency. It might be issued in the form of credits for development and structural adjustment aid, by an institution combining existing functions of the IMF and the Bank for International Settlements. Such an institution might be seen as an embryo World Central Bank. It is time to be examining possibilities on these lines.

## CONCLUSION

This note has not attempted to put forward definitive or comprehensive proposals. It has outlined the need for change in the existing institutions of global economic cooperation and governance, to provide the required institutional framework for equitable and sustainable world development in the 21st century. It has indicated some areas where changes must be considered and suggested some questions that need to be addressed. The writer and the New Economics Foundation will be glad to try to respond to requests from the Commission to go into any particular questions in further depth.

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May 1993