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### The Future of Global Governance

*Joseph E. Stiglitz*<sup>1</sup>

Today, the problems with global governance and the consequences of these problems are becoming better understood. The closer integration of the countries of the world—globalization—has given rise to a greater need for collective action. Unfortunately, economic globalization has outpaced political globalization. We are just beginning to develop an international rule of law, and much of the 'law' that has developed—for instance, the WTO rules governing international trade—is grossly unfair; it has been designed to benefit the developed countries, partly at the expense of the developing countries.

We approach international issues in an ad hoc, piecemeal manner. Because international institutions are few and limited in scope, special treaties designed to address particular problems must complement these institutions. For instance, global warming is a global environmental problem with potential immense economic consequences; there is an international scientific consensus on its causes, as well as an international consensus that something should be done. An international treaty, the United Nations Framework Convention on Climate Change signed in 1992, and the Kyoto Protocol signed in 1997 provided the beginnings of an answer. However, the world's largest polluter refuses to sign the latter or to alter its behavior, regardless of the consequences for others.

The international institutions that do exist have undemocratic governance and suffer from 'smokestack syndrome.' A single country, for instance, has effective veto power at the International Monetary Fund (IMF). Votes are allocated on the basis of economic power not even based on current economic standing.<sup>2</sup> Today, few democracies limit voting to

<sup>1</sup> This chapter is based on a paper prepared for the conference in Barcelona, September 24–5, 2004 on 'From The Washington Consensus Towards A New Global Governance.' Financial support from the Ford Foundation, the MacArthur Foundation, and the Mott Foundation is gratefully acknowledged.

<sup>2</sup> The argument sometimes put forward, that votes are related to member-states' 'contributions' to the capital of the organizations, is disingenuous. China would have been willing and able to increase its capital contribution were it allowed to do so.

those with property or apportion voting rights on the basis of economic wealth.

Even though the policies of the IMF and other international economic institutions have enormous implications for many aspects of society, including on issues of education, health, or the environment; only the finance ministers and central bank governors have a direct say. By contrast, within Western democracies, when important economic issues are being discussed, all of those who are affected usually have a voice in the decision, even if some voices are stronger than others.

The underlying democratic deficiencies are reflected in both the outcomes and the procedures—for instance, the lack of transparency or accountability, and the absence of some of the basic regulations that democracies typically impose to prevent conflicts of interest, such as on revolving doors.

The weaknesses in the democratic underpinnings have a further consequence: they undermine the legitimacy of the global public institutions. This has become of particular concern with the strengthening of democracies all over the world: why, it is asked, should a country accede to demands or advice of international institutions that are seen as reflecting the interests of the advanced industrial countries, many of them former colonial masters? This has become especially true as the IMF and the World Bank have argued that problems of development are related to inadequacies in governance *in developing countries*: what standing do these international institutions have to speak on issues of governance, when their own governance is so flawed?<sup>3</sup> We have seen these consequences unfold—the discontent with globalization is at least partly related to these failures, to the unfair trade agreements, and to the economic policies by the IMF that often do more to advance the interests and ideology of financial markets than they do to promote growth, stability, or equity in developing countries. Today, few would defend asymmetric trade agreements, especially those that allow for continued huge subsidies for agriculture; few would defend the intellectual property provisions of the Uruguay Round, which deprived the poorest countries of the world of access to life saving drugs for diseases like AIDS. Today, even the IMF (Prasad et al. 2003) recognizes that though it tried to change its charter to promote capital market liberalization a scant six years ago, for many countries capital market liberalization has led to more instability—without faster growth. It has been risk without reward (see Stiglitz 2000, 2002b, 2004b).

There is also a recognition that the international community has yet to address effectively some of the most important economic problems it faces, including: huge instability in exchange rates; festering problems with the

<sup>3</sup> These problems were highlighted by the appointment of Paul Wolfowitz—widely seen as one of the principal architects of the failed war in Iraq, a war that was in violation of International Law—to be President of the World Bank by President Bush. His subsequent conduct was consistent with fears expressed at the time of his appointment.

global reserve system; the fact that, in spite of seeming advances in the ability of the market to transfer risk from those less able to those more able to bear it, developing countries still bear the brunt of exchange rate and interest rate risks in their loans; and the absence of a mechanism to handle sovereign defaults.

Even as we move away from the deficiencies of the *formal* institutions, there is a growing awareness of the inadequacies of the informal institutions. Why, when the leaders of the world get together to discuss future economic reforms, are China, India, Brazil, or representatives of poorer countries, not at the table? What is the selection principle, other than historical accident, that would leave out some of the most populous and largest economies in the world?

In spite of the recognition of the problems with globalization, change has been slow. In this brief chapter, I want to focus my attention on the forces that may actually lead to meaningful reform of global government. I shall also discuss a few of the elements of the system of governance that may or should eventually evolve.

### Some Forces for Change

Change is needed, but change is slow to come. This is not surprising, as there are those who benefit from the current arrangements. Indeed, one of the central criticisms of globalization—that rules and institutions serve some interests and some countries at the expense of others—gives rise to a natural question: why would those in power give up that power? What are the underlying forces for change? In this chapter, I will explore two sets of motivations for change.<sup>4</sup>

#### *Self-interested Motives for Change*

The first set of motives is premised on the self-interest of the powerful. The powerful sometimes find it desirable or necessary to give up some power to get what they want, or to prevent even worse things from happening. Of course, the powerful within a country have not been the strongest advocates of the rule of law; they do better in closed door proceedings where they can use their economic muscle to achieve their objectives. So too in the international arena. America, the sole remaining superpower, often pursues a policy of unilateralism. It does not want to have its hands tied by any international rule of law and has walked away from the International Criminal Court and the agreement on global warming.

<sup>4</sup> There is a parallel question—what gave rise to a democratic rule of law *within* various Western countries? In some cases, there were explicit revolutions, but in others, there was a more evolutionary process.

## THE NEED FOR COOPERATION

However, even the most powerful countries need cooperation from others; and they cannot force cooperation. The 'bargaining equilibrium' requires important concessions.

Today, in the context of the war in Iraq, it has become increasingly clear that the United States by itself cannot suppress the insurgency, and that most of the rest of the world is increasingly unwilling to provide assistance unless a governance framework that greatly circumscribes US power is adopted. There is a lack of confidence in the decisions of the US, and others are naturally unwilling to allow those in whom they have little confidence to determine the way in which their resources (including their troops) are used. When there is meaningful participation in the decision-making, there is greater willingness to go along with decisions, even if these decisions are viewed to be ill-advised.

In addition, the reconstruction of Iraq will require enormous amounts of money. Iraq's immense oil wealth was effectively encumbered by equally immense foreign debts. If there were to be successful reconstruction without large foreign assistance, it would require debt forgiveness. However, most of the debts are owed not to the United States, but to other countries. Without successful reconstruction, America's Iraq 'project' is almost surely doomed to failure. Again, the United States needed the cooperation of others.

In the international trade arena, the developing countries walked away from a new agreement, as they recognized that no agreement was better than another agreement as unfair as previous agreements. The United States and Europe had made no significant concessions in the pivotal area of agriculture; indeed, since 1994 there had been considerable backsliding, with the US doubling its subsidies. Since the failure of Cancun, the United States has been using its economic muscle to induce a few, relatively small, countries to sign bilateral agreements; as a percentage of American or global trade, however, these bilateral agreements are of little significance. The United States has failed to achieve a bilateral agreement with any major economy, and American unilateralism makes it unlikely that it will do so.

## LEVERAGING LIMITED POWER

While current international agreements may have been unfair to the developing countries—not surprisingly, those with power have used that power to advance their interests—a modest 'rule of law' has begun to develop, albeit an unfair one. However, once created, these institutions can assume a life of their own, and the developing countries can use them to advance some of their interests.

For instance, the United States did not want Brazil to bring to the WTO a case against the United States' use of cotton subsidies. The ruling against the United States is of enormous import because it can potentially force

the United States and Europe to scale back their subsidies well beyond the levels that they had previously 'offered' to do in the so-called development round.

Another possibility of even greater significance involves using trade policy to achieve environmental objectives. The United States tried to force Thailand to use turtle-friendly nets in catching shrimp, threatening to ban from the United States shrimp caught without such nets—a position sustained by the WTO appellate body. When the United States brought the case, it did not consider fully the import of its actions (though at least some on the WTO appellate body were aware of the far-reaching consequences of their decision)—that other countries could presumably *keep out* goods produced by energy intensive technologies that contribute to global warming. International trade law might be able to fill in the gap left by the United States' rejection of the Kyoto agreement. American firms *are* effectively subsidized, in the sense that they do not pay for the full costs of what they produce: the full costs should include the social cost of pollution. International law precludes such hidden subsidies and allows countries to take actions to address global environmental problems, particularly when other mechanisms to do so have failed.

Thus, the threat to use what limited international law exists may become an important instrument for reform, not only to address the specific problems—agricultural subsidies or environmental pollution—but to achieve broader reforms in governance.

## INCREASING RECOGNITION OF THE NEED FOR THE RULE OF LAW

This brings me to another basis for optimism about improvements in global governance. Not only does the United States need cooperation from other nations, but other nations (and many within the United States) have increasingly recognized that their well-being—the well-being of the world—depends on the establishment of a stronger rule of law at the international level. One of the arguments for democracy is based on the dangers of a lack of checks and balances. It is evident that the current arrangements do not provide for a check on the power of the United States. The United States is willing to consult with others and to use international institutions, as long as those institutions agree with what it wants; when they do not, the United States walks away. This demonstrates a lack of commitment to democratic processes. Meaningful democracy means that actions cannot reflect the beliefs of a single individual, or in democratic decision-making among countries, of a single country (see Arrow 1951). Making matters even worse is the evident lack of *internal* controls. In one interpretation, at the time the United States Constitution was written, there was little need to provide for an effective check on the president with respect to foreign relations: the United States' limited power meant that foreign nations would provide that check. Now,

with the United States as the only superpower, foreign nations have not provided an effective check, and Congress and the courts have increasingly ceded power to the president.

Not surprisingly, American unilateralism often leads to decisions that are not in the interests of other countries. This, by itself, would not necessarily lead to reforms; but the lack of effective democratic international institutions with legitimacy is such an impediment to taking effective actions in areas where such actions appear increasingly essential that citizens in both the United States and abroad are likely to demand changes in the rules of global governance.

Issues of legitimacy of political institutions and decisions become most intense when the decisions appear to fail. When IMF policies led to increasing immiseration of the poor in many developing countries and did not bring about promised growth, the IMF lost much of its political legitimacy in the developing world. When the IMF policies, including the mega billion dollar bailouts, failed in East Asia, Russia, and Argentina, the IMF lost much of its political legitimacy in financial markets and in the developed world. When trade liberalization did not bring about promised benefits and many countries saw their incomes fall, seemingly because of *asymmetric* liberalization, or when thousands faced the threat of death because of a lack of access to lifesaving drugs because of the Uruguay Round Trade Agreement, the WTO lost much of its political legitimacy.

To many, the consequences of economic failures that resulted from deficiencies in global governance pale in comparison to the consequences of deficiencies in the area of 'security'—in particular, to those that have been associated with the war in Iraq. American unilateralism has not made the world safer; many have already suffered due to the increased instability engendered by American actions, and more are likely to suffer in the future.

Iraq has thus brought home the risks of unilateralism, but it has also undermined the confidence in the credibility of the statements of leaders. Why should one believe that, say, the United States is really committed to creating a fair trading system? Or why should one believe that its policies in other spheres represent anything other than ideology or its interests or special interests within the United States?

Such skepticism is exacerbated by the United States' actions, which are widely seen as self-serving and hypocritical. For instance, there was a general understanding as the countries signed the Uruguay Round agreement that agricultural subsidies would not increase, and would actually be cut. The United States instead doubled its subsidies, claiming that it was entitled to do so because of technical loopholes that it had inserted. But these claims further exacerbated the skepticism: the United States went so far as to claim that cotton subsidies were not trade distorting, when they plainly were (and the WTO panel found so, not surprisingly).

Even when there might be justifications for the seeming hypocrisy, the glaring contrast between US policies and the policies expected of other nations has undermined American credibility. Though the US government has defended its policy of running huge deficits, arguing that tax cuts stimulate the economy, the IMF (where the US has veto power) forces other nations to cut back their expenditures and raise taxes, even when facing far smaller deficits. The United States' central bank focuses on jobs, growth and inflation, while abroad, the IMF demands that central banks focus only on inflation. In the United States, privatization of social security is hotly contested, with one of the two parties staunchly defending the public old-age pension system; abroad, the IMF encourages countries to privatize their social security systems, suggesting that privatization is the only economically sound way to proceed.

Such hypocrisy is enough to undermine the legitimacy of the international economic institutions; however, it has also become increasingly clear that while the international economic institutions are not supposed to be 'political,' in fact at least the IMF pursues an economic agenda that is closely associated with the conservative political agenda. This too undermines the IMF's legitimacy, especially in the eyes of those who do not subscribe to that political agenda. That the countries that have followed the IMF's advice have not fared as well as those countries that have not (as in East Asia) has made matters even worse.

### *Democratic Forces for Change*

These failures naturally lead to a closer look at the governance of the international economic institutions and their decision-making processes. Protests at virtually every meeting of international economic leaders have called attention to the deficiencies in governance to which I alluded earlier—the allocation of voting rights, the smokestack structure, and the problems of representation (who represents each country), transparency, and accountability.

The international institutions are *supposed* to reflect democratic principles, and however such principles are formulated, the decision-making structures are a far cry from principles that govern democratic decision-making *within* countries. No government allocates voting rights—even on economic matters—on the basis of economic 'power.' It would be unacceptable for Bill Gates to cast, say, 100,000 votes, or even 10,000 votes, simply because he has 100,000 or 10,000 times the income or wealth of the average American. Similarly, it would be unacceptable to deny voting rights to those without wealth. No democratic government allows only the finance minister and central bank governor to make decisions about economic policy on their own; others must be brought to the table.

The problems of governance are reflected in the *actions, processes, and choices* of leadership. For instance, the head of the IMF is always a European.

Traditional democratic principles would suggest that the institution look for the most qualified person, regardless of race, gender, or nationality, but these principles have been pushed aside. The agreement among the majority shareholders, the G8, is that the head of the IMF is always to be a European. The Europeans in turn decide whose turn it is. Seemingly, little weight is given to whether the person chosen has any detailed knowledge of developing countries, where most of the work of the IMF has been located for the past 30 years. Thus when a new managing director was chosen in 2000, the Europeans decided it was Germany's turn; next it was Spain's turn; then France's. The US continued to have veto power, however, and the US Treasury vetoed Germany's first choice. The uproar led many to hope that the *next* selection of a new Managing Director would be more open and transparent, but this was not to be the case.

The processes through which decisions are made reflect the same lack of openness and transparency. At the WTO, the green room process—whereby the US and the EU meet with several other rich countries and the Director General behind closed doors<sup>5</sup>—has been widely criticized. Though there have been some reforms, the developed countries have been reluctant to respond adequately to the demands of the developing countries.<sup>6</sup> At the IMF, greater transparency has often meant little more than a better website.

It is not surprising, given these problems in governance, that the decisions and actions made by the international economic institutions conform so much to the ideology and interests of the advanced industrial countries, or more accurately, to the interests of the multinational corporations and financial institutions in those countries.

The problems in governance help us understand better some of the 'biases,' deficiencies, and seeming inconsistencies in the decision-making. These 'biases' include the lack of balance concerning intellectual property rights at the WTO (where the concerns of users and even those in the scientific community were given short shrift),<sup>7</sup> and the availability of billions of dollars to finance bailouts for Western banks, while there were seemingly no funds for even modest food subsidies for the poor who were often unemployed due to depressions or recessions that accompanied IMF programs. Further deficiencies range from beggar-thy-self policies, which were even worse than the beggar-thy-neighbor policies,<sup>8</sup> to the peculiarity of an institution—the

<sup>5</sup> Because all of this goes behind closed doors, it is never fully clear how the developing countries are 'strong-armed,' for example, are there explicit threats to cut off aid or to curtail some set of preferences or are the threats simply implicit?

<sup>6</sup> See for instance Stiglitz and Charlton (2005). Even reforms in the last few years that have given developing countries *more* voice have not given them *adequate* voice, and thus have not gained the WTO the legitimacy that it had hoped.

<sup>7</sup> See Stiglitz (2004a).

<sup>8</sup> In the 'beggar-thy-neighbor' policies that were often employed in the Great Depression, countries would impose tariffs to deflect consumption from their neighbors towards their own producers; increases in domestic aggregate demand occurred at the expense of one's

IMF—founded to correct a market failure, but that at the same time preached market fundamentalism, arguing that markets by themselves solve all economic problems and yet itself, in seeming contradiction to these pronouncements, endorsing intervention in exchange rate markets.<sup>9</sup> It explains too why there is a greater focus on 'efficiency' and less on equity.

It also helps explain what is on the agenda, as well as what is off the agenda. Capital and financial market liberalization have been on the agenda, even though there is little evidence that they are good for developing countries and considerable evidence that they are bad. High tax rates are on the agenda, but land reform is not, despite huge inequalities in land ownership that force many peasants to work under sharecropping arrangements that impose on them effectively a 50 or even 67 percent tax rate.

Inside most developed countries, democratic forces have tempered capitalism; they have, to use a cliché, put a human face on it. These countries have recognized that there are market failures and that even when markets yield *efficient* outcomes, they do not generally lead to a socially acceptable distribution of income. Governments must provide a safety net and engage in some redistribution. There are also non-material values that may trump economic concerns. For example, firms have no incentive *not* to pollute, and thus governments have a responsibility to limit the damage to the environment.

In the international arena, too often this tempering process is absent or greatly attenuated. For instance, *abroad*, drug companies can limit generic drugs through international agreements in ways that the United States Congress would not likely have enacted *at home* (assuming that there was an open debate on the issue). The Clinton Administration opposed 'takings provisions' (providing compensation to firms for reductions in profits resulting from regulations, including those protecting the environment), but chapter 11 of NAFTA effectively introduced such a provision.

The absence of 'tempering' in the international arena is only partially a consequence of the democratic deficit. It also arises because of the limitations in social conscience—that attitudes towards social justice or social solidarity often change markedly at national borders. Politicians naturally worry far more about inequality or poverty within their own country than inequality or poverty beyond their borders; but the perspective of politicians reflects those of most of those they represent.

To make matters worse, international institutions are not directly accountable to anyone.<sup>10</sup> Citizens of countries affected by IMF programs, for instance,

neighbors. In the new IMF 'beggar thyself' policies, countries are advised to increase taxes and interest rates and cut expenditures, to reduce fiscal and trade deficits—policies that have the effect of depressing incomes at home (hence the term 'beggar thyself') in order to restore 'external balance,' in other words, to help repay foreign debts. See Stiglitz (1999).

<sup>9</sup> See, e.g., Stiglitz (2002a).

<sup>10</sup> For more extensive discussion of accountability, see Stiglitz (2003).

do not vote on the head of the IMF or even on their representative to the IMF. In addition, we have seen how weak the system of *indirect* accountability is: even abject failure is not remedied by the firing of the head of the IMF. The absence of direct democratic accountability perhaps also accounts for why there is not greater concern about public perceptions—why, for instance, strong revolving door policies have yet to be introduced. Were these institutions worried about their political legitimacy, the lack of *direct* accountability would have led them to be particularly sensitive about such matters, and to be especially concerned to be open and transparent.

While the failures in governance have most affected those in the developing world, even those in the developed world have felt the impact. For instance, chapter 11 of NAFTA threatens environmental legislation even in the United States. Many in the scientific community in the United States worry that the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) will adversely affect scientific progress. Equally important, many in the developed world have felt sympathy for those in the developing world, as they see them deprived, for instance, of lifesaving drugs.

We have already noted that citizens in both the developed and developing world have become increasingly concerned about the lack of political legitimacy of the international economic institutions, about the democratic deficit, and about unfair outcomes. They are uncomfortable with the imposition of a particular ideology—especially those who (like me) spend much of their time fighting such ideologies at home (including, for instance, the privatization of social security). But even those who might agree with the policies being advocated often feel uncomfortable with the ‘colonial’ overtones of the advanced industrial countries that impose their views on others and in doing so, undermine democratic processes in the developing world.

In short, many in the developed countries take seriously democratic processes in their own country, in other countries, and in international economic institutions. They see the ability of special interests to dominate American international economic policy (or the international economic policy of other advanced industrial countries) as a reflection of a shortfall in the democracies in *their* countries.

Ideas matter: I see the growing concern about this democratic deficit both in developing and developed countries as the final pillar for change in the system of international governance.

## Reforms

In the preceding section, I have outlined some of the forces that should help bring about change in global governance. In this section, I want to outline several directions that such reforms might, or should, take.

1. *Changes in the governance of the World Bank and the IMF.* Changes in the governance of the World Bank and the IMF have been extensively discussed elsewhere. The most important are changes in voting structure and representation.<sup>11</sup> Even if, or especially if, these changes do not occur quickly, it is important to have improvements in transparency and accountability, and in conflict of interest rules. There are also *informal* procedural and *institutional* changes that would give developing countries a more effective voice, for example, the creation of a think tank to help developing countries formulate positions that more effectively reflect their interests.
2. *Changes in the governance of the WTO.* Changes in the governance of the WTO include greater transparency, the elimination of the green room processes,<sup>12</sup> the creation of more representative processes for decision-making, and the creation of an independent body to evaluate alternative proposals—in particular, their impact on developing countries, to assess whether bilateral and regional trade agreements are more trade diverting than trade creating, and to determine *before* dumping or countervailing duties are imposed whether there is a *prima facie* case.<sup>13</sup>
3. *Moving from the G8 to the G24.* The informal institutions in which world leaders meet to discuss global economic policies are as flawed and out of date as the formal institutions. China, as one of the largest economies and one of the world’s major traders, should be at the table. *Being invited for lunch is not good enough.* One cannot just be a guest: one has to be an integral part of the process. The voices of the emerging markets, such as India and Brazil, should be there too, as should representatives of the least developed countries.
4. *A strengthened Economic and Social Council.* At Monterey, it was finally recognized that development is too *important*—and too *complex*—to be

<sup>11</sup> It is likely that more than just a change in voting power, however, will be required. Africa has such a small fraction of global economic power that, no matter what formula one uses, its voting power will be limited. What almost surely will be required is some system of double majority—for example, a majority of votes by ‘economic’ power (appropriately defined), and a majority of countries; or a majority of borrowing countries, and a majority of lending countries.

The argument that the lending countries should dominate because, after all, they finance the whole operation, is not totally convincing. Under current financial arrangements, the lending countries get a return on their capital roughly commensurate with market rates. The operations of the IMF are really financed by the borrowing countries. By 2007, this was presenting serious problems for the institution, since most countries had repaid their loans, and the world had fortunately gone several years without a crisis. Over half the IMF’s revenue came from one country, Turkey.

<sup>12</sup> In which a select group of countries engage in behind the scenes, secret negotiations; pressure is then put on others to go along with whatever has been agreed to by this small group of countries.

<sup>13</sup> These issues are discussed more fully in Stiglitz and Charleton (2005).

left just to finance ministers. This is true of other aspects of global economic policy, which touch on every facet of modern life. Worse still, finance ministers and central bank governors bring a particular perspective to the discussion—an important perspective, but not the only one. Consider, for instance, the issue of sovereign debt restructuring. No government would entrust legislation setting forth the framework for bankruptcy to a committee dominated by creditor and creditor interests. However, putting the IMF in charge—which is what the IMF wanted—would have done this. Such decisions must be approached with greater balance. Initially, such a strengthened Economic and Social Security Council might have to rely more on moral suasion. Today, however, it is such moral suasion that in any case largely determines whether a country repays its loans. A strengthened Economic and Social Security Council could provide some oversight over the other international economic institutions, to make sure that they were not captured by special interests (as many people think has in fact happened both at the WTO and the IMF). It could also help set the overall economic agenda, and help integrate the economic agenda with other agendas, for example on the environment.

5. *Financing for global public goods.* Increasing global integration has resulted in global public goods taking on increasing importance, but we rely mostly on moral suasion to generate the funding for such global public goods. Not surprisingly, there has been underfunding; moral suasion has been only partially effective. For instance, while the advanced industrial countries have agreed to provide 0.7 percent of their GDP for funding assistance to developing countries, and a few European countries have exceeded that target, the world's richest country has fallen woefully short. Elsewhere, I have outlined a set of proposals for global funding.<sup>14</sup>

- *Revenues from the management of global natural resources.* There are a number of global natural resources—international fisheries, the sea bed, Antarctica, the global atmosphere, satellite slots. The efficient management of these global natural resources can give rise to substantial revenues, for example auctioning off fishing rights, charging for greenhouse gas emissions, etc.
- *Revenues from the issuance of Special Drawing Rights (SDRs)—global greenbacks.* The deficiencies in the global reserve system are being recognized more and more—its inefficiencies, its instability, and its inequity. Every year, some US\$200 to US\$400 billion are effectively buried in the ground in the form of reserves. The US benefits—the fact that the dollar is the reserve currency helps enable the US to consume

<sup>14</sup> See Stiglitz (2004c).

well beyond its means; and it helps enable the US to borrow trillions of dollars abroad at low interest rates. However, as the US becomes increasingly in debt, questions are being raised about the viability of the system. The revenues from the issuance of SDRs could be used to finance global public goods, including development assistance.<sup>15</sup>

- *Taxation of global (negative) externalities,* like arms sales to developing countries, pollution,<sup>16</sup> and destabilizing cross border financial flows.
6. *Management of global natural resources and the environment,* including the world's oceans and atmosphere. Even if the international community does not seize the opportunity of revenue generation afforded by the management of global natural resources, the efficient, sustainable, and equitable management of resources is important. There needs to be a more effective Global Environmental Agency.
  7. *Production and protection of global knowledge.* Among the more important global public goods is knowledge. TRIPs can be viewed as having recognized this—incentives to produce knowledge depend on the ability to capture rents globally. However, TRIPs demonstrates forcefully the flaws in current global governance—it provided a set of rules that did not reflect a balance of concerns (between producers of knowledge and users of knowledge, between developed and developing countries, between academics and profit-making firms), but rather the concerns of American drug and media industries. We need to recognize that since knowledge is a global public good, it is important to finance knowledge in an equitable manner. This may not entail imposing on the poorest countries taxes so high as to deprive people of access to lifesaving medicines.
  8. *A global legal infrastructure.* One of the most important functions of government *within countries* is to provide a legal infrastructure, for example, the enforcement of contracts, the protection of competition, and bankruptcy. Today, economic relations are increasingly transnational. In the United States a century ago, states provided most of the legal infrastructure, even though the similarity across states was sufficiently great that the legal structures adopted were broadly similar. The differences gave rise to a multiplicity of problems, however. Great efforts have been put into providing more uniform legislation and harmonization. Today, as globalization proceeds, a similar process needs to occur across countries. We recognize that each country on its own may not be able to ensure competition, e.g. in the software market or the market for operating systems. It is important in creating a global legal infrastructure that it not be

<sup>15</sup> A modest version of this proposal is contained in Soros (2002). (More recently, I have elaborated on this proposal in ch. 9 of *Making Globalization Work*, New York: W.W. Norton, 2006.)

<sup>16</sup> A few countries have recently agreed to impose an airline fuel tax for these purposes.

based on the lowest common denominator, for example the least protective of competition. Moreover, it may be desirable to retain some duplication: for instance, the overlap in securities legislation and enforcement in the United States proved extremely important when political pressures and incompetence led to inadequate enforcement at the national level, and New York State assumed the mantle of responsibility.

## Concluding Remarks

I began this chapter by arguing that in recent years, we have come to understand better, not only why there is such discontent with globalization, but why globalization has not worked as well as it can for so many of the people around the world. The international rules of the game are often unfair, and the international institutions have pushed a particular ideology—an ideology that has resulted in economic policies particularly ill-suited to many of the developing countries. However, that only pushes the question back further: why have the rules been so unfair, and why has this particular ideology been pushed? Underlying these failures is a failure of governance.

I have suggested that while those who benefit from current arrangements will work hard to maintain them, there are forces for change. The pace of globalization makes the need for change all the greater. It will be difficult to maintain increasing economic globalization<sup>17</sup> unless there are reforms in governance, particularly in the institutions that govern globalization and in the rules and regulations that define how globalization proceeds are adopted and evolve.

Perhaps the strongest force for change is a change in mindset that globalization itself engenders: improvements in communication and the reduction of transportation costs have brought with them an increasing familiarity with the mindsets of other countries. There is a growing recognition that we live on a single planet, that we are increasingly interdependent.

In my mind, the question is not so much whether there will be change, but whether it will come fast enough. Globalization is not an inevitable

<sup>17</sup> I have had little to say in this essay about the benefits and costs of increasing economic globalization. It is clear that the advanced developed countries have benefited greatly from globalization and, increasingly, political leaders of both the left and right have taken the extent to which they have been able to advance the globalization agenda as a mark of their success. But even within developed countries, there is discontent with globalization. Even if the country as a whole gains, there are winners and losers. Increasingly, there is a concern that the benefits may be distributed very inequitably—a few gain a great deal, and many may lose. Without some form of compensation, support for globalization even in the developed countries may wane. But globalization may impede the ability to provide the requisite compensation, as increased mobility of capital and highly skilled workers makes imposing redistributive taxes more difficult. However, these are issues that take us beyond the scope of this chapter.

process. Capital flows today have yet to recover fully from their peaks before the global financial crisis. Capital and trade integration were weaker in the interwar period than they were before World War I. Unless changes are made, the already palpable disillusionment with globalization will spread, with untold consequences, both for those in the developed and the less-developed countries.

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