GLOBAL ECONOMIC AND FINANCIAL GOVERNANCE

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The remarkable growth in international economic integration has far outpaced the existing capacity for global economic governance. This became especially apparent during the Great Recession. The speed with which economic problems in one country spill over to others indicates the importance of strengthening international institutions to ensure they are capable of taking swift, effective corrective action.

The Great Recession was the most destructive economic catastrophe for developed countries for nearly eighty years. Yet the models underlying it were those that were the basis for the conditionality which developing countries borrowing from international financial institutions were required to accept. At the same time some countries which had maintained their own strategies and resisted the pressure from the neoliberal states and institutions to conform continued their growth paths.

Since the start of the eighties the developed neoliberal world has given much freer reign to the economically powerful to do as they wish. The philosophical justification has been provided by those who regard maximisation of individual income through improvements in competitive efficiency as the preferred economic goal. It is now clear that the hubris and sense of entitlement which this generates has established mechanisms for rapidly growing inequity, severe financial instability, ecological erosion and the entrenchment of a global underclass. Radical reform is essential.

The key features of a renewed economic paradigm would be of most value if they focused on equitable improvements in personal and national wellbeing. These are genuinely broad and more fully inclusive goals than simply seeking maximisation of the incomes and expecting the benefits to flow down to the rest.

Means to the ends of improving both equity and economic efficiency would involve restoring a better balance between the market and the state. Establishing strong regulatory frameworks is a priority. It is vital to acknowledge the necessity of carefully judged regulation in contributing to reducing the risks of economic and financial instability and abuse. In addition, recognition of the value of diversity in economic strategy would reduce the tendency towards hubris in the centres of capitalist power.

Stronger regulation of banking is essential. Paul Volker writes wisely in urging that though 'regulatory responsibilities and enforcement authority (for instance, setting and enforcing capital standards for "nonbanks" such as hedge funds) will likely vary from country to country … there can't be much doubt that success will require international consultation, exchanges of information, and in some areas coordinated action'. Agreement on international accounting standards is vital. International review of the role and structure of credit rating agencies is also essential.

Volker also emphasises that: 'the time has clearly come to harness money market mutual funds in a manner that recognizes both their structural importance in diverting funds from regulated banks and their destabilizing potential'.

Further, he argues for concerted focus on the issue of the dominance of banks which are perceived as too large to fail. 'The risk of failure of "large, interconnected firms" must be reduced, whether by reducing their size, curtailing their interconnections, or limiting their activities'. He rightly continues to emphasise the importance of treating retail and investment banking separately, and would prefer that those functions be conducted by separate companies.

A particularly clear example of an issue which could only be effectively addressed through international regulation is the tax evasion facilitated by banking secrecy. It has become commonplace to blame tax havens in developing countries for this practice but in practice there are also centres enabling international tax evasion within developed countries. Any country guaranteeing banking secrecy could be providing the context for tax evasion.

Tax competition undermines revenue collection in both developed and developing countries. While he was Managing Director of the IMF, Michel Camdessus said (in 1998) that: "estimates of the present scale of money laundering transactions are almost beyond imagination – 2 to 5 per cent of global GDP would probably be a consensus range". (Baker, 2005, p. 162) Applied to global GDP of $58 trillion in 2009 this indicates international money laundering in the range of $1 to 3 trillion annually. Another example of culpable tax evasion is corporate transfer pricing.

The OECD argues that it should be allowed to continue to control this area of international policy and it has been undertaking useful work doing so. But the issues are global and the OECD has focused on the interests of its own member states rather than the interests of all countries. Demonstrably the current preoccupation with tax evasion through offshore tax havens without simultaneous attempts to tackle the more substantial examples of tax evasion within developed countries is both inequitable and inefficient.

What is required is the establishment of reciprocal international agreements on issues of tax secrecy, the sharing of information, and decisions which are enforceable by international courts. International rules are also necessary requiring multinational corporations to publish country-by-country reports that show the profits and taxes they have paid in each country in which they operate.

Establishing an international tax organisation would be the most effective step. An obvious way to do this would be to upgrade the UN Committee of Experts on International Cooperation on Tax Matters into an intergovernmental body. Such a body could have an elected governing council, representative of member states, and responsible for drawing up broad objectives and major issues of policy (with the help of a highly competent staff.) An agreement to strengthen international tax cooperation would be of value to every country, developing or developed, that is seeking to increase its revenue, to reduce tax evasion and to strengthen equity.

A significant innovation since the Great Recession has been the upgrading of the G20 to head of government representation. This certainly has the advantage of over the G8 of including major developing countries in membership. But the membership was selected by the US and Canada. Inviting other countries and multilateral bodies as observers eases the extent of exclusion but does little to increase accountability. The autocratically selected, static membership and the exclusion of most middle level and all smaller countries undermine the G20's usefulness and effectiveness. It lacks a legal basis, a formal secretariat, and a collective implementing capacity. The G20 made valuable decisions at its first couple of meetings at head of government level which substantially reduced the depth of the Great Recession, but significant doubts about its decisiveness and overall effectiveness are now growing. Although a positive step, the G20 does not adequately resolve the democratic deficit in global economic governance. The G20 lacks the legitimacy that is required for global consensus building.

The Global Governance Group (3G) has proposed several modest practical actions that could be taken quickly without significant alteration to current arrangements. These steps aim to consolidate linkages between the G20 and the UN and broaden the representational credentials of the G20. The 3G's suggestion that the G-20 undertake consultations as widely as possible with non G-20 members through the UN before and after the G-20 Summits is being implemented.

But comprehensive collaborative economic policies cannot be achieved by G20 members alone. This is why the Stiglitz Commission on Reform of the International Monetary and Financial System argued that: "it is absolutely essential to create better institutional arrangements for coordinating global economic policy". They suggested the establishment of a Panel of Experts and a Global Economic Coordination Council. (UN, 2009, p. 137) "There is a need for global collective action to address not only … issues of global 'externalities' but also the provision of global public goods. Among the global public goods are the stability of the global economic system and fair trading rules. … without coordination, countries do not have sufficient incentives to invest in global and regional public goods … The same is true for common social objectives such as combating poverty. Among the most important of the global public goods is preservation of the environment."(UN, 2009, p. 88)

The Commission's proposed Panel of Experts could be established quickly, using experts from all continents in order to pool the knowledge and research results of a large number of acknowledged experts, the way the Intergovernmental Panel on Climate Change has done. Membership would be by election through a constituency system designed to ensure that all continents and all major economies are represented. It would actively consult with the other institutions of global economic governance.

Another vital recommendation of the Stiglitz Commission was the need for reform of the global reserve system. Not only has the current system favoured the US but it has also worsened instability. If the dollar falls it reduces the value of reserves held in dollars by other countries. When exchange rates were floated in the seventies and eighties this reduced countries' capacity to achieve full employment. Some leaders, including those of China, have suggested that the best method of eliminating these problems would be to do as Keynes proposed and to create a supranational/international reserve currency. The Stiglitz Commission says that "this is an idea whose time has come". One method would be to steadily increase the number of Special Drawing Rights issued by the IMF, for which the $250 billion which the G20 authorised is an important start. Many issues would have to be worked out and negotiated first, but the initial step would be to decide to start the discussions.

To conclude, the Great Recession has illuminated the extent of the gaps, distortions, asymmetries and other failures in global economic institutions and policies, and the enormity of the costs with which they have been associated. The imperative for major reform is therefore clear. The question is whether there are sufficient wise and influential countries to be advocates for addressing the challenges of establishing effective global economic governance.