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Promoting Democratic  
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# Global Governance and Human Development: Promoting Democratic Accountability and Institutional Experimentation

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# Abstract

This paper seeks to critically examine recent debates on global governance, albeit from a human development perspective. In doing so it identifies and describes two important principles for building institutions for the advancing of human development: what may be termed the **imperative of democratic accountability** (most closely associated with the work of Amartya Sen) and the **imperative of institutional experimentation** (which has been theorized most extensively by Roberto Unger). The paper discusses these two principles in light of some of the major challenges that can and do affect the international community as a whole. It reviews some of the decentralized forms of governance which are evolving as developing countries assert themselves in debates on institutional organization. It then focuses more extensively on the global financial crisis as a case study in the inadequacies of current global governance. Finally, it uses the two imperatives mentioned to review the lessons that the crisis has provided, before describing specific proposals to redesign systems of global economic governance. Chief among these are the reforms advocated by the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System.

Keywords: Human Development, Economic Development, Inequality, Human Rights, Capabilities, Health, Governance

JEL classification: O10, O15, O16, O19, O20, O35, P8

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## **1. Introduction**

The financial crisis of the last two years has been truly global in terms of its origins and its impacts. Sharp reversals in trade and financial flows have affected virtually every country in the world and resulted in an unprecedented set of policy actions to stem the crisis and to restore growth and development. What has been remarkable about policy making in the aftermath is the extent to which the response has been nationally based as opposed to internationally arranged. Although there were calls for global coordination from the onset, for the most part immediate policy responses were undertaken on an ad-hoc basis by national authorities. Efforts to help those countries least able to undertake remedial action were also discussed, but despite some proposals these responses have been weak and non-committal. From the perspective of the poorest developing nations, this crisis is not simply a collapse in the economic order, but also reflects a continuing failure of global governance. Scholars and policy makers have also made pointed arguments that international institutions were important contributors to the crisis by providing excessively narrow policy advice. In addition, they did not diagnose the weaknesses of the global economy and failed to participate in the initial attempts at resolution of the crisis<sup>1</sup>. Not only did the governance of the world economy fail to shelter vulnerable populations after the crisis, it actively eroded their economic security by promoting policies which prevented national authorities from adequately protecting their citizens and maintaining economic security for their poorest.

The financial crisis is only one of many pressing issues that face the international community. The growth of global inequality, the energy and food crises, climate change, global pandemics and other such challenges are equally urgent problems which can severely limit human flourishing in the years to come. Rapid global integration thus far has meant that several gaps have developed between the scale and complexity of transnational problems and the ability of existing national institutions to deal adequately with these. In the face of these widespread economic, environmental and technological

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<sup>1</sup> See for example, Chapter 4 of The Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System (henceforth Commission of Experts 2009).

upheavals, the nation-state has lost some its viability as the primary location to deal with these changes. As David Held (2006) has put it: “..[T]he paradox of our times refers to the fact that the collective issues we must grapple with are of growing cross-border extensity and intensity, but the means for addressing these are state-based, weak and incomplete.”

This fact in turn has resulted in a continuous public discussion of the appropriate institutional structures for dealing with global integration and of the dilemmas and issues associated with existing multilateral institutions such as the United Nations, the International Financial Institutions and the World Trade Organization. Such concerns have only become more heightened as a consequence of the global financial crisis.

There are at least two reasons why these debates continue to be highly charged. Firstly, they reflect the fact that there is legitimacy both in the idea of universal rights of human beings as well as in the idea that particular groups should be able to determine their own future and control their own fates. There is an inevitable tension which exists between the desire to formally extend universal ideals such as those enshrined in the Declaration of Human Rights and the recognition that devolution and decentralization can enhance accountability to the people and enabling direct participation in decision-making. The cosmopolitan ideal of expanding rights and capabilities across the globe is sometimes limited by the ideals of self-determination and maintaining sovereignty. Secondly, the debates are charged because current global institutions and multilateral governance structures continue to have open reliance on the Westphalian order and derive their legitimacy from the assumption that nation-states act and make decisions on an imagined level (or near level) playing field. Yet, the governance of extant institutions self-evidently reflects the vastly unequal power and influence of nation-states in deciding global outcomes.

The major bodies of global governance were created at the end of the last great crisis during which economic and political power were held to a much larger extent by countries of the Global North. These countries maintain disproportionate control over the institutions, and this arrangement fails to reflect current world realities in which several

developing countries account for a larger proportion of global economic output and population and whose decisions have greater consequence for global governance. As just one example of this institutional inertia, Belgium still holds more quotas than Brazil (2.12% vs. 1.41%) at the International Monetary Fund. Similarly, the permanent membership of the UN Security Council has remained unchanged for over six decades.

In the last decade or so, there have been significant changes occurring in the global political economy which necessitate a re-evaluation and re-conceptualization of existing systems of governance. These include the greater share in economic output of China and India and the political influence of the BRIC countries (Brazil, Russia, India and China), the increased importance of these and other developing countries as sources of global liquidity, the increasing reliance on economic governance through regional blocs and other coalitions, the new coherence of intermediate groupings like the G-20 and the G-77, the entry of philanthropic organizations into policy making and so on. These new practices act as challenges to the existing models of global governance and will need to be evaluated and modified so that they enhance human development in the coming decades.

This paper accordingly seeks to critically examine recent debates on global governance, albeit from a human development perspective. In doing so, it explores the ways in which the disparate challenges of economic crises, political disempowerment, global health and sustainability are being currently addressed at the regional and global levels and examines proposals to more effectively deal with these. The global financial crisis has provided new urgency to these issues and as such the major focus of the paper is to review the inadequacies of global monetary and economic arrangements and a few of the numerous new policy prescriptions to remedy them. The paper is divided into three further sections as follows. The first section examines the critical importance of organizing effective global institutions for the purpose of human development and briefly discusses some major challenges that can and do affect the international community. It summarizes the theoretical underpinnings for the primacy of institutions as derived from two strands of development theory and the extent towards which these ideas have been acted upon in developing frameworks of global governance. In doing so it identifies and

describes two important principles for building institutions for the advancing of human development: what may be termed the **imperative of democratic accountability** (most closely associated with the work of Amartya Sen (Sen 1999)) and the **imperative of institutional experimentation** (which has been theorized most extensively by Roberto Unger (Unger 1987)). These are to ensure that global governance adequately promotes human development. The section then goes on to discuss these two principles in light of some of the major challenges that can and do affect the international community as a whole. Finally, it reviews some of the decentralized forms of governance which are being developed as developing countries assert themselves in debates on institutional organization. The second section focuses more extensively on the global financial crisis as a case study in the inadequacies of current global governance. It uses the two imperatives mentioned to review the lessons that the crisis has provided, before describing specific proposals to redesign systems of global economic governance. Chief among these are the reforms advocated by the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System <sup>2</sup>. The final section concludes.

## **2: Institutions, Development and Global Governance.**

### *2.1 New Institutionalism, New Growth Theory and Developmentalist Paradigms of Institutions*

In the recent past, scholars of development have rediscovered and re-emphasized the critical role of institutions in producing positive development outcomes. Two different strands of thinking on this issue can be identified in this regard.

New Institutional and New Growth economics suggests that economic and social outcomes are largely determined by the ‘rules of the game’ of development. As Williamson (2000) notes, these rules can be seen as embedded at many levels in societies.

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<sup>2</sup> The author was involved in the deliberations of the committee and hence the recommendations of this committee will be the major point of focus. Additionally, these recommendations are possibly most pertinent to the issues of UN reform which is of major current interest.



Thus for example, institutions can refer to shared normative expectations (such as enabling trust between people). Shared patterns of understanding are critically important in explaining cross sectional differences in development (Knack and Keefer 1997). Institutions are also often taken to mean the formal legal arrangements and property rights frameworks that exist in different societies. These different arrangements, it is argued, are “fundamental determinants of long run growth” (Acemoglu, Johnson, and Robinson (2005)). The quality of these institutions is argued to be more important to growth than other determinants such as natural endowments or openness to trade and finance. Inasmuch as human development is intimately intertwined with the process of economic growth, the quality of institutions also therefore determine human capability and flourishing. As in the title of an influential paper on this topic: “Institutions Rule” (Rodrik, Subramanian, and Trebbi 2004).

While these studies take the institutional environment as a given ‘endowment’, another set of theories, most closely associated with theorists of the developmental state (Amsden, 1989, Chang 2002, Evans 1995) present evidence (primarily from East Asia) of the crucial role of activist state institutions in producing developmental success. According to this viewpoint, institutions do indeed matter, but it is the robust public institutions which buttress the developmental state that are important in promoting improvements in the welfare of their populations. A primary example of these effective public institutions is the public provisioning of collective goods such as education or healthcare which were critical to the expansion in capabilities experienced by those societies<sup>3</sup>. Indeed, a central function of developmental states is to provide means whereby the poorest and most vulnerable can enhance and invest in their own capabilities.

These development successes were achieved at the level of the nation in an era of relatively limited globalization. Global integration and the recognition of increasing interdependency provide a different challenge for the design of institutions to achieve similar ends. Effective global governance is necessitated by the fact that there exist

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<sup>3</sup> The institutional framework which allowed for this redistributive policy of state actors in East Asia and which prevented rent-seeking and capture is best described as one of ‘embedded autonomy’ in Peter Evans’s now classic work (Evans 1995).

numerous problems that go beyond the capacity of individual states to solve efficiently. Such challenges include the arranging of a set of effective and equitable trading and investment rules, the handling of international threats such as global warming or pandemics, the importance of international migration and the like. Neither the New Institutionalism nor the Developmental State perspectives provide unambiguous answers as to how to create and promote feasible arrangements which might best serve to advance human development in the face of these concerns.

The New Institutionalism framework underscores the primacy of embedded legal and normative conventions but has little to say about the ways in which these rules are or can be generated. This of course applies with greater force to the problem of establishing conventions globally. Even if policy makers were able to obtain and enforce a given set of rules that were correlated with past development success, globally imposing a strict set of legal and normative rules that mimic those in developed societies may serve to limit the room for institutional experimentation that has been central to the development success of several countries<sup>4</sup>. Equally importantly, in the absence of reasonably equal decision making power between nation-states, these rules will disproportionately reflect the interests of the more powerful.

From a developmentalist perspective, the challenge of global institution building consists of either envisioning a global economic order which allows for developmental states to flourish, or of trying to scale the success of the developmental state to a global level. If the focus is on the former, the challenge is to establish a flexible enough set of rules that

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<sup>4</sup> Martin Ravallion (2008) notes that the most compelling recent case of rapid development—that of China—has been marked by a pragmatic experimentation with different policies. “In 1978, the Communist Party’s 11th Congress broke with its ideology-based approach to policy making, in favor of a more pragmatic approach, which Deng Xiaoping famously dubbed the process of “feeling our way across the river.” At its core was the idea that public action should be based on evaluations of experiences with different policies: this is essentially what was described at the time as “the intellectual approach of seeking truth from facts.” In looking for facts, a high weight was put on demonstrable success in actual policy experiments on the ground..... The rural reforms that were then implemented nationally helped achieve probably the most dramatic reduction in the extent of poverty the world has yet seen. (Ravallion 2008)

provides enough agency to nation-states while realizing the need for some degree of homogenization to facilitate global integration. If the focus is on the latter, the requirement is to design a global developmental matrix that provides a set of rights that allow individuals globally to enhance their own capabilities, just as the development state at the nation-state level invested in programs such as health care, education and other socially beneficial (but individually costly) programs. Unlike with the institutions of the nation-state, however, the legitimacy and redistributive capacity of global institutions are far more limited. In a world system consisting of sovereign states, with no legitimate body acting to maintain accountability and elicit compliance, governance is limited to coordinated arrangements that better ‘share’ or limit sovereignty in specific areas.

These limitations of both the New Institutional and Developmentalist perspectives notwithstanding, both strands of thinking have been central to the construction of global governance over the last two decades. Thus, there has been an effort to ‘get global institutions right’ by creating a set of broadly agreed upon, multilaterally enforceable rules and principles of integration such as those envisioned in the World Trade Organization. The International Financial Institutions have also in the past provided policy advice which tended to homogenize economic policy according to a set of principles rather than promote greater space for experimentation. At the same time, there have been efforts to enhance universally agreed upon desiderata for human development such as those enshrined in the Millennium Development Goals. Indeed, the MDGs openly reflect a capability-enhancing approach and the explicit adoption of policies associated typically with developmental and welfare states (universal education, expanding health services and reducing disease burdens, for example). This agenda has involved a more interventionist approach and is less reliant on given rules.

## *2.2 Uneven Adoption of Paradigms into Practice*

At the current stage, the former project has perhaps been more far reaching than the latter- most prominently in the successful creation of institutions dealing with globally enforceable market and property right rules and the continued push towards a greater liberal order by international institutions. The widespread adoption of the World Trade

Organization in 1995 increased the legitimacy associated with accepting global market rules. In turn the rules set by the WTO and in other bilateral and multilateral trade agreements have imposed distinct limits on policy experimentation and the extent of distinctive national markets in developing countries and promoted a particular pattern of development (Wade 2003, Ruggie 1994, Evans 2009). Finally, the IFIs have also limited policy space as part of their conditionalities following financial assistance<sup>5</sup>. Such an impinging upon domestic policy is unprecedented since the colonial era and has enabled some forms of global integration by promoting a legally transparent environment in which capital and goods flows can take place. However, the consequences of this homogenization for human development are far from clear. At the very least, the stalling on the Doha Round (the so-called development round) in the WTO is indicative of the perceived difficulties for development from adopting uniform market rules.<sup>6</sup> Equally, they point towards a perceived illegitimacy in the current order in which a genuine parity in power and influence among states is missing. Where developing countries have veto power, as in the WTO, they have appeared to register their protest effectively. In other fora they have either been unable or unwilling to do so.

By contrast to the concerted drive towards universal market rules and uniform policy environments, the adoption of the Global Developmentalist agenda has been far more fitful. Unlike with the nation state, redistribution and the expansion of capabilities on a global scale is reliant on moral suasion rather than enforcement of policy. Despite the

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<sup>5</sup> It should be noted that the IMF has appeared in the recent past to suggest that such limitations on policy space have been reduced. See IMF (2009) available at <https://www.imf.org/external/np/pp/eng/2009/091009A.pdf>

<sup>6</sup> Partly as a consequence of these difficulties, there has been more progress on bilateral trade agreements which again seek to promote a set of universal market rules. After the failure of the Cancun round, US Trade Representative Robert Zoellick explicitly noted that the United States would pursue bilateral free trade agreements with 'can do' states to prevent being stalled by a group of 'won't do' countries. These bilateral trade agreements often include provisions which require greater integration and fewer policies whereby domestic policy makers can discriminate between domestic and non-domestic agents. These and other issues are discussed at greater length in UNCTAD's *Trade and Development Report 2007*.

commitment to a minimal set of goals, developed countries have fallen short in providing the resources for such efforts to succeed in achieving these. The millennium development gap report suggests the extent of these shortfalls. The promise to increase overseas development assistance in 2005 to \$50 billion a year has not materialized. Similarly, commitments to increase ODA to less developed countries and to Africa have not been met (MDG gap report 2009). The fundamental ability of the developmental state to divert resources to promote capability enhancing services for its citizens has not yet been scaled to the global level. The lack of a matrix of activist developmentalist institutions at the global level has meant that apart from the achievement of the MDGs, there are several equally pressing issues (climate change, the food crisis, the energy crisis) which continue to remain ineffectively or unevenly addressed.

### *2.3 Democratic Accountability and Institutional Experimentation*

The above discussion suggests that from a human development perspective, there are two distinct challenges afforded in the consideration of global governance, what may be termed the **imperative of democratic accountability** and the **imperative of institutional experimentation**. The first derives from the idea, most extensively presented by Amartya Sen (Sen 1999) that there is a conjointness in the expansion of capabilities and the process of public deliberation about development policy. In his words “...a proper understanding of what economic needs are—their content and their force—requires discussion and exchange” (Sen 1999, pp 153). Democracy in that sense is key to defining specific developmental goals. This in turn suggests that for considerations of global governance, there must be reform of existing global arrangements to better serve the needs of representativeness and accountability<sup>7</sup>. If the institutions of global governance only serve to reflect the gross disparities in power and influence between states, they will continue to deal inadequately with the challenges of poverty and sustainability, especially as these are faced most extensively by poorer countries.

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<sup>7</sup> Of course, this is simply a necessary and not sufficient condition -the degree to which enhancing developing country participation in global governance enhances human development is dependent also on developing country’s responsiveness to their citizenry. Procedural accountability is not the same as substantive accountability.

Roughly speaking, this program requires increasing voice and participation of more vulnerable and marginalized states in setting the global rules and in deliberation about those rules and their effect on capabilities. A capability perspective applies in some sense to the level of the deliberations of nation-states. Thus good global governance is not, from such a viewpoint, simply an effective agreement on a set of rules, but rather an enabling environment that can allow nations to develop their own ideas of progress and the expansion of human functioning.

The second (related but distinct) idea has been most extensively theorized by Roberto Unger (Unger 1987, 1999, 2002, 2007) who suggests that development is best served by the practice of democratic experimentalism which consists of extensive tinkering and adaptation of institutional arrangements of the government and the economy. Indeed, the developmental state often managed to achieve their successes precisely by such experimentation as evidenced by the wide variety of measures these have taken (Evans, 1995). The challenge for global governance is to ask how the successes of the developmental state can be scaled up to the international level<sup>8</sup>. Thus, just as the developmental state finds effective and novel mechanisms and institutional forms to redirect resources effectively towards the goals of poverty alleviation and capability enhancement, global institutions should be able to achieve the same at an international level. The challenge is made greater by the need to appropriately cede sovereignty in some areas in which such secession is often very unpopular, and to imagine new possibilities.

It is worthwhile to briefly review a couple of the specific arenas where these imperatives have played and will play themselves out: the governance of climate change and of global public health. Both of these constitute examples of global public goods described by Kaul, Grunberg, and Stern (1999) as “*goods whose benefits extend to all countries, people, and generations*”. The strongest cases for global collective action are provided by the absence of desirable global public goods and the presence of global threats. Other examples of the provision of such goods include maintaining peace and security, ensuring

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<sup>8</sup> An alternative perspective is to suggest that global governance should serve to limit the globally imposed constraints on local or national innovation.

food security, and establishing global financial stability. Like with national public goods, global public goods are likely to be undersupplied by private or decentralized actors. Without global coordination and enforcement, standard problems noted by economic theory—free riding, overuse of commons and the like—will abound. From an economic perspective, the only way to handle these failures of coordination is to ‘internalize the externality’ so that private or decentralized agents take into account the full social costs and benefits of their actions. Kaul et al (2003) propose a political analogue to this position in what they term the equivalence principle, viz.: the span of a goods benefits or costs should be matched with the span of the jurisdiction in which decisions are taken about the production of the good. In the absence of institutions which appropriately and legitimately assign these jurisdictions, governance will remain sub-optimal.

Perhaps the most widely agreed upon global public good is a stable and sustainable climate. The debate on the management of climate change is a critical testing ground for the efficacy of global governance. The Third Assessment Report of the Intergovernmental Panel on Climate Change in 2001 (IPCC 2001) made clear the enormously dire implications for human development arising from climate change. These include a wide range of poverty-related channels, such as a sharp reduction in crop yields, a loss of agricultural productivity of over 30%, a loss of food security and employment, enormous displacement of the poor from coastal regions, an increased exposure to new health risks from vector-borne and water-borne diseases, sharply higher malnutrition and the like. Poorer developing countries face the highest risk since they are the most reliant on agriculture and far less able to insure their poor against rapid changes in livelihoods. Since the report these warnings have only gotten more severe. Despite these warnings, the recent UN Climate Conference in Copenhagen has widely been considered to have been a failure with very little actionable agreements made by nations.

Some of this failure is due to a lack of democratic accountability and deliberation. Uneven representation in global fora is a very important reason for lack of significant progress in reducing carbon emissions. Apart from lacking parity in formal representation, developing countries also often lack capacity and negotiating strength

which limits their ability to participate fully in climate change deliberations<sup>9</sup>. Equally, developing countries have been suspicious of the working of the Global Environment Facility (GEF)—the main arm of financing for the environment—because of its placement in the World Bank and the uneven voting<sup>10</sup> representation that it thereby entails. There has also been a lack of progress because of the lack of innovation and coherence of extant institutions. The UN system has arguably been riven by divisions between the developed and developing countries and therefore not coordinated (see Held and Hervey, 2009). Several innovations in institutional design, including expanding the mandate of the GEF, scaling up the status of the United Nations Environmental Program and establishing an institution to monitor compliance and enforce agreements have been put forward, but not yet acted upon. Addressing the challenges of global warming and climate change will require addressing both imperatives of democratic accountability and institutional experimentation.

Another important area for human development in which public goods abound is the arena of global public health. Increased health is in many ways the *sine qua non* of development, and public health interventions are crucial to achieve development ends. The World Health Organization (2002) notes at least three goods which have a global reach and hence can qualify as global public goods: research and development into disease, preventing the cross-border spread of communicable disease and standardizing data collection efforts. The most contentious of these three has been the first, primarily because of the manner in which pharmaceutical research and development has been incentivized thus far through the patent system and in which the property rights

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<sup>9</sup> See Chasek & Rajamani, 2003 and Mason, 2008 for more on the importance of the accountability deficit on the lack of progress in climate change legislation)

<sup>10</sup> International Institutions have a myriad of voting rules, ranging from effective veto power for a few in the case of the UN security council for example, to uneven representation as in the Bretton Woods Twins, to pure majority rules as in the WTO. An analysis of different voting rules and their effectiveness is a vast and complex topic and the focus of detailed study in welfare economics beginning with Arrow's impossibility theorem, (Arrow, 1950 and continuing to date. A reasonable précis of this body of work is beyond the purview of this paper. One may note however, the work of Eric Maskin (Maskin 2001, Dasgupta and Maskin 2008) who shows that the majority rule is weakly preferred to all other rules for a wide range of cases.



associated with patents have been globalized through the World Trade Organization and the Trade Related Intellectual Property Rights (TRIPS) agreement. There are two major issues in the governance of global health. First, there is the problem of inadequate development of viable medicine for neglected diseases<sup>11</sup>. These diseases and others affect one sixth of the world's population and seriously restrict human flourishing. A second and related issue is that of access to medicine for low- income countries. The WHO has estimated that about 10 million die every year because they do not have access to existing medicines and vaccines either because these are too expensive or are not made available for other reasons.

The TRIPS agreement and consequent bilateral trade agreements have only served to worsen these problems and limit the ability of governments to promote public health. The TRIPS agreement limited the potential for generic companies to reverse engineer medicines invented after 1995, especially in countries such as India and Brazil which have large and vibrant generic pharmaceutical sectors. These policies will serve to seriously limit the accessibility of medicines for the poorest in the years to come (see Park and Jayadev 2009 for an in-depth study of the case of India). While the TRIPS agreement provides some flexibility to developing countries which face public health emergencies to issue compulsory licenses and thereby elide patent protection, these are hard to use because of the political consequences and disapproval from the countries of the north whose patents are infringed. A recent example is provided by the compulsory license issued by Thailand for Efavirenz, Kaletra and Plavix, drugs to treat HIV and cardiovascular disease. While perfectly within the legal framework of the WTO, this resulted in the US Trade Representative elevating Thailand to its list of worst intellectual property offenders in its 2007 Special 301 Report, with potential consequences for its trade with the US. Bilateral trade agreements that followed the TRIPS agreement add what are sometimes called TRIPS plus provisions which further rigidify the IP regimes in developing countries. These include private enforcement (whereby private firms can sue governments) and data exclusivity (an extra layer of patent protection, ostensibly to

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<sup>11</sup> These include sleeping sickness, lymphatic filariasis, blinding trachoma, leishmeniasis, malaria and others

compensate pharmaceutical companies for undertaking clinical trials) (Park and Jayadev, 2009). As some have argued, the adoption of these latter agreements has been made with very unequal partners (Oxfam 2006) and tends to reflect the interests of the developed country partner.

Research and development into pharmaceutical research has been, on the other hand, the focus of very interesting new forms of institutional innovation and experimentation which hold great promise as new governance models to improve global health outcomes. Thus for example, private-public partnerships such as the International Aids Vaccine Initiative and philanthropic organizations such as the Gates Foundation have invested significantly into preventing and curing neglected diseases. At the same time, there have been many new suggestions for promoting Research and Development without providing monopoly rights. Thus, there has been increased interest in what has been termed the prize fund (Stiglitz 2006) in which the inventor of a desirable medicine is paid a lump sum from a fund so that the drug itself can be produced at marginal cost and be made freely available. A variation of this is the Health Impact Fund associated with Thomas Pogge and Aidan Hollis (Hollis and Pogge 2008) which seeks to reward inventors by paying for an increase in disability adjusted life years. While it is too early to tell the impact of these initiatives on actual development outcomes, they provide examples of genuinely new forms of governance which solve some of the seemingly intractable problems in improving global health outcomes.

#### *2.4 Heterogeneity of the Global South*

While a lack of democratic accountability and limited institutional experimentation constitute important shortcomings in global governance, not all developing countries are equally affected by these problems. Soret (2009) provides a useful distinction among developing countries in their engagement with global governance.

*“Depending on their economic power and on their strategic interests these countries may be grouped into at least three different categories: large emerging economies that claim to be part of the major economic powers grouping; emerging economies that wish to play*

*a role in global governance and to continue taking advantage of the economic integration; and other developing countries, including the least developed countries that are not part of the G20 and support a stronger role for the UN. The plurality of the South, especially the assertiveness of numerous emerging countries, brings to light a complex and changing global order” (Soret 2009)*

Chief among the large emerging economies are Brazil, Russia, India, and China collectively known as the BRIC countries. These constitute about 40% of the world's population, and all constitute major nodes of economic growth. All are part of the G-20 and therefore are atypical among developing countries in terms of their inclusion in global decision making and their ability to challenge existing systems of global governance. This grouping has begun to act in explicit alliance following the first BRIC summit in Yekaterinaburg in 2009. However, even prior to this, they have been at the center of critical decisions in the world economy. Thus, for example, Brazil, China and India have been key players in the resistance to the Doha round of the WTO and sought to protect their (relatively) large agricultural sectors. Similarly, they (particularly Brazil) have been at the forefront of challenging WTO rules as being rigged and promoting double standards. These countries have further been strengthened vis-à-vis the developed world because of their huge foreign reserves and need for liquidity by the IMF. At the moment therefore, these countries have also been leading the push for greater representation in the IFIs. Equally, they have pushed for other major changes in the global financial architecture (including the use of an alternate reserve currency). This last point will be discussed in greater detail in the next section.

Countries in other groupings such as the G-77 (which includes 134 developing countries) and G-24 have traditionally had much less capacity for challenging the status quo. In the wake of the financial crisis however, these countries have begun to assert themselves and worked together more effectively as a coalition (this is true in particular of the G-77). Thus, the group has challenged the legitimacy of the G-20 as the appropriate forum for global governance. In addition, it has demanded additional sources of funding to tide over the current crisis. The new-found coherence was also evident in the Copenhagen summit,

where the grouping acted as the most potent resistance to the proposed climate agreement.

One might add a fourth grouping to Soret's categorization: developing countries which form regional blocs to contest and influence global and regional governance. Some examples are MERCOSUR, the largest Latin American trade bloc, CARICOM (Caribbean Community) and the Bolivarian Alternative for the Americas (ALBA) trade bloc. Other such regional groupings, the Association of South East Asian Nations (ASEAN), the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) have also developed new forms of organization with interesting innovations. The Chiang Mai initiative of the ASEAN, for example, has sought to develop a foreign currency reserve pool which will help countries tide over balance of payments crisis. The arena of global governance in which these groups are promoting the greatest debate is the reform of the global financial architecture. It is to this topic that we now turn.

### **3: The Global Financial Crisis: A Study in the Inadequacies of Current Global Governance.**

#### *3.1 The Impact of the Crisis on Human Development*

*Past economic crises have had a disproportionate impact on the living standards of the world's poor. Those who are least able to bear these costs will suffer its consequences long after the crisis is over. Infants who suffer from malnutrition will be stunted for life. Children who drop out of school are not likely to return and will never live up to their potential. Future growth and employment prospects may be impaired if small firms are forced into bankruptcy. Economic policies must be particularly sensitive to these hysteresis effects.*

The Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System: pp 12

It is useful at the outset to review the highly detrimental impact of the global financial crisis on the poorest developing countries and in particular with regard to the process of human development. As a direct result of the crisis, there were sharp declines in international economic activity, particularly in trade volumes and capital inflows in developing economies. The World Trade Organization estimated that trade would decline by 9% in 2009, the largest such decline in nearly sixty years (WTO 2009). Similarly, following several years of large capital inflows, financial inflow into developing countries are estimated to decline by over 50% to \$165 billion in 2009. The consequences of these reverses have been calamitous for the purposes of economic security and human development. The UN estimates that up to 103 million more people will fall into poverty or fail to escape poverty because of the crisis. Much of the most severe consequences will be felt in regions which have little capacity for self-insuring against the crisis, such as countries in Sub Saharan Africa. The IMF estimated that the cost to African economies from the crisis was around \$250 billion, coming from the decline in commodity prices and the fall in export income. At the same time, the sharp decline in capital inflows and remittances has reduced economic activity even further. The ILO estimated in 2008 that unemployment in 2009 could increase by some 30 million and reach almost 60 million. As incomes and employment are hit, it is the poorest who are least likely to be in a position to survive. Those with the least transferable skills are the first to lose their employment and the last to gain it back. In developing economies, further, there is the possibility that informalization has increased, further lowering wage rates. These coextensive factors serve to reduce income and consumption levels and cause irreversible shocks to investment in household capabilities. Thus, children are withdrawn from school in order to bolster temporary incomes, although this will mean a perpetuation of long-term poverty. At the same time, children are also at the danger of greater malnutrition and mortality. One study (Friedman and Schady (2009) estimates that the financial crisis has increased infant deaths by between 30,000 and 50,000. It is not without reason therefore that many policymakers have asserted that the crisis may make the task of achieving agreed upon developmental goals very difficult. A particularly forthright statement to this effect was made in the 2009 conference by the Prime Minister of Belize, Dean O. Barrow, who noted that (as a result of the crisis) *“it goes without saying that there is no*

*prospect of countries achieving the time-bound Millennium Development Goals”* (Barrow 2009)<sup>12</sup>. The design of the global economic and monetary system has clearly failed to provide financial stability and thus to establish the necessary conditions for promoting human development. These failures have generated numerous new policy prescriptions to redress these shortcomings and to reform global economic governance. These are now reviewed, dividing these policies into those designed to address the shortfall in democratic accountability and those seeking to promote institutional experimentation. There is by now an enormous set of proposals that seek to fill these gaps. For purposes of brevity, however, the major focus here will be on the proposals of the Commission of Experts (2009). In addition, this is appropriate since this was the body whose deliberations dealt most comprehensively with these issues.

### *3.2 Governance Reform in the Global Financial Architecture: Addressing the Imperative of Democratic Accountability*

This disruption in economic lives continues to plague virtually every country in the world. In many instances countries that have had very little to do with causing the crisis in the first place have been among the worst affected by it. The global financial crisis has increased the urgency of reforming the global monetary and economic system so as to enhance fairer and more effective international economic governance. The last upheaval of similar magnitude saw the establishment of the postwar compact to manage the global economy, particularly through the establishment of the Bretton Woods Institutions. The current crisis however has occurred in an era in which the economic and political power of the world is very different. Developing countries have a much greater economic weight and assertiveness than before. As a result, it is smaller developing countries in particular that have been critical of the ad-hoc arrangements for global governance such as the G-20. While it is certainly the case that some countries from the Global South have increased their participation and power in global decision making, the legitimacy of such intermediary bodies as appropriate fora for the deliberation of macroeconomic policy and

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<sup>12</sup> While perhaps hyperbolic, the statement is not without some supporting evidence. For example Dodd and Cassels (2006) and Mozynski (2005) show that the health targets will not be met at current rates of progress.

global coordination have been called into question. As the June high-level conference, it became extremely clear that most developing countries were strong proponents to reform the international financial institutions in order to increase their voice and representation. This demand- that of democratic accountability--has led many to support the role of what is sometimes termed the “G-192” (or the entire body of the United Nations) in handling global economic governance.

There are of course plural demands being made in the design of the international financial architecture, and the interests of developing country governments are by no means uniform. Nevertheless, certain commonalities among broad groupings are evident. Table 2, drawn from Griffith-Jones (2003) depicts the general attitudes of developing versus developed countries and financial markets towards certain proposals. What is very evident from the table is that there are strong conflicts in the desires of various groupings. Given the poor representation in international financial decision making of developing countries particularly in the IMF, World Bank, and Bank for International Settlements, it is not surprising that the proposals most strongly supported by the industrialized countries have been accepted while those most desired by the developing countries have at best been unevenly endorsed or at worst not acted upon at all. While some more powerful countries in the south are able to circumvent certain prescriptions (for example full capital account liberalization), most others are not.

The demand for greater accountability of the International Financial Institutions to developing country interests is not new, and several suggestions have been made in this case. Many of these were reiterated and expanded upon by the commission of experts (Commission of Experts 2009). Since each IFI has somewhat different governance structures, the proposed reforms are different for each. Nevertheless the main issue for both IMF and WB is the quota revision process in which the demands for inclusion of the poorer developing nations will need to be met. At the G-20 meeting, BRIC countries proposed a quota shift of 7 percent in the IMF and 6 percent in the World Bank Group so as to achieve this outcome. While the proposals discussed below will be adopted to a greater or lesser degree, any reform in these directions will help to mitigate the accountability deficit that is now felt.

The Report of the Committee of Eminent Persons on IMF Governance Reform, chaired by Trevor Manuel, contains some important recommendations with respect to reforming voice in the IMF. These include a) Making the International Monetary and Financial Committee a Council of Ministers and Governors with rotational representation, b) Revising the quota allotments by April of 2010 to allow greater weighting to developing countries as per economic weight and c) promoting a merit-based selection process for the managing directors. It should be recognized that changing voting shares will reflect the interest of the BRIC countries more effectively, but that alone would not sufficiently increase representation of the Least Developed Countries. In addition to such changes, therefore, the Report of the Commission of Experts suggests an application of double majority voting<sup>13</sup> to a broader set of decisions so as to compensate for voting imbalances at the IMF (Commission of Experts 2009). This has been also suggested by others (Birsall 2008, Woods, 2008).

Recommendations for the reform of the World Bank also have taken the form of requiring greater representation. There is already a process in place to do so, including the doubling of basic votes and a third African seat on the Board that will work to increase the influence of developing countries. In addition, the Commission of Experts suggests that the Bank should undertake a quota revision and should play an increasing role in the area of global and regional public goods or aid for trade, to better reflect its mandate.

Another key institution in which accountability will need to be enhanced is the Financial Stability Forum (now the Financial Stability Board (FSB)). The body stands to be the most important financial regulator at the international level, but its membership is narrowly and arbitrarily construed—consisting now of the original 7 countries, the rest of the G20, Spain and the European Commission. For the FSB to retain legitimacy, it will need to become more representative and accountable to developing countries as a whole, since most developing countries are not represented therein.

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<sup>13</sup> Double-majority voting requires that decisions be endorsed by both a majority of member countries and a majority according to countries' voting weight.



In addition to reform of these bodies, there is a call for reform in the UN development system as well. In the June 2009 conference, there was a call both from the delegates of the LDCs in particular as well as the commission of experts for expanding the role of the UN in coordinating global economic governance. This stronger role, it was argued could be achieved by enhancing the ambit of the Economic and Social Council (ECOSOC). To date, the international economic governance has been based on the principle of specialization and coordination. This said, the multiple mandates of various international institutions and specialization within each body weaken the coherence of development plans. In order to make development concerns more representative and coherent, the commission of experts suggested an overarching inclusive body which integrates these mandates. The establishment of a Global Economic Coordination Council (GECC) as a free standing body in the UN for this purpose was proposed. Such a body could act very much like the successful Intergovernmental Panel on Climate Change and, in consultation with researchers and political bodies, could work out normative standards for policy decisions. It could then serve as an advisory body to the UN system and other international organizations which implement policies and standards. Finally, there was a call for the creation of an Intergovernmental Panel of experts to assess systemic risks in the global economy<sup>14</sup>. These last two proposals were vetoed by the advanced economies before the resolution at the conference. Reform of the UN system will therefore be limited to the proposals adopted in the Doha declaration of 2008.

### *3.3 Governance Reform in the Global Financial Architecture: Addressing the Imperative of Institutional Experimentation*

The governance of the global financial architecture has been weak because of both errors of commission (particularly in the policy advice provided by the IFIs and the weakness of their response) and omission (not providing a robust global reserve system, having an

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<sup>14</sup> One of the functions of such a panel would be to oversee the collection of and dissemination of relevant global statistics. The usefulness of such a body is evidenced by the recent Greek experience in which the extent of budget deficits of the country was hidden.

underdeveloped debt workout mechanism and so on). Some of these were extensively discussed by the Commission of Experts (2009) and the deliberations are outlined here.

*a) Errors of Commission: Weaknesses in Policy Advice*

As part of its deliberations on the global financial crisis, the United Nations Commission of Experts on Financial reform examined the role of national and global monetary authorities in the lead up to the crisis and the aftermath. Certain elements of this discussion bear noting. The policy advice offered by the IFIs, it was argued, was unimaginative and restrictive. Several countries could have limited the fallout to their economies if they were not sold on the presumption of the efficacy of capital and financial market liberalization. Instead, the commission suggested, IFIs should now allow for a more pragmatic approach to financial flows and actively advise governments on capital account management. As part of this effort, there needs to be better and more balanced surveillance mechanisms: better, because current surveillance has been shown to be inadequate in the failure to predict the global crisis; more balanced in order to reflect more widely valued social goals other than the simple maintenance of financial stability or low inflation. The report was critical in general of the narrowness of the focus displayed by the monetary authorities of several countries. These authorities maintained a sharp focus on low and stable inflation which was believed to be necessary for economic prosperity but was treated as being an almost sufficient condition for it. In this regard, central banks often ignored other factors, notably maintaining asset price stability. While many countries were successful in maintaining low goods price inflation (what has been termed the great moderation), at the same time as they were achieving success on this front, there was substantial inflation in asset prices (which, unlike price inflation in consumer goods is less easy to measure). Countries which sought to intervene in the market for international capital inflows (through which asset prices were inflated, or on the exchange rate front) were more successful at mitigating the effects of the financial crisis on their economies.

Central banks which adopted a strict consumer price inflation targeting regime were disadvantaged because they did not have the flexibility to respond effectively to the rapid growth in financial asset prices. This was made worse when inflation spread from financial assets to other asset classes such as oil, food and other commodities as these assets became the focus of intense speculative activity. When this occurred, asset price inflation and goods inflation became intertwined and the appropriate policy response became unclear. Even so, countries which used the implicit flexibility associated with an inflation targeting regime were more effective in their responses to these conjoint problems.

This experience suggests that an uncritical acceptance of an inflation targeting regime requires reconsideration. This is especially so with regard to two lessons that can be drawn. First, monetary policymakers need to be cognizant of the source of inflation that threatens their economies. Inflation arising from rising prices of tradeables in an open economy or from state administered prices is unlikely to be effectively countered by hawkish interest rate policy. Such a stance will certainly damage the other sectors of the economy, without clarity as to whether price inflation will be effectively reduced. For those countries in which price inflation is driven by such factors, this lesson is all the more important. A second lesson to draw is that monetary authorities need to be cognizant of the appropriateness of the target for managing inflation. Focusing on “core” inflation and excluding energy and food (as some countries have done) risks ignoring the prices which are often most relevant for household welfare.

If central banks are to respond effectively to future crises, it is clear that the current understanding of macroeconomic stability needs to be broadened to include asset price stability and real sector stability as well as goods price stability. These have as much of an impact on sustaining growth and enhancing employment and welfare as maintaining low consumer price inflation and therefore require equal attention.

*b) Errors of Omission: Innovations in the Global Financial Architecture*

The final set of concerns tackled by the commission was to think of solutions to longer term problems facing the management of global finance. Three topics in particular were most extensively discussed. The first had to do with the pathologies of the global reserve system. The second issue was the issue of sovereign defaults and their management and the third was to imagine new ways in which international borrowing and lending could be made more stable.

The global reserve system and the Triffin Dilemma were central to the crisis and will be central to the prevention of future crises. The Triffin Dilemma named after Robert Triffin who first described it is the problem that arises when a national currency such as the US dollar becomes the international reserve currency. Under flexible exchange rates, the Triffin Dilemma is that the current account imbalances of the reserve country (the US) creates volatility in the dollar exchange rate and therefore volatility in the value of foreign exchange reserves held by other countries. This problem has been made worse in the current crisis by the amassing of large amounts of US dollar reserves as insurance against crisis by developing countries. This in turn was necessitated by the instability of global finance and the unwillingness of developing countries to be placed under countercyclical conditionalities from the IMF. Such a system is deflationary (since countries maintain excess reserves to mitigate crises) as well as inequitable, since poorer countries transfer resources to the richest for very small returns. The commission supported the creation of a supranational currency that is not intrinsically linked to the external position of any single national economy. Given this, one could imagine a body in charge of the reserve currency which would increase the supply of the currency in line with the growth in demand for global reserves. This can be achieved through several mechanisms including proposals to scale up the IMF's Special Drawing Rights to become the global currency, to promote worldwide swaps to a new currency (international currency certificates) and to build on existing agreements such as swap arrangements between regional partners to create a global currency.

A second long term innovation proposed by the commission is the development of a mechanism whereby debt can be rescheduled and made more manageable for sovereign nations. At the moment, when nations are unable to meet their financial obligations, there

is a haphazard system to manage the crisis. The typical debt workout mechanism operates under the purview of the IMF and other institutions such as the Paris Club. In such negotiations, unrealistic expectations of future growth are provided, which only serve to put the debtor back in arrears down the line. This leads to very little significant debt relief and rather a rescheduling of the obligations. Many developing countries have felt that the terms and manner in which their debt obligations were negotiated has been both inefficient and iniquitous. The commission therefore called for a well thought out single framework for debt relief in which creditors and debtors together restructure debt, based on the country's economic situation. This could be best achieved by the establishment of an international insolvency court with common guiding principles. Such a dedicated body for this process, which is built on well accepted principles of human-centered development, may serve to improve the resolution of crises and mitigate their frequency. Such a court would implement agreed upon international principles on the priority of claims, including differentiating between distinct debt categories such as private, government-guaranteed, and government-acquired private debt, as well as 'odious' debt. In doing so, it could process claims and issue losses and write downs in ways that were more equitable to the citizens of the debtor and creditor countries. National courts would of course, have to recognize the legitimacy of such agreements.

Finally, there is a need to think of new ways in which developing countries can fund their growth. Volatile and pro- cyclical international capital flows have made the need for such innovations more urgent. Some new ideas such as GDP bonds and commodity linked bonds (for which returns depend on the performance of the economy as a whole or the prices of commodities) were proposed by the commission. These have countercyclical qualities built in and would be an important addition to the set of financing options available to developing countries. This would make returns on bonds directly linked to the performance of the country or commodity so that risk is equitably distributed. Similarly, promoting local currency bond markets can enhance financial development by reducing currency mismatches which weaken debt structures in developing countries.

These and other institutional innovations certainly fall under the category of developmental innovation and obey the imperative of institutional experimentation. However, it should be recognized that the ideas present in the report will have to face entrenched political interests and institutional friction. Whatever the outcome of the confrontation between these ideas and the difficulties of their implementation, it appears clear that at least some form of these innovations can serve to enhance global stability and human development.

#### **4. Conclusion**

*The instrumental roles of political freedoms and civil rights can be very substantial, but the connection between economic needs and political freedoms have a constructive aspect as well. The exercise of basic political rights makes it more likely not only that there would be a policy response to economic needs, but also that the conceptualization-including comprehension- of “economic needs: itself may require the exercise of such rights. It can indeed be argued that a proper understanding of what economic needs are- their content and their force- requires discussion and exchange. Political and civil rights, especially those related to the guaranteeing of open discussion, debate, criticism and dissent are central to the processes of generating informed and reflected choices.*

Amartya Sen, Development as Freedom pp 153 (Sen 1999)

*“What we should chiefly desire is to find ways to empower ourselves, individually and collectively, that also connect us, and ways to connect us that also empower us... The chief instrument for the development and the execution of this program, understood as a direction rather than as a blueprint, is the quickened practice of institutional experimentalism: motivated, directed, and cumulative experimentation with the institutional forms that now define representative democracy, market economy, and free civil society.”*

Roberto Unger, 2002. "How a progressive alternative to European social democracy may require and enable us to change how we think and live." pp 1

The global financial crisis and the failings of global governance which were laid bare by it have re-energized debates on the importance of global arrangements for human welfare. This paper has sought to do two things: first, to provide a simple categorization of ways in which global governance is lacking and second, to describe some of the major challenges of global governance for human development. Using the climate crisis, the health crisis and --more expansively--the global financial crisis as examples, two important gaps in global governance were identified and expanded upon: the gap in democratic accountability and the gap in institutional experimentation.

As Sen points out, democratic decision making and deliberation about social choices is central to the process of development. When the concerns of social choices have a global span, therefore, it is imperative that "public deliberation" include all those directly affected by these decisions. If one accepts this viewpoint, then reform of the global governance system is urgent. Extant global institutions fail for several reasons to adequately represent developing country voices, fail therefore to pay attention to the poorest (and those most vulnerable to the consequences of decisions) and fail therefore to leverage the perspectives and strengths of public, private and civil society organizations.

Apart from these issues, effective management of global problems is also hampered by a lack of ability to imagine different forms of governance. The reflexive tendency to problems of a global scale is to imagine a solution brokered by nation states, and the greatest energy is usually spent on building such institutions. Yet, for many global issues, newer forms of institutional organization are being discovered. Thus, for example, in the case of public health, private philanthropy, public private partnerships and global agreements are all performing useful roles in improving global health. Similarly, in the case of global financial insurance, one sees the burgeoning of regional institutions and initiatives. These and other experiments can, as Unger argues, connect and empower people to find new, valuable ways to improve development outcomes that may be superior to solutions provided by existing models. For the purposes of policy makers, the

challenge is therefore to move away from assuming best practices and to allow for a plurality of organizational forms to address pressing global needs.

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Table 1: Attitudes of key Stakeholders To Specific Reforms of the International Financial Architecture: from Griffith-Jones (2003)

TABLE 2

**Attitudes of key stakeholders toward specific reforms of the international financial architecture**

Reform	Industrial country governments	Developing country governments	Banks and financial markets	Outcome
Capital account liberalization	Support	Reluctant	Support	Implemented <sup>a</sup>
Codes and standards	Support	Some oppose or have reservations	Vaguely support	Implemented
Sufficient official international liquidity	Reluctant	Support	Support	Not implemented <sup>b</sup>
Increased development finance	Very reluctant	Support	Vaguely support	Not implemented
Sufficient, appropriate international regulation	Lukewarm	Lukewarm, linked to representation	Do not support	Not implemented
Debt standstills and orderly workouts	Support, some quite strongly	Support is weak but interest varies	Do not support	Not implemented
Increased developing country participation	Very reluctant	Support	Indifferent	Not implemented

a. By most developing countries. Some major ones—such as China and India—have taken a more gradual, prudent approach.

b. Though IMF resources have been increased and new facilities have been created since the East Asian crisis of the late 1990s, there is insufficient liquidity for quick disbursements should crises occur and spread.