Strengthening the Relationship between ECOSOC and the Bretton Woods Institutions for a Coherent and Effective Financial and Economic Architecture

The Institute for Global Policy advocates that the United Nations General Assembly honor the role originally envisioned for the UN Economic and Social Council, as a mechanism for global economic and financial policy-making, after 63 years of significant marginalization. Articles 57 and 63 of the UN Charter stipulate that the specialized agencies (including the Bretton Woods Institutions – the World Bank Group and the International Monetary Fund) "shall be brought into relationship" with the UN by entering into agreements to define the terms of the relationship, and that ECOSOC "may coordinate the activities of the specialized agencies through consultation with and recommendations to such agencies."

Like the General Assembly, Security Council, Secretariat, and the International Court of Justice, ECOSOC is a principal organ of the UN system. The most viable way to develop needed regulations and structures for the international financial system may be to combine the benefits of a democratic forum (i.e. the UN) and a contributions-based (or quota-based) forum, such as the Bretton Woods Institutions and the ad hoc Groups (G-7/8 and G-20). ECOSOC provides a forum for this unique combination of strengths.

IGP therefore proposes that the current G-20 effectively be "relocated" inside the UN system as a high-level, ministerial body of ECOSOC. The governments would approve a direct reporting relationship between ECOSOC and the Bretton Woods Institutions, a matter that has been postponed since 1945. Because the body would include the most powerful G-8/G-20 governments, the decisions could be implemented in the BWIs, and through persuasion adopted, as necessary, by ECOSOC and the UN General Assembly.

For constitutional reasons, IGP proposes the new body would consist of nineteen ECOSOC members (one more than one-third of ECOSOC's 54 states membership). The 19 members would have to be elected by ECOSOC, with no assumption that any particular country would be elected (and nothing preventing the Council from electing the most powerful countries/current G-20 members). This "G-19" would not only be a reasonable size but also – by virtue of its place within the UN system – more representative and legitimate than the Bretton Woods Institutions have become. It would result in greater authority and influence for ECOSOC and more legitimacy for the BWIs, since it would be based on greater representation, transparency and accountability.

The new entity also would:

- Have its decisions approved by the Council as a whole (54 states) as well as the General Assembly (192 States).
- Be governed by ECOSOC's rules of procedure regarding commissions and committees (Rules 24-27).
- Benefit from the expertise of Members' trade and finance specialists/ministers.
- Meet one or two times per year to adopt recommendations for the final consideration and approval of ECOSOC during the latter's substantive sessions.
- Civil society has its best formal consultative arrangements within ECOSOC, since 1948.
- Allow for the administration/implementation of the policy at national levels as appropriate.
- Allows room for giving mandates and direction to the Bretton Woods Institutions, but based on a broad, democratic, and legitimate process.

This proposal responds to three urgent needs. First, the international community is in need of a reformed financial architecture. This has been widely noted – including by several heads of state at the opening debate of the GA's 63rd Session last September 2008, and more recently by the leaders of France, Germany, India, Norway, the United Kingdom, and the European Union, as well as prominent economists, including Nobel Laureate Joseph Stiglitz.

Second, it is important to create supra-national regulation of whatever financial architecture is in place, in order to prevent the sort of catastrophic meltdown the world faces now.

To devise legitimate, effective solutions, the decision-making mechanism must be a truly representative body. This is the third urgent need – a more democratic, transparent, and accountable mechanism for establishing new regulations and systems. Attempts to locate global economic governance in the discredited institutions are unlikely to succeed.

The G-20 is an informal, voluntary structure that lacks a means to enforce its decisions and excludes the rest of the world, including emerging economies. In addition to the G7/8 – Canada, France, Germany, Italy, Japan, United Kingdom, United States and Russia – the G-20 includes Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, Turkey, and the European Union. The G7/8's decision-making and policy-setting achievements have been minimal, in most instances they have not been able to agree on policies or binding effect. To ask the Group of 20's deliberations to result in anything different is irrational. As Albert Einstein put it, "Insanity [is] doing the same thing over and over again and expecting different results." Even if the G-20 could agree, its decisions would not carry the legitimacy, transparency, or accountability to be enforced on the world community.

If the process to achieve fundamental reform of the global financial architecture and new regulations is to succeed, the decision-making mechanism must have the capacity for consensus or qualified majority voting decisions that will be binding on all countries.

Introduction

Given the widespread, high-level agreement on the need to reform the international financial architecture, IGP suggests that within the UN Charter there exists a better way to fulfill the progressive goals of legitimacy, transparency, and accountability. This better way is to make use of a principal organ of the UN – Economic and Social Council (ECOSOC) – and to effectively place the G-20 and the BWIs inside it. With this proposal, IGP is calling for a "full activation" of UN Charter Article 57.

A key question dividing global leaders in recent weeks has been whether the Bretton Woods machinery can be "resuscitated" to do the work needed for international financial governance. The answer may well be "no," as worldwide acceptance will not come without the qualified buy-in of all countries – currently 192 governments. Simply stated, many would not accept the IMF becoming the global regulator again without significant governance reform.

Any body or mechanism housed in the IMF – which is based on a 1949 formula giving control to a few – would lack the political legitimacy necessary for effective governance. One of the only appropriate fora for such a mechanism – and for discussions of a mechanism – are those with the capacity for full democratic participation, which is uniquely found in the UN.

European leaders are showing signs of openness to the reformed regulatory architecture falling within the UN. Angela Merkel, Federal Chancellor of Germany said on 30 January, "An international crisis can only be resolved at the international level" and highlighted the need for transparency in the international finance markets, noting, "the G-20 and leading international institutions, such as the United Nations, International Monetary Fund and the World Bank, have to be involved."[1]

ECOSOC's potential for global economic policy making, including the possibility of weighted-voting as in the BWIs, has not been realized, as the real governance of global finance and economy issues currently lies outside the UN system, in the BWIs where the United States and European Union effectively have veto power. This "veto" power is no longer acceptable.

Rationale

Solutions to global problems such as today's financial crisis cannot be managed solely at the national level. Solutions must be international, also. The World Trade Organization (WTO), surprisingly endorsed by most of the world community in the 1990s,

[1] "Special Address by Angela Merkel, Federal Chancellor of Germany" World Economic Forum, 30 January 2009

demonstrates the necessity and feasibility of international governance of transnational issues. The essence of IGP's approach is the need to solve problems at the most appropriate level – local, national, regional, or global. Most critically, aspects of the international financial crisis clearly require global solutions, and those must come from international, transparent, accountable, and democratic processes and institutions.

The quota-based institutions have lost credibility. While the BWIs' expertise can usefully contribute to solutions to the crisis and the development of an alternative financial architecture, their actual configuration seems to impede effective leadership.

The US and EU have voting power that amounts to a veto in the international financial institutions (IFIs). A new basis for voting is needed – create a structure that makes decisions on a more democratic, constitutional basis.

Countries with underdeveloped financial systems rely on foreign financing in order to grow. They have a strong interest in making the financial system operate as effectively as possible, yet they have little to no say in the current institutional structure. The UN provides the only forum where all states have a say. It is the only place capable of guaranteeing universal participation and universal acceptance.

Despite its recent resurgence, the IMF does not have the credibility necessary to make global decisions about the economy. Too many countries associate the IMF with European and American dominance, resulting in policies beneficial only to developed countries. According to the Centre for International Governance Innovation, "the IMF … suffers from its own legitimacy problems among developing countries because of their lack of influence in the institution."[2] Its voting structure was established in 1949, and it is unrepresentative of the world's political and economic reality in 2008. Considering the BWIs' role in causing the financial crisis we now face, proposals based on these undemocratic institutions will not be accepted by most of the world's governments.

ECOSOC has a UN Charter mandate to be a policy-making and policy-monitoring body. The Council can most easily build the requisite relations between all the relevant IFIs. ECOSOC reform is already on the agenda of the UN and has been given support by the World Summit document. Finally, the current GA President, Miguel d'Escoto, has said: "The Economic and Social Council has a crucial role in fostering a comprehensive development agenda of the United Nations through an integrated and coordinated implementation of the commitments. The Council has an acknowledged role as a principal body for coordination, policy review, policy dialogue, and recommendations on issues of economic and social development."

The strengthening of the Economic and Social Council in 2006, and the incorporation of new elements in its functioning, were useful steps in this regard. IGP advocates for enhanced capacities of the Economic and Social Council in order to effectively

[2] Helleiner, Eric, and Stefano Pagliari. "The G20 Leaders; Summit and the Regulation of Global Finance: What Was Accomplished?" The Centre for International Governance Innovation: Policy Brief #11, 2008.

implement this mandate, including periodic reviews based on a development perspective, of the policies of international financial institutions.

Previous reform efforts

Since the end of the Cold War, proposals for global economic governance mainly fall into one of two types: the G7/8 or G-20, or an Economic Security Council at the UN.

- Institutionalize the Group of 20
  - IGP response: Global economic governance must fit into the international legal order designed out of the ashes of WWII – the UN and ECOSOC. The real place for G-20 is as an integrated functional body of ECOSOC. The G8 was not able to achieve binding agreements among its members, thus it is irrational to expect the G-20 to do any better. ECOSOC decisions are, of course, not binding on Member States – but it does have a potential legislative capacity (it can be given new powers by the General Assembly) – and its decisions have the necessary legitimacy to be widely adopted. Furthermore, According to Article 62(3) of the UN Charter (Chapter X), ECOSOC "may prepare draft conventions for submission to the General Assembly, with respect to matters falling within its competence." Article 62(4) gives ECOSOC the ability to call "international conferences on matters falling within its competence." In other words, ECOSOC can recommend treaties, have its 54 members convene conferences and draft conventions.

- Create an Economic Security Council – a new body of the UN symbolically equal to the Security Council, superseding ECOSOC.
  - Requires an amendment to the UN Charter requiring ratification of a resolution by 128 states, including Permanent Members the Security Council. Various versions have been presented since the 1980s.
    - In 1995, the Commission on Global Governance put forward a proposal for a "Global Council" that would be more representative than the Security Council or G8, while also having more authority. Jacques Chirac and Heidemarie Wieczorek-Zeul have been proponents of the Global Council.[3] The IMF, World Bank and World Trade Organization would report regularly to the Economic Security Council; the Council would not provide governance or oversight, but rather coordination, leaving the BWIs independent. The proposed Economic Security Council would have the following tasks:
      - To continuously assess the state of the world economy and the interaction between major policy areas;
      - To provide a long-term strategic policy framework in order to promote stable, balanced, and sustainable development;

[3] The Report of the Commission on Global Governance, *Our Global Neighborhood*, Oxford University Press: New York, 1995.

        - To secure consistency between the policy goals of the major international organizations, particularly the main multilateral economic institutions (the Bretton Woods institutions and the WTO) while recognizing their distinct roles;
        - To promote consensus building dialogue between governments on the economic financial system, while providing a global forum for some of the new forces in the world economy – such as regional organizations.
    - IGP response: An Economic Security Council is unnecessary since ECOSOC already has a mandate for the functions proposed. ECOSOC is in need of reform, but the basic structure is already in place to make it more effective. Establishing new Council would also require a change in the Charter as it amounts to the establishment of an entirely new principal organ of the UN. It would be extremely expensive and require years of consultation between Member States.

In addition to these two proposals, formulas for strengthening ECOSOC have been discussed over the past few years, which would not require an amendment to the UN Charter.[4] IGP regards this option as far more realistic and politically agreeable.

Options

What is the alternative to decision-making based on quotas and financial contributions? A solution that has emerged from a number of sources over the last 30 years is to use the principal organ of financial policy within the international legal order – the UN Economic and Social Council (ECOSOC) – to set policy.

ECOSOC was founded as the principal organ to coordinate economic, social, and related work of the 14 UN specialized agencies, functional commissions and five regional commissions…. The Economic and Social Council (ECOSOC) serves as the central forum for discussing international economic and social issues, and for formulating policy

[4] Several proposals in this regard were presented in the meetings leading up to the 2005 Summit. The resulting World Summit Outcome Document did not resolve to upgrade it adequately, but rather set up new functions (Annual Ministerial Review, Development Cooperation Forum, revamped Humanitarian Segment). Governments endorsed ECOSOC as the main economic and social organ of the UN, affirming "the need for a more effective ECOSOC as a principal body for coordination, policy review, policy dialogue and recommendations on issues of economic and social development." (OP 155) However, Member States resolved that international economic, monetary and trade policy decisions would continue to be dealt with at the IMF, World Bank, and WTO. In 2006, the High-level Panel on System-wide Coherence recommended the establishment of a Global Leader's Forum (L27), comprising the heads of state of half of ECOSOC's members, rotating on the basis of equitable geographic representation. It would not have a decision-making role, but would 1) Provide leadership and guidance to the international community on development and global public goods issues; 2) Develop a long-term strategic policy framework to secure consistency in the policy goals of the major international organizations; and 3) Promote consensus-building among governments and integrated solutions for global economic, social and environmental issues.

recommendations addressed to Member States and the United Nations system. It is responsible for: promoting higher standards of living, full employment, and economic and social progress; identifying solutions to international economic, social and health problems; facilitating international cultural and educational cooperation; and encouraging universal respect for human rights and fundamental freedoms.

Within ECOSOC – upgraded into a policy-making and policy-monitoring body as envisioned in the Charter – the world's most powerful trade and finance ministers can make similar agreements to the ones they could make as the G-20, but within ECOSOC, they are doing so within a principal organ of the international legal order. It would result in greater transparency, accountability, and legitimacy for their decisions. The existing G-20 would benefit, because they would get to make use of their grouping – the benefits of getting together to agree on international financial and economic policy – without needing to resort to the current tools of "economic blackmail" to convince other governments to follow their decisions/implement their suggested policies.

The developing world (G77 and others) would gain greater ownership over international financial decision-making, even as the "new G-20" likely will have a similar makeup to the current G-20.

IGP is now working to develop the particular governance recommendation/options. In basic terms, the new body would:

- Be composed of one-third of the Council's membership – 18 States, plus one (to prevent tie votes). The 19 members would be elected by the Council. The decisions of this "G-19" would need to be approved by the Council as a whole (54 states) as well as the General Assembly (192 States).
- Be governed by ECOSOC's rules of procedure regarding commissions and committees (Rules 24-27).
- Benefit from the expertise of Members' trade and finance specialists/ministers.
- Meet one or two times per year to adopt recommendations for the final consideration and approval of ECOSOC during the latter's substantive sessions.
- Apply the ECOSOC consultative rights for NGOs.
- Administration/implementation of the policy can be at national levels as appropriate.
- Nothing in this formula prevents giving mandates and direction to the Bretton Woods Institutions, but they would be based on a broad, democratic, and legitimate process.

Governance arrangements could take the form of a functional commission of ECOSOC or a Fund/Programme that reports to ECOSOC and makes decisions by an executive board/committee. Or, the Bretton Woods Institutions would remain specialized agencies but employ a mechanism to report to ECOSOC, which would set its policies. ECOSOC's rules of procedure (Rules 24-27) provide for the establishment of commissions and committees.