



Beyond Business as Usual

G-20 Leaders and Post-Crisis Reconstitution of the International Economic Order

Richard Samans September 2009

Center for American Progress



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Executive Summary

Leaders taking part in the G-20, G-8+5, and G-8 summits over the past year have pledged in effect to reconstitute the international economic order to render global growth more inclusive, sustainable, and robust. The principles for fundamental reform they have articulated in these communiqués are sound and can be summarized as follows:

- 1. Constructing a new doctrine of global economic growth and integration that enables much more inclusive and sustainable outcomes.**
- 2. Rebalancing and strengthening global aggregate demand for goods and services through deeper macroeconomic and structural economic cooperation.**
- 3. Elevating employment and social protection to a top priority of international economic policy and cooperation.**
- 4. Shifting economies onto a low-carbon economic growth path.**
- 5. Making major progress in the both the coordination and resourcing of the fight against global poverty.**
- 6. Fundamentally reforming and strengthening financial system regulation.**
- 7. Renovating the primary institutions of international economic cooperation as necessary to achieve the foregoing objectives.**

But for these objectives to be achieved—that is, for the world economy to avoid a return to business as usual after the crisis recedes—they will need to be translated into major structural improvements in the corresponding multilateral and national institutions. Every country today has a vital interest in creating a stronger positive feedback loop of more broadly shared participation in the benefits of global economic integration among and within countries. This common political imperative has made conditions ripe for an unprecedented exercise in international economic cooperation to strengthen the world economy's virtuous circle by upgrading its enabling institutions.

Leaders have pledged to reconstitute the international economic order to render global growth more inclusive, sustainable, and robust.

Over the past generation, international economic policy has placed excessive emphasis on top-line growth in national income—promoting economic efficiency through deregulation, privatization, trade liberalization, and fiscal balance—and insufficient emphasis on the role of economic institutions in fulfilling the bottom-line objectives of markets (efficient and sustainable allocation of resources) and economies (sustained, broad-based progress in living standards). The essential lesson of both the current crisis and the recent legacy of globalization is that institutions deserve as much attention from policymakers as efficiency. They are crucial for optimizing both the rate and the inclusiveness and sustainability of economic growth.

Economic institution building along precisely these lines was crucial to many advanced countries' success in creating middle class prosperity and stronger, more stable growth as their economies integrated nationally in the 20th century. It also holds the key to strengthening the global economy's virtuous circle of parallel, broad-based advances in living standards in both developed and developing economies as they integrate.

This institution building will require the international community to go beyond the financial sector and temporary macroeconomic stimulus measures that have been the main result of the G-20 leaders process until now. Beginning at their meeting in Pittsburgh, G-20 leaders should assemble the procedural machinery necessary to produce a blueprint for comprehensive institutional renovation of the global economy by next autumn. They made a similar decision in Washington last year to assemble a set of intergovernmental working groups to develop proposals in line with the principles on financial system reform articulated in their communiqué. Now is the time for them to commission a broader team of architects—from finance, development, labor, energy, environmental, trade, and other relevant ministries—to collaborate over the next year to prepare detailed renovation plans in the main areas of fundamental reform covered by the London and L'Acquila communiqués.

By taking their pledge of fundamental reform seriously, leaders could create conditions favorable for a Big Bang of the sort of "new multilateralism" that has been much anticipated but not yet sighted since the change in U.S. administrations. The paper outlines a Global Deal of comprehensive reforms that would yield substantial net benefits for both developed and developing countries and amount to a populist approach to global economic integration in the best sense of the term—a concrete plan to make it work for more people.

Institutions deserve
as much attention
from policymakers
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Post-crisis reconstitution of the international economic order

As progressive leaders from around the world have observed in a joint statement, presented in Appendix 1,¹ heads of government participating in the G-20, G-8+5, and G-8 summits over the past year have pledged to pursue fundamental reforms that, if implemented, would amount to a reconstitution of the international economic order along lines that progressives have been advocating for years.²

Specifically, these presidents and prime ministers have pledged to:³

1. Construct a new doctrine of global economic growth and integration that enables much more inclusive and sustainable outcomes:

We are determined not only to restore growth but to lay the foundation for a fair and sustainable world economy. We have pledged to do whatever is necessary to . . . build an inclusive, green, and sustainable recovery. (G-20 London)

We agreed on the desirability of a new global consensus on the key values and principles that will promote sustainable economic activity. (G-20 London)

We will continue to work together to restore confidence and set growth on a more robust, green, inclusive, and sustainable path. Going forward, we need a strategy to comprehensively address long-term issues and lead the global economy to stable, balanced, and sustainable growth. (G8 L'Acquila)

2. Rebalance and strengthen global aggregate demand for goods and services through deeper macroeconomic and structural economic cooperation:

We will . . . support domestic demand; . . . ensure monetary and fiscal sustainability in the medium term . . . refrain from competitive devaluations of our currencies and promote a stable and well-functioning international monetary system. (G-8+5 L'Acquila)

We will promote regular consultations on structural and macroeconomic issues in all appropriate fora. Enhanced international dialogue and strengthened coordination will help to build a more stable, equitable, and long-lasting global growth model, and so to gradually achieve and sustain a rebalanced global economy. (G-8+5 L'Acquila)

Stable and sustained long-term growth will require a smooth unwinding of the existing imbalances in current accounts. We recognise the importance of working together to ensure the necessary adjustments in line with the multilaterally agreed strategies, which include supporting strong internal demand in surplus countries and increasing savings rates in deficit countries through appropriate macroeconomic and structural policies Greater macroeconomic policy coordination will also be needed to help ensure that the burden of adjustment is fairly shared. (G-8 L'Acquila)

3. Elevate employment and social protection to a top priority international economic policy and cooperation:

We will tackle the social dimension of the crisis, putting people's concerns first, modernising, reinforcing, and increasing the efficiency of social protection policies, including safety nets, health, and education. Strengthened and sustainable social protection, supporting employment and enhancing skills, will also help to sustain and rebalance global demand. (G-8+5 L'Acquila).

Social and employment policies are a crucial pillar in the context of a new global framework. Measures should provide income relief for people and households and prevent long-term unemployment, with particular reference to the most vulnerable groups, taking into consideration gender issues. Advanced, emerging, and developing countries as well as international institutions should work together to ensure employment oriented growth and promote social cohesion. Taking forward the ILO Decent Work Agenda, building on the ILO resolution on "Recovering from the crisis: A Global Jobs Pact", is relevant to respond to the crisis at worldwide level and advance the social dimension of globalization. (G-8 L'Acquila)

4. Shift economies onto a low-carbon economic growth path:

We will make the transition towards clean, innovative, resource efficient, low- carbon technologies and infrastructure. (G-20 London)

We will encourage and facilitate the development, dissemination, and mutually agreed transfer of clean, low-carbon technologies, reducing carbon emissions, and increasing energy efficiency from production to consumption, thereby improving energy security and access. (G-8+5 L'Acquila)

We intend to secure our present and future prosperity by taking the lead in the fight against climate change. We are committed to reaching a global, ambitious, and comprehensive agreement in Copenhagen. (G-8 L'Acquila)

5. Make major progress in the both the coordination and resourcing of the fight against global poverty:

We will . . . mobilis[e] all resources for development . . . to ensure the proper follow-up and implementation of the Monterrey Consensus and the Doha Declaration on Financing for Development. (G-8+5 L'Acquila)

We will . . . respect and support the ownership and leadership of developing country partners in identifying and implementing priorities for their development and we will enhance coordination among development partners. We will . . . support{.} partner countries' efforts to build capable and effective governments, strong and transparent institutions, and healthy and engaged societies. (G-8+5 L'Acquila)

We are firmly committed to implement the Paris Declaration and the Accra Agenda for Action (AAA), to ensure development effectiveness . . . In line with the AAA, where possible we will build upon existing partnerships and ensure that these are effective and inclusive, promote better coordination and division of labour, reduce fragmentation of aid, be aligned to partner countries' priorities, and strengthen these countries' systems. (G-8 L'Acquila)

We will promote a comprehensive, "whole of country" approach to development. We will ensure stronger synergies across all relevant policies and foster the conditions for all actors in our country system—central and local governments, private sector, philanthropy, and civil society—to contribute effectively to partner countries' development . . . We call on the international community to consider, where appropriate, broadening innovative financing initiatives on a voluntary basis and note the work of the Leading Group on Innovative Financing for Development. We will also explore the potential of new innovative financing mechanisms, including new forms of voluntary contributions by citizens and corporations. (G-8 L'Acquila)

6. Fundamentally reform and strengthen financial system regulation:

We will implement reforms that will strengthen financial markets and regulatory regimes so as to avoid future crises. (G-20 Washington)

We will continue reforming financial system regulation and supervision to prevent boom and bust cycles and we will work to ensure propriety, integrity, and transparency of international economic and financial activity. We support an international financial system which fosters global economic and financial stability. (G-8+5 L'Acquila)

We request our Finance Ministers to formulate additional recommendations, including in the following specific areas:

- *Mitigating pro-cyclicality in regulatory policy*
- *Reviewing and aligning global accounting standards, particularly for complex securities in times of stress*

- *Strengthening the resilience and transparency of credit derivatives markets and reducing their systemic risks, including by improving the infrastructure of over-the-counter markets*
- *Reviewing compensation practices as they relate to incentives for risk taking and innovation*
- *Reviewing the mandates, governance, and resource requirements of the IFIs; and*
- *Defining the scope of systemically important institutions and determining their appropriate regulation or oversight. (G-20 Washington)*

Financial institutions must also bear their responsibility for the turmoil and should do their part to overcome it including by recognizing losses, improving disclosure and strengthening their governance and risk management practices. (G-20 Washington)

7. Renovate the primary institutions of international economic cooperation as necessary to achieve the foregoing objectives:

We will advance reform processes in international organisations, including the U.N., to reflect contemporary reality and challenges thus enhancing their relevance, legitimacy, and efficiency. (G-8+5 L'Acquila)

We will reform the IFI's mandates, scope, and governance, to enhance their relevance, effectiveness, and legitimacy and improve accountability and credibility and to give emerging and developing economies, including the poorest, greater voice and representation. (G-8+5 L'Acquila)

We will improv[e] the coherence of the multilateral system and welcome stronger coordination of international organisations. In particular, we encourage the relevant U.N. organisations, the IMF, the FSB, the ILO, the OECD, the WB, and the WTO to work in a coordinated manner. (G-8+5 L'Acquila)

Our purpose is to foster a genuine partnership, in the context of a strengthened multilateralism We have decided to continue our partnership over the next two years on an equal footing. This will be a results-oriented process, focusing on global challenges of common and crucial interest to our countries. (G-8+5 L'Acquila)

Taken at their word, leaders representing over 80 percent of global GDP have placed the international community on notice that they are determined to remake the very paradigm, policies, and institutional architecture of international economic cooperation. They have essentially vowed to avoid a return to business as usual in the world economy after the crisis recedes.

Progressive leaders have called upon G-20 leaders to translate these aspirations into a concrete programmatic agenda and take the political decisions necessary to implement it now that the financial and macroeconomic environment appears to have stabilized. They have urged leaders to make fundamental reform the primary focus of the G-20, G-8+5, and

G-8 processes over the next year and set a goal of reaching agreement on a comprehensive agenda of specific actions before the end of 2010.⁴

The following report lays out a proposal for such an agenda. It outlines⁵ the reforms that would be most essential in each of the seven areas if the goal is to reconstitute the international economic order to make global growth and integration more inclusive, sustainable, and robust.

1) Constructing a new doctrine of global economic growth and integration

The underperformance of median living standards, misallocation of capital, and large, persistent global economic imbalances that have been the principal shortcomings of the pre-crisis model of global economic integration have their roots in a systemic inattention to the crucial role of institutions. These include legal and regulatory frameworks as well as the institutional capacity of public agencies to administer such frameworks at both the national and global levels.

Over the past generation, international economic policymakers and organizations have placed excessive emphasis on top-line growth in national income—promoting economic efficiency through deregulation, privatization, trade liberalization, and fiscal balance—and insufficient emphasis on the role of economic institutions in fulfilling the bottom-line objectives of markets (efficient and sustainable allocation of resources) and economies (sustained, broad-based progress in living standards).

Institutions matter to progress in rich and poor economies alike.⁶ They profoundly, albeit indirectly, influence the productivity of private investment—its contribution to sustainable productivity and economic growth—by shaping the incentives investors face. Just as consequentially, but also indirectly, institutions affect the relative shares of labor and capital in national income—the extent to which prosperity is broadly shared. Arguably, the more the state retreats from the economy, the more important it is to have an effective enabling institutions that set and enforce the ground rules in the financial community in such areas as financial supervision, corporate governance and disclosure, property rights, contract adjudication, and exchange rates, as well as in the real economy in areas such as social insurance systems and labor, consumer, environmental, and anti-corruption protections.

The fundamental political economy choice faced by modern market economies is not, as conservatives have argued for the past generation, between big and small government. It is between functional and negligent government with respect to government's essential role in maintaining an enabling environment conducive to productive and sustainable private investment as well as broadly shared prosperity. The mortgage security and credit derivative market meltdowns, exchange rate misalignments, toy and food safety scares, energy price volatility and uncertainty, and the global environmental degradation of recent years have made this ideological blind spot of laissez-faire economic doctrine obvious to people the world over, almost irrespective of political philosophy.

The principal lesson to be drawn from the recent financial crisis and broader legacy of globalization is that the prevailing model of economic growth and development—including the Washington Consensus⁷—has been incomplete and unstable because it has placed almost exclusive emphasis on efficiency-enhancing measures to boost top-line growth of national income and grossly underestimated the importance of effective institutional enabling environments to the bottom-line contribution of such growth to society.

When seen in this context, the current debates over whether the financial crisis was mainly the fault of a few or many bankers or regulators, and whether it justifies a shift in the roles of business and government in the direction of more state intervention in the economy, are revealed to be needlessly polemical and unhelpfully distracting. There is plenty of blame to go around. The vast majority of financial, industrial, and political leaders and economists were overly complacent about the well-publicized risks accumulating in international financial markets and the world economy over the past decade due, in part, to an excessive faith in the self-correcting nature of markets. This faith is a bedrock principle of the conservative economic philosophy that has dominated the teaching and practice of economic policy over the past generation. Systemic complacency led to systemic, negligent failure to adapt the relevant pieces of enabling architecture (financial regulation, the exchange rate system, fiscal and structural policies) to the changing nature of the risks at hand (excessive risk taking and opacity in financial markets, excess liquidity, national investment-saving imbalances).

The debate the world needs to have is over the question of what mixture of efficiency-enhancing measures and institution building is required to maximize growth as well as equity, sustainability, and resilience. Politicians, business leaders, and economists should not resort to finger pointing or reprise stale ideological battles; they need to acknowledge that the time has come for a new doctrine that enables them to work together to develop better solutions to this equation—an equation that has been thrown into considerable disequilibrium globally and within many countries by rapid technological change and international integration of product and service markets.

The true test of the G-20 and G-8+5 leader processes, which are an important step toward more representative and responsive international economic governance, will be whether they deliver the global and national institutional reforms necessary to strengthen the virtuous circle implicit in the theory of comparative advantage—namely that parallel,⁸ mutually reinforcing advances in median living standards will result from the ongoing integration of advanced and emerging economies.

A new “deal” is needed that evokes this global, rather than the traditional national, sense of shared economic destiny. This Global Deal must proceed from a new model of global economic integration that places equal emphasis on efficiency and institution building at both the national and global levels.⁹ The narrow economic prescription of the Washington Consensus must be replaced by a more balanced economic doctrine, which history suggests might appropriately be called the Roosevelt Consensus.

Presidents Theodore and Franklin Delano Roosevelt instituted a series of measures aimed at rebalancing the country's underlying economic development model in response to the imbalances and inequities of America's rapid industrialization and national economic integration in the late 19th and early 20th centuries, even as they contended with the financial panics and economic contractions of their day. These measures included the creation of monetary, environmental, and competition institutions; the strengthening of securities, banking, and investment advisor regulations; the construction of basic retirement security and unemployment insurance systems; and a major expansion of labor and consumer protections. By building this national infrastructure of economic institutions, they succeeded in broadening the base of the country's economic growth, rendering it more resilient in the face of swings in business investment and asset prices, and making the American Dream of a middle-class lifestyle accessible to millions of families that had little accumulated wealth and relied entirely on wage income. In short, they succeeded in making the American economy more robust, inclusive, and sustainable. Other industrialized countries followed a similar path. Indeed, many have since traveled much further along it than the United States.

G-20 leaders can translate their fundamental reform aspirations into action by agreeing on an agenda of institutional deepening in the world economy analogous to that which occurred at a national level within many advanced countries as their economies became more integrated and industrialized.

Every country today has a vital interest in creating a stronger positive feedback loop of more broadly shared participation in the benefits of global economic integration among and within countries. This common political imperative has created the conditions for an unprecedented exercise in international economic cooperation to strengthen the world economy's virtuous circle by upgrading the national and international economic institutional architecture corresponding to each of the areas of fundamental reform identified in the leaders' communiqués over the past year.

A Global Deal among developed and developing country leaders is needed to repurpose and upgrade multilateral and national economic institutions so that they are better suited to enabling more inclusive, sustainable, and resilient growth.

2) Rebalancing and strengthening global aggregate demand

Perhaps the biggest macroeconomic challenge facing the world over the next several years is how to sustain sufficient demand as U.S. households and corporations retrench to repair their balance sheets and as the United States and other economies withdraw fiscal stimulus. Global economies will need to find a new formula to diversify the foundations of global growth, and renovating the international monetary system will be necessary to ensure that it takes root and endures.

Specifically, the International Monetary Fund's capacity to mitigate persistent exchange rate misalignments and economic imbalances as well as prevent and resolve currency crises must be strengthened. First, it should be given the independence necessary to conduct and articulate publicly the findings of analyses regarding the sustainability of exchange rate parities as well as to trigger the existing mechanism for special consultations with countries, whether rich or poor, that pursue policies that run counter to their longstanding obligation under the fund's charter to "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain unfair comparative advantage over other members." This change would increase the influence of fund surveillance on financial market expectations and public perceptions, providing the international monetary system with something of the impartial moral arbiter it needs to look after the health of the system as a whole.¹⁰

Second, the fund's capacity to provide emergency liquidity to member countries must be restructured and expanded in order to provide a credible multilateral alternative¹¹ to the unilateral tendency of quite a number of countries to insure themselves against speculative attacks on their currencies by gearing their macroeconomic and structural policies to generate persistent trade surpluses and large war chests of foreign reserves. The fund's ad hoc approach to raising funds during a crisis—sometimes referred to as "tin-cup diplomacy"—has not proven to be a credible alternative to self-insurance. A sensible alternative approach would be to give it standing authority to issue Special Drawing Rights under certain circumstances to member countries facing crises and to reform the policy guidance accompanying such rescue packages to better integrate valid social and political economy considerations,¹² including the importance of sustained public institution building to economic development.

These two institutional improvements together would make the IMF a more effective

facilitator of orderly, symmetrical adjustment in global imbalances, as well as a more effective partner of countries seeking to move away from excessive reliance on export-led growth and toward strategies aimed at strengthening domestic consumption and achieving greater social inclusion in the benefits of rising national income.¹³

For their part, development finance institutions, such as the development assistance ministries of individual governments and multilateral development banks like the World Bank and regional development banks, must be refocused and better resourced. In particular, multilateral development banks and bilateral agencies need to be reinvented to provide vastly increased technical and material assistance to developing countries that wish to build:

- Social security systems to support the living standards of the poor, elderly, and infirm, thereby reducing the incentive for households to forego consumption and save large proportions of their income.
- Investor protections to mitigate the risk of private investment in small businesses, infrastructure, and homeownership, thereby stimulating substantial additional employment creation.
- Ethical business cultures to reduce the large, deadweight cost to investment and employment creation from corruption.
- Consumer and environmental protection agencies to reduce health, environmental, and other costs accompanying industrialization.

In addition, in order to increase real economic investment and domestic demand growth in their client economies, these institutions should be directed after the crisis to shift their financing model from direct lending to credit enhancement and regulatory and project development capacity building for the purpose of catalyzing domestic and foreign private investment, particularly with respect to infrastructure and clean-energy systems. Institution building and risk mitigation represent the direction in which multilateral development banks must evolve if they are to remain relevant in middle-income countries that no longer have much appetite for sovereign borrowing, and to use the scarce capital taxpayers have invested in them to mobilize as much financing for development as possible.¹⁴

These changes would enable development finance institutions to become better partners of developing countries that wish to build effective investment climate, job creation, social insurance, environmental and anti-corruption institutions, as well as to increase reliance on domestic demand and diffuse the benefits of their integration into the world economy among larger shares of their populations.¹⁵

Finally, regional institutions and frameworks, particularly in Asia, should be focused more sharply on the challenge of encouraging countries to take mutually reinforcing steps to

reduce their reliance on exports for growth and strengthen domestic consumption and progress in broad living standards. Asia-Pacific Economic Cooperation countries—a group of 21 Pacific Rim countries that work together on trade and economic growth in the region—recently agreed to look at ways “to boost the effectiveness of economies’ social safety nets and labor market systems to ameliorate the impact of the global economic crisis on their people.” Ministers have asked for the development of a “map of . . . APEC activities that support inclusive growth, highlight[ing] areas where APEC can do more, and report[ing on] . . . priority areas for a strategy to be developed in 2010.”¹⁶ APEC leaders should ensure that this initiative transcends analysis and becomes the central focus of cooperation within APEC, or perhaps even more appropriately, the ASEAN+3 countries (members of the Association of Southeast Asian Nations plus Japan, China, and South Korea). It is commonly acknowledged inside and outside the region that Asia needs a new growth model, and this exercise provides a potential Asian-led platform for developing and implementing one.

3) Elevating employment and social protection to a top priority of international economic policy and cooperation

Employment and social protection have for years been assigned a low priority in international economic policy and institutions. Policymakers must regain their historical appreciation of how effective worker protections and social insurance systems can further accelerate economic growth and make it more resilient by expanding domestic consumption. Fortunately, there already exists a diplomatic consensus on a major part of this agenda: the International Labor Organization’s Decent Work agenda.¹⁷

In June 2008, government, business, and labor representatives at the ILO, which has 183 member countries, unanimously approved an ambitious agenda of institution building to widen social participation in the benefits of globalization through the Decent Work agenda.¹⁸ The strategic objectives of this effort are:

- Promoting employment by creating a sustainable institutional and economic environment.
- Developing and enhancing measures of social protection—social security and labor protection—that are sustainable and adapted to national circumstances.
- Promoting social dialogue and tripartite collaboration between workers, employers, and governments as the most appropriate method for *inter alia*, making labor law and institutions effective. This includes promoting good industrial relations and building effective labor inspection systems while respecting and recognizing the employment relationship.
- Respecting, promoting, and realizing the fundamental principles and rights at work.¹⁹

The ILO Declaration on Social Justice for a Fair Globalization can be read as a multilateral commitment to apply the Roosevelt model of industrialization and integration to the process of globalization. It provides a framework for helping countries build labor, investment climate, and social insurance institutions as they industrialize and integrate into the world economy. But the declaration lacks a concrete implementation agenda, and that is where G-20/G-8+5 leaders could make a crucial difference. They should build on the universal political support for the Decent Work agenda by implementing it through a set of concrete steps to strengthen and refocus the ILO in such areas as:

- Establishing a system for measuring country progress and institutional capacity gaps on the main parameters of Decent Work and providing adequate funding to countries wishing to improve their labor statistical services.
- More than doubling financing available for institutional capacity-building assistance to countries wishing to strengthen their key labor ministry functions, including inspection and administration of labor standards, and to improve their ability to respond to specific problems identified by ILO supervisory body reports.
- Greatly expanding technical assistance to countries wishing to design and implement basic pension and unemployment insurance systems.
- Creating in cooperation with the World Bank a well-capitalized Social Insurance System Catalytic Revolving Fund to help developing countries finance the creation or expansion of basic social insurance systems.²⁰

The combined effect of these reforms would be to equip the ILO to provide greatly enhanced support to developing countries that wish to build effective labor ministries that help wages, working conditions, and consumer purchasing power improve in line with labor productivity growth as well as basic pension and unemployment insurance systems that help as many of their citizens as possible participate in the benefits of rising national income.

The best hope for transcending the *zero-sum game* logic that characterizes much of the current trade debate is to elevate employment, social protection, and domestic demand growth to a top priority of international economic policy. Leaders should frame the aforementioned steps as an equal and related companion of trade policy initiatives, including the Doha Round of multilateral trade negotiations and bilateral free trade agreements. They should reorder and integrate the priorities of the WTO, ILO, IMF, and development finance institutions in this fashion in order to make them more capable partners of countries wishing to expand domestic consumption and diffuse the gains from their economic growth more widely.²¹

If trade agreements were repositioned as a means to an end rather than ends in themselves, by combining them with a big boost in institutional capacity assistance to help developing countries expand private sector employment, build social safety nets, and support improvement in wages, working conditions, and consumer purchasing power, this would enable political leaders to address popular fears over a race to the bottom in wages and working conditions much more concretely and credibly than they have managed to do thus far.

4) Shifting to low-carbon economic growth

Agreement must be reached as soon as possible in the United Nations Framework Convention on Climate Change negotiations on a global framework of targets, commitments and initiatives to achieve the scientific community's recommended goal of stabilizing atmospheric concentrations of greenhouse gases by mid-century at approximately 450 parts per million. But while such an agreement is absolutely necessary, it will not be sufficient to shift the major economies onto the desired low-carbon economic growth trajectory any time soon.

Transitioning to a low-carbon model of economic growth is arguably the biggest long-term challenge confronting economies. This transformation ultimately must be carried out by the private sector—business managers, investors, workers, and consumers. Moreover, the financial and technological assistance that developed countries committed to mobilize for developing countries as part of the Kyoto Accord largely failed to materialize. As a result, the current round of climate negotiations has suffered from a lack of confidence on the part of developing countries that new promises made by developed countries in this regard will be met.

Leaders must not only achieve an agreement on a top-down framework of global targets and national commitments in the U.N. negotiations that will culminate later year in Copenhagen. They must also create a set of bottom-up enabling institutions elsewhere in the international system to accelerate large-scale investment in low-carbon energy systems, technology development and cooperation, energy efficiency improvements, and widespread measurement and benchmarking in the private sector in both developed and developing countries.²² Only by incorporating both of these approaches will the new climate regime be able to shift the world economy onto the desired emissions trajectory.

Investment

Most of the discussion thus far in the UNFCCC negotiations regarding investment has focused on public financing and carbon markets. But it is an inconvenient truth that neither of these will be capable of mobilizing within the next 10 to 15 years anywhere near the scale of finance necessary to shift energy systems around the world onto the low-carbon path required to meet the 2050, let alone 2030, targets being discussed in the negotia-

tions. Particularly in the wake of the financial crisis, public funds are too limited relative to the scale of investment needed in greenhouse gas mitigation, and based on current trends it will be a long time before the national caps underlying carbon markets are tight enough to provoke the necessary flows within the private sector.

For this reason, the post-Kyoto climate change regime requires an institutional mechanism capable of leveraging the funds added to government and multilateral development bank budgets with much larger investments from institutional investors, such as public pension funds, corporate pension funds, insurance companies, sovereign wealth funds, endowments, private banks, etc. This mechanism, or set of mechanisms, is needed to blend increased public and private debt and equity sources of financing to support the deployment of low-carbon technologies through the application of public risk mitigation instruments—such as partial guarantees, co-financing, co-insurance—and targeted regulatory and project development capacity building assistance.

A business-led, multistakeholder task force organized at the request of G-20 cChair and U.K. Prime Minister Gordon Brown has developed a proposal for several regional investment Funds-of-Funds, each capable of mobilizing \$50 billion to \$75 billion every three years mainly from the private sector in this fashion.²³ A commitment by leaders in Pittsburgh to create such a public-private piece of financial architecture would make new developed country pledges of financial and technological assistance to developing countries much more credible, helping to improve the chemistry between developed and developing countries in the negotiations leading up to Copenhagen.

Analogous public-private, bottom-up mechanisms are needed in the areas of technology development, energy efficiency—technology deployment—and carbon metrics in order to spur the transformation of entire energy systems and economies.

Technology development

Some promising low-carbon technologies will require deeper, formalized public-private scientific and financial cooperation in order to be developed as efficiently as possible. In such cases, governments will need to coordinate among themselves and with the private sector in temporary consortia in order to create a portfolio of demonstration projects around the world aimed at sorting out the most viable technical approaches as rapidly as possible. A public-private international carbon sequestration initiative would be one of the logical places to start and could be jointly financed with the private sector.²⁴ A similar approach should be undertaken to refine smart electricity grid technology.

Energy efficiency

The most effective strategy available for shifting the carbon profile of major economies is to scale the application of best available technologies. Here again, the formal UNFCCC negotiations are addressing this matter only tangentially via top-down overall national emissions commitments. A more direct, bottom-up approach is also warranted that would create a scalable platform enabling worldwide cooperation on energy efficiency within individual industry sectors.

Leaders should agree to create an international process replicating many of the features of the Japanese government's successful "Top Runner" program in which various industries were encouraged to set and make continuous progress toward best-in-class efficiency benchmarks. This could be done by building on the recent intergovernmental agreement to create an International Partnership for Energy Efficiency Cooperation at the International Energy Agency. This purely governmental dialogue on energy efficiency should be given an explicit, new private sector dimension, providing a platform for intra-industry discussions and cooperation on a global basis in many sectors.

The nature and degree of cooperation would vary from industry to industry, ranging from the creation of common measurement and benchmarking methodologies to the negotiation of arrangements to share or transfer technology to the recommendation of standards for government procurement to the establishment of industry-wide emission targets and standards. As part of this process, an initiative could be undertaken to create a set of globally accepted minimum energy efficiency product standards on a limited but critical range of energy intensive industrial and consumer goods.

The intergovernmental community would support these industry discussions by hosting and providing staff support at the IEA and encouraging major companies to participate irrespective of where they are headquartered. In this way, this initiative would expand the geometry of climate progress by creating the possibility of action on a worldwide basis in key sectors, notwithstanding the varying nature of formal national commitments by governments in a United Nations agreement.

Metrics

Consistent, comprehensive disclosure is fundamental to efficient and productive capital allocation. Investors require it in order to properly assess risks and returns over the intended life of their investments and send accurate signals to the corporate managers entrusted with their funds.

Important progress has been made in recent years in raising awareness of the importance of climate-related disclosure among corporations and their boards and shareholders.

Disclosure frameworks and tools have also seen considerable elaboration and refinement, helping companies to better understand how they should disclose footprints, reduction strategies, and the related implications for shareholder value. Disclosure has increased substantially and more firms have begun to manage their emissions, whether because of the scrutiny that greater transparency brings, the onset of government regulation, or other considerations.

Yet despite the increase in the number of company reports and shareholder requests for information, climate-related corporate disclosure remains the exception rather than the rule, especially in mainstream financial—as opposed to separate sustainability—reports. The information that is disclosed varies widely in format from company to company, is typically not globally consolidated, and has no common public repository or repositories. In the absence of a generally accepted reporting framework, comparative analysis by the investment research community and the dynamics of peer and stakeholder pressure through public benchmarking have yet to fully materialize. Financial markets are unable to fully internalize this crucial aspect of environmental sustainability in the allocation of capital because shareholders and managers are severely constrained in their ability to assess relevant, carbon-related risks.

Work is already underway in the private sector and NGO community to create such a generally accepted framework for carbon-related disclosure in the corporations' annual reports.²⁵ Leaders should support this process and direct their securities and accounting regulatory bodies to engage in it with the ultimate goal of enshrining such a framework in international accounting principles as well as national securities registration requirements. In particular, leaders should call upon the International Accounting Standards Board to enter into a joint project with the accounting, industrial, financial, and environmental NGO communities through the Climate Disclosure Standards Board to develop a principles-based international financial reporting standard.

In an analogous effort to enable more informed decisions by consumers, they should also direct their energy and commerce ministries to work with the business and environmental communities to build a global standard for the assessment and labeling of product carbon footprint based on the de facto global standard for footprint measurement, the Greenhouse Gas Protocol developed by the World Resources Institute and the World Business Council on Sustainable Development.

Adaptation

Finally, an institutional framework must also be constructed to help countries plan and fund long-term climate change adaptation measures. Developed countries should earmark a portion of national revenues generated from domestic auctions of emission allocations or levies on carbon taxes for assistance in this regard to developing countries.

5) Make major progress in both the coordination and resourcing of the fight against global poverty

The institutional architecture for international development assistance and poverty alleviation is neither structured nor funded adequately to achieve the objectives the international community has set in recent years.

As for structure, there is a consensus that the starting point for development assistance efforts should be national needs assessments and strategies that are written and fully embraced by developing countries. But there is no scalable, well-funded and coherent architecture to assist countries to develop plans in the key areas of health systems, basic education, clean water and sanitation, and hunger and malnutrition. There is also universal agreement—as embodied in the Paris Declaration and Accra Agenda for Action—that development assistance donors should coordinate their aid delivery in response to the national plans of developing countries. Yet, again, there is no scalable, coherent architecture to implement what remains essentially an agreement in principle among donors.

With respect to funding, there is an international consensus, as embodied in the UN Millennium Development Goals,²⁶ the longstanding commitment of developed countries to devote 0.7 percent of GDP to official development assistance,²⁷ and the promise by G-8 countries in their 2005 Gleneagles communiqué to double foreign aid to least developed countries, that large, sustained increases in funding for poverty alleviation must be mobilized. But it has become painfully evident in recent years that governments will not be able to mobilize sums of this magnitude absent the creation of innovative, new sources of financing. Moreover, there is broad understanding that the mobilization of adequate financial resources for development must be viewed as a public-private challenge rather than a purely governmental one—as embodied in the UN Financing for Development Monterrey Consensus. Yet development finance institutions have not fully adapted their programs, skill sets, and capital allocation to the opportunity that exists to leverage large domestic and foreign pools of private capital for poverty alleviation.

Leaders should take several concrete steps to make development cooperation institutions fit for these agreed purposes.

The World Health Organization; United Nations Educational, Scientific, and Cultural Organization; World Bank; and Food and Agriculture Organization should be restructured and fully resourced to provide adequate technical assistance to developing country

health, education, water and agriculture ministries, respectively, for the development of their corresponding health systems, basic education, water and sanitation, and food security needs assessments and plans.

The OECD Development Assistance Committee should be restructured and fully authorized to implement a coherent system by which donors coordinate their funding response to the national needs assessments and plans of developing countries in an integrated fashion, rather than on a piecemeal donor-by-donor basis. The United Nations Development Program should be authorized and equipped to coordinate the presentation of such country's health, basic education, water and sanitation, and food security plans in this process in cooperation with the country in question and the technical agencies assisting in their development—for example, WHO, UNESCO, World Bank, and FAO, respectively. This restructuring of these organizations' roles, capabilities, and working relationships would provide the international community with a scalable, coherent framework for developing and executing a major push toward achievement of the Millennium Development Goals in the five years that remain before their target achievement date.

As part of the effort to close the Millennium Development Goals external funding gap, G-20 donor governments should work in cooperation with the Leading Group on Innovative Financing for Development to develop supplemental, scalable new sources of finance for poverty alleviation.²⁸ The most promising option would be a nominal (for example, 0.001 percent to 0.002 percent) “Global Human Dignity” levy on wholesale cross-border financial transactions collected through international payment and settlement systems.²⁹ Generating an estimated \$20 billion to \$40 billion per year,³⁰ such a fee would have no material effect on market liquidity and efficiency. Yet it would provide an administratively feasible way of having those who benefit most from globalization's expanded “license to operate” and opportunities for portfolio optimization contribute incremental amounts to the amelioration of the most desperate aspects of the human condition.

The modest costs borne by international financial intermediaries such as banks—the minor portion that would not be passed through to their clients—would be marginal for them and could reasonably be considered a minimal form of restitution for the extensive damage to economies, public finances, and societies caused by the recent systemic crisis in international financial markets. There could be no more appropriate collective act of corporate social responsibility by the international financial community than to cooperate in the design and implementation of such an initiative. The proceeds would be administered by UNDP and applied solely to the OECD DAC-UNDP process described above to develop and finance national plans with respect to health systems, basic education, water and sanitation, and food security.

This proposal is distinct from a “Tobin Tax” in both intent and effect. Its purpose is not to “throw sand in the wheels” of currency or other financial markets, but to create a dedicated source of supplemental financing for an important global public good—the basic dignity

of the most destitute, desperate, and neglected members of the human family. The levy would be set at a level that is a tiny fraction of that contemplated by Tobin for the very reason that it seeks to avoid having any material effect on market liquidity and trading volumes. It would be applied to all wholesale cross-border financial transactions rather than just exchange rate transactions. And it would be applied universally through the major international payment and settlement systems through which an overwhelming majority of such transactions pass. This would obviate competitiveness concerns among individual financial centers.

As described above, shareholder governments should also support reforms of multilateral development banks to focus them increasingly on leveraging private sector investment—both foreign and domestic—in developing countries through risk mitigation, cofinancing, and investment enabling environment institution building assistance.³¹

6) Fundamentally reforming and strengthening financial system regulation

The effort to strengthen and improve the international coordination of financial system regulation must proceed from the premise that, rather than ends in themselves, financial intermediation and innovation are but means to achieve expanded and more productive real economic activity. The moral hazard, self-dealing, short-termism, opacity, and volatility that contributed to the recent international financial crisis must be confronted directly through structural changes in supervisory oversight and regulation. Failure to do so earlier has resulted in an estimated 5 percent of world GDP of scarce public resources being diverted to stabilize financial systems and economies, representing an enormous opportunity cost for economic development and social progress in developed and developing countries alike.

There is considerable agreement among experts as to what must be done to make the financial system, in the words of the Bank for International Settlements, more “fail-safe:”

In the long term, addressing the broad failures revealed by the crisis and building a more resilient financial system require that we identify and mitigate systemic risk in all its guises. That, in turn, means organising financial instruments, markets and institutions into a robust system that will be closer to fail-safe than the one we have now: for instruments, a system that rates their safety, limits their availability and provides warnings about their suitability and risks; for markets, encouraging trading through central counterparties (CCPs) and exchanges, making clear the dangers of transacting elsewhere; and for institutions, the comprehensive application of enhanced prudential standards combined with a system-wide perspective, beginning with the application of something like a systemic capital charge (SCC) and a countercyclical capital charge (CCC).³²

However, it is far from a foregone conclusion that governments of systemically important countries will be able to agree to national reforms, let alone an international framework, that translate the considerable agreement that exists in principle into effective reforms. In particular, these governments will need to:³³

- Establish higher basic capital requirements for financial institutions, and particularly for large institutions and for riskier activities within such institutions. They will also need to consolidate all relevant liabilities within the reach of regulatory requirements and

create a countercyclical dimension that leans against the wind through increased capital requirements during periods of financial exuberance.

- Create adequate staff capacity and independence for the Financial Stability Board,³⁴ which appears poised to become the central locus of cross-country systemic risk assessment, dialogue, and coordinated action.
- Fundamentally reform credit rating agencies, potentially making elements of these a quasi-public utility.
- Establish central netting and counterparty institutions for all systemically significant areas of trading in financial derivatives.
- Restructure financial sector executive pay in order for it to better reflect the underlying risk borne by taxpayers.

The financial stability agenda that G-20 leaders adopted at their Washington Summit, and the technical proposals made in subsequent working group reports, must be fully translated into concrete reforms and initiatives like these and faithfully implemented. Leaders must not waver from their original determination in Washington to see these changes through. They should insist upon a high level of ambition from their Finance Ministers and Central Bank governors even if market conditions ease and economic recovery takes hold.

However, they should not stop there. There are other serious problems in the way particularly the largest markets in the world—those in the United States and United Kingdom—intermediate capital that skew investment decisions to the detriment of long-term investment and employment in the real economy.

Most shares in large, publicly traded companies are now owned by long-term investors, namely individuals saving for their retirement or their children's college education through pension funds, insurance companies, and mutual funds. But this is hardly evident from the behavior of asset management firms contracted to manage this money. These professional asset managers typically invest very actively against short-term performance benchmarks—quarterly earnings—leading to very high rates of portfolio turnover. They and hedge funds managed even more aggressively dominate trading in equities and thus the movement of share prices. Although many institutional investors also pursue a buy-and-hold strategy through the purchase of entire stock market indices such as the S&P 500, they rarely get engaged in overseeing the governance of the corporations in their portfolio and thus fail to act as a counterweight to the enormous pressure placed by the demands of their short-term trading counterparts and hedge funds on corporations to maintain steadily rising short-term earnings.

The distortion in incentives to corporate managers stemming from this financial market behavior is so severe that a Duke University study found that over three-quarters of surveyed business executives would forego economic value in exchange for smooth earnings, and 55 percent would avoid investing in a very profitable project if doing so would make them miss analysts' earnings predictions for their firm in the coming quarter.³⁵ Needless to say, the same dynamic is at work on the cost side, exacerbating the relentless push by companies to cut costs through outsourcing, offshoring, reductions in fringe benefits, and other means.

It is time to unravel the awkward contradiction at the heart of modern equity markets that sees the long-term savings of middle-class working families being used to drive their employers to take uneconomic decisions undermining their own jobs—all in the name of satisfying the purported short-term earnings expectations of these very same families.

Pension funds represent the point of greatest leverage in the system notwithstanding the fact that many do not fit this description and those that do are by no means the only source of the problem. If they and other institutional investors managing the long-term savings of individuals were to change the way they recruit and measure the performance of their professional asset managers—hiring and firing them on the basis of long-term rather than quarterly returns—they could trigger a far-reaching shift in market behavior by virtue of the large and growing share of equity ownership they represent. They have the fiduciary latitude to do so, given the inherently long-term nature of the money entrusted to them.³⁶ The highly competitive asset management industry would rapidly innovate to find ways of better understanding the long-term earnings prospects of companies, thereby reducing and perhaps even reversing the current bias against certain kinds of long-term, job-creating investment and in favor of short-term cost savings.

The way to accomplish this is not necessarily to mandate specific changes in pensions' operational behavior but rather to require improvements in their governance. Most pension boards of trustees fall far short of the professional standards of training and independent accountability to beneficial owners that we now expect from corporate boards. A combined effort by pension and financial market regulators to mandate these improvements in fund governance, clarify fiduciary guidelines to eliminate any uncertainty about the prudence of longer-term investment horizons and asset management firm mandates, and jawbone the investment management and research communities to develop new models of fund manager and analyst compensation and performance metrics would go a long way toward catalyzing the needed change.³⁷

7) Renovating the primary institutions of international economic cooperation

As the foregoing proposals imply, existing international monetary, labor, social protection, trade, development assistance, environmental, and financial supervisory institutions are neither organized nor equipped to achieve the more inclusive and sustainable international economic order to which leaders aspire. This is why, beginning in Pittsburgh, leaders must focus the G-20, G8+5, and G-8 processes on the development of a comprehensive agreement to adapt these institutions to contemporary circumstances as outlined above.

However, a Global Deal must not stop at renovating the paradigm, policies and enabling institutions of the world economy. It must also modernize the governance of the Bretton Woods institutions—the IMF and World Bank—so that they reflect the emerging economies’ increased economic weight. And it must include concrete measures to compel these and the other multilateral institutions concerned with economic, social, and environmental matters to work as a team.

The nature of the reforms needed in voting and representation at the IMF and World Bank are well known.³⁸ The linchpin of the exercise is a consolidation of the EU’s chairs and shares in a manner that frees up space for additional votes and board chairs to be allocated to countries whose relative weight in the world economy has substantially increased since voting and representation formulas were established in these institutions many decades ago. The Eurozone country, for example, chairs on the IMF board should be combined into a single constituency, if necessary in a series of negotiated steps. In parallel, there should be a substantial expansion of IMF quotas and a fundamental recalibration of the underlying formula having the combined effect of realigning voting strength in the institution in a way that provides an appropriate weight for emerging economies. These reforms would not lead to a loss of influence for Europe, which would acquire a *formal* veto to match that of the United States, which has always held in excess of the 15 percent of voting rights required to block major reforms. However, they would greatly amplify the voice and influence of major developing countries, enhancing the institution’s legitimacy and ultimate effectiveness.

As for teamwork and coherence, one of the greatest institutional weaknesses of global economic integration is the absence of integrated, leader-level oversight and coordination of the various ministerial processes and international institutions. The UN Security Council is intended to serve this purpose for security issues, but there is no analog for economic, social, and environmental issues.

The original mission of the G-6 when it was created in 1975 was international economic cooperation. But the G-7 and G-8 have never taken this job seriously, and they no longer have the right composition even if they were so inclined. As a result, summit agendas continue to be dominated by a wide range of non-economic issues, and national finance, development, trade, labor, and other ministries, as well as the corresponding multilateral organizations, continue to exhibit a high degree of silo thinking and uncoordinated action.

The G-20 and/or G-8+5 meetings create an opportunity to bring greater coherence to international economic policy and institutions similar to the way in which the cabinets of prime ministers and presidents shape priorities and enforce coordination among departments within national governments. Indeed, the strongest reason for making these summits a standing item on the international calendar is to fill this void in global governance—to create a mechanism capable of driving greater alignment and synergy among the various multilateral institutions and the individual portfolios of ministers that govern them.

To cultivate a culture of systemic oversight and collective responsibility for coherence among their group, leaders should direct the IMF, World Bank, ILO, WTO and possibly FSB to prepare each year for their review a joint annual report on the performance of the world economy.³⁹ This report should be signed by the heads of the organizations and be made a standing item for discussion on summit agendas. It should analyze trends in growth in economic activity, trade, capital flows, employment, and living standards, and document how these multilateral institutions are working together to improve these trends. Strengthening the joint accountability of these institutions to heads of government should improve cooperation among them and help ensure that all relevant international economic policy tools are being applied in an integrated fashion to the challenge of maximizing the contribution to global growth and broad living standards of global economic integration.

The other compelling rationale for institutionalizing the G-20 or G-8+5 leader meetings is to create regular opportunities for political breakthroughs on nettlesome issues that ministers have been unable to resolve within the scope of their particular authority. If leaders met each year to take stock formally of progress across the full spectrum of international economic, social, and environmental challenges, then they would be more likely to spot opportunities for win-win agreements spanning different portfolios. These summits expand the political geometry of possibility on global challenges. Aside from the opportunity they provide for leaders to get to know each other and build trust, this is the most convincing justification for such costly affairs.

By pursuing structural reform in each of the seven areas they have identified, leaders could set the stage for a politically interconnected set of breakthroughs on some of the most intractable issues that have been bedeviling the international community in recent years, in particular the UNFCCC climate negotiations, WTO trade negotiations, IMF and World Bank reforms, the Millennium Development Goals funding gap, and global economic imbalances. With a bit of political imagination, leaders might be able to assemble a pack-

age deal that provides each with the essential victory required to justify showing additional flexibility in areas of comparable political importance for colleagues.

In other words, by taking their pledge of fundamental reform seriously, leaders could create conditions favorable for a Big Bang of the sort of “new multilateralism” that has been much anticipated but not yet sighted since the change in U.S. administrations. A Global Deal of such reforms could make possible a “positive sum game” grand bargain in which:

- Emerging and least developed economies win voting rights in the Bretton Woods institutions approximating their weight in the world economy, major, sustained increases in aid for the Millennium Development Goals and climate adaptation, greater access to developed countries’ agricultural markets, and major new investment from developed countries in low-carbon energy systems as compared to the Kyoto Accord’s Clean Development Mechanism.
- Advanced industrialized economies achieve significant additional market access in emerging economies for manufactured products and services, a post-Kyoto climate accord that includes meaningful commitments from emerging economies, and a new growth model in many emerging economies relying less on exports and more on domestic demand.
- All countries reap the benefits of a stronger, more inclusive and greener pattern of global economic growth and integration.

If G-20 and/or G-8+5 leaders deliver an early harvest of multilateral reforms along these lines, then they will have done much to justify their formal institutionalization and legitimization as the *de facto* steering committee of the world economy and its principal institutions.

One possible way to strike a balance between effectiveness and intimacy, on the one hand—and legitimacy, on the other—would be to retain their group’s informal, restricted nature but have it issue a report after each summit to the United Nations, include the U.N. Secretary General as a full member, and rationalize its composition. A sensible approach in this latter respect would be to include the largest two economies from each region—the Americas, Europe, Asia and the Pacific, North Africa and the Middle East and Sub-Saharan Africa—⁴⁰ plus the 10 other largest economies in the world. Membership should be reviewed in light of these criteria every five or 10 years, and countries subject to U.N. sanctions should be considered ineligible. The principal regional organizations such as the European Union, ASEAN, African Union, and the Organization of American States, should be accorded observer status, and a relatively small secretariat should be established and based in a developing country—for example India if it cooperated on the Global Deal described above—and staffed with secondees of member governments, particularly those of the current, preceding, and prospective chair countries.

The way forward

At their 2009 London and L'Acquila summits, leaders effectively called for a reconstitution of the international economic order to make global growth more inclusive, sustainable, and robust. This paper has argued that the reform principles they articulated in these communiqués are sound and reflect longstanding progressive perspectives. But for them to have meaning, they will need to be translated into a blueprint of structural improvements in the multilateral and national institutions that correspond to these policy objectives.

During their meeting in Pittsburgh, leaders should decide to assemble the procedural machinery necessary to produce a blueprint for comprehensive institutional renovation of the global economy by next autumn. In Washington last year, they took a similar decision to assemble a set of intergovernmental working groups to develop proposals in line with the principles on financial system reform articulated in their communiqué. Now is the time for them to commission a broader team of architects—from finance, development, labor, energy, environmental, trade and other relevant ministries—to collaborate over the next year to prepare detailed renovation plans in the seven areas of fundamental reform covered by their London and L'Acquila communiqués.

Leaders have already mandated a number of processes in these areas, and it makes sense to build upon these wherever possible. However, in most cases this will require a major expansion of scope and ambition. Specifically:

- **Overall coordination:** The G-8+5 has created the Heiligendamm-L'Acquila Process, whose purpose is “to foster a genuine partnership in the context of a strengthened multilateralism. We will cooperate to ensure that the global economy resumes growth along a balanced, equitable and sustainable path for the benefit of all, especially the most vulnerable.” As a “results-oriented process . . . on an equal footing,” the HAP is naturally positioned to become the coordinating committee of the various working groups that leaders should establish to create a comprehensive blueprint of institutional improvements. However, the HAP’s working agenda is currently quite narrow,⁴¹ and leaders should give it this new, broader mandate.
- **New doctrine:** The existing process that most corresponds to the leaders’ desire to construct a new model of growth and integration is the discussion on a Charter for Sustainable Economic Activity started at the G-20 London Summit. This exercise is led by Germany and is “meant to be a collection of overarching principles linking economic liberty with accountability and responsibility as the basic cornerstones of economic activity. These principles . . . would serve to guide policy makers in designing and implementing the necessary new architecture in the areas of economic, financial and social policy.”⁴² It appears to be in an early, scoping phase of its work.

- **Rebalancing of global aggregate demand:** The G-20 Washington Summit established a Working Group on Reforming International Financial Institutions that included a medium-term mandate to examine governance reforms of the Bretton Woods institutions so “they can more adequately reflect changing economic weights in the world economy and be more responsive to future challenges.” It is not yet clear, however, whether the Working Group will be pressed to move beyond its initial focus on the crisis response measures it produced for the London Summit. Leaders should renew and sharpen its mandate, tasking it to produce a package of recommendations to make structural improvements in the governance, resources and analytical independence of the IMF, using the recent Manuel report as a starting point.⁴³
- **Employment and social protection:** Leaders should establish a Working Group in this area involving labor, development, and finance ministry representatives. They should task the group with making recommendations on a specific plan to strengthen and refocus the ILO as necessary to scale implementation of its Decent Work Agenda and make corresponding changes to the priorities, skill set, and resources of the multilateral development banks as needed to focus them more sharply on helping developing countries finance the construction of social insurance systems and effective labor, investment, environmental, anti-corruption, and consumer institutions.
- **Low-carbon economic growth:** Leaders have already created a process well-suited for exploring the creation of enabling mechanisms to accelerate the private sector’s transformation to low-carbon growth, the Major Economies Forum,⁴⁴ which has twice met adjacent to G-8 summits. The MEF should be directed to complement and reinforce the UNFCCC negotiations by undertaking a process involving private sector and other non-governmental experts to develop specific proposals for institutional innovations such as those described above aimed at catalyzing private investment, technology development and transfer, energy efficiency improvements, and corporate reporting and benchmarking.
- **Coordination and resourcing of poverty alleviation:** The G-8 has asked experts for a report at next year’s summit that: a) tracks their governments’ performance on individual government and the group’s collective commitments; b) devises a broader, comprehensive and consistent methodology for reporting on such progress; and c) makes an “international assessment” on “what is needed in order to achieve the MDGs.”⁴⁵ The G-8 also asked the OECD to elaborate further on new tools to advance the “whole of country” approach to more coherent donor-recipient country interaction in development cooperation.⁴⁶ This follows the release of the G-8’s Preliminary Accountability Report in L’Aquila, which provides an accounting of the implementation of past commitments in the four areas of food security, water, health, and education. Leaders should build on these reporting processes by commissioning a Working Group of development, finance, and other relevant ministry representatives to develop proposals to refocus and resource the DAC, UNDP, WHO, UNESCO, FAO, and MDBs to improve the coher-

ence and effectiveness of development assistance as proposed above. A subgroup should be directed to develop a specific proposal for a scaled—rather than pilot-sized—innovative financing mechanism.

- **Financial regulation:** The G-20 has already established the necessary Working Groups.⁴⁷ The primary challenge is to ensure that the groups do not lose their focus and drive as conditions ease in financial markets. Leaders must insist on a high level of ambition from these Working Groups to produce the reforms most essential to redressing the systemic risks that emerged during the recent crisis. They should also direct the OECD to convene pension and securities regulators with their counterparts in the private sector, such as investors involved in the Principles for Responsible Investing and P-8 initiatives,^{48 49} for the purpose of developing a public-private set of initiatives to remove formal and informal impediments to long-term investment practices by inherently long-term institutional investors in such areas as fiduciary guidelines and asset management and investment research practices.

In Pittsburgh, leaders should launch a process of variable geometry with an explicit mandate to deliver intergovernmental recommendations on institutional improvements in each of these areas by next autumn. If the process succeeds, it will confer a pivotal degree of legitimacy on these selective gatherings by instilling greater confidence that the leaders of the largest economies have absorbed the appropriate lessons of the crisis and have a capacity to collaborate decisively in the global public interest.

The forces arrayed against fundamental reform are daunting. Vested interests, renewed complacency as the world economy recovers and sheer inertia will make the task leaders have set for themselves an exceedingly difficult one. To improve the odds of success, a partnership between several research institutes in G-8+5 countries should be formed to assist the process and hold it accountable to the progressive aspirations set by leaders. This think-tank partnership should monitor and publicly evaluate progress by the G-8+5 and/or G-20 by creating a reform scorecard covering all seven areas addressed in this paper and overseen by a “Shadow G-8+5 or G-20” committee of experts supported by the think tank partnership analogous to the practice in the United Kingdom and elsewhere to assign responsibility to monitor, evaluate and comment on government policies and decisions to a Shadow Cabinet of senior officials who are not part of the presiding government. This Shadow G-8+5 Committee should regularly issue the results of the scorecard assessments to the international community as a means of keeping the pressure on leaders to deliver on their promise of fundamental reform even as the world economy recovers. An illustrative example of such a scorecard is presented in Appendix 2.

Conclusion

The world economy needs institutional deepening to allocate capital in a more stable, productive, and sustainable fashion, as well as to translate economic growth and integration into stronger, broad-based gains in living standards. Economic institution building along precisely these lines was crucial to the success of many advanced countries in creating middle-class prosperity and stronger, more stable growth as their economies integrated nationally in the 20th century. It also holds the key to humanizing globalization and making it more sustainable. But this institution building will require the international community to go beyond the roadmap of financial sector and temporary macroeconomic stimulus measures that have been the main result of the G-20 leaders' process until now.

Leaders have a golden opportunity in Pittsburgh to fashion a Global Deal along these lines that would amount to a populist approach to globalization in the best sense of the term—a concrete plan to make it work for more people. They must begin to refocus international economic policy and institutions on the goal of improving the quality of global economic integration and not simply its quantity. As progressives understand instinctively, a strategy to place institution building on an equal par with integration and efficiency is a strategy to increase both equity and growth. Far from being mutually exclusive policy objectives, these can be mutually reinforcing, a truth that has been obscured by conservative economic dogma for far too long.

About the author

Richard Samans is a Senior Fellow at the Center for American Progress and Managing Director of the World Economic Forum, responsible for the forum's public-private partnership initiatives and its relations with governments, international organizations, NGOs, unions and other non-business constituencies. A member of the forum's managing board, Richard has developed the organization's portfolio of multi-stakeholder projects, which currently engage more than 250 forum member companies in action-or policy-oriented work in collaboration with experts from official, civil society, academic and other institutions, while helping to structure the global issues program content of the forum's meetings. Before joining the forum in 2001, Richard served as special assistant to the president for International Economic Policy in the U.S. White House. As senior director of the National Security Council's International Economic Affairs directorate and a senior staff member of the National Economic Council, he assisted President Bill Clinton on a broad range of international trade and financial policy matters. From 1996 to 1998, Richard served as economic policy advisor to U.S. Senate Democratic Leader Tom Daschle (D-SD). He assisted Sen. Daschle and the Senate Democratic Caucus on international trade and monetary, tax, and broad economic policy issues. He served previously in a variety of roles in government, the private sector, and research institutions. The views expressed here are the author's alone.

Appendix 1. Global Statement of Progressive Leaders to G-20

The global economic crisis has underscored the need to rebalance the world economy and make global growth and integration more inclusive, sustainable and robust. In their communiqués at the Washington, London and L'Acquila Summits, leaders of countries representing more than 80 percent of the global GDP expressed their determination both to respond to the immediate crisis and to remake the paradigm, policies and institutional architecture of international economic cooperation.

To their credit, they have carried out in large part the crisis response agenda they established in Washington and London. These coordinated measures have helped the world to avert a much worse outcome. This has set the stage for a second, even deeper, phase of cooperation on structural reform of the world economy.

To be certain, the crisis is far from over. Unemployment has yet to peak in many countries and the individual human and broader social costs continue to mount. Investor confidence has improved but remains tenuous. For these reasons, leaders must ensure in Pittsburgh and beyond that their governments follow through on the principles and policies agreed in the ILO Global Jobs Pact, G-8 Rome Social Summit and G-20 London Declaration on Strengthening the Financial System.

But now that the financial and macroeconomic environment appears to be stabilizing, the leaders must translate their aspiration to fundamentally reconstitute the international economic order into a concrete programmatic agenda and to take the political decisions necessary to implement it with the same energy and dispatch applied to the immediate crisis.

We progressives, from across the globe, call on leaders gathering in Pittsburgh to honor their stated commitment to:

1. Construct a new paradigm of global economic growth and integration that leads to much more inclusive, sustainable outcomes.
2. Rebalance and strengthen global aggregate demand through deeper macroeconomic and structural economic cooperation.
3. Shift economies onto a low-carbon economic growth path.
4. Place employment and social protection at the center of international economic policy cooperation.

5. Achieve a step change in the both the organization and resourcing of the fight against global poverty.
6. Fundamentally reform and strengthen financial system regulation.
7. Renovate the primary institutions of international economic cooperation as necessary to achieve the aforementioned objectives.

History will judge the effectiveness of the G-20, G-8+5 and G-8 processes during this period by the extent to which they succeed in translating the pledges and principles leaders have expressed in these areas into major changes in the nature of international economic integration and governance. We therefore urge leaders to make these structural reforms the primary focus of the year ahead and set a goal of reaching agreement on a comprehensive agenda of specific actions before the end of 2010.

The United Nations climate negotiations culminating in Copenhagen later this year provide an early test of leaders' seriousness of purpose about steering global economic growth and integration onto a more sustainable path. We call upon them to invest the personal time and effort necessary to produce agreement on a long-term framework that places the world on the trajectory necessary to stabilize global warming at 2 degrees Celsius above pre-industrial levels by mid-century, including a credible set of midterm commitments and initiatives.

Because of the massive privatization of gains and socialization of losses related to the crisis, leaders bear a great moral responsibility to make good on their promise of fundamental reform. Stabilizing financial systems and restoring global growth will not be sufficient if they result in a return to business as usual.

We stand ready to assist, to help develop policy, and to provide political support.

Endnotes

- 1 Global Statement of Progressive Leaders, Signatures forthcoming, September 2009.
- 2 See for example Policy Network, "Responses to the Global Crisis: Charting a Progressive Path, Handbook of Ideas," 2009: Global Progressive Forum, available at <http://www.globalprogressiveforum.org/library>; "Global Unions London Declaration: Statement to the London G-20 Summit," April 2009; Trade Union Advisory Committee to the OECD, "Putting Jobs and Fairness at the Heart of the Recovery: The Role of the G-8," Key Proposals from the Global Unions Statement to the G-8 Summit, July 2009; and Speech of John Sweeney, Social Partners' Consultation, G-8 L'Aquila Summit, Rome, June 26, 2009.
- 3 Group of 20, "The Global Plan for Recovery and Reform," London, England, April 2, 2009; Group of 8+5, "Promoting the Global Agenda," L'Aquila, Italy, July 9, 2009; G-8, "Responsible Leadership for a Sustainable Future," L'Aquila, Italy, July 10, 2009.
- 4 Global Statement of Progressive Leaders, op cit.
- 5 This paper is not intended to be exhaustive either in scope or depth. Rather, it aims to provide a roadmap of priorities, proposing the reforms deemed by the author to have the greatest potential for impact in each of the seven areas of fundamental reform emphasized by leaders in their summit communiqués. Instead of presenting an extensive discussion of each proposed reform, it provides references to underlying, often original, sources where a fuller description can be found.
- 6 See for example, Commission on Growth and Development (Spence Commission), "The Growth Report: Strategies for Sustained Growth and Inclusive Development," 2008, pp. 4-5; Dani Rodrik, Arvind Subramanian and Francesco Trebbi, *Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development*, National Bureau of Economic Research, No. 9305, November 2002.
- 7 Washington Consensus is the term coined by the distinguished economist John Williamson in 1989 to describe a set of ten specific economic policy prescriptions that the Washington-based International Monetary Fund, World Bank, and the U.S. Treasury Department commonly advocated to developing countries seeking to recover from or avoid economic crises. Professor Dani Rodrik has summarized the advice as: "stabilize, privatize and liberalize." (Wikipedia)
- 8 For a fuller discussion of this concept, see Richard Samans and Jonathan Jacoby, "Virtuous Circle: Strengthening Broad-based Global Progress in Living Standards;" (Washington: Center for American Progress, December 2007).
- 9 See Richard Samans, "Transitioning to a New U.S. International Economic Policy: Toward a "Global Deal" to Revive and Broaden the Benefits of Growth;" (Washington: Center for American Progress, 2008) available at http://www.americanprogress.org/issues/2008/12/global_deal.html
- 10 For a discussion of reforms to establish the IMF's independence to conduct country and multilateral surveillance as a basis for improving macroeconomic cooperation and the functioning of the exchange rate system, see Samans, "Transitioning to a New U.S. International Economic Policy: Toward a "Global Deal" to Revive and Broaden the Benefits of Growth," pp. 27-28.
- 11 See thoughtful suggestions in this regard from Angel Ubide, "Rethinking the IMF Business Model: Proposals for Assessment and Reform of the IMF's Medium-Term Strategy" in Richard Samans, Marc Uzan and Augusto Lopez-Claros, *The International Monetary System, the IMF, and the G-20: A Great Transformation in the Making?* (Houndmills: Palgrave Macmillan, 2007) pp. 343-359; and Guillermo Calvo, "Lender of last resort: Put it on the agenda!," VOX, March 23, 2009.
- 12 See for example Richard Cooper, *Reforming the International Monetary System* (Cambridge: Harvard University, 2002); and Camdessus, Michel, Jacques de Larosière, and Horst Köhler, "How Should the IMF be Reshaped: Three Points of View on the IMF in the 21st Century" *Finance and Development*, (2004) (41.3) : 27-29.
- 13 Skeptical of change at the multilateral level, some advocate substituting a regional approach, particularly in Asia and Latin America. See for example Masahiro Kawai and Michael Pomerleano, "International financial stability architecture for the 21st century," *Financial Times*, August 1, 2009.
- 14 World Economic Forum Financing for Development Initiative, "Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyze Private Investment." 2006.
- 15 For a detailed set of proposals see Samans, "Transitioning to a New U.S. International Economic Policy: Toward a "Global Deal" to Revive and Broaden the Benefits of Growth;" pp. 19-26.
- 16 Statement of the Chair, Meeting of APEC Ministers Responsible for Trade, July 21-22, 2009, Singapore.
- 17 International Labor Organization, "Decent Work: Report of the Director-General," 1999.
- 18 ILO Declaration on Social Justice for a Fair Globalization, June 2008.
- 19 See also Sabina Dewan, "Institutions Matter: Exploring the differences in labor and welfare institutions for decent work in developed and developing countries," (Washington: Center for American Progress, 2009).
- 20 These proposals and the discussion in this section more generally are drawn from Samans, "Transitioning to a New U.S. International Economic Policy: Toward a "Global Deal" to Revive and Broaden the Benefits of Growth.," pp. 17-24.
- 21 Ibid, pp. 25-26; and Samans, "Virtuous Circle: Strengthening Broad-based Global Progress in Living Standards;" pp. 11—13.
- 22 The proposals in this section are drawn largely from the *Summary of Recommendations of the World Economic Forum Low-Carbon Prosperity Task Force*, a business-led multi-stakeholder cooperation initiated at the request of G-20 Chair, UK Prime Minister Gordon Brown, September 2009.
- 23 World Economic Forum Low Carbon Task Force, "Catalyzing private capital toward low-carbon growth through public finance: The case for regional funds in developing countries" Working Paper, September 2009.
- 24 Ibid.
- 25 The Climate Disclosure Standards Board is a consortium of the Carbon Disclosure Project, CERES, The Climate Group, The Climate Registry, International Emissions Trading Association, World Economic Forum and World Resources Institute that, in cooperation with Big Four and other accounting firms and associations as well as industrial and financial services firms is developing a generally accepted framework for climate change-related corporate disclosure. The first exposure draft of this framework was officially launched for comment on 25 May 2009 at the World Business Summit on Climate Change in Copenhagen, Denmark, available at <http://www.cdsb-global.org>
- 26 The Millennium Development Goals are eight international development goals that 192 United Nations member states and at least 23 international organizations agreed in 2000 to achieve by the year 2015. They include reducing extreme poverty, reducing child mortality rates, fighting disease epidemics such as AIDS, and developing a global partnership for development. G-8 Gleneagles commitments.

- 27 In October 1970, the United Nations General Assembly adopted Resolution 2626, *The International Development Strategy for the Second United Nations Development Decade*. Through the resolution, developed countries agreed to increase their resource flows to developing countries to a level equivalent to 1 percent of their GNP and that a minimum of 0.7 percent of GNP would be made up of official development assistance and to work to reach these goals by 1975.
- 28 The Leading Group on Innovative Financing for Development consists of 55 member countries, 3 observer countries, 15 international organizations and more than 20 NGOs. Its mission is to advance discussions about setting up innovative development financing mechanisms, available at <http://www.leadinggroup.org>.
- 29 For background and history on a closely related but more narrowly constructed proposal, the currency transaction tax, see David Hillman, Sony Kapoor and Stephen Spratt, "Taking the Next Step: Implementing a Currency Transaction Development Levy," a paper commissioned by the Norwegian Ministry of Foreign Affairs, 2006; and Lieven A. Denys, "From Global Tax Policy to Global Taxation: The Case of the Global Currency Transaction Tax" in Luc Hinnekens and Philippe Hinnekens (eds.), *A Vision of Taxes Within and Outside European Borders*, 2008, pp. 321-358.
- 30 Author's extrapolation based on calculations in Rodney Schmidt, "The Currency Transaction Tax: Rate and Revenue Estimates," The North-South Institute, October 2007.
- 31 Building on the Monterrey Consensus, op. cit.
- 32 Bank for International Settlements 79th Annual Report, June 2009, p. 137.
- 33 For a superb presentation of the expanded scope and deep nature of the changes required, see Andrew G. Haldane, Executive Director for Financial Stability, Bank of England, "Rethinking the Financial Network," speech delivered at the Financial Student Association, Amsterdam, April 2009.
- 34 The Financial Stability Board, or FSB, successor to the Financial Stability Forum, was established in April 2009 following the 2009 G-20 London summit, and includes all G-20 major economies, FSF members, Spain, and the European Commission.
- 35 John R. Graham, Campbell R. Harvey and Shiva Rajgopal, "The Economic Implications of Corporate Financial Reporting," *Journal of Accounting and Economics* 40 (2005): 3-73.
- 36 See Asset Management Working Group of the United Nations Environmental Programme Finance Initiative, "Fiduciary Responsibility: Legal and practical aspects of integrating environmental, social and governance issues into institutional investment," UNEP FI, July 2009.
- 37 For a more detailed set of proposals in this respect, see Simon Zadek, Mira Merme and Richard Samans (eds.), *Mainstreaming Responsible Investment*, World Economic Forum Global Corporate Citizenship Initiative and Accountability, January 2005.
- 38 See in particular Edwin M. Truman, Rearranging IMF Chairs and Shares: The Sine Qua Non of IMF Reform in Edwin M. Truman (ed.), *Reforming the IMF for the 21st Century*, Peterson Institute for International Economics, 2006, p. 201-232; and Group of 24, *Adjustment of European Quotas to Enhance the Voice and Participation of Developing and Transition Countries*, note prepared by the G-24 Secretariat, August 25, 2003.
- 39 The report should be required to be transmitted in parallel to the United Nations Economic and Social Council.
- 40 See in particular Will Straw, Matt Browne, Sabina Dewan, Nina Hachigian, "The Case for Leadership: Strengthening the Group of 20 to Tackle Key Global Crises," (Washington: Center for American Progress, March 2009).
- 41 "The Agenda of the Heiligendamm-L'Aquila Process," Annex II Joint Declaration of the G-8+5, L'Aquila, Italy, July 9, 2009
- 42 Angela Merkel and Jan Peter Balkenende, "Values for a Sustainable World Economy," *Spiegel Online International*, March 19, 2009.
- 43 International Monetary Fund, "Final Report of the Committee on IMF Governance Reform," March 24, 2009, available at <http://www.imf.org/external/np/omd/2009/govref/032409.pdf>
- 44 President Barack Obama announced the launch of the Major Economies Forum on Energy and Climate on March 28, 2009. The forum is intended to facilitate a candid dialogue among major developed and developing economies, help generate the political leadership necessary to achieve a successful outcome at the December UN climate change conference in Copenhagen, and advance the exploration of concrete initiatives and joint ventures that increase the supply of clean energy while cutting greenhouse gas emissions. The 17 major economies participating in the Major Economies Forum are: Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, South Africa, the United Kingdom, and the United States. Denmark, in its capacity as the President of the December 2009 Conference of the Parties to the UN Framework Convention on Climate Change, and the United Nations have also been invited to participate in this dialogue.
- 45 G-8 Leaders Statement: *Responsible Leadership for a Sustainable Future*, paragraph 98, L'Aquila, Italy, July 8, 2009
- 46 Ibid, paragraph 109.
- 47 See in particular G-20 Working Group 1: Enhancing sound regulation and strengthening transparency; and G-20 Working Group 2: Reinforcing international cooperation and promoting integrity in financial markets.
- 48 The Principles for Responsible Investing initiative is the world's largest responsible investing initiative. Launched in 2006 by the United Nations Environment Programme Finance Initiative and the UN Global Compact, PRI today includes 560 signatories, representing over US\$18 trillion in assets.
- 49 The P-8 Group brings together senior leaders from some of the world's largest public pension funds to develop actions relating to global issues and particularly climate change. It is an initiative of the University of Cambridge Programme for Industry and HRH Prince of Wales's Business and Environment Programme, supported by the Environmental Capital Group¹⁰ and the Nand and Jeet Khemka Foundation. The P-8 Group involves 10 leading global pension funds and sovereign wealth funds, including representatives from Europe, Asia, Australasia and North America. They represent over \$3 trillion of investment capital and as pension funds have an inherently long-term focus.

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