



Some Thoughts concerning the G-8 Meeting

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The leaders of the G-8, meeting in Germany, have committed themselves to focusing on the world's greatest problems. Meeting in New York, the Shadow G-8, a group of economists and others concerned with the well-being of our world, have drawn up a list of what we believe the G-8 *should* address, and the actions that they *should* undertake. There is considerable overlap with the list which is likely to emerge from the G-8 meeting; but there are some considerable differences as well, and these differences highlight the problems of global governance and global leadership today.

One of the announced themes of the meeting is *growth with responsibility*; we presume what is meant is global growth with global responsibility; and that global responsibility embraces global social justice. Elements of what is entailed by global social justice have been outlined in previous meetings of the G-8: forgiveness, a fair trade regime, enhanced aid to the developing countries. But there is a continuing, and in some cases growing, gap between what has been promised and what has been delivered. At the same time, new issues have entered the agenda.

At the heart of growth in the 21st century is innovation; at the heart of growth with responsibility is support of innovation to raise living standards and improve the well being of those in the developing world. There needs to be a new approach to innovation to discover new drugs and vaccines for the diseases that afflict the developing world, to improve agricultural productivity, and to enhance energy efficiency and reduce emissions.

Discussions of climate change were at the center of Gleneagles; the Stern Review has highlighted the nature of the dangers facing the planet, and made it clear that the issue is no longer whether we can afford to do something about global warming, but whether we can afford not to do so. It has also made it clear that climate change is also a matter of global social justice: there is almost no overlap between the countries that are most vulnerable to climate change and the countries that are the largest contributors to climate change. Yet, in the intervening two years, there have been few concrete steps taken. There can be no growth with responsibility without dealing with climate change.

Global imbalances threaten the sustainability of the remarkable growth that the world has experienced in the last few years; but again, it is the developing countries which are most likely to suffer the most from the volatility which may well result from a disorderly reduction in those global imbalances; or from the protectionist sentiments to which these imbalances may give rise. Growth with responsibility entails dealing now with this festering sore within the global economy.

The G-8 prides itself on the strength of their democracies and their commitment to the spread of democracy around the world. Yet the system of global governance represents a major departure from democratic principles that are widely accepted by the citizens of the G-8 as well as others committed to democratic values. Without more democratic governance, the international institutions and the agreements that are reached will lack legitimacy; the effectiveness of these institutions will be compromised; and the outcomes will be disappointing, if not unacceptable. The democratic deficit in our global governance perhaps accounts for the absence of global social justice.

The G-8 needs to take leadership in establishing a *Coalition of the Willing* to help push for growth with responsibility: in the multipolar world into which we have moved, such informal groupings, motivated by a concern for the well-being of the world, should be used not just for mobilization for war, but for creating a more peaceful and prosperous world.

In the following paragraphs, we outline a concrete agenda, a set of principles, a set of longer term goals, and a set of interim actions that could be taken immediately, that might help achieve the objective of global growth with global responsibility.

- 1. Global imbalances and their consequences.** Historically, the G-8 has focused on economics. While for the past couple of years, the world has experienced robust growth, there have been continuing concerns about its sustainability in the short to medium term-- concerns have been heightened by the evident slowdown of the American economy beginning around the time of last year's G-8 meeting. Underlying these concerns are the massive global imbalances.

The standard rhetoric for how to deal with these is by now familiar: reduced budget and trade deficits in the U.S., more exchange rate flexibility by China, and structural reforms ("flexibility") in Europe. These by now tired worn prescriptions—which have not led to any action—should not be repeated at the G-8. Deeper thought is required about the relative importance of the different problems, what concrete actions might address them in the short to medium term, and what are the underlying problems.

A first pass at assessing relative "blame" can be had by looking at the magnitude of trade imbalances; and the U.S. trade imbalance dwarfs all others. Indeed, there is reason to believe that some of the other proposed "reforms" might exacerbate global imbalances and increase the chances of a disorderly adjustment process.

China's exchange rate

For instance, an adjustment in China's exchange rate would, by standard economic arguments, do little to reduce America's multilateral trade imbalances, even if it might reduce the bilateral trade deficit with China. The multilateral trade deficit is equal to the gap between domestic investment and domestic savings, and there is little reason to believe that exchange rate adjustments on the part of China would have a substantial effect on either. Indeed, those who would see their bilateral surpluses increase (bilateral deficits decrease) as a result (Bangladesh and Cambodia might, for instance, increase their exports of textiles, replacing china's exports) may be less willing to finance America's huge deficit; the process of finding alternative sources of funding could lead to large changes in asset prices, with serious consequences for the global economy.

Meanwhile, an appreciation of China's exchange rate would lower agricultural prices in China, hurting the poorest people in that country, those in the rural sector. This problem is of particular concern because of America and Europe's *irresponsible* policies of subsidizing agriculture; these policies, while they may intend no harm to the poorest in the developing world, have that effect. For China to be forced to subsidize its farmers, to counter the depressing effect on global agricultural prices of American and EU subsidizes, is taking precious money that could be used for promoting development and sustainable poverty eradication.

Increasing China's exchange rate flexibility may neither be desirable for China or the world, and may in fact not even lead to the effect that the U.S. wants of a currency appreciation. Exchange rate flexibility has been a major source of

economic instability, of the crises that have marked so many developing countries. It remains an issue of considerable contention among the economics profession whether managed exchange rates (ala China) are or are not preferable to the “two poles”—fully flexible or fixed—a position once supported by the U.S. Treasury and the IMF, but now abandoned. With the Argentine crisis, support for the fixed exchange model has waned; and America and the IMF were strong in urging China not to allow its exchange rate to float freely in 1997-1998. Such inconsistency in policy stances makes it apparent that there is not a coherent perspective, and demands on China for more exchange rate flexibility may be more intended to deflect criticism from America’s policies than to address the underlying problems. Indeed, a recent panel of eminent economists convened by the Ford Foundation strongly supported the managed exchange rate system.

Political rhetoric about the virtues of freely determined exchange rates ignores fundamental market failures; while the theoretical underpinnings of the call for freely floating exchange rates are weak at best (with some experts like Nobel Prize winning economist calling for less, not more flexibility), empirical support for this position is also weak: the resulting volatility may impede investment and slow growth. Whether that is the case or not, the policy is sufficiently questionable that it should be left to each country to decide for itself. *This is an important principle which should be supported by the G-8: strengthening democracy requires supporting and enhancing country policy space*, a position that has recently been endorsed by UNCTAD.

While under current regulations, increasing flexibility of China’s exchange rate is likely to strengthen the exchange rate, changes in China’s investment rules (e.g. easing restrictions on Chinese invested abroad) could well lead to an equilibrium exchange rate, some time in the future, that is weaker.

The fact that China could be viewed as a major cause of global imbalances highlights the deficiencies in the current system of global governance, which we shall discuss at greater length below.

Structural reform in Europe

Europe does not have a large trade surplus, so it is hard to blame Europe at all for *global* imbalances. But again, America, focusing on bilateral trade, understands that its exports would increase if Europe grows faster. More fundamentally, if Europe believed that there were policies that could increase its growth (and if such policies could get a democratic political consensus) it would have presumably have undertaken those policies.

More fundamentally, the demand for structural reform ignores the fact that there are competing theories about the causes of Europe’s low growth, and the possible adverse effects of some of the proposed structural reforms. (Many of the

structural reforms may enhance growth in the medium or long run, but not necessarily in the short.)

[Many within] this group believe that underlying slow growth in recent years is an insufficiency of aggregate demand, associated in particular with a misconceived Growth and Stability Pact and an excessively independent and democratically unaccountable European Central Bank with an exclusive focus on inflation (in contrast with America's Federal Reserve Board, which also looks at growth and employment).

Some of the structural reforms would further weaken the security and bargaining power of workers, leading to lower wages and lower consumption, exacerbating the problems of insufficiency of aggregate demand.

These so called reforms would (like the change in China's exchange rate) exacerbate one of the most important problems facing the world today—inequality. They would not enhance *growth with responsibility*—if we include within responsibility addressing the growing problem of poverty and inequality.

U.S.

The only way that global imbalances will be addressed in a meaningful way is for U.S. savings to increase. Many of America's policies designed to encourage savings (like tax deductions for savings) may in fact be counterproductive; the increase in private savings is smaller than the loss in public revenues; national savings is actually reduced. At the same time, these policies, which are mainly of benefit to the rich, contribute to America's growing divide.

The major instrument for increasing national savings is to reduce the fiscal deficit, and the only way that that can be done responsibly is to repeal some of the tax cut aimed at the rich, who have been doing so well during the past three decades.

Underlying problem: Reforming the global reserve system

Part of the underlying problem is the dollar based global reserve system. The demand for dollars to which it gives rise leads America to export T-bills rather than automobiles, or other employment-generating goods. It contributes to America's trade deficit. Particularly in a world in which Central Banks maintain tight monetary policies and governments follow policies of austerity, the demand for reserves leads to weakness in global aggregate demand. The U.S. has become the consumer of last resort. With the sum of deficits equaling the sum of surpluses (a basic trade identity), and with responsible governments having learned the lesson of large deficits, the U.S. has become the deficit of last resort.

With poor countries lending America trillions of dollars, even as they borrow, at much higher interest rates, much of the money back, the current reserve system

has become a major source of global inequity. The implicit foreign aid to the U.S. outweighs in many cases the foreign aid that it gives.

With confidence in the dollar fraying, especially given the huge trade and fiscal deficit, the global reserve system is not only a source of inequity, but a source of instability.

The international community needs to begin a systemic review of how to reform the global reserve system. Suggestions such as Keynes' and Stiglitz for a global currency, or those introduced by Bangladesh in September at the UN should be given serious attention. The G-8 should set up a review committee and report back at the next meeting. It should also think about how a Coalition of the Willing could begin the process of reform, perhaps by an expansion of the principles in the Chang Mai Initiative.

Governance of global financial markets

This, and the symptomatic problem of global imbalances, are issues that should be at the heart of the IMF agenda. The U.S. may believe that it benefits from the seignorage of the current reserve system; it has, for instance, vetoed efforts to expand SDR's. It would naturally resist studies that pointed the blame at itself. But with the U.S. having effective veto, it is hard to see how the IMF can play a central role in addressing these issues (though it should be commended for the efforts that it has made in beginning discussions of global imbalances, the above analysis should have highlighted some of the deficiencies in their approaches.)

2. Global Warming

With the issuance of the 2007 IPCC assessment and the Stern Review, the debate on whether global warming is occurring, whether carbon emissions play an important role, and whether there can be significant risks *not* to reducing emissions is over.

Kyoto represented a major step forward, but with no obligations imposed on the developing countries, with the U.S., the biggest polluter refusing to join in, and with little being done about deforestation (which contributes as much to emissions as the U.S.), nothing was done to control a majority of the sources of emissions.

As the world struggles to devise a way forward beyond Kyoto, there is increasing recognition that there is no way within the Kyoto framework (with targets set to reduce emissions) that can embrace both the U.S. and the developing countries and which will simultaneously be viewed as fair by the developing countries. The only philosophically acceptable basis, some variant of equal emissions per capita or per dollar GDP, with some adjustments allowing poorer countries more emissions, would either impose no effective constraint on developing countries for the foreseeable future (if there were no carbon trading), or would entail

payments from the developed to the developing countries which are beyond levels that are acceptable.

The problems are potentially so severe, however, that we cannot wait to find a political solution that is acceptable to all. Again, there needs to be a coalition of the willing, that would agree to the following measures:

- a. The enunciation of **a set of principles**, recognizing the importance of global warming, and recognizing that it can only be addressed by a portfolio of measures that entails incentives (involving increasing prices for carbon); standards; and research. Such a set of principles has to recognize that any global system has to be both efficient and fair; fairness does not mean that because a country has polluted more in the past it should be entitled to pollute more in the future; indeed, fairness, and the principle of the “polluter pays”—means that those who have contributed to the increase in carbon concentration in the atmosphere over the past 2 hundred years should have, in some sense, entitlement to less pollution going forward, or that they should compensate the rest of the global community, e.g. through support of emissions efficient technologies in developing countries.
- b. A global agreement to **eliminate (over time) subsidies for fossil fuels and distortionary taxes on alternative fuels**
 - a. America should eliminate its subsidies for fossil fuels and its tariffs on sugar based biofuels
- c. The enunciation of **a set of standards** (that may differ between developed and developing countries) for power-generating plants, electrical appliances, housing, automobiles, airplanes, and other major sources of pollution.
 - a. Such standards should prohibit coal fired plants in advanced developed countries
- d. The further development of frameworks (including the clean development mechanism and the Global Environmental Facility) for **providing assistance to developing countries to adopt emissions efficient technologies**; including exploring how such frameworks can be extended to countries that have not ratified the Kyoto protocol. Such a framework would include an agreement among the advanced developed countries that have contributed to the increase in atmospheric carbon concentration in the past two hundred years to the support of the acquisition of emissions efficient technologies in developing countries.
- e. The initiation of a **global research program aimed at reducing emissions**, increasing energy efficiency, and at adapting to what are already some of the changes in global climate already under way. Research is a global public good, and only through global cooperation will there be adequate investments in these global public goods.
 - a. There should be global cooperation in exploring alternatives to the current patent system, to ensure that the benefits of any innovation are used as widely as possible.

- b. In particular, there should be exploration of the use of prizes for well-specified research objectives; programs of patent purchases; and an exploration of extending principles of compulsory licensing.
- f. Developing countries have been providing large environmental services to the whole world, both in carbon sequestration and biodiversity, without being appropriately compensated. There should be an exploration of how such compensation could be provided. Doing so would encourage *responsible growth* especially in the developing countries with large forests, including the rainforest countries, by **providing market based incentives for conservation**. Serious consideration should be given to the proposals of the Rainforest Coalition; bringing avoided deforestation immediately within the clean development mechanism might help reduce the rapid pace of deforestation. Costa Rica has provided a model for how this can be done.
- g. The G-8 should set up a Committee to **explore alternate frameworks** for going forward that could achieve global cooperation in emissions reductions. Such a global framework has to be both efficient and fair. The Review Committee should revisit the analysis and experience of approaches based on cap and trade as well as with taxation. While it is recognized that both can, in principle, achieve fair and efficient reductions, the cap and trade system has encountered particular problems in the assignment of emission rights (worth billions of dollars) among and within countries; such allocations are a potential source of immense corruption; and no system of allocating rights among countries has yet been devised that is viewed as fair by developing countries, but that would not itself entail massive redistributions, beyond levels which may be acceptable to the advanced industrial countries.
- h. Without global cooperation, efforts by some countries (especially by the emissions efficient countries) to control their emissions could actually lead to an increase in overall carbon emissions, as carbon emission firms and industries moves to parts of the world where they are not subject to taxation and regulation. Global warming can only be approached globally, within a framework of **global enforcement**. Here is one example of what such a global enforcement system might look like:
 - a. It is not *just* unfair for some countries to not subject themselves to these taxes and regulations; it gives an unfair competitive advantage to those countries that opt out over those that do subject themselves to such regulations.
 - b. Accordingly, there should be **border taxes imposed on the importation of goods produced in emissions inefficient ways**. There should be a presumption that countries that do not participate in the global regulatory/tax system to regulate emissions are producing overall in ways which are emissions inefficient.
 - c. To prevent such border taxes from being used unfairly in a protectionist matter, there should be created an international tribunal to ascertain which countries are not effectively participating in the global regulatory/tax system to control emissions; and to ascertain what an appropriate border tax would be.

- d. The products of specific firms within countries that do not participate in the global regulatory system can be exempted, if such firms participate in a self-imposed regulatory system, or by participating in a global “cap and trade” system.
- e. Products of firms that persist in producing in an egregiously emissions inefficient way can be banned.

The G-8 should set up a study group to determine an appropriate global enforcement system, including to answer institutional questions of whether it should be placed inside the WTO or outside, and to determine whether there might be some forms of such a regulatory system which are consistent with existence WTO provisions, as suggested by the Thai Shrimp-Turtle Case.

3. Global poverty

Poverty in the poorest countries has long been recognized as one of the world’s most pressing problems. The world has come together to make commitments to increase aid and to provide for a more development-oriented trade regime, all as part of the global commitment to meet the Millennium Development Goals, including halving poverty by 2015. While many of the commitments may not have been sufficiently ambitious, many of the commitments have not been met; and in many parts of the world, the goal of achieving the MDG’s will not be met. The number of people in poverty in Africa is set to rise substantially.

- a. The disparity between commitments and what has been delivered is highlighted by aid. At Monterey, the advanced developed countries committed themselves to spending .7% of their budget on aid. Data in appendix A shows how far America and others are from meeting that goal. And this data almost surely exaggerates the magnitude of aid, because it includes relief, in which credit is given for money that would never in any case have been repaid; and certain war related expenditures. Some have claimed that meeting these goals is “outside of the current budget envelope.” Comparisons between what is being spent on military and what is being spent on aid suggest something is wrong in both values and strategy. The advanced developed countries can afford to meet their commitments now. The question is simply one of priorities.
- b. Previous efforts at relief, and including that initiated in Gleneagles, represented a major set forward; but there remains a burden on many of the poor countries of the world, impeding their efforts to grow and reduce poverty. There needs to be a renewed effort at **expanding and deepening relief**.
- c. But problems of will recur unless we address the underlying problems: why are so many countries burdened with beyond their ability to pay. Part of the reason has to do with the highly volatile global financial system; the developing countries are particularly ill-prepared to bear the burden of such risk, which is one of the reasons why fundamental reform in the global financial system is so important. But part of the

reason is that developing countries continue to bear the brunt of this volatility, borrowing short term, in hard currencies. The G-8 needs to make a commitment to explore ways of **shifting the burden of risk from the poor countries to the rich**, perhaps by the creation of a new risk facility within the IMF and World Bank.

- d. Particularly disappointing has been the so-called Development Round of trade negotiations. The initiation of this round was a moment of hope for the developing countries, as it seemed the developed countries recognized the imbalances in previous rounds, that the Uruguay round had been so unfair as to make the poorest countries of the world actually worse off. It was hoped that the Development Round would rectify these imbalances. It soon became clear however that many of the advanced industrial countries were renegeing on their promises, and that to a too large extent, the development round was largely old wine being put into new bottles. The disappointment with the Development Round is not that it is having trouble coming to completion; or that to reach an agreement ambitions have been so lowered; the disappointment is that whatever is likely to emerge does not deserve to be called a Development Round. It will not promote development and reduce poverty in the way that was hoped and promised at Doha. There was, for instance, an understanding at the end of the Uruguay Round that there would continue to be efforts at reducing agricultural subsidies. For a country to then raise those subsidies, and now offer to reduce to subsidies to levels that are still higher than they were at the end of the Uruguay Round undermines confidence in the whole trade liberalization process. But while disappointment has focused on the lack of progress in agriculture, the failures are more pervasive. A development round would focus on the problem of escalating tariffs, which almost “target” preventing developing countries moving up the value chain; and while there would be some progress under current proposals, the focus of much of the debate lies elsewhere. Nontariff barriers have taken on increasing importance in preventing bringing goods from developing countries to market in the advanced industrial countries, yet there is little effort to do much about these, or even to stop the current system in which there are two standards for anti-competitive pricing, one applied to domestic firms, and the other to foreign firms.

There needs to be renewed efforts to complete the Development Round; but those efforts should focus on meeting the Development objectives that should have been the basis of negotiations. A global committee of development experts should be established to assess the extent to which any proposed agreement advances these development objectives.

There has been much rhetoric about the imperative of keeping the momentum for liberalization. But the reality is that another agreement as

unfair as the last agreement would in fact do harm in the long run to efforts to enhance globalization. It is more important that what emerges is true to the development goals than that an agreement should emerge quickly, within any preset time framework.

- e. **Improving health** in the developing countries is not only an objective in its own right, but important as part of improving productivity and growth. WHO has recognized the failures of the current system, in providing medicines that address the diseases of the developing world. Intellectual property provides incentives, but the incentives are based on ability to pay; and poor countries cannot pay much for medicines. It is no surprise that private firms are engaged in so little research directed at the diseases that plague the developing world. Moreover, the IP system means that when an effective medicine is discovered, it is not made as widely or cheaply available as it could or should be. There needs to be a **medical prize fund** to reward those who come up with cures and vaccines for the diseases that are prevalent in developing countries. Such a fund could be financed by contributions from the advanced industrial countries, e.g. a commitment of .05 % of GDP. A committee of experts could determine the size of the prize for different diseases, related to their prevalence and impacts. (Once the cure is discovered, the competitive market place would help ensure low cost production of generics.) *The G-8 should establish a working group to develop the details of how such a medical prize fund could operate, and other ways to ensure greater access to life saving medicines. Such a working group would look at the extent to which the flexibilities built into TRIPs, e.g. for compulsory licensing, have been effective in ensuring access to generic medicines; and what reforms in TRIPs might address current problems.* For instance, a list of drugs where generics could be made available at a fraction of the brand name drugs could be drawn up; any low income country would have an automatic right to produce such drugs and sell them to any other low income country. The *Coalition of the Willing* might encourage the spread of the practice, initiated by Yale and some other American universities, of not patenting life saving medicines in developing countries, and of demanding “carve outs” for developing countries in any licensing agreements made with pharmaceutical companies.
- f. What separates developed from developing countries is not just a gap in resources, but a gap in knowledge; but TRIPs may have reduced access to knowledge by developing countries. Just as there was a need for a development oriented trade regime, so too is there a need for a **development oriented intellectual property regime**. *The G-8 should set up a working group to define what such a regime might look like and how it might be implemented.* It should also look at how open

- sourcing can be used to promote development; and to ensure that IP laws do not work to the disadvantage of the open source movement.
- g. The **green revolution** has not yet fully come to Africa, where agricultural productivity is a third or less that in Asia. There are growing concerns even about a decline in productivity. There is a need for more research; and while private foundations have made an important contribution, there is now a need for more public support, both for the underlying research and to bring the knowledge to local farmers.
 - h. Much has been said about the problem of **corruption** in developing countries; but every act of corruption involves both a briber and a bribee—and often the source of the bribe is from a multinational corporation. The OECD **Convention on Bribery** should be expanded to all countries, and more rigorously enforced.
 - i. **Secret bank accounts** facilitate this corruption, just as they helped finance terrorism. Their use for terrorism has been stopped; but their use for other purposes (including tax evasion) has not. The G-8 could do this quickly, simply by not allowing their banks to deal with any bank in any country that does not subscribe to certain basic principles of transparency.
 - j. Transparency could be of especially importance in those countries afflicted with the resource curse; the extractive industries transparency initiative has emphasized the importance of “**publish what you pay.**” But it is time to provide more impetus: the G-8 should agree that no firm can deduct payments that are not transparent (i.e. published.)
 - k. Armed conflict is a major source of instability in many developing countries. There should be a global commitment to **reducing the arms trade**; money—in both poor and rich countries—would be far better spent on investments that increase well being than on those which lead to destruction.
 - l. There needs to be a **renewed commitment on aid**, including Aid to Africa and to the poorest countries elsewhere in the world. Within the .7% of GDP commitment, there should be a special commitment to spend (say) at least .4% of GDP on aid to the least developed countries *beyond forgiveness*.
 - m. Efforts should continue to **increase aid effectiveness**. Efforts to **reduce conditionality** should continue; *a special monitoring group to assess conditionality should be established, to report back to the next G-8 meeting*. Especially concern should be directed at the new hidden conditionality—the CIPA standards that are used to allocate IDA.
 - n. Given the repeated history of the poorest countries not being able to meet obligations, the demand for a shift **from loans to grants** is understandable. But other measures are also needed: a working group should be established to put forward proposals for **sovereign restructuring**, enabling deep relief that would enable countries to have a fresh start.

- o. There needs to be a framework for dealing with **odious debt**. A list of countries to whom loans (other than for narrowly specified purposes) would be considered odious could be drawn up—e.g. countries governed by repressive and corrupt dictators. Countries would not be under obligation to repay these loans. The very recognition of the concept of odious debt might deter financial support for such regimes. The system would, in that sense, be partially self-enforcing. The working group on debt could consider details proposals for how such an odious debt scheme could be implemented.

4. Global Research

Knowledge is a global public good. And as is the case of other public goods, without public support, there will be an undersupply, especially of basic research or research related to public goods (like global climate). We have highlighted the important role for public support for research into more energy/emissions efficient technologies and for diseases that afflict developing countries.

But around the world, the new era of budget stringency has been accompanied by reductions in expenditures on basic research. In the past, America perhaps financed a disproportionate fraction of basic research. But in a new multipolar world, this system cannot be sustained. There needs to be more support for basic research as well as reform in the intellectual property regime.

Just as the world has come together to realize there is a need to share the burden of the cost of development, there needs to be a global agreement on the funding of basic research, e.g. a commitment by all countries to spend, say, 1% of GDP on basic research. Such an agreement would also ensure that the output of that research is accessible to others around the world. A framework for monitoring (distinguishing between applied and basic research) should be established, as has been done in the case of aid.

5. Reforming global governance

Globalization has meant the closer integration of the countries and peoples of the world; closer integration means more interdependence; greater interdependence means that what happens in one part of the global economic system has effects on others. There is more need for global collective action. But we do not have political institutions to address these issues effectively and democratically. Economic globalization has outpaced political globalization. This has had several consequences: the democratic deficit in the global institutions has undermined their legitimacy, and that has undermined their effectiveness. They have often pushed an agenda that sometimes seems at odds with the interests of the citizens they are supposed to serve; they have failed to temper globalization, as they take actions which seem more consonant with special interests than the general interests of the world.

Asymmetries in liberalization (between capital and labor, between industrial and agricultural goods) have contributed to the growing inequalities within and between countries. Worse, they have reduced the scope for the nation state, the political actor which has traditionally been at the center of ensuring market efficiency and distributive justice; they have sometimes been seen to be pushing a particular model of economics (and sometimes of politics), one for which there is less than a compelling scientific basis, even if that model is consonant with certain ideologies and serves certain special interests.

Globalization has contributed to the global economic successes of recent years—the global economy has been growing at rates not seen for decades; India and China, with 2.4 billion people have been growing at historically unprecedented rates. But globalization, as it has been managed, has also contributed to some of the most pressing problems facing the world today. If the international community is to address these problems, if globalization is going to be managed in ways that ensure that the growth that has been experience is sustainable—environmentally, politically, and socially—and that the benefits of that growth are widely shared, there must be major reforms in our system of global governance. Such reforms are necessary if we are to have growth with responsibility.

Recent reforms, e.g. at the IMF, to increase voting power of China and few other countries, should be recognized for what they are: small steps in the right direction, but which are too miniscule either to affect significantly the nature of decisions that get made or the legitimacy of global institutions.

There are some changes that could be made easily and quickly: an agreement that in the future the heads of the IMF and the World Bank will be chosen in a transparent way that accords with democratic principles. *The G-8 should announce that the era where the U.S. president chooses the head of the World Bank and Europe the head of the IMF is over.*

There should also be an agreement that the principle informal grouping to address the problems of the world should not be the G-8, but the G-24. It makes no sense to argue that China is so important that is a major cause of global imbalances; but then to exclude it from the Club of global leaders struggling to solve the world's economic problems. *A working group to design an effective and representative G-24 should be established, with a commitment that a decision will be made at next year's meeting, which should be the last regular meeting of the G-8.* Such a change would make it clear that these leader's of some of the world's most influential countries finally grasp the major changes in the economic and political landscape, and are beginning to adapt to these changes.

Other changes are likely to be more contentious; some of these changes will take years. But this G-8 can set in motion a set of Working Groups to look at

specific issues: (i) *global competition*; (ii) *cross border bankruptcy*; (iii) *global environmental standards, especially in the area of extractive industries*; (iv) *cross border liabilities*. Rights come with responsibilities. Investor protections need to be accompanied by investor obligations. Limited liability was never intended to be a mechanism for avoiding liability for failing to treat the environment appropriately; and companies should not be able to escape responsibility for their actions by hiding behind frontiers.

Global public goods are taking on increasing importance. But currently, there is no adequate way of financing these global public goods. An international group has studied *innovative approaches to financing global public goods*. It is time that some of these ideas begin to be discussed by leaders of the world within the G-8. The discussion could begin this year with an analysis of some of the principles that should guide our thinking, e.g. that it makes more sense to tax bad things (like pollution) than good things (like work and savings). Such an approach directs attention towards negative global externalities, such as potential sources of pollution.

The Group may wish to discuss whether there are other specific reforms, to the IMF, World Bank, WTO, UN should be addressed.

Concluding Remarks

There is a rich agenda for promoting growth with responsibility. There is much that can be done within current institutional frameworks. A *Coalition of the Willing*, of countries committed to taking actions to make the world more prosperous and more secure, actions which would encourage global social solidarity and enhance global social justice, could begin *now* to experiment with small steps that would, hopefully, be joined by others. A set of working groups could lay out a set of choices, of alternative approaches, to addressing a range of the most important issues facing the world today. These working groups could propose other steps to be undertaken quickly by the Coalition of the Willing; and a wider set of institutional reforms that could be undertaken over the next decade.

The world is changing faster than our institutional capacity to address the problems which we confront today. Many of the institutions established at the end of World War II have served us well: the world has avoided another major confrontation; democracies have spread; colonialism has been brought to an end. These institutions have set forth a process of globalization which has brought unprecedented successes, but also problems which appear beyond the capacities of those institutions. Crises—like the Great Depression and the World Wars—breed reforms and institutional change. But hopefully, we can get the reforms that are needed *without* a crisis. This is the challenge to which the G-8 must begin to rise.

