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The Future of Global Governance

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Task Force on Global Governance

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The problems with global governance—and the consequences of these problems-- today are becoming better understood. The closer integration of the countries of the world—globalization—has given risen to a greater need for collective action. Unfortunately, economic globalization has outpaced political globalization. We are just beginning to develop an international rule of law, and much of the 'law' that has developed—for instance the WTO rules governing international trade—are grossly unfair; they have been designed to benefit the developed countries, partly at the expense of the developing countries. We approach international issues in an ad hoc, piecemeal manner. International institutions are few and limited in scope and have had to be complemented by special treaties designed to address particular problems. Global warming is a global environmental problem with potential immense economic consequences; there is an international scientific consensus on its causes, and an international consensus that something should be done. An international treaty, the United Nations Framework Convention on Climate Change signed in 1992 and the Kyoto Protocol signed in 1997 provided the beginnings of an answer. But the world's largest polluter refuses sign the agreement, or even to alter its behavior, regardless of the consequences for others.

The institutions that do exist have undemocratic governance, and suffer from 'smokestack syndrome.' A single country, for instance, has effective veto at the IMF; votes are allocated on the basis of economic power, and not even based on current economic standing.[2] Even though the policies of the IMF (or other international economic institutions) have enormous implications for many aspects of society—for education, health, or the environment, it is only the finance ministers and central bank governors that have a direct say. By contrast, within western democracies, when important economic issues are being discussed, typically all of those who are affected have a voice in the decision, even if some voices are stronger than others. Today, few democracies limit voting to those with property, or apportion voting rights on the basis of economic wealth.

The underlying democratic deficiencies is reflected in both the outcomes and the procedures—the lack, for instance, of transparency, or accountability, and the absence of some of the basuc regulations that democracies typically impose to prevent conflicts of interest, such as on revolving doors

The weaknesses in the democratic underpinnings has a further consequence: it undermines the legitimacy of the global public institutions.

We have seen the consequences—the discontent with globalization is at least partly related to the failures, to the unfair trade agreements, to the economic policies by the IMF

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[1] Paper prepared for conference in Barcelona, September 24-25, 2004 on From The Washington Consensus Towards A New Global Governance. Financial support from the Ford Foundation, the Macarthur Foundation, and the Mott Foundation is gratefully acknowledged.

[2] The argument sometimes put forward, that votes are related to their 'contributions' to the capital of the organizations, is disingenuous. China would have been willing and able to increase its capital contribution, were it allowed to do so.

that often do more to advance the interests and ideology of financial markets than they do to promote growth, stability, or equity in developing countries. Today, few would defend the asymmetric trade agreements, especially the continued huge subsidies for agriculture; few would defend the intellectual property provisions of the Uruguay Round, which deprived the poorest countries of the world of access to life saving drugs for diseases like AIDS. Today, even the IMF[3] recognizes that, even though it tried to change its charter to promote capital market liberalization a scant six years ago, for many countries, capital market liberalization has led to more instability—without faster growth. It has been risk without reward.[4]

There is also a recognition that some of the most important economic problems that the international community faces have yet to be effectively addressed—the huge instability in exchange rates; the festering problems with the global reserve system; the fact that, in spite of the seeming advances in the ability of the market to transfer risk, the developing countries still must bear the brunt of exchange rate and interest rate risks in their loans; or the absence of a mechanism to handle sovereign defaults.

Even as we move away from the deficiencies with the *formal* institutions, there is a growing awareness of the inadequacies of the informal institutions. Why, when the leaders of the world get together to discuss future economic reforms, is not China, or India, or Brazil, or representatives of poorer countries, not at the table? What is the selection principle—other than historical accident—that would leave some of the most populous and largest economies in the world out?

But in spite of the recognition of the problems with globalization, change has been slow. In this short paper, I want to focus my attention on the forces that may actually lead to meaningful reform of global government. I shall also discuss a few of the elements of the system of governance that may or should eventually evolve.

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[3] Prasad, E., Rogoff, K.,Wei, S., and Kose, A.M. [2003] "Effects of Financial Globalization on Developing Countries: Some Empirical Evidence," IMF Occasional Paper No. 220, September.

[4] See J. E. Stiglitz, Capital Market Liberalization, Globalization, and the IMF, forthcoming *Oxford Review of Economic Policy;* "Capital Market Liberalization, Economic Growth, and Instability," in *World Development*, 28(6), 2000, pp. 1075-1086; "Capital Market Liberalization and Exchange Rate Regimes: Risk without Reward," *The Annals of the American Academy of Political and Social Science*, 579, Jan. 2002, pp. 219-248.

Some Forces for Change

Change is needed—but change is slow to come. This is not surprising. There are those who benefit from the current arrangements. Indeed, that constitutes one of the central criticisms of globalization—the rules and institutions serve some interests, some countries, at the expense of others. That gives rise to a natural question: why would those in power give up that power? What are the underlying forces for change? In this paper, I will explore two sets of motivations for change.. (There is a parallel question—what gave rise to a democratic rule of law *within* various western countries? In some cases, there were explicit revolutions, but in others, there was a more evolutionary process.)

1. Self-interested motives for change

The first set of motives are premised on the self-interest of the powerful. They find it desirable or necessary to give up some power, to get what they want, or to prevent even worse things from happening. Of course, the powerful within a country have not been the strongest advocates of the rule of law; they do better in closed-door proceedings, where they can use their economic muscle to get what they want. So too in the international arena. America, the sole remaining superpower, often pursues a policy of unilateralism. It does not want to have its hands tied by any international rule of law. It walks away from the agreement on global warming, or the international criminal court.

a) The need for cooperation

But even the most powerful need cooperation with others; they cannot force cooperation. The 'bargaining equilibrium' requires important concessions.

Today, as this chapter goes to press, in the context of the war in Iraq, it has become increasingly clear that the United States by itself cannot suppress the insurgency, and most of the rest of the world is increasingly unwilling to provide assistance, unless a governance framework which greatly circumscribes the US power is adopted. There is a lack of confidence in the decisions of the U.S., and others are naturally unwilling to have the use to which their resources (including their troops) are put determined by those in whom they have little confidence. When there is meaningful participation in the decision making, then there is more willingness to go along with decisions, even if they are viewed to be ill-advised.

By the same token, the reconstruction of Iraq will require enormous amounts of money. Today, Iraq's immense oil wealth is effectively encumbered by equally immense foreign debts. If there is to be successful reconstruction without large foreign assistance, it will require debt forgiveness. But most of the debts are owed not to the United States, but to other countries. And without successful reconstruction, America's Iraq 'project' is almost surely doomed to failure. Again, the United States needs the cooperation of others.

In the international trade arena, the developing countries walked away from a new agreement, as they recognized that no agreement was better than another agreement as unfair as previous agreements. The United States and Europe had made no significant concessions in the pivotal area of agriculture; indeed, since 1994 there had been considerable backsliding, with the US doubling its subsidies. Since the failure of Cancun, the United States has been using its economic muscle to induce a a few, mostly relatively small countries to sign bilateral agreements with it; but as a percentage of American or global trade, these bilateral agreements are of little significance. The US has failed to achieve a bilateral agreement with any major economy, and America's unilateralism makes it unlikely that they will do so.

b) Leveraging limited power

While current international agreements may have been unfair to the developing countries—not surprisingly, those with power have used that power to advance their interests—there has begun to be created a modest "rule of law," albeit an unfair one. But once created, these institutions can assume a life of their own, and the developing countries can use them to advance some of their interests.

For instance, the United States did not want Brazil to bring the case against its use of cotton subsidies to the WTO. The ruling against the United States is of enormous import, because it can potentially force the United States and Europe to scale back their subsidies, well beyond the levels that they had previously "offered" to do in the so-called development round.

Another possibility of even greater significance involves using trade policy to achieve environmental objectives. The United States tried to force Thailand to use turtle friendly nets in catching shrimp, threatening not to allow shrimp caught without such nets into the United States. The WTO appellate body sustained the U.S. position. When the United States brought the case, it did not think through the full import of what it was doing (though at least some on the WTO appellate body were aware of the far-reaching consequences of their decision.) *Other countries could presumably keep out goods produced by energy intensive technologies which contribute to global warming.* International trade law might be able to fill in the gap left by America's walking away from the Kyoto agreement. American firms *are* effectively subsidized, in the sense that they do no pay for the full costs of what they produce—the full costs should include the social cost of pollution. International law precludes such hidden subsidies, and allows countries to take actions to address global environmental problems, particularly when other mechanisms to do so have failed.

Thus, the threat to use what limited international law exists may become an important instrument for reform, not only to address the specific problems—agricultural subsidies or environmental pollution—but to achieve broader reforms in governance.

c) Increasing recognition of the need for the rule of law: legitimacy of American leadership and global institutions

This brings me to the second basis for optimism about improvements in global governance. Not only does the United States need cooperation from others, others are increasingly recognizing that their well being—the well being of the world—depends on the establishment of a stronger rule of law at the international level. One of the arguments for democracy is based on the dangers of a lack of checks and balances. It is evident that in the current arrangements, there is little check on the power of the United States. It is willing to consult with others, to use international institutions, so long as those institutions agree with what it wants; when they do not, it walks away. That demonstrates a lack of commitment to democratic processes. Meaningful democracy means that the actions cannot reflect the beliefs of a single individual, or in democratic decision making among countries, of a single country.[5] Making matters even worse is the evident lack of *internal controls*. In one interpretation, at the time America's constitution was written, there was little need for providing an effective check on the President with respect to foreign relations: America's limited power meant that foreigners would provide that check. But with America as the only superpower, foreigners have not provided an effective check; and Congress and Courts have increasingly ceded power to the President.

Of course, the fact that American unilateralism leads to decisions that are not in others' interests and that they and their citizens are increasingly recognizing this would not itself lead to reform, were it not for two other factors—the fact that America occasionally needs their cooperation, which we have just discussed, and the fact that citizens in both America and abroad are likely to increasingly demand changes in the rules of global governance, to which I now turn.

Issues of legitimacy of political institutions and decisions become most intense when the decisions are seen to fail. When IMF policies lead to increasing immiseration of the poor in many developing countries—and did not lead to the growth that was promised-- the IMF lost much of its political legitimacy in the developing world. When the IMF policies, including the mega billion-dollar bailouts, failed in East Asia, Russia, and Argentina, the IMF lost much of its political legitimacy in financial markets and in the developed world. When trade liberalization did not bring the benefits promised, but many countries saw their incomes actually falling, seemingly because of *asymmetric liberalization*, or when thousands faced the threat of death because of a lack of access to life savings drugs because of the Uruguay Round trade agreement, the WTO lost much of its political legitimacy.

To many, the consequences of the economic failures resulting from the deficiencies in global governance pale in comparison to those in the area of "security," in particular, to those that have been associated with the war in Iraq. Leaders have been seen to lie or

[5] See Arrow, K. [1951] *Social Choice and Individual Values*, New York: John Wiley, 1951.

mislead, when it serves their agenda, and thousands of lives have been lost as a result.[6] American unilateralism has not made the world safer; many have already suffered as a result of the increased instability to which American actions have given rise, and more are likely to suffer in the future.

Iraq has thus brought home the risks of unilateralism. But it has also undermined the confidence in the credibility of the statements of leaders. Why should it be believed that, say, the United States is committed to creating a fair trading system? Why should it be believed that its policies in other spheres represent anything other than ideology or its interests or special interests within America?

Such skepticism is enhanced by actions, which are widely seen as self-serving and hypocritical. There was a general understanding as the countries signed the Uruguay Round agreement that agricultural subsidies would not increase, and actually be cut. America doubled its subsidies, claiming that technical loopholes that it had put in meant that it was entitled to do so. But even those claims exacerbate the skepticism: it went so far as to claim that cotton subsidies were not trade distorting, when they plainly were (and the WTO panel found so, not surprisingly.)

Even when there might be explanations for the seeming hypocrisy, the glaring contrast undermines credibility. The US government defends running huge deficits, saying that tax cuts stimulate the economy; but the IMF, where the US has veto power, forces others to cut back their expenditures and raise taxes, even when they face far smaller deficits. America's central bank focuses on jobs and growth, as well as inflation; and American presidents run on platforms like, "jobs, jobs, jobs!" while abroad, the IMF demands that central banks focus only on inflation. In America, privatization of social security is hotly contested, with one of the two parties staunchly defending the public old age pension system; abroad, the IMF encourages countries to privatize their social security system, suggesting that it is the only economically sound way to proceed.

The hypocrisy itself is enough to undermine the legitimacy if the international economic institutions. It has also become increasingly clear that, while the international economic institutions are not supposed to be 'political,' in fact at least the IMF pursues an economic agenda that is closely associated with the conservative political agenda, and this too undermines its legitimacy, especially in the eyes of those who do not subscribe to that political agenda. But the fact that the countries that have followed the IMF's advice have not fared as well as the countries that have not (as in East Asia) has made matters even worse.

[6] The most recent estimates put the loss of civilian lives in Iraq in excess of 100,000. See *Lancet*

2. *Democratic forces for change*

These failures naturally lead to a closer look at governance, at the international economic institutions and the processes by which decisions are made. Protests at virtually every meeting of international economic leaders have called attention to the deficiencies in governance, to which I alluded earlier—the allocation of voting rights, the smokestack structure, and the problems of representation (who represents each country), transparency, and accountability.

The international institutions are *supposed* to reflect democratic principles, and however such principles are formulated, the decision-making structures are a far cry from principles that govern democratic decision making *within* countries. No government allocates voting rights—even on economic matters—on the basis of economic "power." It would be totally unacceptable for Bill Gates to get, say, 100,000 votes, or even 10,000 votes, simply because he has 100,000 or 10,000 times the income or wealth of the average American; or for those without wealth to be deprived of their votes, simply because they have no wealth. No democratic government allows only the finance minister and central bank governor to make decisions about economic policy on their own; others have to be brought to the table.

The problems of governance are reflected in the *actions*, *processes,* and *choices of leadership*. For instance, the head of the IMF is always a European. Traditional democratic principles would suggest that the institution look for the most qualified person, regardless of race, gender, or nationality. But these principles are shunted aside. The agreement between the majority shareholders, the G-7, is that the IMF is to be headed by a European. The Europeans in turn decide whose turn it is. Seemingly little weight is given to whether the person chosen has any detailed knowledge of developing countries—where most of the work of the IMF has been located for the past thirty years. Thus when a new managing director was chosen in 2000, the Europeans decided it was Germany's turn. Of course, the U.S. continues to have a veto, and the U.S. Treasury vetoed Germany's first choice. The uproar led many to hope that the *next* time a new managing director was chosen, there would be more openness and transparency in the process, but that was not to be the case.

The processes through which decisions are made reflect the same democratic deficit. There is a lack of openness and transparency. At the WTO, the green room process – - whereby the US and the EU meet with several other rich countries and the Director General behind closed doors, allowing these rich countries to strong-arm the developing countries[7] – has been widely criticized, and while there have been some reforms, the developed countries have been reluctant to respond to the demands of the developing

[7] Because all of this goes behind closed doors, it is never fully clear how the developing countries are 'strong armed,' e.g. are there explicit threats to cut off aid, or are the threats simply implicit?

countries.[8] At the IMF, more transparency has often meant little more than a better web site; there is insufficient real transparency in the decision-making processes.

It is not surprising, given these problems in governance, that the decisions and actions made by the international economic institutions conform so much to the ideology and interests (or special interests) of those in the advanced industrial countries. One can understand better some of the "biases" and seeming inconsistencies in the decision-making.

These deficiencies include lack of balance, for instance, concerning intellectual property rights at the WTO (where the concerns of users and even those in the scientific community were given short shrift)[9]; or the availability of billions of dollars to finance bailouts for Western banks, but the lack of funds for even modest food subsidies for the poor, for those thrown out of work as a result of the depressions or recessions which accompanied IMF programs; or the beggar-thy-self policies, even worse than the beggar-thy-neighbor policies (which contributed so much to the Great Depression)[10]; or the peculiarity of an institution founded to correct a market failure, preaching market fundamentalism—arguing that markets by themselves solve economic problems—and yet endorsing intervening in exchange rate markets.[11] It explains too why there is seemingly more focus on "efficiency" and less on equity. It explains what is on the agenda, as well as what is off the agenda. Capital and financial market liberalization has been on the agenda, even though there is little evidence that such evidence is good for developing countries—and considerable evidence that it is bad. High tax rates are on the agenda, but land reform is off—even though given the huge inequality in land ownership, many peasants work under sharecropping arrangements which impose on them effectively a 50% or even 67% tax rate.

Inside most of the developed countries, democratic forces have tempered capitalism; they have, to use a cliché, put a human face on it. They have recognized that there are market failures—for instance, unemployment can be a problem, and when it arises, governments have a responsibility to do something about it—and that even when markets yield *efficient* outcomes, they do not in general lead to a socially acceptable distribution of income. Governments have to provide a safety net, and engage in some redistribution. There are also non-material values that may trump economic concerns. Firms have no

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[8] See for instance Stiglitz, J.E. and Charlton, A [2004] "The Development Round of Trade Negotiations in the Aftermath of Cancun," London: The Commonwealth Secretariat, with The Initiative for Policy Dialogue, June 21, 2004.

[9] See Joseph E. Stiglitz, "Towards a pro-development and balanced intellectual property regime,"keynote address presented at the Ministerial Conference on Intellectual Property for Least Developed Countries, World Intellectual Property Organization (WIPO),Seoul, October 25 , 2004, available at www.policydialogue.org

[10] See J. E. Stiglitz, "Beggar-Thyself vs. Beggar-Thy-Neighbor Policies: The Dangers of Intellectual Incoherence in Addressing the Global Financial Crisis," *Southern Economic Journal*, 66(1), July 1999, pp. 1-38

[11] See, e.g. Stiglitz, J.E. [2002] *Globalization and its Discontents,* Chapter4, New York: W. W. Norton & Company, 2002.

incentive *not* to pollute, and government has a responsibility to limit the damage to the environment.

In the international arena, too often this tempering process is absent, or greatly attenuated. The drug companies can get international agreements, for instance, limiting generic drugs that they could only dream about getting through America's Congress—even after investing enormous amounts in lobbying. The Clinton Administration opposed "takings provisions" (providing compensation to firms for reductions in profits resulting from for regulations, including those protecting the environment), but , Chapter 11 of NAFTA effectively introduced such a provision.

(The absence of "tempering" in the international arena is only partially a consequence of the democratic deficit. It also arises because of the limitations in social conscience—that attitudes towards social justice or social solidarity often change markedly at national borders. Many worry far more about inequality or poverty within their own country than inequality or poverty beyond their borders.)

Making matters worse, there is no direct accountability.[12] Citizens of those countries affected by, say, IMF programs do not vote on the head of the IMF, or even on their representative to the IMF. And we have seen how weak the system of *indirect* accountability is: even abject failure is not met by the firing of the head and the appointment of a new head.

The absence of direct democratic accountability perhaps also accounts for why there is not greater concern about public perceptions—why, for instance, strong revolving door policies have yet to be introduced. Were these institutions worried about their political legitimacy, the lack of *direct* accountability would have led them to be particularly sensitive about such matters, and to be especially concerned to be open and transparent.

While the failures in governance have most affected those in the developing world, even those in the developed world have felt the impact. For instance, Chapter 11 of NAFTA threatens environmental legislation even in the United States. Many in the scientific community in the United States worry that TRIPs will adversely affect scientific progress.

Equally important, many in the developed world have felt sympathy for those in the developing world, as they see them deprived, for instance, of life saving drugs.

Those in both the developed and developing world have become increasingly concerned about the lack of political legitimacy of the international economic institutions, about the

[12] For more extensive discussion of accountability, see J. E. Stiglitz, "Democratizing the International Monetary Fund and the World Bank: Governance and Accountability," in *Governance*, 16(1), January 2003, pp.111-139. and **"**Governance of the International Monetary Fund: Decision Making, Institutional Oversight, Transparency and Accountability," IMF, Pamphlet Series No. 53, Aug 9, 2002.

democratic deficit, about the unfair outcomes, and about the imposition of a particular ideology. They are uncomfortable with the ideology, and even more, they are uncomfortable with the "colonial" overtones of the advanced industrial countries imposing their views on others and how doing so undermines democratic processes in the developing world. In short, many in the developed countries take seriously democratic processes, in their own country, in other countries, and in the international economic institutions. They see the ability of special interests to dominate American international economic policy (or the international economic policy of other of the advanced industrial countries) as reflecting a shortfall in the democracies in *their* countries.

Ideas matter: I see the growing concern about this democratic deficit both in developing and developed countries as the third pillar for change in the system of international governance.

Reforms

In the preceding section, I have outlined some of the forces that should help bring about change in global governance. In this section, I want to outline several directions which such reforms might, or should, take.

1. *Changes in the governance of the World Bank and the IMF*. These have been extensively discussed elsewhere. The most important are changes in voting structure and representation. Even if, or especially if, these changes do not occur quickly, it is important to have improvements in transparency and accountability, and in conflict of interest rules. There are also *informal* procedural and *institutional* changes that would give developing countries more effective voice, e.g. the creation of a think tank to help developing countries formulate positions more effectively reflecting their interests.
2. *Changes in the governance of the WTO*, including more transparency, the elimination of the green room processes, the creation of more representative processes for decision making, and the creation of an independent body to evaluate alternative proposals, in particular their impact on developing countries, to assess whether bilateral and regional trade agreements are more trade diverting than trade creating, and to determine *before dumping or countervailing duties are imposed* whether there is a prima facie case.[13]
3. *Moving from the G-8 to the G-24.* The informal institutions in which the leaders of the world get together to discuss global economic policies are as flawed and out-of-date as the formal institutions. China, as one of the largest economies, and one of the major traders, should be at the table. The voices of the emerging markets, like India and Brazil, should be there too, as should representatives of the least developed countries.
4. *A Strengthened Economic and Social Council.* At Monterey, it was at last recognized that *development is too important—and too complex—to be left just to finance ministers.* This is true of other aspects of global economic policy, which touch on every facet of modern life. Worse still, finance ministers and central bank governors bring a particular perspective to the discussion—an important perspective, but not the only one. Consider, for instance, the issue of sovereign debt restructuring. No government would entrust legislation setting forth the framework for bankruptcy to a committee dominated by creditor and creditor interests. But putting the IMF in charge—which is what the IMF wanted-- would have done this. Such decisions have to be approached with greater balance. Initially, such a strengthened Economic and Social Security Council might have to rely more on moral suasion. But, today, for instance, it is such moral suasion which in any case largely determines whether a country repays its loans.
5. *Financing for Global Public Goods*. Increasing global integration has made global public goods take on increasing importance, but we rely mostly on moral suasion to generate the funding for such global public goods. Not surprisingly, there has been underfunding; moral suasion has been only partially effective. For instance, while the advanced industrial countries have agreed to provide 0.7% of

[13] Therese issues are discussed more fully in Stiglitz and Charleton [2004] *op cit*

their GDP for funding assistance to developing countries, and a few European countries have exceeded that target, the world's richest country has fallen woefully short. Elsewhere, I have outlined a set of proposals for global funding[14]:

a. *Revenues from the management of global natural resources.* There are a number of global natural resources—international fisheries, the sea bed, Antarctica, the global atmosphere, satellite slots—and the efficient management of those resources can give rise to substantial revenues, e.g. auctioning off fishing rights, charging for greenhouse gas emissions, etc.

b. *Revenues from the issuance of "SDR's"*—global greenbacks. The deficiencies in the global reserve system are increasingly being recognized - its inefficiencies, its instability, and its inequity. Every year, some $200 to $400 billion dollars are effectively buried in the ground in the form of reserves. The U.S. benefits—the fact that the dollar is the reserve currency is what enables the U.S., the richest country, to consume well beyond its means. But as the U.S. becomes increasingly in debt, questions are being raised about the viability of the system. The revenues from the issuance of SDR's could be used to finance global public goods, including development assistance.[15]

c. *Taxation of global(negative) externalities,* like arms sales to developing countries, pollution, and destabilizing cross border financial flows.

6. *Management of global natural resources and the environment*, including the world's oceans and atmosphere. Even if the international community does not seize the opportunity of revenue generation afforded by the management of global natural resources, it is important that these resources be managed efficiently, sustainably, and equitably. There needs to be a more effective Global Environmental Agency.
7. *Production and Protection of Global Knowledge* Among the more important global public goods is knowledge. TRIPs can be viewed as having recognized this—incentives to produce knowledge depend on the ability to capture rents globally. But TRIPs demonstrates forcefully the flaws in currency global governance—a set of rules that did not reflect a balance of concerns, but rather those of America's drug and media industries. We need to recognize that since knowledge is a global public good, it should be financed in an equitable manner; and this may not entail imposing effectively high taxes on the poorest countries and people—so high that they are deprived of access to life saving medicines.
8. *A global legal infrastructure* One of the most important functions of government *within countries* is to provide a legal infrastructure—the enforcement of contracts, the protection of competition, bankruptcy. Today, increasingly, economic relations go across borders. In the United States a century ago, most of the legal infrastructure was provided by states; even though the similarity across states was sufficiently great that the legal structures that they adopted were broadly similar, the differences gave rise to a multiplicity of problems. Great efforts have been put into providing more uniform legislation, into harmonization. Today, as globalization proceeds, a similar process needs to occur across countries. We

[14] See also **Report of Four Presidents**

[15] A modest version of this proposal is contained in G. Soros, *On Globalization*

recognize that each country on its own may not be able to ensure competition, e.g. in the software market or the market for operating systems. It is important in creating this global legal infrastructure that it not be based on the lowest common denominator, e.g. the least protective of competition. And it may be desirable to retain some duplication: For instance, the overlap in securities legislation and enforcement in the United States proved extremely important, when political pressures and incompetence led to inadequate enforcement at the national level, and New York State assumed the mantel of responsibility.

Concluding Remarks

I began this essay by arguing that in recent years we have come to understand better not only why there is such discontent with globalization, but why globalization has not worked as well as it can for so many of the people around the world. The international rules of the game are often unfair; and the international institutions have pushed a particular ideology, one which has resulted in economic policies that are particularly ill-suited to many of the developing countries. But that only pushes the question back further: why have the rules been so unfair, and why has this particular ideology been pushed? Underlying these failures is a failure of governance.

I have suggested that while those who benefit from current arrangements will work hard to maintain them, there are forces for change. The pace of globalization makes the need for change all the greater—it will be hard to maintain increasing *economic* globalization[16] unless there are reforms in *governance,* in the institutions which govern globalization and in the processes by which the rules and regulations which define how globalization proceeds.

Perhaps the strongest force for change is a change in mindset which globalization itself is bringing about: Improvements in communication and the lowering of transportation costs have brought with them an increasing familiarity with those in other countries. There is a growing recognition that we live in a single planet, that we are increasingly interdependent.

In my mind, the question is not so much whether there will be change, but whether it will come fast enough. Globalization is not an inevitable process. Capital flows today have yet to fully recover from their peaks before the global financial crisis. Capital and trade integration was weaker in the interwar period than it was before World War I. Unless changes are made, the disillusionment with globalization that is already palpable will spread, with untold consequences, both for those in the developed and the less developed countries.

[16] I have had little to say in this essay about the benefits and costs of increasing economic globalization. It is clear that the advanced developed countries have benefited greatly from globalization, and increasingly, political leaders, of both the left and right, have taken the extent to which they have been able to advance the globalization agenda as a mark of their success. But even within developed countries there is discontent with globalization. Even if the country as a whole gains, there are winners and losers. Increasingly, there is a concern that the benefits may be distributed very inequitably—a few gain a great deal, and many may lose. Without some form of compensation, support for globalization even in the developed countries may wane. But globalization may impede the ability to provide the requisite compensation, as increased mobility of capital and highly skilled workers makes imposing redistributive taxes more difficult. These are issues which, however, take us beyond the scope of this essay.