II

Club governance: Can the world still be run by gentlemen's agreements?

BY ROBERTO BISSIO, SOCIAL WATCH

The 2030 Agenda for Sustainable Development clearly identifies several issues, ranging from finances, to climate to trade, where global governance agreement is required. But actual decisions on these issues often run in the opposite direction. Non-accountable 'clubs' exercise de facto authority and raise obstacles to implementing the SDGs.

The 2030 Agenda claims to be "transformative" because it demands changes at national, regional and global levels. At the global level, some changes cannot be achieved by governments acting alone and imply the need for some global governance mechanism. This is the case, for example, of the promised "urgent action to combat climate change and its impacts" (SDG 13) where the United Nations Framework Convention on Climate Change is identified as the primary forum through which to achieve a global response, or the necessary "universal, rules-based, open, non-discriminatory and equitable multilateral trading system" mandated in SDG 17 on means of implementation, where the mechanism is identified as the World Trade Organization (target 17.10).

Other equally important global public policy objectives enshrined in the 2030 Agenda include, for example, enhanced "global macroeconomic stability" to be achieved "through policy coordination and policy coherence" (target 17.13), "policy coherence for sustainable development" (target 17.14) and the reduction of illicit financial and arms flows (target 16.4). No concrete body is identified to deliver on these, either because different financial institutions would have to be coordinated or because governments have not agreed yet on a global body to oversee and coordinate tax policies (necessary to reduce illicit financial flows) or on a global debt workout mechanism (required to achieve global stability at moments when a new wave of debt crisis is feared).

Even worse, while the 2030 Agenda mandates all Member States to "enhance the global partnership for sustainable development (among governments), complemented by multi-stakeholder partnerships" in practice Public-Private Partnerships and publicly subsidized private investments are promoted, often making the SDGs more difficult to achieve and disenfranchising small and medium enterprises while the policy space of governments (respect for which is mandated by target 17.15), is being further eroded by bi-lateral investment agreements and frequently unnecessary austerity policies prescribed by international financial institutions.

While leaders of all UN Member States decided on a transformative agenda for 2030, a *de facto* form of global governance, sometimes called 'shadow governance', works in the opposite direction. Operating in opposition to global norms as self-selected 'coalitions of the willing' or in the interstices of national sovereignties-such as the global 'shadow banking' where illegal financial flows meet established financial arrangements- these major obstacles to achieving the SDGs are not loose trends or wild forces beyond control, but rather the result of a secretive but efficient network of governance 'clubs' that operate beyond public scrutiny or parliamentary oversight, the two accountability mechanisms identified in the 2030 Agenda.

Not "just clubs"

"Club governance", which emerged in the aftermath of the global financial crisis in 2008, has been defined in a review of the literature by the German Institute for International and Security Affairs as "groups of states (sometimes with the involvement of international organizations) explicitly exercising governance functions beyond the immediate circle of actual club members, in one or more field of policy", while purporting to operate for "the public good". [1]

This definition implies a certain illegitimacy of such 'clubs'. To exercise governance functions without a mandated or delegated authority of those concerned implies a breach of their sovereignty and/or an intrusion in their internal affairs. Thus, the clubs are always justified as "just clubs", informal fora to coordinate positions to be later brought to the consideration of legitimate decision-makers.

If the benefit of the club (and at the same time the reason for its illegitimacy) is its decision- making over others, the most effective arrangements will be those that work discreetly. Such is the case, for example, of the 'gentlemen's agreement' that establishes European entitlement to select the head of the International Monetary Fund (IMF) in exchange for the World Bank being always run by an American. Thus, the designation of a notorious climate denier to head the World Bank – the world's largest development agency – by the current US administration has not been challenged by any of the other 188 governments represented at the World Bank, even though no written rule gives the US president the right to make such an appointment.

Similarly, after the US president unilaterally ended the gold standard in 1971, the finance ministers of the countries that issued the main reserve currencies of the time (USA, UK, Germany, France and Japan) started to meet regularly but privately to coordinate global finances. The existence of this group of five (G5) was officially acknowledged only in 1985, when the group agreed that the dollar had to be devalued again and signed a formal document to that end, called the Plaza Accord, named after the hotel in New York where they met.

By that time another 'club' had been established at the heads of State level, the group of seven (G7). To avoid embarrassment, Canada and Italy, members of the G7 since 1976 started to be invited to the financial club also, and the meeting dates and places became public, while the agenda and proceedings remained largely secret. However, when the G7 became the G8 in order to include Russia, between 1998 and 2014, the finance ministers of the G5 never invited Moscow into their club.

The Mexican financial crisis of 1994, followed by those of Asia (1997) and Russia (1998) demonstrated that the financial G7 alone could not ensure global stability, now threatened not just by imbalances within the group but by the 'emerging economies'. Thus, the finance ministers and central bank governors of 19 arbitrarily selected countries (South Africa is in but Nigeria and Egypt are out; Australia is in but Spain is out) and the EU were invited by the G5 (led by the USA and Canada) to form the G20, a gathering meant to complement the G7, but not to substitute for it.[2]

The existence of the G20 finance group was not able to predict or prevent the collapse of the global financial system in 2008, yet that emergency was the pretext to "upgrade" the G20, so far largely unnoticed by the public, to a regular meeting at summit level. The first G20 meeting at heads of State level was announced as some kind of Bretton Woods II conference. But instead of going for the badly needed reform of the Bank and the Fund, the G20 announced US$ 1 trillion in support of those institutions, in order for them to assist the richest countries in the bailout of their broken banks. In exchange for looking the other way

1 Schneckener (2009), p. 3.

2 See https://www.theglobeandmail.com/news/world/how-canada-made-the-g20-happen/article4322767/.

while every rule in the neoliberal book was violated with those huge subsidies of private losses with public money, the developing countries that joined the G20 were promised progress in the Doha Round and more voting power in them, two commitments that never materialized when the emergency was over.

Some researchers have argued that the G20 is "the hub of global governance networks, rather than a club", while the G7 functions "much more as a like-minded club", because "G7 officials and politicians are normatively much more compatible with shared norms based on market economics and liberal democracy".[3]

To vote or not to vote

A frequent justification for club governance is built around the notion that 193 UN Member States is too many to work efficiently and therefore any agreements take too long to be discussed, and on top of that, it is not democratic anyhow when Iceland, with 300 thousand inhabitants sits next to India, with 1.3 billion, and both have an equal single vote.

Yet the International Football Association (FIFA) governs over the world's men's football with 211 countries as members and the Rio Olympics in 2016 convened delegations of 206 countries without the size or the equal voting rights ever being an obstacle to their universal acceptance. Both institutions have suffered corruption scandals lately, but those are accountability problems, not a result of their decision-making mechanisms.

The "one-country, one vote" principle of the United Nations was not revolutionary because it postulates formal equality among sovereigns of different sizes, wealth and power. After all, the formula is an old one, dating back at least to the 1648 Peace of Westphalia that ended the devastating Thirty Years' War between Protestants and Catholics in Europe, without declaring winners or losers.

3 Luckhurts (2016), p.185.

The innovation is in the "vote".

The League of Nations, created after World War I, was so strongly a believer in "Westphalian Sovereignty" that unanimity was required for its decisions, both in the General Assembly and its League Council. And that was one of the reasons for its failure and a lesson learned when the UN was created. The inevitable whims of the majority were to be limited by higher requirements on most key decisions and by the veto power in the Security Council for the five countries that emerged as victors in 1945.

The UN has been largely successful in avoiding a Third World War and in supervising the end of the colonial empires during the 1950s, 1960s and 1970s. But as the membership of the UN grew with progress in decolonization from the 51 founding members to 80 members in 1956 and 110 in 1962, voices started to emerge about the "tyranny of the majority".[4]

In 1962, France and the Soviet Union, not wanting to pay their share of the cost of peace operations that they had voted against in Suez and the Congo, brought the case to the International Court of Justice (ICJ). The ICJ ruled clearly that, contrary to the unanimity rule of the failed League of Nations, the UN General Assembly has the right to take decisions with budget implications by two thirds of the members, which all members should pay irrespective of how they voted.[5] The USA argued that "the United Nations can pay for what it is empowered (by the Charter) to do" and "what the United Nations can do, it can pay for". The US response to the qualms of the "tyranny of the majority" was that "Members States do not find protection against such action – if protection is needed – in legal strictures of the Charter but in the two-thirds majority in the General Assembly". If, ultimately, this resulted in some erosion of absolute sovereignty for the common good, so be it.[6]

A few years later the USA became the loudest voice against the 'automatic majority' of the General

4 Bailey (1966).

5 ICJ (1962).

6 Murphy (2004).

Assembly, when they started to lose such votes overwhelmingly. The developing countries started to assert their newly gained independence in the 1970s, proposing a New International Economic Order, creating the UN Conference on Trade and Development (UNCTAD) to support their trade and development efforts and trying to leverage the UN Educational, Scientific and Cultural Organization (UNESCO) to support a New International Information Order. At the request of World Bank president Robert McNamara, German chancellor Willy Brandt chaired a North-South Commission that proposed a pro-development reform of the global economy and convened the North-South Summit of 22 heads of State[7] that met in Cancún in 1981. By then Ronald Reagan had replaced Jimmy Carter in the US White House and the 'G22' never met again.

Instead the US-UK axis headed by US president Ronald Reagan and British Prime Minister Margaret Thatcher used the G7 to impose the so-called 'Washington Consensus' formula of liberalization, privatization and deregulation on the Bretton Woods institutions that they 'own'[8] and through their structural adjustment lending prescriptions all over the world.

The G7 includes three countries with veto power in the UN Security Council, so they can be sure that no resolution they dislike can pass, but to be proactive in the General Assembly is more complicated, as seven votes out of 193 is a tiny minority. That's where the 'power of the purse' comes into the picture. On top of using their bilateral ODA to win friends, the G7 countries benefit from their control over the World Bank and the IMF: The voting pattern at the General Assembly of 188 countries over the period 1970-2002 shows that "Countries receiving adjustment programmes and larger non-concessional loans from the World Bank vote more frequently in line with the average G7 country." The same is true for countries obtaining non-concessional IMF programmes.

Important decisions in the Bretton Woods institutions require an 85 percent majority and thus, with 16 percent of the votes, the United States is the single country with veto power. But in order to form a majority, it has to coordinate with the other G7 countries and also with the G10, another club, composed by the G7 plus the Netherlands, Belgium, Sweden and Switzerland.[9]

The G7 and G10 meetings of finance ministers and central bankers usually precede the Spring and Autumn meetings of the World Bank and the IMF and the heads of the Bretton Woods institutions are frequently invited.

The G8 Research Group has shown that the word "we" used in G8 official declarations refers to agreements not only among G8 members but also between them and the international financial institutions, including the World Bank, the IMF and the Inter-American Development Bank, to which they provide instructions. After the Lyon Summit in 1996 where the G7 "urged" the Bretton Woods institutions to implement the Highly Indebted Countries Initiative, the World Bank and the IMF launched such an initiative a few months later, and the Paris Club (donor countries) approved it.[10]

Different studies show that G7 ministers and deputies are regularly informed of IMF decisions by senior IMF officials through conference calls. The Executive Directors (EDs) of the G7 and G10 countries coordinate among themselves and harmonize their positions on a vast number of issues. The ED in charge of the G7 presidency organizes informal meetings with

7 Participation differed from the current G20 in that it included Algeria, Austria, Bangladesh, Côte d'Ivoire, Guyana, Nigeria, Philippines, Tanzania, Venezuela and Yugoslavia, which are not in the present-day G20 and excluded Argentina, Australia, Indonesia, Italy, Russia, South Africa, South Korea and Turkey that are in the G20 today but were not in the North-South G22.

8 The G7 has a combined voting power of 40% after the latest reallocations of quotas US 16% (15% is required to have effective veto), Japan 7%, Germany 4%, UK 3.8%, France 3.8%, Italy 2.7%, Canada 2.5%, Belgium 1.6%, Netherlands 1.9%, Sweden 0.9% and Switzerland 1.5%. See http://pubdocs.worldbank.org/en/795101541106471736/IBRDCountryVotingTable.pdf and https://www.imf.org/external/np/sec/memdir/members.aspx.

9 In the naming of clubs, the number following the "G" rarely coincides with the actual sum of participants.

10 Foch (2013).

the other EDs within the IMF and the World Bank, circulates the discussion notes that serve as a basis for negotiations and establishing common positions. When deemed necessary, the position that has been devised is forwarded to the Managing Director of the IMF and the President of the World Bank. These coordination efforts require important staff and means: 30 officials are sent to the IMF by the USA to help its representative, 40 in the case of the North-Baltic States, and much more by European members as a whole.[11]

Further, according to one study,

> in coordinating negotiations on global financial monitoring in the aftermath of the Mexican and Asian financial crisis, specific IGOs [inter-governmental organizations] were deliberately selected for their members' characteristics, so that representatives of G7 members would outnumber non-G7 members, and hence be able to influence the outcome.[12]

11 Ibid.

12 Dowling/Yap (2007).

Love and hate between the UN and the Bretton Woods institutions

During the 1980s and 1990s the programmatic split between the UN and the Bretton Woods institutions continued. On the one side the UNDP started to publish its Human Development Index in 1990, measuring progress also with social indicators and not just economic growth, the Earth Summit in 1992 officially endorsed the concept of "sustainable development" and kicked off global negotiations on climate change within the UN. The seventh commitment of the Social Summit in 1995 stated that structural adjustment policies "should include social development goals … give priority to human resource development (and) promote democratic institutions".[13]

But as the UN system articulated a post-Cold War agenda based on the hope for a peace dividend, the funds to implement those decisions were not provided to the general budget but to targeted extra-budgetary funds, while the G7-controlled World Bank was encouraged to encroach onto spaces that were hitherto reserved to specialized UN agencies.

13 United Nations (1995).

Box II.1

Let the rich decide on taxes

With headquarters in Paris, the Organisation for Economic Co-operation and Development (OECD), was founded in 1961 by 18 European countries, the USA and Canada to coordinate their economic development efforts. It currently has 36 member countries and its 'accession' process has been seen as a 'graduation' out of the status of developing country. Yet Chile acceded to member status in 2010 without abandoning its membership of the G77.

The OECD can be considered to be a 'global governance club' in that it explicitly aims at setting standards that will become universal. Ultimately, non-members have to face a 'take it or leave it' choice in relation to those norms, without much chance of negotiating them. While OECD negotiations towards a Multilateral Agreement on Investments collapsed in 1998, the OECD is playing a similar role in global tax issues and it is revising its definition of official development assistance (ODA), as well as creating a new controversial measure of Total Official Support for Sustainable Development (TOSSD), both intended to allow more support for donor country private investors to be accounted as aid. Further, the OECD is the de facto secretariat of the G20.

Box II.2

The Billionaires' Club

The European Management Forum, founded in 1971, changed its name to World Economic Forum (WEF) in 1987. Its yearly meetings at the Swiss ski resort in Davos attract billionaires, heads of State and international organizations and different celebrities. This composition is reflected in its board, which includes the CEOs of Nestlé and Alibaba (among others), several acting ministers and the heads of the OECD, the IMF, the World Bank and the Inter-American Development Bank.[1]

In spite of being a Swiss foundation, in 1975 the WEF signed a Host Country Agreement with the Swiss government, thus gaining formal status as "International Institution for Public-Private Cooperation".

The WEF has been championing multi-stakeholderism since its creation, initially as a model for corporate governance, taking into account the interests of all affected and not just of the shareholders, but the idea later evolved into a model for global governance that would give corporations a major role in macro decision-making.

In 2018 the WEF warned that "the current global governance system is in flux as the centrality of global institutions is weakened, and nation-states are reasserting their powers".[2]

1 See www.weforum.org/about/leadership-and-governance.

2 See www.weforum.org/agenda/2018/09/we-need-a-new-framework-for-global-governance-here-s-how-we-could-build-one/.

In the 1950s and 1960s, the focus of the Bank was the funding of large public infrastructure projects, such as dams, electrical grids, irrigation systems and roads. The agriculture sector became a major focus in the 1970s, and then, according to the Bank's official history page, "development projects reflected people-oriented objectives rather than exclusively the construction of material structures. Projects related to food production, rural and urban development, and population, health and nutrition were designed" and "in the 1980s, the Bank continued to enlarge its focus on issues of social development…, including education, communications, cultural heritage, and good governance".[14]

By 1999 the neoliberal TINA[15] impulse seemed irresistible. The World Trade Organization, created in 1995, was fast liberalizing trade in goods and services (while at the same time enforcing and expanding the monopolistic intellectual property rights of corporations) and the OECD, frequently called 'the rich men's club' (see Box II.1) had opened negotiations around a proposed Multilateral Agreement on Investment.

Former UN Secretary-General Kofi Annan went to Davos to announce at the World Economic Forum (see Box II.2) the creation of the Global Compact, a voluntary initiative designed to give business leaders access to UN meetings in exchange for an unverified commitment to adhere to some human rights principles and environmental practices.

That same year, Kofi Annan appointed then World Bank vice-president for External Affairs Mark Malloch-Brown as UNDP Administrator and head of the UN Development Group that coordinates all other development agencies.

14 See http://www.worldbank.org/en/about/archives/history.

15 "There Is No Alternative," a slogan popularized by former UK Prime Minister Margaret Thatcher.

Memoranda of Understanding were signed between the UNDG and the World Bank to align the country assistance strategies of both institutions, thus renaming Structural Adjustment Programmes (SAPs) as "Poverty Reduction Strategy Papers" (PRSPs). The PRSP "can be seen as the repackaged form of an SAP, with modifications in social content and emphasis on the issues of national ownership and consultation",[16] thus meeting the demands for "adjustment with a human face".

Meanwhile, experts from the G7-controlled World Bank and IMF, plus the OECD and UNDP, figured the expected global extreme poverty reduction of those plans into a set of six targets, first published in July 2000 in a joint brochure[17] and later, with the addition of an environmental target and some vague responsibilities of developed countries, collated as an annex to the Millennium Declaration.

The resulting Millennium Development Goals (MDGs) were the most successful example of the impact of club governance on the United Nations, as they shaped the development discourse and practice for 15 years without having ever been negotiated or endorsed by an inter-governmental process at the UN.

Crisis of multilateralism or crisis of clubism?

The 2030 Agenda, in contrast, is the result of years of negotiations and consultations with unprecedented levels of participation, thus enjoying wide political support and legitimacy, even when key issues around measurement and assessment, the global indicators framework and the role of partnerships are still unsolved and subject to intense behind-the-curtain politicking.

After the adoption of the 2030 Agenda, the emergence of national chauvinism as a major political force in many countries has raised concerns about the 'crisis of multilateralism'. While it is true that the UN is frequently attacked by the right-wing anti-globalizers, the operation of 'club governance' and particularly the G20 and the G7 are suffering even more. The G20 has been unable to reach any major decisions after its first year of functioning at heads of State level. Further, a detailed comparative analysis of actual policies has shown that the protectionist and 'beggar thy neighbour' policies that the G20 was created to avoid are more frequent among G20 members than among other countries: "When faced with the same systemic economic crisis the governments that pledged at G20 summits not to erect new trade barriers and the like in fact raised them more often than those that made no such pledge."[18]

A similar credibility crisis has hit the G7 even more, as its members have colluded over almost every important decision on trade and finances since 2016. The constituent like-mindedness is clearly not there in the last two years and while many actors and observers of global governance seem to be just holding their breath and waiting for what they regard as 'normalcy' to return, this is not a sure bet.

Both multilateralism and club governance are in crisis simultaneously, but for different reasons. The UN system suffers not from lack of legitimacy but from a lack of authority, as the G7 and other 'clubs' unduly ignore or circumvent multilateral decisions and norms. The club governance mechanisms never had any legitimacy and now lack the essential like-mindedness that brought them together and are frequently unable to reach consensus. The generalized global chaos that threatens to emerge is precisely the kind of scenarios that the United Nations was created to avoid, three quarters of a century ago.

16 Heidhues (2011).

17 IMF (2000).

18 Evenett (2013).

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Roberto Bissio is Executive Director of the Instituto del Tercer Mundo (Third World Institute) and coordinator of the Social Watch network.