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1 RELATIONS BETWEEN THE BRETTON WOODS INSTITUTIONS AND THE UN

This question is specifically referred to in the General Assembly resolution requesting the Secretary-General to submit his report on an Agenda for Development and also in the draft report itself. It clearly has important institutional implications and is likely to be an important area of discussion during the coming years.

Legally the IMF and World Bank are specialized agencies of the UN and their Terms of Agreement provide for guidance by the UN General Assembly and ECOSOC. However this has clearly become unrealistic. The current practice of distinguishing a 'Bretton Woods system' from the UN system, although legally incorrect, reflects reality. The main reason why the financially powerful countries have shifted their support to the Bretton Woods (BW) system, and why their support for the UN system has eroded, lies in the different voting methods governing the two systems. The Bretton Woods system is essentially based on the principle of one dollar one vote – voting proportionate to financial support – whereas the UN system is based on one country one vote. This gives the financially powerful countries control of the Bretton Woods institutions which they therefore consider as 'their own'. The UN system, after the first few years, now has a built-in majority of developing countries.

The preference for the BW system is rationalized on the grounds that these institutions are more effective and have recruited more skilled and competent staff. But, to the extent that this is true, it may be taken as a consequence of lack of support and lack of resources for the UN system. This creates a vicious circle: Alleged lack of competence leads to withholding of resources which in turn makes it more difficult to recruit and keep competent staff or undertake effective action which will then be taken as a reason – or pretext – to withhold resources. By contrast, the BW system can be said to benefit from a benevolent circle.

We must assume that the unequal distribution of support and resources between the two systems will

continue as long as this difference in voting systems persists. It is therefore suggested that thought be given to ways of moving the two voting systems closer together, i.e. moving the BW voting system in the direction of the UN system, while moving the UN system in the direction of the BW system. It is realized that the UN system of one country one vote is embodied in the UN Charter and greatly treasured by the developing countries. But what is suggested here is not a unilateral abandonment of this voting system but a package: what the developing countries lose in the UN they would gain in the BW institutions. But the main point is that a rapprochement of the two voting systems would induce the financially powerful countries to distribute their support and resources more evenly.

It is often claimed that the UN voting system is 'more democratic' than the BW system, but this is not entirely clear. The system of one country one vote gives equal voting powers to very large countries and to tiny countries, and thus discriminates against people in the larger countries. The UN Charter begins with the words: 'We the peoples ...', not 'We the countries' or 'We the governments ...'

There are some precedents for voting systems which represent a compromise or combination of the UN and BW systems. One example is in the Global Environmental Facility (GEF); another example is the proposed voting system in the World Trade Organization (WTO). In both these cases, the essential feature is a requirement that a majority both of member countries and of financial contributions is required. While this carries a danger of more frequent stalemates, it emphasizes the need for compromise between North and South and should give all concerned confidence that their interests are safeguarded.

It may seem Utopian to propose such a far-reaching change involving changes in the Charter and Terms of Agreements of the various institutions. However, the suggestion is put forward here in the belief that without a change in the direction here proposed the present unsatisfactory distribution of support and the erosion of UN support is likely to continue.

Meanwhile, a number of smaller and readily implementable suggestions can be made to mitigate the erosion of the status of the UN in relation to the BW institutions. It is clearly an anomaly that while the President of the World Bank and Managing Director of the IMF address the ECOSOC there is no reciprocity: the Secretary-General is not represented at the annual meetings of the World Bank and IMF and does not bring the views of the UN to the attention of the Directors of the Bank and Fund. There is no reason why the Secretary-General or President of ECOSOC should not be the voice of the UN heard at the annual meetings of the Bank and Fund and why in the documentation for these meetings the UN should not bring relevant decisions of the General Assembly and ECOSOC to the attention of the Directors. Moreover, the Bank and Fund might well be requested to submit an annual report to the General Assembly and ECOSOC to explain what attention they have paid to the resolutions of the General Assembly and ECOSOC, in accordance with their Terms of Agreement. The present speeches by the President and Managing Director to ECOSOC do not fulfil this function – they are more in the nature of expressing their views about the current situation and action required. There is no reason why they should not continue to have this opportunity, but it is suggested that the UN should have the same opportunity at the annual meetings of the Bank and Fund.

What is said above about the Bank and Fund would equally apply in future to the World Trade Organization.

2 A NEW INTEGRATION OF PEACE AND DEVELOPMENT

The old dichotomy of emergency (largely connected with conflict today) and development becomes more and more questionable. The roots of conflict are not only military and political (within the mandate of the Security Council), but also (and more fundamentally) economic and social. This raises questions of preventive action (already touched upon in *Agenda for Peace*) and of the proposal to create an Economic Security Council contained in the 1994 issue of the UNDP Human Development Report and possible alternatives.

The proposal for an Economic Security Council would raise difficult questions. Since it would create a new principal organ of the UN, it would

require a change in the Charter. It would also raise questions of size and membership (although such questions might have to be faced anyway in connection with the present Security Council). Presumably there would be no veto in an Economic Security Council. Given the difficulties of creating an entirely new organ, perhaps priority should be given to considering alternatives. The simplest alternative would be to extend the mandate of the present Security Council to deal with 'threats to peace' also preventively and in the form of economic and social emergencies – before they erupt into actual military conflict. In fact this may not need a new mandate at all, but could be treated as a clarification of the present mandate – in that case it would not need any legal change at all. However it may be considered that such an extended mandate should not be subject to the present veto and non-military (not-yet military) threats to peace might be dealt with by a separate committee of the Security Council – a parallel to the present Military Committee.

The other alternative – also discussed in the *Human Development Report 1994* – would be to strengthen the capacity of ECOSOC to deal with such non-military threats to peace. For this purpose a special new high-level segment of ECOSOC could be created, with smaller membership than the present ECOSOC, and meeting in continuous session with periodic high-level meetings.

Whatever solution is adopted there is now a consensus that there is a gap to be filled. *Agenda for Peace* has drawn attention to the opportunities and need for preventive action in the case of tensions (often triggered by economic and social emergencies) which can be foreseen to carry acute dangers of military conflict. There is also a present gap in dealing with the other end of the development/emergency continuum. The question of reconstruction and rehabilitation after conflict should also be tackled by an Economic Security Council or whatever alternative is preferred. This may involve new relations with the Bretton Woods institutions, especially the World Bank. As indicated by its official title – International Bank for Reconstruction and Development – the World Bank was expected to be strongly involved in post-war reconstruction. In the event, this function did not develop, largely as a result of being overtaken by the Marshall Plan, and then withered away as a result of preoccupation of the World Bank first with specific development

projects and later with structural adjustment programmes and debt collection. Perhaps the time has come to restore the reconstruction functions of the World Bank in close collaboration with whatever UN mechanism carries out the functions proposed for the Economic Security Council.

A special concern of the Economic Security Council (or its alternatives) should be the question of food security. The abolition of the World Food Council has created a gap and the problem is further accentuated by the GATT Agreement and the creation of the WTO. By general consensus, this will lead to a rise in international food prices and a reduction in food surpluses. Thus the need for food aid or other forms of providing food security for poor food-importing countries, especially in Africa, will increase, while at the same time the cost to donors of giving food aid will increase and surpluses will diminish, thus reducing the willingness to give food aid. This creates a situation calling for international vigilance and action which should be the concern of the UN in collaboration with the new WTO. Among the actions required would be the activation and enlargement of the International Emergency Food Reserve, including the pre-positioning of food stocks in danger spots in advance of actual conflict.

3 THE NEED FOR GLOBAL ECONOMIC MANAGEMENT

In the original Bretton Woods proposals global economic management was assumed to be in the United Nations (General Assembly and ECOSOC). Although at the time of Bretton Woods the UN did not yet exist (being created a year later at San Francisco) its creation had already been announced and the broad outlines of its organization were under negotiation. This impending arrangement was also reflected in the Terms of Agreement of the IMF and World Bank which made them specialized agencies of the UN and provided for guidance by the General Assembly and ECOSOC. The IMF was visualized, with much larger resources than actually materialized, as a powerful instrument of dealing with financial, monetary, and balance of payments disequilibria, with an overriding objective of full employment, and with many of the functions of a world central bank. The World Bank was established on a project basis and not visualized as being involved with macroeconomic policies or structural adjustment problems.

In the event today, whatever macroeconomic global management exists has been moved out of the multilateral system altogether and is now in the hands of the G7. This cannot be acceptable as a satisfactory solution of the problem: the G7 represents little more than 10 per cent of mankind and even with the possible future addition of Russia it would still only represent a small minority. Moreover it is clear that the G7 – quite apart from insufficient attention being paid to the implications of macroeconomic measures for the rest of mankind, especially the developing countries – has not even proved able to promote satisfactory coordination among the 7. There is now spreading acceptance of the fact that global economic management must be made more democratic and move back in some way and to some extent to the multilateral framework visualized at Bretton Woods and San Francisco.

Simple measures have been proposed which would not directly involve the UN institutionally although they would be clearly welcome to the UN. The principal such measure is an enlargement of the G7 to make it more representative and effective, and to include such developing countries as Brazil (for Latin America), Nigeria (for Africa), India (for Asia), and Eastern Europe, perhaps on a rotating basis. The inclusion of Russia is already on the agenda.

There are however other proposals which would concern the UN more directly. One suggestion would be for the Secretary-General or his appointed representative to participate in the discussions of the G7, more or less as a spokesman for the majority of mankind now excluded and as a guardian of their interests. Another proposal is for the UN Secretariat to be involved in the preparation of documentation and agendas for the meetings of the G7, with a view to drawing attention to neglected areas, urgent problems, and particularly problems concerning the developing countries (such as the debt problem, deteriorating terms of trade, etc). Mr Sutherland, the then Director General of GATT, in a letter to the *Financial Times* (7 June 1994) has proposed that the new WTO, jointly with the World Bank and IMF, should 'evolve a single coherent statement on issues of economic concern for the G7. It may be suggested that this would be a proper task for the UN (which need not exclude submissions by the IMF, World Bank or WTO, and should certainly involve consultation and collaboration with these institutions). The restoration of the objectives of growth and full employment, as well as

the newly prominent objective of poverty reduction, should be the special task for the UN to keep in the forefront of the G7 discussions. The implementation of decisions at the recent Social Summit should be brought by the UN to the agenda of the G7 and firmly kept there. The creation of an Economic Security Council (or the alternatives suggested above) would in itself serve to bring global coordination back to the multilateral forum where it was intended to be, at least in the area at the cutting edge of development and emergency.

4 STRENGTHENING THE RESOURCES OF THE UN

As previously explained, the question of resources is closely intertwined with questions of political support and competence. In the case of the UN this intertwined complex threatens to take the form of a vicious circle. This circle could be broken by reviving political support from powerful countries, perhaps at the price of a change in the UN voting system. Another way of breaking the vicious circle is by giving the UN independent resources which would enable it to tackle the problem for which it has responsibility more effectively and promptly (and perhaps in doing so then elicit further support and contributions, thus breaking the vicious circle). In this connection, the possibility of providing resources for the UN from some form of international taxation is now increasingly raised and is now firmly on the international agenda.

Various forms of international taxation have been mooted. Perhaps a leading candidate for consideration is the proposal for a tax on international currency transactions. This has been supported most recently by the Nobel Laureate, James Tobin, in the *Human Development Report 1994*. Given the current huge volume of foreign exchange transactions, a very small tax rate would yield a large revenue - for example a tax of 0.05 per cent would yield \$150 billion a year. Such a tax rate would be too small to deter genuine trade or capital movements, but it would have the merit - in addition to providing resources for international purposes - to deter disruptive speculative movements and to restore greater autonomy both to national monetary policy makers and also to the IMF. This could be expected to result in greater weight being given to economic fundamentals and less to personal enrichment by functionless gambling. Other international taxes have been proposed including

taxes on air travel, exploitation of common resources such as the Arctic Seas, etc. A system of tradable permits for pollution would also lend itself well to help to finance international purposes, including the UN (although the basic purpose of such proposals is to provide funds to compensate victims of pollution). This last proposal of tradable permits has the advantage of applying market principles ('the polluter pays'), thus helping to 'get prices right' by internalizing the cost of pollution. Given the present support for market orientation in important quarters, this idea should have some appeal and deserves serious consideration.

The idea of international taxation is by no means new. In his original memoranda in preparation for the Bretton Woods Conference, Keynes had proposed a tax on balance of trade or balance of payments surpluses, at the rate of 1 per cent a month. His idea was that this would be an inducement to surplus countries to increase their imports thus helping in the achievement of the full employment objective. At the same time, the yield from this tax would provide resources for deficit countries enabling them to maintain their imports, further contributing to full employment. At the time, this proposal vanished without a trace, but the present recurrence of unemployment, balance of payments disequilibria, and the need for finding resources for international purposes might serve to revive interest in this proposal.

Even without such novel instruments, UN resources could of course be increased if member countries paid contributions more promptly, if international commitments such as the 0.7 per cent aid target, commitments as a result of the Rio Conference resolutions, contributions to the International Emergency Food Reserve, etc were more fully and more promptly discharged. This would require concerted action by the contributors since otherwise we would face a 'prisoners dilemma' situation, with each country waiting for the others to contribute.

There are also other latent international resources which could be activated and used for the benefit of international action, specifically of UN action. There is the power, unused since 1981, to issue Special Drawing Rights (SDRs) through the IMF. The Managing Director of the IMF is himself on record as advocating an issue of SDRs to the extent of \$36 billion. If part of this issue could be reserved for international purposes, or alternatively if the

richer member countries of the IMF could forego their quota of SDRs for the benefit of the UN or for other agreed international purposes, the problem of resources would be that much nearer to a solution. Similarly, there is latent international capital available in the gold reserves held by the IMF – the sale of some of these reserves is also increasingly suggested. Ultimately this comes back to the question of political will. Once the principle of international taxation or tapping of latent international resources is accepted, the detailed forms of such taxation or mobilization should be amenable to international agreement.

5 SPECIFIC ROLES FOR THE UN

The present role of the UN system in the narrower sense – excluding the Bretton Woods system – is now often defined as looking after the 'soft' parts of development: social factors, poverty reduction, employment, vulnerable groups, women, children, refugees, war victims, health, etc, while the Bretton Woods system would look after the 'hard' facts of development, i.e. money, finance, trade, as well as macroeconomic policies, dealing with debt problems etc. Such a division of labour between 'hard' and 'soft' areas is also mentioned in the Secretary-General's Report on an **Agenda for Development**. There would be a great deal of scepticism among development professionals about such a division of development issues into 'hard' and 'soft' issues. Moreover, the implication that the hard issues are more important and the real core of development and require greater competence to deal with is out of tune with more recent insights into the development process. These recent insights tend to place increasing emphasis on human capital and human resources – presumably in the soft area – as distinct from physical investment and financial resources presumed to be in the hard area. From that point of view, the UN system could be quite satisfied with responsibility for the allegedly soft part of development, provided that both parts were taken equally seriously and equally supported with resources. That however is not the case. Insofar as the soft parts of development – poverty reduction, health, education, etc – are taken as seriously as they should be, they are then undertaken by the Bretton Woods institutions which command the necessary support and resources and are presumed to have competence derived from their experience of dealing with the hard parts of development.

A good example is the field of technical assistance. Under the 'Kennedy Compromise' of around 1960, soft financial aid was allocated to the World Bank (IDA) while technical assistance and food aid were allocated to the UN (UNDP and WFP). The UNDP was supposed to be the chief funding agency and coordinating agency for technical assistance throughout the UN system. Yet today the World Bank gives as much or more technical assistance than the UNDP and the IMF is rapidly expanding its technical assistance operations without having to rely on funding from the UNDP. In an effort to restore the role of the UNDP, attention is now focused on enhancing the role of the UNDP resident representatives to that of UN coordinators or even UN ambassadors. Similarly, there is a parallel effort to place the technical assistance activities of UN agencies into a country-programming framework, devised and negotiated by the UNDP. All such proposals may improve the efficiency and coherence of UN technical assistance and enhance the role of the UNDP, but they do not solve the problem of relationship with the Bretton Woods system. To give the UNDP or UN representative the enhanced role aimed at, the suggestion may be made that the UN coordinator should take part in the discussion of stabilization and structural adjustment programmes; perhaps representatives of specialized agencies should also participate. Some of these programmes have a crucial impact say on agriculture and health, and presumably the field officers of the FAO and WHO have more concrete country knowledge and competence than Washington-based macroeconomists. (Similarly on the governments' side, one would wish for these negotiations not to be limited to ministries of finance and central bank officials but to include representatives of the ministries of agriculture, health, etc – but that is a matter for governments rather than the UN system.)

In pursuit of this greater coordination of technical assistance and operational programmes by the UN at the country level it has been proposed that all these programmes (UNDP, WFP, UNICEF, HCR, etc) should be merged into a single institution. However, this proposal ought to be resisted. It could make matters worse by depriving UN operations even of some of the support which they now enjoy. Organizations like WFP, UNICEF, and others have established a clear identity of their own, their concrete purposes attract both political and financial support; they have backing in public opinion which in the long run may influence

governments of contributing countries. It would be counterproductive to throw all this away by a merger into one large omnibus institution without

the distinctive identity and distinctive appeal of the present agencies.