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JACQUES DELORS'S VISION OF AN ECONOMIC SECURITY COUNCIL

Statement by Bertrand de Largentaye, Notre Europe at "The Political Economy of Governance", an international conference organised by CEMF (centre d'études monétaires et financières) at the Université de Bourgogne (Dijon, France), 2-3 December 2005

The idea of an Economic Security Council is not new. Jacques Delors first presented it in an article published by "Le Monde" on 31 August 1993 and then in the framework of the report of a commission chaired by former Swedish Prime Minister Carlsson in 1994. It is an ambitious objective, which the European Union could promote for better global governance.

1. THE NEED FOR WORLD REGULATION IN THE ECONOMIC, SOCIAL AND ENVIRONMENTAL SPHERES

For an economist, a public good is a product or a service that is freely available to all the members of a community whether or not they contribute to covering its cost, national security, justice and public order to name but three. They cannot be charged to individual citizens and they provide, for that very reason, the rationale for taxation. The concept of a global public good only makes sense if we are dealing with goals that can be quantified and monitored, such as the reduction of poverty, the availability of education for all, the improvement of public health or the quality of the environment. Access to certain public goods is being threatened by the advent of a merchandising logic which would imply that some non-tradable goods, such as education, public health and culture, would be introduced into global public circuits.

Safeguarding global public goods means setting up regulations as well as a system ensuring that they are effectively upheld. The lack of global regulations goes a long way towards explaining why global public goods are threatened. The expansion of trade and the move towards more open markets have led to the emergence of global markets and to a converse phenomenon, the drying up of traditional sources of regulation, be they national or regional. One should be fully aware of one of the critical political choices facing modern liberal democracies, i.e. the choice between a world of competing regulations and a world where regulations from different sources are negotiated and gradually made more consistent until, in the final stage, agreement is reached on a single standard. Unfettered competition between different regulations is a race to the bottom where the most undemanding regulation is sure to win, a situation that is not all that different from one featuring no regulations at all. This is a real risk in the financial field where the strength of capital markets has grown at the expense of that of governments and central banks.

Governance can be understood to mean regulation through a set of rules. World governance can come across as a quest for a collective world order involving a number of players with no single player in a dominant position. World governance can be defined as a collection of processes whereby collective rules are elaborated, legitimised, implemented and then monitored.

THE RANKING OF RULES AND REGULATIONS, AN ISSUE THAT ARISES BECAUSE OF THE PLURALITY OF COLLECTIVE PREFERENCES

The elaboration of rules rapidly leads to the question of their ranking, a question closely tied to the ranking of collective preferences, preferences having to do with the environment, with community work and medical standards, with competition and food security rules... The difficult part of the exercise is due to the fact that these rules vary from country to country and are therefore likely to be conflicting. The risk is that conflicting collective preferences will lead straight to a return to protectionism. To prevent that from happening, the world community needs to identify global public goods and to collectively guarantee their continued existence, notably by getting operators to incorporate their costs before passing them on to consumers.

Establishing an agreed ranking of regulations is the fundamental problem of global governance. When a trade regulation gets in the way of, say, an environmental regulation, which is the one that will prevail? This kind of conflict will arise and an arbitration system needs to be set up.

There now exists, in an admittedly small field, the field of trade, an interesting precedent, the dispute settlement mechanism put in place at the World Trade Organisation as a consequence of the Marrakech agreements. The WTO's dispute settlement mechanism's rulings stand by themselves, while the GATT's dispute settlement mechanism's rulings were subject to political validation by the Contracting Parties. The WTO is the only international institution to have an incorporated legal branch, which is at once independent and impartial and the rulings of which are compulsory. To some observers, it marks the beginning of a new global legal order.

ECONOMIC AND MONETARY REGULATION PROBLEMS AND ASSOCIATED DEVELOPMENT ISSUES

Economic and monetary regulation is neither non-existent nor non-operational in today's world. But it was conceived in such a way that the different bodies of rules it incorporates are too autonomous, too technical, too function oriented one could say: they do not easily fit into the larger picture, into the grand design of a mechanism the purpose of which would be to ensure sustainable development on a global scale. Furthermore there is often a growing gap between the goals that were originally assigned and the goals that are assigned today, and this gap goes some way towards explaining why the relevant organisations do not seem as fixated on the global interest, or on working toward the global interest at their particular level, as they once were.

The International Monetary Fund has often put financial criteria which favour banks and creditors looking for ways of ensuring repayments and of freely transferring funds according to their interests ahead of economic criteria. It is not even-handed in the stabilisation and adjustment policies it advocates in that it spares the one country responsible for the most serious disequilibria.

World economic governance is hampered by a lack of coordination among UN agencies and by the excessively formal nature of proceedings at the G-8, as well as by the fact that the constituency of this group is far too narrow. The UN's Economic and Social Council (ECOSOC) has become just another bureaucracy and hasn't taken up the role of central coordinator of the UN's wide-ranging economic action, nor that of an engine of that action. Under such circumstances, the organisation's economic agencies have taken up a life of their own, without the cohesion that would have resulted from the existence of an all-encompassing view of their activities. The G-8 has also become more bureaucratic, and its legitimacy as a provider of world economic governance has always been in doubt because of its membership, which does not include developing countries.

2. ADVOCATING AN EVOLVING STRATEGY

SETTING UP AN ECONOMIC SECURITY COUNCIL WITH MEETINGS AT THE HIGHEST LEVEL ONCE OR TWICE A YEAR

In the current set-up of the United Nations, one body is missing, a body designed to be accountable for sustainable development. The concept was defined in the Brundtland report of 1987 as a form of development which catered to current needs without compromising the ability of future generations to cater to their own, future, needs.

The proposed new institution, which could be called the **Economic Security Council**, **or the World Council for Sustainable Development**, would be the guarantor of economic collective security. It would be the axis around which a global system of economic regulation would revolve. The present Security Council does not take into account the economic and social causes of conflicts. The new Council would be **in charge of supervising global regulation**. It would assume responsibility for a collective rule each time a general economic interest, a global interest, would be identified. It would see to it that international organisations work in a coherent manner. Global regulation would be in the hands of these different institutions, each one being responsible for its own area of activity. Thus the IMF, the IBRD, the WTO, the FAO, and the WHO would become autonomous regulatory agencies in much the same way as the ILO, an organisation with a regulatory purpose. The Council would see to it that the different agencies acted as effective guardians of the sectors entrusted to them, never lapsing into becoming instruments of the associated vested interests: their mission in other words would be to act as watchdogs, not as lapdogs. The new Council would be in a position to arbitrate conflicts between the different agencies. In a more general way it would be called upon to **strike the right balance between equity and efficiency, between the short and the long run, and between growth and the environment**.

The Economic Security Council could also be in charge of some types of monitoring. It could for instance be habilitated to issue warnings when a country or an organisation was straying from an agreed regulation. Otherwise the stateless law model would run the risk of turning into the utopian idea of right without might, or of law without the power of enforcement. For the Council's authority to be immediately recognised and accepted, one would have to get it to convene at the highest level of Heads of State and of Prime Ministers, once or twice a year. The Council would thus be in a good position to replace the G-8. The Economic Security Council would be habilitated to act in emergency situations, to deal with natural catastrophes, with famines or with the collapse of a financial system, for instance. In the longer term, it could conceivably be assigned more ambitious goals, in the monetary, tax or environmental fields.

THE NEW ECONOMIC SECURITY COUNCIL WOULD AT FIRST GO THROUGH AN APPRENTICESHIP STAGE, AND WOULD COME OF ITS OWN ONLY GRADUALLY, THROUGH A LEARNING BY DOING PROCESS, WHICH WOULD SEE IT IN ACTION TRYING TO SOLVE THE PROBLEMS OF GLOBALISATION, AND DRAWING LESSONS FROM ITS OWN EXPERIENCE

The current Security Council's membership is no reflection of today's realities. On the major economic issues, where the stakes are high and can even include the cause of peace, the largest emerging nations as well as the world's regional organisations, in other words the parties whose interests are most directly involved should be given a seat at the top table. Europe should be more prepared to speak as a single entity than it is on purely political subjects. It would also make sense that non-governmental organisations and other expressions of civil society were brought into the picture through some form of representation.

Nevertheless, from Jacques Delors's point of view, it would be important for **membership to remain restricted** if one is to avoid the pitfalls of bureaucracy and to keep the Economic Security Council as a going concern. As he sees it, one would enlarge the G-8 to take in the largest newly industrialised countries (China, India, Brazil…) as well as the world's regional organisations.

The way the Economic Security Council would work would **change over the years**. For the European Commission's former president, the new Council, at least at the beginning, would not be a decision-making body. It would be a consultative body, open to discussions, engaged in research and in putting forth proposals. The chairmen of the regional organisations would sit next to the Heads of State and Prime Ministers. One can imagine that after a **trial period**, the Economic

Security Council would be entrusted with wider responsibilities, involving financial supervision, coordination and arbitration.

THE NECESSARY COOPERATION WITH THE SPECIALISED AGENCIES

The **specialised agencies, starting with the IMF, the World Bank and the WTO, would work in close association with the Economic Security Council**, by providing it with analyses, assessments and projections. The managing directors of these agencies would report to the new Council in much the same way as they periodically report to the British House of Commons. Projects to make the international monetary system more equitable will not fail to make a comeback onto the reform agenda after having been left behind for several decades. Over the long run, world trade will have to be based on something stronger and more stable than the capacity of a single country to turn its debt into a world currency and to acquire real foreign assets in the process. The questions arising as to the meaning of successive trade liberalisation exercises, and as to the very concept of comparative advantage in a multiple currency and unstable exchange rate context, are more topical than ever. The gold standard that existed at the time of the previous era of globalisation at least had the advantage of being universal and of not being an instrument for the surrender of real assets against I-O-Us. So long as we will be disinclined to challenge the nature of the paper currency we have today, the central question of a reform agenda will remain that of the identity of the body with the power to issue a world currency. The various monetary standards that can be envisaged will have to be screened to determine which is the one scoring highest on an equity scale.

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Institutional reform is no substitute for political reform. In the absence of the necessary political will, a project, however well thought out, will never make it into the real world. It is too often the case that questions of governance are set in terms of institutional architecture, with the degree of sophistication of such terms often hiding a lack of reflection on the ultimate goals of the exercise. An institutional formula will never replace a lack of political will.

At Dumbarton Oaks the United States under Franklin D. Roosevelt launched the idea of the United Nations. It is clear today that the world body is in need of a major overhaul and that the United States is not in a position to take the lead. Will Europe step forward?