

Global governance – a European perspective

by

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Thank you for inviting me here to this conference, which is dealing with what I regard as the most important political issue of all, in today's world: The question of leadership and global governance. When saying this, I am not primarily speaking as deputy governor of the Swedish Riksbank/Central Bank but rather as an individual who has been involved in politics and social change more or less my entire life.

I am of course not involved in party-politics any longer - it cannot, as you know be combined with the role of deputy governor. In the 70s and 80s I was working for the Swedish and international trade union movement, in the 90s I was a social democratic MP and during the 2nd part of the 90s, I was provincial governor of a region in the north of Sweden - the region where I was born. It was also there I started a foundation (Frejas Fond) in order to - according to its statutes - deepen the democratic processes in a globalised world and promote sustainable development both at local levels and globally.

So why am I here today? When reflecting on my personal relation to the topic of today's discussion I found three distinct and very concrete reasons for taking a break from my vacation in southern France this week-end:

The first has to do with my professional role and the topic of discussion this afternoon – i.e. Global Public Goods, of which financial stability and economic development is one. The second reason has to do with an initiative I have taken recently to start a project in Sweden called **Global challenge** (which I soon will tell you more about) and thirdly it has to do with a dialogue I am having with the Swedish commissioner to the EU, Margot Wallstrom about her Plan D for Europe – D for democracy, dialogue and debate.

Let me start with the IMF: At the Annual Meetings this year, the question of governance of IMF came up very clearly on the agenda as part of the adjustment of the fund to a world which has changed fundamentally since it was started, 60 years ago. In the beginning IMF was made up by 40 rather well-developed countries, today it embraces nearly all countries in the world. (among them 53 African countries and a large number of emerging economies.) The new members clearly have very different needs from the original members and even more important, the development of massive international markets in private capital has transformed its role, both versus the developed and the less developed members.

In the paper presented to the board of governors this autumn Mr de Rato, the MD of IMF, identifies **globalisation** as the the new organising principle of the fund. So far it has been the nation-state that has been the building block of IMF, the idea has been that the sum of all nation states make up the world. But we are not living in this world any longer. To quote M. Castells in his INFORMATION AGE, we used to belong to the space of places, but now we are living in the Age of flows.

It is in the relation between regions and nations that the new vulnerabilities exist and where the Fund needs to play its new, modernized role. It means among other things a change of priorities for the fund: Less focus on individual countries, unless they have a systemic importance and more focus on regional and global interdependencies. To this effect IMF will publish an annual report on globalisation, beginning next year.

The most obvious vulnerability in the world economy today is related to the size of current account imbalances and the associated risk of disorderly adjustment. First of all this situation would not have been possible without globalisation, The global savings pool would not have been available for the the US to finance its huge deficits, had it not been for global, financial integration. Secondly, in order to avoid further building up of huge risks, the world would need negotiated agreements and close cooperation between the important actors: US, the Far East, notably China, Japan - and Europe.

There will surely be more risks emerging in the future. It is becoming increasingly obvious that we need a global structure to deal with economic and financial imbalances in the world as interdependencies continue to grow. Luckily enough, we already have such a structure, the IMF. But IMF doesn't have a governing structure which makes it a legitimate and representative body. If a crisis would occur it would most certainly be handled by the "Gs", the informal and non- representative bodies like G8 or G20.

For IMF to assume the role it should have, its governance has to be addressed in a serious manner, which means a complete overhaul of quotas, voice and representation in the IMF. The governing structure must change in fundamental ways. It means among other things a larger say for Asia and it should mean, according to my view, a consolidated European chair - that Europe ideally should be represented by one voice (or maybe two to start with) rather than as it is now, ten different constituencies. This in turn would result in a smaller, but more effective board.

All around the world there are regional, cooperative bodies, some rudimentary, some well-developped such as the EU. If global organisations like the UN, the IMF and the World Bank would base their membership on a federal structure, i.e. **regions** instead of nation states - perhaps 8-10 regions in the world - a large number of benefits would emerge.

The EU is probably today the most evolved regional organisation in the world, therefore it should take the lead in pushing for a reform of this kind. The reform will probably take a long time, and during that time there may be severe crises, that will give the process a push forward. The question is, must we really await new catastrophes in order to make collective reason triumph again, as it did after the 2nd world war, when EU, UN, IMF and other organisations were born?

Today's multilateral organisations do not live up to the constructive efforts that the present challenges demand. I am convinced that a **transnational economy requires a transnational cooperation to compensate for the loss of national political sovereignty.**

Instead, current international cooperation provide infinite examples of how the member states focus on national (or even personal!) interests and the preservation of (an imagined) national sovereignty. The result is often the exact opposite: The power of all is reduced in the absence of a joint ability to act.

Europe holds the key to organisational change, at least within the IMF. But it is also here the resistance to change is the strongest. EU is crippled by the dominance of nationalistic thinking within the member states, we don't seem to have enough of common identity and understanding of the necessity to take joint action. Once again, let me add that I am expressing my personal view, not a view which is shared by the Riksbank or the Swedish government. And I know that it will take time until things will change. But there will along the way probably be many partial steps towards the goal.

For any politician (or high ranking civil servant for that matter) to abandon the idea of national sovereignty in favour of global ability to take action, he/she must be of the opinion that the **result** is more important than power. And thus probably be prepared to risk his or hers own personal role or prestige. Once again, it is the quality of leadership that is the key to change. Only by giving up sovereignty can it be re-created.

My second personal reason for being here, has to do with the very foundations of democracy. New stronger global or multilateral structures are the answer only to some of the global challenges but they surely won't be democratic- and strong - unless they are based on a widespread, popular support. Besides, also local and national structures must adapt to globalisation.

Global and regional governance need not only enlightened leaders, but also enlightened citizens who want to take part in societies affairs. My second point is therefore that dialogue and understanding of globalisation must become much more widespread. Unless we have a dynamic and well functioning democracy we will continue to have the leaders we deserve.

To this effect, I (or rather the foundation, I once started) have taken an initiative to start a project called Global Challenge. Behind the project you find a number of concerned citizens who are leaders within public foundations, trade unions, employers organisations. and a number of big swedish companies. In sum we are at present 16 organisations or companies financing the project. Some of us are like me former social democratic politicians or high level public officials.

Our aim is to reach young adults with knowledge and insight into what globalisation is, both risks and - maybe even more - the potential of globalisation. We will be working jointly with other organisations, like educational entities and NGOs but also create our own meeting-places for dialogue and debate. The project is run by young people and we are on our way to start up regional networks. We have for instance organised five working groups or panels. One on Jobs and the employment opportunities of tomorrow, second on The welfare state and global competitiveness, third on Sustainable development in a longer perspective, fourth on the New threats to security and finally the fifth on Globalisation and democracy.

The “panels”, or working groups are made up of a great variety of persons, including former ministers, CEOs, students and members of the ATTAC-movement. The panels will organise seminars and meetings all over the country which will be opportunities for people to meet across boundaries, like age, expertise, class and competence.

The idea behind the project is to meet the fears felt by many for the rapid change that globalisation implies and to involve many in the discussion about what Ulrich Beck has called the 2nd modernity, the new structures needed in order to combine freedom, democracy and good and safe living conditions for all people. The greatest threat of all to this vision is, as I see it unemployment. Unemployment already appears to have become entrenched at high levels in Europe. Sweden is no exception even though open unemployment is relatively low, 5,5 %. However, if we include people on long-term sick leave and early pension schemes who in fact could be working if the labour market and incentives were different, unemployment numbers are likely to be on average European levels.

Differences in income have increased all over the world and the confidence-gap between the elite/ruling classes and the people/ordinary voters seems to be widening. A survey from November 2004 shows that Swedish citizens have very low confidence in their own politicians (13%) Confidence in CEOs of banks was 16% and in other industry leaders 19%. 86% of the respondents said that politicians and business representatives do not deserve their high pay or pension benefits. Similar surveys in other European countries give, I believe roughly the same results.

But the answer to all this is not less globalisation. The answer is different politics and a society which is organised in a different way. The big crisis in Europe is not economic but political. The vigorous No to the new EU constitution in France and Holland shows that the French and Dutch were not satisfied with the answers they had received so far regarding jobs, welfare and democracy in the new, open and enlarged Europe. (And we would most likely have had the same result in many other countries, if they had had a vote).

One conclusion that I have drawn is that when change is necessary in the long term but unpopular, in the short and medium term – like structural reforms often are – you must have leaders who not only have ideas and visions but also have good pedagogical ability to win the voters' support.

Politics has a pedagogical responsibility that often is neglected. Leadership involves being at the front, informing, educating and talking – not just listening and reflecting opinions. It was probably easier in the old days, during the so called first modernity when the citizens felt that the nation state delivered constant improvements. In our time, the demands for change can be perceived as increased uncertainty and threats of deterioration. Therefore traditional political parties seem reluctant in taking initiatives.

To this effect the project Global Challenge was started and we are very interested in establishing cooperation and contacts with other projects or think-tanks with similar ambitions in other parts of Europe. We have some contacts already with

organisations like DEMOS in UK and with a youth network on globalisation in Estonia. Last week the first book was published.

This leads me over to the third reason for being here: Plan D.

So far it seems as if the Commission has drawn the right conclusion from their failure to convince the European citizens of the value for themselves of European integration. The problem once again is that the work to convince the EU citizens must (according to present structures) be done by national leaders who do not always seem to be very convinced themselves. So far the Commission has not, as far as I know presented any concrete scheme to turn Plan D into something that is much more than a catching headline. I believe only 6 million euros is set aside for the initiative.

I think that much of the work that need to be will be done by the civil society - NGOs and concerned individuals wherever they are. However, given that civil society often is short of economic resources and that organising studies, debates, meetings on a broad and popular scale is very costly not much will happen unless resources are provided for by the public sector, governments, political parties etc within the individual nations. But will they do that? I have my doubts. At least in my country, public resources for these purposes will be limited. You don't win elections by being pro-european in Sweden.

It is therefore inevitable that the commission puts aside a sizable amount of money to realize plan D. If the initiative is to be taken seriously. What is also needed is human trans-european networks in order to inspire one another and to formulate common ideas for a more dynamic and forward-looking Europe, including formulating demands on our MEPs , the commission and our governments.

To summarize: Globalisation shrinks the scope for national policy. As a response, we need to develop new arenas and new structures for action. And to be effective these will probably take the shape of international networks between organisations - like "Global Challenge", Globus and Locus and many others. At the same time there is a lack of public arenas for a more popular European debate and dialogue. Without insight and a broad understanding of the needs for change there is a risk that both right and left populism will receive stimulus and a breeding ground. So, democracy is threatened when it is needed most. But the potential to work against such a development is enormous, for those of us who wants to take action.

Thank You for listening!