THE REINVENTING
BRETTON WOODS COMMITTEE

THE OECD
AT THE TURN OF THE CENTURY:

THE WORLD'S WINDOW
ON GLOBALIZATION

Conference Report and Recommendations

April 4-5, 1997
New York City

May 1997

CONTENTS

FOREWORD

The present shape of the international economic order is still largely a consequence of the major exercise in international institution building that took place at the end of World War II along with the creation of the United Nations. In the economic realm, the resulting Bretton Woods System still reflects the interests of those states, in particular the United States, which have played a dominant role in the design and management of the new global economic architecture.

In recent years, the pressure for systemic reform has grown as a result of two major developments. First, the emergence of powerful new actors in the international economy has brought about a relative decline in the capacity of the United States for leadership of the system. In a multipolar world characterized by the prominence of regional actors, the United States has not preserved its former position as the globally dominant force in the international economy. Neither has it been replaced by any individual economic power capable and willing to bear a disproportionate share of the costs of leadership necessary for the creation of international goods. And yet, increased economic interdependence is widely recognized to be a central and probably irreversible force driving the development of international economic relations, making the need for international economic leadership and coordination even more acute than fifty years ago.

The other development, largely unforeseen at the time of the creation of the Bretton Woods institutions, is the emergence of large capital movements, which have freed money from national control and diminished the capacity for public sector intervention in management of the international economic system. The growth of private capital flows has made the problems of monetary arrangements infinitely more complex.

The 50th anniversary of the Bretton Woods institutions brought about much reflection and reexamination of, and many proposals for restructuring, the existing arrangements. As yet, institutional changes are hard to identify. The one exception is the effort underway in the wake of the financial crisis in Mexico to provide better and more timely disclosure of monetary and macroeconomic data to the markets. But more fundamental changes are needed in order to create an international economic architecture as modern as that of the private financial markets.

A month before the Ministerial Meeting of the OECD, The Reinventing Bretton Woods Committee met in New York as part of the continuing search for a new architecture for those international institutions that would be as modern as the financial markets themselves. The conference goal was both ambitious and important: to help forge updated rules for the modern, globalized economy and to discuss specifically the role of the OECD.

The two-day session was a unique dialogue between academics, private sector participants, and representatives of the organization. The discussions were provocative and probing, listening to a few prepared papers by speakers and then supplementing and debating the presentations, from a rainbow of perspectives.

This report summarizes those wide-ranging discussions and synthesizes the many ideas and recommendations for making the OECD more effective in the context of the globalization of the world economy. It does not offer a few simple recommendations, but instead a constellation of interconnected and sometimes contradictory ideas and issues that must be considered by the relevant parties. As such, it is intended to serve as an agenda for the important discussions and decisions ahead.

EXECUTIVE SUMMARY

From the time the OECD replaced the OEEC, the Organization's purpose has been to build strong economies in its member countries, improve the efficiency of home market systems, expand free trade and contribute to development in industrialized as well as developing countries. Today, many of these goals have been achieved. As a result, the OECD has to redefine itself, not because it has failed as an institution, but because it has succeeded. Because the initial mandate of the OECD has to a large extent been accomplished, the OECD must develop a long-term approach and a set of precise objectives to establish what it now wants to achieve and how it plans to proceed.

Although it is impossible to deny the great achievements of the OECD, one has to admit that the governance structure of the organization could benefit from some major improvements, such as rationalizing its decision making process and rebalancing its budget. One reason the OECD has not been able to redefine itself is its resistance to change.

The OECD has a scope and flexibility which the other international institutions might well emulate. Thus the Balkanization of international economic decision-making into several quite separate organizations argues strongly for the retention of a structure which can ignore such jurisdictional boundaries, move freely from one kind of issue to the other, and thus help keep the world-wide system better meshed. The OECD is such a structure -- in fact, it is the only one.

Because the core competence of the OECD resides in an essentially interdisciplinary approach to international issues, the substantive areas that the OECD should pioneer in the next decade are the newer issues, in which heads of states are much more interested. The OECD should add to the range of microeconomic issues it deals with because the other existing international institutions already handle the macroeconomic issues.

Reviewing the Organization's very unique assets, it becomes obvious that the identity that the OECD has been searching for is its unshared capacity to deal with today's most fundamental phenomenon: globalization. Indeed, the OECD stands out as a forum of special relevance to (1) the interconnection of varied issues; (2) the breadth and sophistication of its wide-ranging expertise; and (3) its experience in developing consensus among an important group of nations. Now, the OECD must position itself in the world economy, and it can be argued, its interdisciplinary approach and dialogue ability very likely offer the best window on globalization. An organization concerned with the management of one world economy, the OECD should pay more attention to global problems and facilitate policy dialogue for consensus building.

The OECD, while focusing on this new mandate should not abandon its two original and still relevant missions: Cooperation and Development. Nor should the OECD eliminate its specificity by losing its very valuable limited membership, along with intimacy and like-mindedness. Rather than incur the high cost of expansion, the OECD might be better served by an effort to strengthen dialogue with non-members until they meet the economic and political criteria necessary for membership.

RECOMMENDATIONS

In order to successfully change an organization, changes must be comprehensive, well defined and synergistic. The OECD will not regain its competitive edge by merely fine tuning its methodology. Instead, we offer broad sweeping changes that must be taken in consort. In our minds, many of the problems plaguing the OECD are interrelated and must therefore be attacked in a holistic fashion.

STEP 1

REDEFINE IDENTITY OF OECD

- Concentrate on Organization's core competency which is cooperation. OECD is not a function oriented institution but an idea oriented institution. Cooperation among nations (both developed and emerging) should be OECD's purpose.

- Concentrate on pioneering issues such as aging, pension funds and cryptography. Historically, there has been no organization better suited than the OECD to tackle such issues.

- Continue to form a bridge between the Organization, emerging economies and relevant world players to address all aspects of the globalization of the world economy.

STEP 2

NEW GOVERNANCE STRUCTURE

The unanimity rule must be replaced by a more flexible standard if the OECD wishes to be a more efficient institution in the future. Furthermore, like-mindedness will increasingly be more difficult to achieve as the OECD expands its membership both in number and kind. As a result, we propose that a 3/4 majority rule be adopted. Such an overwhelming majority, we feel, reflects a relative sense of unanimity while remaining operationally achievable. We believe that a 3/4 majority not only can be interpreted as "mutual agreement" -- thereby following Article 6 in the Convention -- but also safeguards the importance of the vote of each country. On the one hand, majority opinion cannot be derailed by a single vote, and, on the other, dissenting opinions still preserve significant power.

Of course, in order to give new interpretation to Article 6, unanimity is required. Some of the strategies that could be used to escape this tautology include: (1) reminding members that there exists jurisprudence indicating that overwhelming majorities can be interpreted as "mutual agreement"; (2) applying peer pressure; (3) undertaking conciliation procedures; and (4) empowering the Secretary General in such a way that he/she can intervene in the case of an extreme abuse of the present consensus rule. The governance structure of the International Energy Agency could be a model to follow.

In the new governance structure we propose, each country should have 1 vote. We feel that all members should have the same voting power because it is important for the OECD to maintain its club-like quality, something that can not easily be maintained if members are unequal in status. While it is fair to demand larger countries to make greater monetary contributions to the budget, it is unenlightened to penalize smaller countries for just being small and reward larger countries for just being large. All countries should have the same voice at the OECD. Of course, this holds true especially if the budgetary contributions are made more equitable.

In addition, it should be noted that with 1 vote per country, European Union majority can be held in check by non European Union members if a 3/4 majority rule is established. European influence, in general, will also gradually diminish as OECD membership expands outside of Europe.

STEP 3

SUGGESTED BUDGETARY CHANGES

The OECD, much like many of the other international institutions, is currently facing budgetary constraints. Moreover, the Organization's budgetary system is plagued by the following critical shortcoming: the lack of relative equity among the monetary contributions of each member country. The challenge for the OECD will be to establish a fair and balanced budget that will be acceptable to all parties. In order to do so, the OECD can explore several allocation options, some of which include: (1) a flat rate fee paid by each of the member parties; (2) a minimum fee so that the countries who are currently paying 0.1 percent of the budget contribute a more proportionate -- and hence, more equitable -- share of the budget; (3) a ceiling on contributions that would ensure that a small group of countries is not responsible for the majority of the budget; and (4) any combination thereof. Whatever option is ultimately adopted, one thing is clear: the OECD, as an organization, must identify what criteria or measures it will use in order to decide each country's contribution.

In addition, the OECD should explore other avenues of funding aside from its internal efforts. In particular, the OECD should seek out funding, joint ventures and other cooperation with the private sector. Of course, private sector funding is varied -- it could include corporations, foundations, universities, private individuals -- maybe even non-member governments. A good example of a possible avenue for a partnership with the private sector is the OECD’s work on cryptography. Why not seek funding from or undertake a joint venture with a computer corporation investing in the same research? Moreover, because the OECD is the best window on globalization, the private sector will increasingly become, in our opinion, a very important "client" base.

Without a more equitable budgetary contribution plan, it will be very difficult for the OECD to solve another of its main problems: its idealistic, yet inefficient decision making process.

STEP 4

PUBLIC IMAGE

By improving the Organization's visibility, the following positive goals can be achieved: (1) the OECD can enhance the efficiency in the way its messages are transmitted back to the capitals; (2) the OECD will enjoy greater public outcry in the event of a budget cut; and (3) the OECD, as an organization, will be able to attract top level workers.

Ways of enhancing visibility include:

- **Strengthening Relationship With Private Sector & Syndicates**.
- **Addressing Parliament Audiences**.
- **Creating a Strong Constituency**.
- **Interacting Directly With Governments**.
- **Organizing Large Media Events To Appeal To General Public.**
- **Hosting International Annual Meetings Following IMF And World Bank Model**.

STEP 5

ADOPT MECHANISMS THAT PROMOTE DYNAMISM

In order for an organization to remain current, it is important for it to receive periodically an injection of new life and vitality. This could be achieved in any of the following ways:

- Terms limits on core members of the Organization, including Ambassadors and the Secretary General.
- Clear performance and temporal guidelines through goal setting and evaluation. This should be done both at the organizational and individual level.
- An empowered Secretary General's position. Give him/her the power over certain domains and issues. Allow him/her to carry out work without having to go through endless bureaucracy.
- Behavioral accountability for individual countries and members through a yearly review process that ensures compliance to certain norms.

INTRODUCTION

"As ever more countries embrace the market economy pluralistic democracy and respect for human rights, as the world economy undergoes globalization and as the overall architecture of international organizations evolves, the OECD must respond by adapting ever more rapidly. It must tackle new problems and reach out to new partners -- both among and within states -- while at the same time preserving the shared values and characteristics on which its relevance and effectiveness are based."

Meeting of the Council at ministerial level - Communiqué
Paris, 21-22 May 1996

The system of international economic institutions devised in the post Cold War era is beginning to show its age. There is a growing perception that the institutional arrangements designed in 1944 are inadequate for managing today's international economy, and that a comprehensive rethinking of how we manage the world economy is critical.

Globalization affects the work of states and international institutions. Establishing effective new institutions will require a combination of rigidity and flexibility because of the peaceful way in which the Cold War ended and the tremendous changes which have occurred in the composition of world output since 1944. The process of international economic decision making and the sequencing of policy reform in the post Cold War era will follow a very different course from the one taken during the early Bretton Woods years. Governments will play an important but far less decisive role in shaping the contours of the new global economic order than during the Bretton Woods era while the private sector will play a far more dominant role.

In the architecture of International Institutions, the Organization for Economic Cooperation and Development (OECD) is unique in three respects: first, in its limited membership; second, in its wide range of subject matter and professional concern and, third, in the close and continuous working relations that exist between the Secretariat and member governments.

It appears quite clear that despite the recent questioning that the OECD has had to face, it is still very much needed as an institution. Indeed, the OECD's assets are undeniable. The fundamental advantage of this club of like-minded countries covering a wide range of areas[0] is probably its flexibility. Unlike some other institutions, the OECD is not just the Secretariat, with member governments watching over it but standing apart: it is the *combination -- the Secretariat in conjunction with the delegates from member governments.* In the great bulk of OECD activities, Secretariat and national officials are jointly involved. Besides, it can be used for any purpose that its members choose. Potentially, at least, it is versatile and adaptable, as well as wide-ranging. One aspect of that flexibility is that non-member countries are able in a variety of ways to take part in OECD activities[0]. ¶ The OECD also provides a forum where senior officials can exchange views and ideas about subjects of common interest. It prepares and publishes internationally comparable statistical series, not only for general use, by businesses and research institutions as well as governments, but also in the context of reviewing economic policies. Finally, as and when it suits them, governments can also use the OECD as a place to negotiate agreements.

Therefore, the OECD today needs to remain the focal point of intergovernmental discussions of this wide range of topics. Yet, it will also have to change because the world has tremendously changed itself since the institution's creation in 1961.

The OECD in the 1960s and 1970s was a western European centered organization, sustained by strong American commitment to Europe’s economic as well as military defense in the Cold War. It embraced macroeconomic fine-tuning as a cooperative effort, it led the effort to liberalize capital flows to its members, and it continually pushed out the frontier of trade issues. Its statistics and publications were about the only widely available analysis on the industrial world and on most member economies. At the same time, an elastic budget meant that the need to make hard choices did not tax the consensus decision making process. Nowadays, the OECD's environment is not as safe and secure as it used to be:

- A European customs union of only six countries has become a unified European market of fifteen, with aspirations of still wider and deeper European integration. European coordination today takes place in Brussels, not in Paris.

- The weight in the global economy of other areas has increased with the rapid growth in Asia and the integration into the global economy of the former socialist economies. Developing Asia now has a larger Gross Domestic Product (GDP) than either the European OECD or the North American OECD. And the historic rebalancing of

[0] This includes all aspects of economics, statistics, agriculture, trade, energy, the environment, public sector management, education, unemployment and social issues, science, technology, and industries and fiscal, financial and business policies. Affiliated to it are the international energy agencies and centers for advising former communist countries and research on economics and development.

[0] cf. David Henderson in *International Agencies in an Interdependent World: Reshaping the OECD and the WTO*.

economic power is likely to continue.

- The policy issues have changed as the macroeconomic fine-tuning given way to an emphasis on ensuring that a country's financial course is sustainable and on addressing structural impediments to growth. In addition, the liberalization of capital flows has been completed in Western Europe and North America and that has receded from the agenda. Finally, the World Trade Organization (WTO) has taken on board the once new trade issues that the OECD pioneered.
- Today there is a flood of economic analysis on the global economy and virtually all OECD economies have received scrutiny from teams of economists and investment houses. In addition there are proliferating think tanks, both with an international and a national focus, and there is an ever expanding volume of analysis from self-funding international organizations like the IMF and the World Bank. Another very important source, not only of economic analysis, but of policy advice are the credit agencies. These economic and financially driven agencies provide the same type of advice as the OECD's member countries in the country review process. Needless to say, in this aspect, competition is far sharper today.

- The success of Western European economies and the end of the Cold War has diminished American enthusiasm for underwriting the Eurocentric institutions. Now that the Marshall Plan has been achieved and the Cold War won, the US support will be far more difficult to get unless the OECD finds itself a new *raison d'être* .

- Governments throughout the OECD are facing tight budget constraints, having not only to deliver value for money but be able to demonstrate it to the public. The challenge to international programs has thus been far greatest in the United States' budgetary process, but scrutiny is becoming closer everywhere and the budgetary hurdle will likely become much tougher going forward.

Most importantly, the post Cold War economy is now facing the theme of globalization. We now have a global market economy that has five billion people. Ten years ago, it had one and a half billion. Indeed, the OECD alone accounted for a very large share of it. Hence the need for a reconsideration of the role of the OECD in this new global economic structure.

There is a critical role for an organization with the assets of the OECD, its human capital and its web of relationships. And it can play that role if it is able to adapt itself once again, as it did before, at the end of the 1950s when the OEEC became the OECD. It is important to remember that this organization was actually completely transformed once before and we should think of its doing that again.

The OECD is uniquely equipped to become the World's Window on Globalization. This phenomenon has the inner complexity and interconnection which the OECD is naturally made to deal with. The OECD, in the midst of questioning its own identity, should realize that being the window on Globalization is the right path to follow.

CHAPTER ONE

WHY THE OECD NEEDS REFORM

PART I. THE LOSS OF IDENTITY OF THE OECD

A. Historical Perspective and the Need for a New Mandate

1. *The Marshall Plan and the OEEC*

In June 1947, at Harvard University, Secretary of State Marshall proposed a program of massive American aid for European reconstruction. The Americans felt, however, that Marshall aid could not be effectively used unless European economic cooperation was greatly expanded. In particular, the United States and Canada insisted that European governments take the responsibility for dividing up American money.

Within a month of the Marshall speech, the French Foreign Minister invited all European states to join together to gauge their response to the American offer. And, in particular, they talked about a temporary organization to deal with the Marshall Plan funds. And he called for the conference in Paris in July, and on July 12, 1947, several of the leading countries in Europe got together. British Foreign Secretary Ernest Bevin made the following statement: "we have no idea of setting up a permanent organization to rival the United Nations. It is a piece of ad hoc machinery to grapple with a single task." The Organization that was set up to administer Marshall aid and facilitate other forms of economic cooperation in Europe became the Organization for European Economic Cooperation (OEEC) in 1948.

2. *The Creation of the OECD*

Until 1960, the Organization for European Economic Cooperation was the principal example of regional economic and political integration. Yet, by 1961 the OEEC had been changed, in name as well as in many of its functions, by the addition, as full members (they had only been associate members of the OEEC) of the United States and Canada. This new organization -- the Organization for Economic Cooperation and Development -- became for the 1960s the leading example of the non-supranational approach to the economic and political integration of the Western world.

Of course, the one factor that most militated in favor of the Marshall Plan was the geopolitical situation. The Marshall Plan was President Truman Administration's response to the Cold War. By the spring of 1947 the outline of the approaching US-Soviet conflict was clear, and there was a very real and present danger that significant parts of Europe, both Western and Eastern, would ally with the Soviet camp. In a sense, the Marshall Plan helped define the divide between East and West. It did so by defining the conflict as the choice between plan and market, and by tying Marshall aid to market-oriented reform. Countries accepting Marshall aid had to sign bilateral agreements with the United States to decontrol prices, stabilize their exchange rates, balance their budgets, and so forth--a familiar sounding menu of reforms. In other words, they had to agree to put in place the prerequisites for a functioning market economy.

The Marshall Plan intervened at precisely the moment when Europe was poised to decide whether to encourage or suppress the market. At that time, communists hostile to free markets occupied key positions in the Italian and French governments. The United States de facto made their replacement by centrist politicians a precondition for the dispersal of aid. And those centrist politicians for their part could cite the potential loss of Marshall aid as an additional cost of opposing their policies.

3. *The Need for a New Mandate*

Today, politicians and the public, in both developing and transition economies, seem similarly inclined to turn to the market and to integrate into the global economy.

Since the OECD replaced the OEEC, the Organization's vocation has been to build strong economies in its member countries, improve the efficiency of home market systems, expand free trade and contribute to development in both industrialized and developing countries. Today, many of these goals have been achieved. This suggests that indeed the OECD has to redefine itself, not because it has failed as an institution, but much more because it has succeeded. The initial mandate of OECD has to a large extent been accomplished.

Besides, thirty years ago, the OECD had a clear mission that defined itself vis a vis two interlocutors, two opponents so to speak: on the one hand the Soviet Block, which the OECD was an alternative to, and, on the other hand, it was also an interlocutor with the group of 77. It was the First World negotiating with the Third World.

Today to a large extent, the "enemies" are gone. The Soviet Block has completely disappeared and many of its members are either already within the OECD or in the process of joining it. And the same thing is true of the Third World, which has divided into a Third and Fourth World.

B. No Long-Term Strategic Planning

1. *No Clear Definition*

Not only did the Organization lose its core identity, it has also failed to establish a long-term strategic plan, which explains in part why the role of the OECD, and its existence, has been questioned recently.
In contrast to other international institutions, the OECD does not seem to have a clear mandate any longer. Even if that perception is not justified, it is reflected in the difficulty for the general public -- as well as financial and economic actors that are more likely to be familiar with the Organization -- to define what it is doing. Even within the Organization, it appears to be very difficult to get a clear definition of the OECD's activities. In the information provided by the OECD, the institution is given various names, such as a think-tank, a monitoring agency, a rich man's club, an unacademic university and a talking shop.

2. *No Coherent Membership*

Furthermore, the OECD can no longer be defined by its member countries. From a Eurocentric institution, it turned to a rich countries' club with the entry of Japan (1964), Finland (1969), Australia (1971) and New Zealand (1973). Until the last decade, the OECD fully applied its criteria for membership: market-oriented economy, pluralistic democracy and a strict respect for human rights. Therefore, all the countries that were part of the Organization represented a certain stage in the development process, in the economic and political evolution of a nation.

However, the recent expansion of the OECD's membership to include Mexico, Hungary, the Czech Republic, Poland and South Korea in the 1990s calls for a new definition. One could say that the Organization has opened the door to newly developed or dynamic developing nations to include more influential players in today's world economy. Yet, many remain absent. How could the OECD be the field where major economic players gather while it excludes Brazil, India, China or Indonesia?

Such lack of coherence is mostly due to the absence of strategy, which is a very logical consequence of the point made previously: how could one expect the OECD to have a clear strategy when it has not succeeded to define its new mandate yet?

This is why it is fundamental for the OECD to have a long-term approach and to set itself precise objectives in terms of what it now wants to achieve and how it should proceed in order to do so efficiently.

C. Inefficient Governance Structure

If it is impossible to deny the great achievements of the OECD, one has to admit that the governance structure of the organization could benefit from some major improvements. One of the reason the OECD has not been able to redefine itself must be found in its resistance to change.

1. *A Paralyzing Decision-Making Process*

One of the first obstacles that the OECD has to overcome is its decision-making process. Presently, the OECD uses the consensus rule for everything, independent of the degree of triviality of the issue. This is an abuse of the consensus system in the view of many ambassadors. The consensus system, as a rule, is an excellent idea and it is a manifestation of the like-mindedness at the OECD. If this rule surely strengthens the decisions and recommendations voted, it also keeps the OECD from moving forward to reform.

What happens nowadays is that the OECD is in a situation where it has strong budgetary constraints, it has to define new priorities, and yet, it has a system that requires a consensus for everything. This means that at best there are interminable discussions in order to achieve consensus, and very often the consensus tends to be somewhat watered down. Or it means that there is no consensus, in which case the same item appears again and again before the Council, which poses ongoing problems.

2. *Unfair Budget Contributions*

The OECD also faces a budget disequilibrium that makes the United States responsible for twenty-five percent of the budget and Japan approximately 23 per cent, whereas, for example, Luxembourg and Iceland only contribute 0.1 per cent each. Each country, however, has the same voting weight in council and the same claim on services. Therefore, the US and Japan have the justified feeling that they don't have a say in the decisions or, at least, their say does not correspond, in any way, to their contributions.

PART TWO. A PIONEER AND INTERDISCIPLINARY INSTITUTION

A. The OECD has always been a pioneer

The role of the OECD as a pioneer has been extremely important and influential, especially because of its capacity to export norms. International or regional organizations usually adopt decisions or recommendations and have a very limited scope of focus. Only member countries are bound to respect such rules, whereas the OECD develops world rules, even if the people who are negotiating around the table include only 29 rather regional member countries.

1. *A Norm- Exporting Institution*

The OECD also is quite special in its legal powers. Very few organizations have the power to adopt binding decisions. These are usually granted the power to adopt recommendations or norms that are not legally binding. However, the OECD has acted as an instrument to the signature of various international treaties in the field of nuclear liability and shipbuilding. Furthermore, it is currently involved in the field of investment through the Multilateral Agreement on Investment (MAI). Negotiating a treaty has the advantage of facilitating the accession of non-member countries. When decisions are adopted by member states, they are very rarely open to non-member countries, except maybe for agricultural standards. Yet, what is important is the fact that decisions are as binding as treaties.

OECD's first legal influence remains clearly directed at member countries. New member countries have to change completely their own legal or economic system to adopt these various liberal rules which had to be adopted in accordance with the OECD's codes of liberalization, an instrument on national treatment. Still, it also has an impact on non-member economies and legislation: because technological, economic, and societal problems happen in the OECD countries first, they have to find a solution. And if the solution is well balanced, it is used as a model for non-member countries.

Aside from being used as models, OECD norms are used because OECD countries are importing markets. And as important markets they are very influential in setting their own standards.

2. *A Global Rule-Maker.*

OECD agreements could be analyzed with regard to the OECD zone, but it is far more interesting to project it towards the world order.

- **OECD Codes of Liberalization**: OECD agreements reinforce global rules -- global rules are the agreements by the IMF and the GATT in the 1960s that gave direction to the liberalization of current capital movements and transaction payments. The OECD deepened such liberalization through the adoption of the OECD codes of liberalization.

- **Transfrontier Pollution**: Within the OECD, recommendations and decisions on transfrontier pollution were developed and then used to show the rest of the world what this concept meant and how it could be finally added to the Rio Declaration some 20 years later.

OECD has also served as a forum to complete negotiations which were initiated in other forums.

- **Tax Model Treaties**: During the time of the League of Nations, with regard to tax model treaties, the Mexico and the London model treaty both represented the position of developed and industrialized countries. But it needed the impulse of the OECD to develop its own model which was sufficiently credible to influence the rest of bilateral treaties negotiated afterwards. A fine web of bilateral treaties are inspired by the OECD model, which also later on helped in developing the United Nations model.

- **MIGA**: Another example of the OECD's impact is the creation of the Multilateral Investment Guarantee Agency (MIGA), which was first elaborated within the OECD.

- **Government Procurement**: Similarly, the agreement on government procurement that was negotiated within the GATT is very similar to the one previously negotiated by the OECD.

- **Multinational Enterprises and Restrictive Business Practices**: Work done by the OECD on these two topics ultimately influenced the 1977 International Labor Organization declaration on multinational enterprises, as well as to the 1980 UNCTAD document on restrictive business practices.

- **Hazardous Waste**: Regarding environmental questions, in 1988, the Organization of African Unity banned trade on hazardous waste. The OECD, however, did not want to see a ban on exporting hazardous wastes and developed its own draft agreement, which was then used as the basis of the negotiation of the Basle convention in 1989.

- **GATS**: The OECD has developed a framework on trade and services, and, in 1994, the General Agreement on Trade and Services (**GATS**) was adopted thanks to the great legal and economic support of the OECD.

CHAPTER TWO

HOW TO REINVENT THE OECD: CREATING A NEW IDENTITY AS THE WORLD'S WINDOW ON GLOBALIZATION

PART I. A WINDOW ON GLOBALIZATION

A. "Pro-Active" versus "Re-Active": the OECD Must Face the Phenomenon of Globalization

Globalization refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.

As mentioned in the communiqué of the OECD meeting of the Council at ministerial level last year, "the globalization of the economy is the product of the interaction between trade and technological progress. it gives all countries the possibility of participating in world development and all consumers the assurance of benefiting from increasingly vigorous competition between producers."

Hence the need to think about the high level political initiatives that could bring the official international agenda closer to the reality of globalization. In this respect, **the OECD is uniquely equipped to promote this new phenomenon and to serve as a catalyst for global initiatives.** Indeed, the OECD stands out as a forum of special relevance to the globalization agenda, because of the breadth and sophistication of its wide-ranging expertise and because of its experience in developing consensus among an important group of nations.

In the past years, the Organization, because it has lost its identity, has been re-active, that is to say it has acted in a defensive way instead of moving forward and setting itself new goals to achieve. Now, the OECD must position itself in the world economy, and because of its interdisciplinary approach and dialogue ability, it can be argued that OECD is probably the best window on globalization.

An organization concerned with the management of one world economy, should pay more attention to global problems and could facilitate policy dialogue for consensus building. The OECD could also be in some ways a preparatory forum for comparative global governance. For this reason, it could move to the definition and the explanation of new models of development because none of the national models today seem to be working properly.

B. The Value-Added of the OECD : an Interdisciplinary and Microeconomic Approach to Global Issues

1. *OECD's Value-Added: An Interdisciplinary Approach*

While the biggest and perhaps most widely known part of the OECD is the Economics Department and the Statistics Directorate, the OECD's committees also include the Environment, Development, Trade, Public Management, Enterprises, Financial and Fiscal Matters, Science, Technology, Industry, Education, Social Policy, Agriculture, Regions, Cities, Countryside and Energy.

The OECD has a scope and flexibility which other international institutions might well emulate. Thus the Balkanization of international economic decision-making into several quite separate organizations argues strongly for the retention of a structure which can ignore such jurisdictional boundaries, move freely from one kind of issue to another, and thus help keep the world-wide system better meshed. The OECD is such a structure -- it is in fact the only one.

2. *Issues the OECD Should Focus on as a Pioneer*

The OECD should mainly focus on the **microeconomic issues** because the other international institutions currently in existence already handle the macroeconomic issues. The G-7 can play an important role in serving as a catalyst for discussion, but it is very much event driven. The World Trade Organization is basically a legal body now, charged with developing the administration of the new world trading system. The IMF and the World Bank, both of which are very much focused on the issues that concern central banks and the finance ministries, have a comparative advantage in terms of their focus and resource endowment on these macro issues, no so much on the micro issues. The Bank of International Settlements (BIS) deals with the payment system, banking, and, in a very modest way, capital markets. The regional groups, like APEC or Mercosur, are thus far very modest efforts in terms of having any major resource endowment for researching issues beyond their region. The OECD might implement this new mission, focusing on these micro issues but in a global context.

Since the core competence of the OECD resides in an essentially interdisciplinary approach to international issues, what are the substantive areas in which the OECD should be pioneering in the next decade?

Interlinkages between structural issues and macroeconomic policy issues became very important in the middle of the 1980s. At the same time, the importance of structural issues was strongly emphasized. This suggests that the OECD has to adapt its core competence to the changing needs of research and political conditions to produce more timely and more appropriate answers to the issues that the heads of states consider most important at the time. And in the 80s, structural issues were important, as well as macroeconomic imbalances. But in the 1990s, again, OECD has faced newer issues in which heads of states are much more interested:

- **Aging Population -** Concerning aging population, what has been analyzed is mostly the application of fiscal tools, but the aging issue is much more interrelated among various areas in our societies. Therefore, the kind of analysis needed is in the context of an extremely interdisciplinary approach.

- **Corporate Governance -** Current globalization, based upon the increasingly large activities of MNCs has raised many important issues, not traditional issues such as the exploitation by MNCs of cheaper labor, but the linkages between the respect of human rights and the utilization of cheap labor. That FDI analysis suggests that the big difference in the corporate governance of major advanced countries is the linkage between labor and international markets, which are very different according to the countries, particularly in this new era of technology paradigm, that is to say information technology. The corporate governance structure may affect economic performance to a greater extent.

- **Pension Funds -** This issue has two dimensions. In the short term, there is the issue of big deficits and unfunded liabilities that confront many countries, most all in Western Europe, but also many in developing countries. And if we project forward thirty years and address the problem, then we have the second issue -- how will pension funds transform corporate governance? This change also has profound implications for both the structure of capital markets and financial regulation.

PART II. THE OECD AT THE CROSSROADS OF COOPERATION BETWEEN OLD AND NEW WORLD'S MAJOR PLAYERS

A. The OECD Must Create a Permanent Framework for Cooperation

The international community has been focusing attention on cooperation through institutions. Why is that so? Some might argue that the problems that have been highlighted recently in some international organizations suggest that a new look at the way these organizations are cooperating and fulfilling their mandates must be taken There is also a need to strike a balance, perhaps a better balance as compared to the past, between rules and institutions in the management of the world economy.

There have been difficulties in the past decade in developing and enforcing what could be called "global rules," particularly for the purpose of managing economic and financial interactions between countries at different levels of development within the same economic system, one that is increasingly more and more globalized. By the same token, institution grouping both developing and developed economies can serve to create a permanent framework for cooperation, in which the predominance of the country with the largest economy can be tempered.

The main advantages of an institution-based approach to economic cooperation can be enumerated as follows:

(1) international institutions provide a structure for discussing controversial issues and devising cooperative solutions;

(2) they provide independent analysis and advice;

(3) they have a unique role in launching or proposing rule-making;

(4) they share, to a significant extent, the responsibility of rule enforcement vis a vis sovereign countries;

(5) they are instrumental in developing pragmatic approaches to address problems that cannot be dealt with through rule making or enforcement of rules.

Today, most institutions share a common purpose, that is to say, to pursue economic goals and standards that can be taken as representing the foundations of the world economic system. To some extent, these standards can be seen as the minimum common standards necessary to achieve certain ultimate goals that are shared by all countries, such as high economic growth (without imbalances) and full employment. One of these minimum standards is liberalization of trade in goods and services, although there are different degrees of liberalization. However, if we turn to liberalization of capital movements, we see that this is a high level standard, one that no "universal" type of international organization is actually pursuing.

B. The Arrival of New Players

The new development of the past few years is that a number of emerging economies have been joining institutions and country groupings that were created by and for advanced economies. The OECD is one of the most significant example of this phenomenon.

One has to ask what are the reasons for this shift of emerging economies from one type of institution to another type of institution, from one type of country grouping to another type?

- In addition to historical and political reasons, a common answer comes from the fact that emerging economies have gained new economic and financial weight. Therefore, there is a growing search for recognition.

- There is, however, another element in this process of recognition that has to do with responsibility in managing the world economic system. There is a call for shouldering the burden of the responsibility in managing the world economic system and in maintaining stability in the world economic system.

- The third reason has to do with the need for a selection whenever a country has to address problems of its own economy, or has national interactions.

- A fourth element has to do with discipline. It is clearly felt that part of the shift of emerging economies into institutions, or advanced economies, stems from the need to extend the discipline deriving from adherence to tougher standards and rules.

C. How the OECD Should Response to This Phenomenon

Therefore, these new players need the willingness to push forward the frontier of commitments by abiding to higher standards in a range of relevant economic fields. If one refers to environmental protection, adherence to the OECD implies adherence to tougher environmental protection standards. This adherence also implies sharing certain recommendations related to the behavior of multinational enterprises. New members should also possess the willingness to cooperate with selected interlocutors who have a high degree of influence on the development of the economies of those new members.

There will be a shift in the focus of the to the problems of less advanced economies. And, to the extent that the agenda cannot cover all the issues of the most advanced countries, there could be a reduction of interest in the advanced economies in pursuing cooperation in the context of that organization. This can also apply to a specific aspect that has to do with the enforcement of rules and punishment of deviant behavior. In a multinational context, where there is no super-national authority, the only effective enforcement mechanism is peer pressure. To the extent that the group of countries becomes heterogeneous, the main strength of the enforcement mechanism is bound to weaken. Surely, all these risks have been present in the enlargement of the OECD in the last three years.

Nevertheless, the answer does not seem to be to restrict membership; to erect a barrier to new emerging economies until they reach the same per capita income level as the most advanced economies in the OECD. There are good grounds to exploit the advantages of an enlarged membership, but the implications have to be drawn in terms of improvements or changes in the mechanics of these organizations, in the way they operate; in the way in which they monitor the process whereby these emerging economies have to bring themselves up to the higher standards that the most advanced economies wish to establish.

PART III. AN UNDISPUTED FORUM FOR ASSISTING NON- AND FUTURE MEMBERS

If it is obvious that the OECD should avoid any form of overlapping -- especially in the trade-related areas where the newly-born WTO has reduced the legitimacy of the OECD as a rule making body --, there is one issue that the institution should focus on, that is development.

Indeed, in this world of interdependence, it should not be in the interest of rich countries to ignore the plight of the Least-Developed Countries. A widening gap in the people's standards of living between rich and poor countries may threaten the economic growth of the rich with growing global tension and environmental destruction. Of course, the United Nations and multilateral or regional development lending institutions are wrestling with these tasks. However, the OECD, comprising major donors, is advised to be more serious about helping low income countries in their development efforts.

A. Development: A Mission of the OECD ...

Development is not only present in the OECD's name, it is also present in its Convention. The first article lists the aims of the organization:

> (1) among members: rapid, economic growth, full employment, rising standards of living, internal and external financial stability;
>
> (2) for all countries: the development of the world economy; the multilateral expansion of non-discriminatory world trade in accordance with the international obligations;
>
> (3) for all less developed countries: sound economic expansion.

In Article 2 which elucidates the aims stated in Article 1 by listing certain policy areas in which members pledge themselves to pursue these aims, we can find the following: contribution of capital and technical assistance to less developed countries; and increased export markets for less developed countries.

Besides, the Development Assistance Committee (DAC) of the OECD has a very broad mandate: *"to consult on the methods for making national resources available for assisting countries and areas in the process of economic development and for expanding and improving the flow of long-term funds and other development assistance to them"*. However, the DAC focuses mainly on increasing the quantity of its members' aid, and improving its quality -- in particular by coordination.

B. ... And a Logical Consequence of the OECD's Assets

The OECD is among the best active institutions with the **pool of knowledge and expertise as far as the know how of strategy making and policy implementation of comprehensive economic reforms**. This feature of the assistance provided by the OECD was due to the fact that economic policies pursued in then member countries embraced rather heterogeneous approaches to tackling either the same, or in some cases, very country specific economic challenges, particularly in the field of structural reforms. The wide variety of approaches, based on the lessons learned in various member countries, proved to be very useful to formulate policy advice for the transitional economies, both from an analytical and practical point of view. There is a substantial difference between the approach of the OECD and that of other international organizations, which generally have a very common approach to each of the countries.

Furthermore, the **continued exchange of views on the development of the financial sector**, including such crucial issues as bank consolidation, the solving of bad loan problems, the privatization of financial institutions, the preconditions, technical and professional requirements of a properly functioning supervisory agency also prove to be very useful. As the recent G-10 Report on Financial Stability in Emerging Market Economies stated, the OECD should play a role, along with the international financial institutions, in the field of banking system.

Finally, one has to emphasize that the **very extensive coverage of economic issues and sectors** is very instrumental in identifying and analyzing the interlinkage between various economic policy actions. In the course of the above described process, it becomes clear that both implementing and assisting comprehensive economic transformation pose very complex challenges for policy makers, their advisors and government officials. There is no ready made, generally applicable handbook on how to accomplish the transition form the common economy to a market economy. Secondly, the economic and social course of the transition process would exceed initial expectations.

The ongoing debate with policy makers in charge of directing the transition process, the regular reviews of economic developments in the transitional countries, and the channels of direct communication at an expert level between the organization and the professionals of the countries concerned, created an opportunity to follow very closely the cause of reforms, as well as the evidence of how policy recommendations could or could not be put into practice.

Hence the experience accumulated by the OECD in transitional related areas constitutes, on the one hand, a specific combination of the technology or know how of initiating economic reforms and maintaining their momentum during the most crucial periods, and, on the other hand, the global perspective on the changing international economic order. It is therefore obvious that this unique pool of knowledge could and should be used in the coming years to the benefit of both the countries still in a relatively early stage of transition and the international community.

CHAPTER THREE

CHALLENGES AHEAD: MEMBERSHIP, GOVERNANCE AND VISIBILITY

PART I. DEFINITION OF A CLEAR MEMBERSHIP

A. A very Valuable Limited Membership

One may wonder how the OECD can make such an important contribution to global economic negotiations when its membership is so limited, and why it should survive as an "Western rich man's club" organization?

1. *Intimacy and Like-Mindedness*

It must be admitted that the OECD has some essential qualities which cannot yet be equaled at the global level. First, it has **intimacy**. With only 29 members now, the OECD has shown more ability than most organizations to form small subgroups. For instance, the DAC started with 10 members. The fact is that complex and difficult negotiations simply can not be carried on in big jamborees. Secondly, the **like-mindedness** created by the relatively homogeneous and friendly membership produces a level of candor and trust which makes it easier to raise sensitive issues.

2. *The Risks of Expansion*

Besides, if the membership was to be expanded to major players like China, Russia, or India, it would be even harder to justify the usefulness of the OECD, compared with the WTO for instance. And the process might also be very risky.

- There is a fear that the extension of membership to countries with problems unlike those of advanced economies might lead to a dilution of the rationale for the Organization, as well as a loss of commitment among the member countries.
- Second, a loss of homogeneity of economic interests and approaches might lead to possible new difficulties in reaching consensus in the new world economy. In other words, to the extent that one mixes countries that are at different levels of development and therefore with different nature of problems and different intensities perhaps in pursuing the same set of subjects, the possibility of reaching consensus might be reduced. To the point that some of these new countries stated that in certain fields, they would still consider themselves as belonging to a different group of countries, and therefore be entitled to exemptions, derogations, preferential treatment.

- Third, too sudden an expansion of membership at the OECD, which operates on the basis of intimate discussions among restricted groups of countries, without changing the ground rules for decision making, could lead to organizational breakdown.

B. Establishment of Criteria : A Taxonomy

What criteria might be applied for membership in international organizations? It is possible to draw a taxonomy and divide international organizations into three categories with rather different criteria for each of the three categories.

1. *The Universal Membership*

The first category includes organizations that everybody wants to be **universal**. It is possible that we want them to be universal because we think that there should be at least one universal organization. That is to say, just by virtue of being a recognized state, one has the option of becoming a member. Such an organization exists: it is the United Nations. Yet, there may be other reasons, which economists call externalities, where everyone actually wants as many members as possible. Here are some examples:

- The first one is the *World Health Organization* (WHO), which is charged among other things with monitoring and influencing the spread and control of contagious disease. There we want to engage as much of the international community as possible because contagious diseases do not recognize national boundaries. Therefore, we want both the information and the technical assistance that the WHO can provide to all countries that join it.

- A second example would be the *International Atomic Energy Authority* (IAEA), which is associated with monitoring nuclear energy facilities. To be a member, a country has to agree to some rules, but the rest of the members of the international community actually want universal membership because of the strong negative externalities of proliferation of nuclear fissile materials. And therefore, we want a maximum of inspection, so there is one class of organizations where we either accept, the U.N. being an example, that there should be a universal body, or for reasons of externalities -- positive or negative -- we want all member countries to join.

- A third example, which is not quite universal because we have some landlocked countries, would be the *law of sea arrangements*, whereby ideally every seagoing state would like to have every other coastal state be a member because there are certain rules associated with membership, and there are common interests in having everyone adhere to the rules.

2. *The Like-Minded Membership*

A second and rather different rationale for organizations is groups of **like-minded countries,** which in the limiting case could include the whole world but need not, in terms of the nature of the issues, include the whole world. These groups of like-minded countries want to agree among themselves to a set of "club rules", which they will agree to apply themselves. It is important that every member of the club, in addition to having the responsibility of adhering to the club rules, enjoys the benefits of the club rules as elected by, or as accepted by other members.

This second category includes, just to be concrete, organizations such as the International Monetary Fund. The World Bank is included as well, since being a member of the World Bank is a necessary condition to become a member of the International Monetary Fund. Within the International Monetary Fund , the number one rule is the absence of multiple currency practices and the adherence to current account convertibility of currencies, plus a general rule not to abuse one's currency arrangements at the expense of one's neighbors. The IMF today turns out to be an almost universal membership organization. However, this is a consequence of history.

Conceptually, it is not necessarily a universal membership organization, and, just as a reminder, China only came in 1980; Russia and the other former Soviet Republics only came in the last 5 or 6 years; Switzerland in the early 1990s[0]. Therefore, the organization is de facto almost universal[0]. Yet, it is not intrinsically universal. There are still about 50 countries (24 percent of the membership in early 1997) that do not formally accept Article VIII[0] of the Monetary Fund, but they all at least avow the desirability of accepting it. The General Agreement of Tariffs and Trade (GATT) is another such organization with a set of club rules, and many countries did not join the GATT - Mexico did not adhere to the GATT until 1986, 40 years after it came into existence. That issue is before us in a very large way today with China's application to the World Trade Organization.

---

[0] Switzerland for many years was not a member of the International Monetary Fund for different reasons. The major one was that Switzerland didn't like having to supply the information that the Monetary Fund requires.

[0] North Korea and Cuba are still out

[0] Article VIII describes obligations of convertibility of currencies for current account transactions.

3. *The Membership due to Similar Circumstances*

The OECD is, these days, also in a similar situation in the sense that over the years, the OECD has adopted a number of codes, and in becoming a member of the OECD you are more or less, perhaps with some specific, well-defined derogations, expected to sign onto those codes. But the OECD straddles the second and third categories of organizations. The **third category** of organizations which is similar but with a different focus - countries with common problems, or countries which find themselves in similar circumstances.

The circumstances may be regional. Asian countries, for instance, found themselves with some set of common problems in terms of the structure of their economies and their general location, and they felt that it was desirable to get together and talk first - it just started out being a talking organization. It has gradually evolved to a higher level. Similarly, the OPEC is an organization of countries with common initial conditions. The condition for belonging to OPEC is that oil has to be a major export and account for no less than 70 percent of export earnings. This is a condition for membership. Still, not all countries meeting those criteria have chosen to join OPEC. Norway, Mexico at one stage, although not today - chose not to join OPEC although they were eligible under the club rules. But the idea is that these countries, because of their special circumstances, face a set of common problems. They are not necessarily like-minded. And in fact, within the OPEC, there are big differences in view. But they do face common circumstances, and hence to some extent a common perspective.

The OECD has its historical origins also, and it sort of straddles categories 2 and 3: it is made up of like-minded countries in some respect, but in other respects, it is made up of countries with similar circumstances. These countries came out of the recovery of Europe from the Second World War. The OEEC was the original body, with heavy involvement from the beginning, although not full membership of both Canada and the U.S. And then gradually over time, Japan, Australia, New Zealand, and now more recently, other countries have joined as they have developed the common problems of pluralistic, high-income modern economies. These governments face a set of common problems which they find mutually advantageous to discuss and study. And then, from time to time, although it is not a principal function of the organization, these governments actually reach some understandings among themselves. That is where the like-mindedness comes in. The question then becomes how will they behave with respect to one another.

C. Return to Origins for the Establishment of Membership Criteria, while Strengthening Dialogue with Non-Members

1. *Preserving the Political Nature of the OECD Original Criteria*

The criteria for membership should be therefore very clear and could refer to the

Organization's convention that called for market-oriented economies, pluralistic democracies, and sound human rights records. Therefore, this would allow the OECD to maintain its spirit as a club without having to reject expansion. Because the Organization is not purely economic, its membership should not take into account purely economic indicators.

It might be desirable for the OECD to achieve its mission and focus first on Eastern European countries. The OECD could play a major role in Western Europe too by enhancing the process of monetary integration. The establishment of the single currency area will have important implications for the working of the international monetary system as a whole. Consequently, international agencies, in one way or another, in the inspection and regulation of, as well as in the elaboration of proposals on the working of the international monetary system will have to rethink the focus of their activities.

The OECD will also be affected by this development. Here competition factors must be emphasized. Clearly, it is an area where the IMF has a very important role, but a different approach would be very important. The issues related to international economic and monetary policy coordination could cover (1) the introduction of the Euro; (2) exchange rate cooperation with European countries not joining the Eurozone; and (3) the implications of an eastern enlargement of the European Union.

2. *Strengthening Dialogue with Non-Members*

At the same time, the OECD should expand the dialogue with non-members considerably. In order to see the OECD as a truly global body, the Organization should broaden its corporate relationships with other significant actors in the world economy and be more aggressive in seeking dialogue with non-members.

For over 20 years since 1973, the OECD had not admitted any new members so that the share of OECD countries in the World Trade dropped from 75% in 1973 to 68% in 1995. This trend might be more pronounced in the coming decades. Especially for trade related rule making, it is vital for the Organization to engage in either formal or informal dialogue with those developing economies with rapidly growing trade. In further promoting freer trade and investment, it is crucial for the OECD to secure support and collaboration of dynamic or emerging economies. Dialogue with China and India should be of particular importance, given their large populations and economic potential. By year 2010, China, combined with Hong Kong, is expected to emerge as the second largest trader in the world after the United States. For OECD countries as a whole, China is already the biggest trading and investment partner among all non-member economies, accounting for over 10% of OECD trade.

To this end, in dealing with non-members, the OECD may have to duly take into consideration the economic, social, and political realities of these countries. It should be convincingly demonstrated that membership contributes to economic well-being, without much risk of economic, social or political instability. It seems to be in the interest of the OECD to carefully attend to the needs of the economies of non or prospective members, and help them pursue reforms without endangering stability.

New members, like Korea or Mexico, can play an important role in the OECD's dialogue with dynamic or emerging economies. The development experiences and expertise of these countries are valuable assets for the Organization in its outreach activities to other less advanced countries. They could as well join other members in providing development assistance. Perhaps the best development aid new members can provide is to share their practical, first hand development experiences and related technical expertise with non-members. New members whose development stage is not much different from that of neighboring countries are in a unique position to play a catalytic role and influence the development policies of non-members in the region. Sharing common characteristics of the region, economically, socially, and politically, countries may learn more effectively from their neighbors.

The OECD will also have to closely cooperate with other international organizations to be effective in its missions. This cooperation may aim at making the best use of complementarity among organizations. There should be plenty of room for cooperation with such multilateral organizations as the WTO and the International Labor Organization (ILO). It may also work closely with the World Bank, which recently places a strong emphasis on learning activities. Closer cooperation with regional, cooperative organizations, such as the Asia-Pacific Economic Cooperation (APEC) and the European Union should also be promising. As long as these regional cooperative arrangements ultimately contribute to global free trade and investment, they may serve as reasonable partners for the OECD in promoting common understanding and building consensus on key issues on which the global economy is being shaped.

PART TWO. IMPROVING EFFICIENCY BY REFORMING THE GOVERNANCE STRUCTURE

A. Establishing a New Decision-Making Process

1. *Importance of the Voting Process*

It is worth reminding ourselves how important the mechanism of voting is to the way an institution makes decisions and evolves.

The Bretton Woods Institutions were some of the first to be based on a **weighted voting process**. Power does change over time as countries differ dramatically in their world power. The IMF and the World Bank are structured in a way the vote that one casts in the Executive Board roughly corresponds to the power of the country; at least the economic power of the country in the world. The current rank of the votes is quite similar to the rank of countries, according to indices of world power.

This is, of course, dramatically different from the case in the General Assembly of the United Nations, which is one of the reasons why the decision making is easier in Bretton Woods Institutions. Another point to think about is who takes the initiative? Where does initiative come from in international institutions? It seems to be a combination of management. Looking back over the major initiatives over the last 20 years at the IMF, they have always involved a specific proposition that the management developed, one that is consistent with a broad and usually publicly expressed preference of the major powers, and capable of gathering the support of many of the developing countries. If that combination is achieved, something very dramatic can happen in an international institution. So, we propose that decision making is easier when voting power is aligned with actual power in the world, and international undertakings require somebody to take the initiative, and, in the case of the Bretton Woods Institutions, it is management aligning itself with the major powers.

2. *Ending the Unanimity Rule ?*

The unanimity rule must replaced by a more flexible standard if the OECD wishes to be a more efficient institution in the future. Furthermore, like-mindedness will increasingly be more difficult to achieve as the OECD expands its membership both in number and kind. As a result, we propose that a 3/4 majority rule be adopted. Such an overwhelming majority, we feel, reflects a relative sense of unanimity while remaining operationally achievable. We believe that a 3/4 majority not only can be interpreted as **"mutual agreement"** -- thereby following Article 6 in the Convention -- but also safeguards the importance of the vote of each country. On the one hand, majority opinion cannot be derailed by a single vote, and, on the other, dissenting opinions still preserve significant power.

Of course, in order to give **new interpretation to Article 6**, unanimity is required. Some of the strategies that could be used to escape this tautology include:

(1) Reminding members that there exists jurisprudence that indicate that overwhelming majorities can be interpreted as "mutual agreement";
(2) Applying peer pressure;
(3) Undertaking conciliation procedures; and

(4) Empowering the Secretary General in such a way that he/she can intervene in the case of an extreme abuse of the present consensus rule.

In the new governance structure we envision, **each country should have 1 vote**. While it is fair to demand larger countries to make greater monetary contributions to the budget, it is unenlightened to penalize smaller countries for just being small and reward larger countries for just being large. All countries should have the same voice at the OECD. Of course, this hold true especially if the budgetary contributions are made more equitable.

In addition, it should be noted that with 1 vote per country, European majority can be held in check by non European members if a 3/4 majority rule is established. European influence will also gradually diminish as OECD membership expands outside of Europe.

B. Rebalancing the Budget

The current level of budgetary contributions, we believe, can be blamed for the following shortcomings of the OECD:

- **Inherent Unfairness Leading To Internal Power Struggle**. The US and Japan account for nearly 50% of the Organization's budget. Given this fact, it is not unreasonable for them to argue that their votes should count more than the votes of countries that contribute much less to the budget.

- **Reliance on US and Loss of Independence**. The OECD has nearly 30 member countries but has difficulty committing to anything until the US clarifies its budgetary position vis a vis the issue at hand. A diverse and multinational organization should not be dependent on the input of any one nation.

- **Free Loading Leading to Resentment**. All countries, regardless of their level of budgetary contribution, enjoy the same advantages of membership. Countries who contribute a small percentage to the budget have no incentive to change a system that is to their advantage. Larger countries may feel that they are being exploited.

- **Obstacles to Changing Consensus Rule at All Levels**. Countries like the US and Japan -- because they contribute disproportionately to the OECD budget -- may want to exert greater influence on the Organization than other nations. Single-handedly they can veto any agreement. Likewise, smaller countries -- regardless of their relative contributions -- can check American and Japanese influence. The system is too vulnerable to exploitation.

SUGGESTED BUDGETARY CHANGES

The OECD, much like many of the other international institutions, is currently facing budgetary constraints. Moreover, the Organization's budgetary system is plagued by the following critical shortcoming: the lack of relative equity among the monetary contributions of each member country. The challenge for the OECD will be to establish a fair and balanced budget that will be acceptable to all parties. In order to do so, the OECD can explore several allocation options, some of which include: (1) a flat rate fee paid by each of the member parties; (2) a minimum fee so that the countries who are currently paying 0.1 percent of the budget contribute a more proportionate -- and hence, more equitable -- share of the budget; (3) a ceiling on contributions that would ensure that a small group of countries is not responsible for the majority of the budget; and (4) any combination thereof. Whatever option is ultimately adopted, one thing is clear: the OECD, as an organization, must identify what criteria or measures it will use in order to decide each country's contribution.

In addition, the OECD should explore other avenues of funding aside from its internal efforts. In particular, the OECD should seek out funding, joint ventures and other cooperation with the private sector. Of course, private sector funding is varied -- it could include corporations, foundations, universities, private individuals -- maybe even non-member governments. A good example of a possible avenue for a partnership with the private sector is the OECD’s work on cryptography. Why not seek funding from or undertake a joint venture with a computer corporation investing in the same research? Moreover, because the OECD is the best window on globalization, the private sector will increasingly become, in our opinion, a very important "client" base.

Without a more equitable budgetary contribution plan, it will be very difficult for the OECD to solve another of its main problems: its idealistic, yet inefficient decision making process.

C. Adopting Mechanisms that Promote Dynamism

In order for an organization to remain current, it is important for it to receive periodically an injection of new life and vitality. This could be achieved in any of the following ways:

- Terms limits on core members of the Organization, including Ambassadors and the Secretary General.
- Clear performance and temporal guidelines through goal setting and evaluation. This should be done both at the organizational and individual level.
- An empowered Secretary General's position. Give him/her the power over certain domains and issues. Allow him/her to carry out work without having to go through countless bureaucracy.
- Accountability for the behavior of individual countries and members through a yearly review process that ensures the compliance of certain norms.

PART III. IMPROVING THE VISIBILITY AND THE PUBLIC IMAGE OF THE OECD

A. The Public Image Deficit of the OECD

The OECD suffers from an ill defined public image. In the past, it has failed to properly advertise its achievements. In the present, it fails to communicate to the public what it does and what it plans to do in the future. The consequences of these failures are grave especially in an era when budgetary constraints are sharpening across the board. To be sure, by improving the Organization's visibility, the following positive goals can be achieved: (1) the OECD can enhance the efficiency in the way its messages are transmitted back to the capitals; (2) the OECD will enjoy greater public outcry in the event of a budget cut; and (3) the OECD, as an organization, will be able to attract top level workers.

B. Corrective Measures

Ways of enhancing visibility include:

- **Strengthening Relationship With Private Sector & Syndicates**. Like other international institutions, the OECD should engage in an active dialogue with members of the private sector. Aside from the possibility of raising additional funding, through private sector contribution, the Organization could tremendously enhance both its visibility as well as its brand equity. For example, the OECD could invite companies from Silicon Valley to participate in a conference on cryptography, or cooperate with Trade Unions to address specific issues.

- **Addressing Parliamental Audiences**. The OECD could engage in a periodic dialogue with forums such as the United States Congress. No doubt, the tremendous public policy experience gathered by OECD can serve local law makers everywhere. Such cooperation would serve a dual purpose. First, it could enhance the image of the Organization in the eyes of law makers who are instrumental in deciding the level of funding the Organization is to receive. Second, if properly marketed, such cooperation will also improve the image of the Organization in the eyes of the common citizen who ultimately decides which programs are funded and which are eliminated.

- **Talking Directly With Governments**. The OECD should exploit the fact that it provides a unique forum where specific governments can meet to discuss the issues that are facing the world in the 21st Century. The Organization must derive some public relations benefit from the fact that it is the foremost expert on pressing issues such as globalization, both at a micro and macro level.

- **Increasing Organization's Visibility With General Public.** By organizing large media events, for example, having world leaders address the Organization on a yearly basis, the OECD can go along way in introducing itself to a mass audience.

- **Bolstering International Visibility**. The OECD could organize IMF and World Bank style annual meetings in different cities of the OECD member countries. At these dynamic international events, the OECD could interact with the general press, the private sector, governments and syndicates. Moreover, it is important that such meetings take place in cities other than Paris in an attempt to shatter the misperception that the OECD is only a European group.

CONCLUSION

The fiftieth anniversary of the Marshall Plan ought to force a reevaluation of the OECD. Is the OECD still needed in the global economic architecture? As indicated, the OECD still has an important role to play. Not the role it played at the beginning, and not the role it played a few years ago. The Organization has been undergoing change since the time of its uniquely European base, the OEEC, with the entrance of Japan, later on of Australia and New Zealand, and recently of Eastern European Countries, Mexico and South Korea.

What kind of new OECD should we have today? In the context of the globalization of the world economy, the OECD has a competitive advantage on the overall economic architecture, which is the very broad range of policy areas in its portfolio.

The OECD was established as an intergovernmental forum and source for economic research. How should the OECD evolve to be at the center of international economic relations and be the focal point for intergovernmental discussions in a context of sweeping changes in the world economy? Could the OECD embrace all advanced market economies without losing its own identity? This geopolitical change is also a problem in others institutions, like the Bank for International Settlements (BIS).

Despite those limitations, the OECD has a distinctive role to play for various reasons. Four of them are mentioned here.

- It can continue to provide a mechanism for cross-issue linkages and for the building of trans-governmental coalitions in these countries.

- The OECD process encourages governments to look across functional issues and build cross-cutting coalitions.

- The OECD strengthens internationalist sentiment and cooperative habits. Leaders get better understanding of issues through consultation.

- The OECD bridges regional divisions. Symbolically, and occasionally substantively, it allows leaders to articulate principles and rules of political and economic order that cut across the great regional divides. Very few institutions allow such an opportunity. Such platforms must be strengthened.

Now, the OECD must position itself in the world economy, and it can be argued, its interdisciplinary approach and dialogue ability very likely offer the best window on globalization. An organization concerned with the management of one world economy, the OECD should pay more attention to global problems and facilitate policy dialogue for consensus building. The OECD, while focusing on this new mandate should not abandon its two original and still relevant missions: Cooperation and Development.

ACRONYMS

Acronym	***Organization***
APEC	Asia-Pacific Economic Cooperation
BIS	Bank for International Settlements
DAC	Development Assistance Committee
EBRD	European Bank for Reconstruction and Development
EC	European Community
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade and Services
G-7	Group of 7: Canada, France, Germany, Italy, Japan, UK, US
IFC	International Finance Corporation (World Bank Group)
IFIs	International Financial Institutions
ILO	International Labor Organization
IMF	International Monetary Fund
ITO	International Trade Organization
MAI	Multilateral Agreement on Investment
MERCOSUR	Mercado Comun del Sur (Southern Common Market)
MFIs	Multilateral Financial Institutions
MFN	Most Favoured Nation (Principle)
MIGA	Multilateral Investment Guarantee Agency (World Bank Group)
NAFTA	North-Atlantic Free Trade Association
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OEEC	Organization for European Economic Cooperation
OPEC	Organization of the Petroleum Exporting Countries
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
WTO	World Trade Organization

The Reinventing Bretton Woods Committee
7 Park Avenue, Suite 101, New York, NY 10016
Tel: (212) 685-1308 Fax: (212) 685-1057

ABOUT THE REINVENTING BRETTON WOODS COMMITTEE

INTRODUCTION

The goal of the Reinventing Bretton Woods Committee (RBWC) is to create an ongoing consultation process between governments and markets by focusing primarily on the challenges of integrating private markets into the new global architecture.

The Reinventing Bretton Woods Committee will provide important resources to assist in management of the monetary regime by establishing:

- An international network representing policy makers, monetary authorities and financial market participants to cooperate on financial market stability.
- An information depository on emerging economies and all aspects of capital markets.
- A link between the private sector and the International Institutions.
- A private interagency between private creditors and governments.

The Reinventing Bretton Woods Committee has created a set of working groups around the world with a view to providing a practical framework for addressing the most pressing issues in the search for a new architecture for the world economy.

The Reinventing Bretton Woods Committee is a non-profit organization.

Marc Uzan, Founder and Executive Director
Paris, May 23, 1996

PURPOSE AND ACTIVITIES

The Reinventing Bretton Woods Committee was founded in 1994 to study the changes needed in economic institutions if they are to be effective in this new environment. Unlike similar efforts underway, the Committee's work is based on the premise that, whereas the emergence of a regional focus of economic power and the relative decline of United States leadership are phenomena that are relatively well understood, the shift in the relative weight of private versus public capital flows in the world economy is less so.

In its work thus far, the Committee has promoted a public-private dialogue by drawing market participants into discussions with government officials and leaders of multinational institutions to examine the possibilities for systemic change in the Bretton Woods institutions. Just as the problem of externalities manifests itself at the state level, where it is increasingly difficult to find a single actor willing to bear the disproportionate costs of leadership in fashioning international institutions that would benefit all, so has the private sector's involvement thus far in these efforts been limited by the reluctance of individual actors to take initiatives that will result in public goods.

By assuming the tasks of initiating and coordinating this dialogue, however, the Reinventing Bretton Woods Committee has brought about an unprecedented exchange of views and experience between public and private actors concerned with the restructuring of existing institutions of the world economy. In seven major meetings during the past two years, the Committee has covered an agenda including international monetary coordination, crisis management and warning systems, mechanisms for disclosure, the creation of an international bankruptcy court, and other issues. In almost every instance, the Committee's work constituted an early lead in bringing attention and fresh perspectives to issues that were subsequently addressed in fora such as the G-7 Summit, the IMF/World Bank annual meetings and the annual meetings of the multilateral development banks.

At the same time, the Committee's work is based on the premise that new arrangements to ensure the smooth functioning of the international monetary system need to reflect the emergence of a wider range of countries. In this respect, the process of consultation and negotiations is still at an early stage. Creating a new and flexible architecture capable of accommodating the realities of the world economy both today and twenty years from now requires consideration of the legitimate interests of both existing and new participants.

1997 COMMITTEE'S PLANNING EVENTS

* The OECD at the Turn of the Century New York, USA	April 4-5 1997
* Reintegrating the Poorest Countries in the Global Market Place Washington, DC, USA	May 15, 1997
* EMU and its Meaning for the International Financial Institutions Brussels, BELGIUM	July 7, 1997
* EMU and its Meaning for Asia Asem Meeting, Bangkok, THAILAND	September 18, 1997
* Is Capital Account Liberalization Desirable? Annual Meeting, World Bank and IMF, Hong Kong, CHINA	September 20, 1997
* Central Bank Cooperation in Latin America Buenos Aires, ARGENTINA	November 1997
* The Functioning of the International Monetary System During World War II Geneva, SWITZERLAND	December 1997
* 50th Anniversary of the GATT Agreement: From Global Trade to Global Peace Berlin, GERMANY	January 1998
* Replicating the OECD in the Middle East Cairo, EGYPT	February 1998
* The BIS: Global or Regional Organization? Beijing, CHINA	June 1998

PUBLICATIONS AND REPORTS BY THE COMMITTEE

- *The Financial System Under Stress: An Architecture for the New World Economy*, Vol. I, New York, NY: Routledge, May 1996. (Proceedings of the Committee's conference ***Reinventing Bretton Woods***, held in New York, NY, on September 19-20, 1994).

- *Towards an International Bankruptcy Court for Sovereign Liquidity Crises? (Routledge, Forthcoming)*

- *Government Under Stress: The Path after the Mexican Crisis*, Vol. II, New York, NY: Routledge, under preparation.

- Working Papers:
  - *-Promoting the International Public Good Through the Private Sector: The Example of The Surveillance of the International Financial System.* December 1996
  - *-The Architecture of the Multilateral Financial Institutions: From Bretton Woods to the 21st Century* March 1997

- RBWC is also an associate publisher with The Journal of *World Economic Affairs*

ADVISORY BOARD

The Advisory Board of the Reinventing Bretton Woods Committee already includes:

Barry Eichengreen	Professor of Economics, University of California, Berkeley
David Hale	Chief Economist, Zurich Kemper Investments
Harold James	Professor of History, Princeton University
Reimut Jochimsen	Member of the Board, Bundesbank
Miles Kahler	Professor of International Relations, University of California, San Diego
Pierre Lemonde	Publisher, World Economic Affaires
John Lipsky	Managing Director and Chief Economist, Chase Manhattan Bank
Ron McKinnon	Professor of Economics, Stanford University

Ashwin Vasan	Vice President, Oppenheimer Fund Corporation
Salvatore Zecchini	Main Director, Banca d' Italia

CONFERENCE PAPERS

- *Argentina and the OECD*
  Enrique Carrier, Ministry of the Economy, Buenos Aires, Argentina

- *The OECD as a Rule-Making Organization*
  Bernard Colas, Colas & Partners, Montreal, Canada

- *Is the OECD Still Needed ?*
  Fabiola Gomez, Ministry of Finance, Mexico

- *International Agencies in an Interdependent World: Reshaping the OECD and the WTO*
  David Henderson, Melbourne Business School, University of Melbourne, Australia

- *A Hungarian Perspective of the OECD*
  Almos Kovacs, National Bank of Hungary, Budapest, Hungary

- *Integrating Russia in the World Economic System*
  Maxim Medvedkov, Center for Trade Policy and Law, Moscow, Russian Federation

- *Role of the OECD for the 21st Century - Perspective of a New Member*
  Sang-Woo Nam, Korea Development Institute, Seoul, Republic of Korea

- *The Role of the OECD in the Age of Globalization*
  Hisachi Owada, Ambassador of Japan to the United Nations, New York, USA

- *An OECD for the World Economy*
  Salvatore Zecchini, Banca d'Italia, Rome, Italy

CONFERENCE PARTICIPANTS

Carlos Asilis
Senior Economist
UBS Securities
299 Park Avenue
New York, NY 10017
USA

Wilfried Baum
Deputy Representative
Deutsche Bundesbank
New York Office
499 Park Avenue
New York, NY 10022
USA

Frederic Bobay
Washington Representative
Reinventing Bretton Woods Committee
Washington, DC
USA

Larry Butcher
Deputy Assistant Secretary for International Finance and Development
Department of State
Washington, DC 20520
USA

Enrique Carrier
Senior OECD Liaison Officer
Ministry of the Economy
Paseo Colon, 185
1063 Buenos Aires
Argentina

Rea-Kwon Chung
Counselor
Korean Mission to the UN
New York, NY
USA

Jean-Marc Coicaud
Research Director Peace and Governance Program
The United Nations University
53-70 Jingumae 5-Chome
Shibuya-ku, Tokyo 150
Japan

Bernard Colas
Lawyer
Colas & Partners
Montreal, Canada

Richard Cooper
Boas Professor of International Economics
The Center for International Affairs
Harvard University
1737 Cambridge Street
Cambridge, Massachusetts 02138
USA

Andrew Dean
Deputy Head Secretary General Private Office
Organization for Economic Co-operation and Development
2, rue André-Pascal
75775 Paris Cedex 16
France

Barry Eichengreen
Professor
Department of Economics
University of California, Berkeley
Berkeley, CA 94720
USA

John Evans
Secretary General
Trade Union Advisory Committee to the OECD

26, avenue de la Grande Armee
75017 Paris
France

Sebastian Fernandez
Director of Finance and Development
Reinventing Bretton Woods Committee
7 Park Avenue, Suite 101
New York, NY 10016

Shepard Forman
Director
Center for International Cooperation
New York University
82 Washington Square East-7th floor
New York, NY 10003
USA

Joanne Fox-Przeworski
Regional Director, North-America
UNEP
Two United Nations Plaza
New York, NY 10017
USA

Agustin Garcia-Lopez
Director General
Economic Affairs
Ministry of Foreign Affairs
Mexico

Fabiola Gomez
Adviser to the Director General of
International Economic Affairs
Ministry of Finance
Palacio Nacional
1er Patio Mariano
06066 Mexico DF
Mexico

Alexandre Gorelik
Envoy Extraordinary & Minister
Plenipotentiary
Permanent Mission of the Russian Federation
to the United Nations
136 East 67th Street
New York, NY 10021
USA

Catherine Gwin
Senior Vice-President
Overseas Development Council
1875 Connecticut Avenue, Suite 1012

USA

David Hale
Chief Economist & Senior Vice-President
Zurich Kemper Investments
120 South LaSalle Street
Chicago, Illinois 60603
USA

Clodoaldo Hugueney
Ambassador of Brazil
Brazilian Embassy
Calle los Chaguaramos con Avenida
Mohedano
La Castellana - 1060
Apartado Postal Carmelitas, 3977
Caracas
Venezuela

Selim Jahan
Deputy Director
Human Development Report Office
UNDP
336 East 45th Street
New York, NY 10017
USA

Miles Kahler
Professor of International Relations
University of California, San Diego
9500 Gilman Drive
La Jolla, CA 92093-0519
USA

Almos Kovacs
Vice-Governor
National Bank of Hungary
Szabadsag ter 8/9
H-1850 Budapest
Hungary

Anne Krueger
Professor
Department of Economics
Stanford University
Stanford, CA 94305-6072
USA

Haruhiko Kuroda
President
Institute of Fiscal and Monetary Policy
Ministry of Finance
3-1-1 Kasumigaseki

Denis Lamb
Washington Representative
OECD Publications & Information Center
2001 L Street, NW, Suite 650
Washington, DC 20036-4910
USA

Helene Lecuir
Program Officer
Reinventing Bretton Woods Committee
7 Park Avenue, Suite 101
New York, NY 10016

Ronald McKinnon
Professor of Economics
Economics Department
Stanford University
Stanford, California 94305-6072
USA

Maxim Medvedkov
Director
Center for Trade Policy & Law
8/10 Gasheka Street
Moscow 125047
Russian Federation

Sang-Woo Nam
Director
International Development Exchange Program
Korea Development Institute
PO Box 113, Chongnyang
Seoul
Korea

Horacio Niño
Vice President
IBCA
280 Park Avenue
New York, NY 10017
USA

Graydon Paulin
Chief Assistant International Department
Bank of Canada
234 Wellington
Ottawa K1A OG9
Canada

Minh Pham
Program Officer
Regional Bureau for Africa
UNDP

New York, NY 10017
USA

Kevin O'Shea
Consul
Canadian Consulate General
1251 Avenue of the Americas
New York, NY 10020-1175
USA

Rogelio Ramirez de la O
Director General
Ecanal, SA
Río Lerma 156-2
Mexico, D. F. 06500
Mexico

Pasi Rutanen
Ambassador
Permanent Delegation of Finland to the OECD
6, rue de Franqueville
75116 Paris
France

Richard Scott-Ram
Chief Economist
World Gold Council
900 Third Avenue
New York, NY 10022
USA

Jeffrey Shafer
Managing Director
Salomon Brothers
Seven World Trade Center
New York, NY 10048
USA

Alexandre Shevchenko
Head of Division of International Organizations
Economic Cooperation Department
Ministry of Foreign Affairs
32/34 Smolenskaya-Sennaya
Moscow 121200
Russian Federation

Yasusuke Tsukagoshi
Chief Representative
Japan Center for International Finance
2001 L Street, NW
Washington, DC 20036
USA

Marc Uzan
Executive Director
Reinventing Bretton Woods Committee
7 Park Avenue, Suite 101
New York, NY 10016

Kimon Valaskakis
Ambassador
Permanent Delegation of Canada to the OECD
15 bis rue de Franqueville
75116 Paris
France

Ashwin Vasan
Vice-President & Portfolio Manager
Oppenheimer Fund Corporation
Two World Trade Center, 34th Floor
New York, NY 10048-0203
USA

Ireneusz Wrzesniewski
Economic Counsellor
Embassy of the Republic of Poland
100 Park Avenue, 19th Floor
New York, NY 10017
USA

Martin Williamson
Senior Economic Adviser
Foreign & Commonwealth Office
London SW1A 2AH
England

Gang Yi
Professor
Department of Economics
Indiana University
425 University Boulevard
Indianapolis, IN 46202
USA

Masaru Yoshitomi
Vice Chairman
Research Institute - Long Term Credit Bank of Japan
1-2-4, Otemachi
Chiyoda-Ku, Tokyo 100

Japan