policy-network.net

policy network

About us   Activities   Progressive Policies   Publications   Progressive Governance Network   Press

{ ACTIVITIES

Policy Network's Third Annual Spring Retreat

Warren House
11th and 12th March 2005

On the 11th and 12th of March *Policy Network* has held its 3rd Annual Spring Retreat at Warren House. Considering the success of the two previous meetings, *Policy Network*'s spring retreat has become a major political event for the European centre-left. Politicians, policy-makers, academics and thinkers had the opportunity to discuss the challenges that modern democracies are facing and to share the policy alternatives.

The agenda and the official press-release sent out prior to the Spring Retreat are set out below. Preparatory papers by Jean-Philippe Cotis, Kemal Dervis and Philippe Schmitter can also be downloaded at the bottom of this page. More information will follow soon.

PRESS RELEASE

The third *Policy Network* Annual Spring Retreat opens today, bringing together over 120 leading politicians, intellectuals and policy-makers from Europe's centre-left political parties for a two-day brainstorming and strategy session at Warren House, UK. Joining the discussions are Giuliano Amato, Wouter Bos, Kemal Derviş, Anthony Giddens, Elisabeth Guigou, Pascal Lamy, Mike Moore, Franscesco Rutelli, Martin Schulz, Dominique Strauss-Kahn, and Tibor Szanyi. The meeting is hosted by Peter Mandelson, Honorary Chair of *Policy Network*.

The 2005 retreat takes place only three weeks after the resounding victory of the Portuguese Socialist Party, paving the way for the implementation of bold structural reforms envisaged by the future Prime Minister Jose Socrates and his government, which will be sworn into office on Saturday. Inspired by this success, the opening panel is assessing the current state of social-democratic political parties and discussing winning strategies for the future.

The debates continue during three breakout sessions. For each of these sessions private discussion papers have been prepared by: Philippe Schmitter, Professorial Fellow at the European University Institute, on the necessity of democratic renewal; Kemal Derviş, Turkish Member of Parliament and former Vice-President of the World Bank on development policies and the Millennium Goals; and Jean-Philippe Cotis, chief economist and head of the economics department at the OECD, on the challenges of demographics.

The issue of development plays a central role during this weekend's discussions. *Policy Network* is building momentum ahead of the next G8 meeting and a regional Progressive Governance Conference in mid-July.

Setting out the ambitions for 2005, Peter Mandelson argues: *We must use the combined power of the European Union to put trade at the service of development*.

Writing in the new edition of *Progressive Politics*, Valerie Amos, former British Secretary of State for International Development, adds that: *There is no contradiction between development policies and policies that safeguard security and stability.*

The retreat marks the mid-point in the preparation of the next Progressive Governance Summit to be held in South Africa in autumn this year. At last year's Budapest Summit the heads of governments commissioned *Policy Network* to set up joint studies on extending social justice in a globalised world, equipping people for change and enhancing engagement between citizen and state. In the presence of the sherpas at Warren House, *Policy Network* is presenting its plan of action for the forthcoming six months, and preparing a series of briefing papers that will form the basis for discussions.

Cooperation between the centre-left of different countries has never been more important. We have much to learn from each other's successes and failures. Reinforcing the collaboration with Democrats in the US is therefore one priority for 2005 and following on from Warren House, *Policy Network* will organise with its American partners a conference with thinkers and politicians of the US centre-left in Washington DC this June.

With crucial elections looming in the UK, Germany and Italy as well as nine national referenda on the European Constitutional Treaty, the meeting comes at a critical juncture for the centre-left.

Major Policy Network events in 2005:

- Centre-left US-Europe Conference in Washington, June
- Regional African conference in Johannesburg, mid-July
- Progressive Governance Conference and Summit in South Africa, Autumn

---

AGENDA SPRING RETREAT
Friday 11th March

12h00 to 13h30 Progressive generation:
Introduction
Co-chairs: Michiel van Hulten and Juan Moscoso

14h15 to 15h30
Opening plenary: Where is progressive politics today?
Chair: Peter Mandelson
Speakers: Martin Schulz, Dominque Strauss Kahn and Bob Boorstin

16h00 to 18h30
Breakout sessions:

Democratic renewal
Chair: Francesco Rutelli
Presentations: Philippe C. Schmitter
Comments: Ralph Tarraf and Elisabeth Guigou

Development policies and Millennium goals
Chair: Mike Moore
Presentation: Kemal Dervis
Comments: Carlos Vergara and Mojanku Gumbi

Demographic challenges
Chair: Tibor Szanyi
Presentation: Jean-Philippe Cotis
Comments: Jet Bussemaker and Linda Lanzillotta

Saturday 12th March

9h30 to 10h00
New dilemma's on solidarity
Wouter Bos

10h00 to 13h00
Progressive generation: Reports for breakout sessions
Chair: Eluned Morgan

Democratic renewal
Rapporteur: Algirdas Paleckis

Development policies and Millennium Goals
Rapporteur: Giovanna Melandri

Challenges of demographics
Rapporteu: Marta Rebelo

13h00 to 14h30
Lunch: Towards a progressive Europe
Host: Michiel van Hulten

14h30 to 15h50
Strategies for future success
Chair: Peter Mandelson
Speakers: Giuliano Amato, Ron Asmus and Essop Pahad

15h50 to 16h00
Closing remarks
Peter Mandelson

Related Documents
  1. Warren Hoouse 2005 Press Release
  2. Agenda
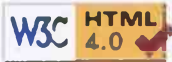 3. Kemal Dervis paper
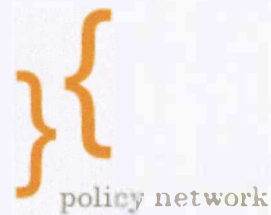 4. Philippe Schmitter paper
  5. Jean-Philippe Cotis paper

Printer Friendly Page   Email this Article

About Us | Activities | Progressive Policies | Publications | Progressive Governance Network | Press | Progressive Profile
Home | Search | Privacy | Contact | Login

W3C HTML 4.0

PRESS RELEASE

International centre-left gathers for high-level strategy talks

<u>EMBARGOED: 11th MARCH 2005</u>

- **International centre-left's annual spring retreat opens today hosted by** *Policy Network*
- **Winning strategies for the future on top of agenda**
- **New shift in progressive development policy takes shape**

The third *Policy Network* Annual Spring Retreat opens today, bringing together over 120 leading politicians, intellectuals and policy-makers from Europe's centre-left political parties for a two-day brainstorming and strategy session at Warren House, UK. Joining the discussions are Giuliano Amato, Wouter Bos, Kemal Derviş, Anthony Giddens, Elisabeth Guigou, Pascal Lamy, David Miliband, Mike Moore, Franscesco Rutelli, Olaf Scholz, Martin Schulz, Dominique Strauss-Kahn, and Tibor Szanyi. The meeting is hosted by Peter Mandelson, Honorary Chair of *Policy Network*.

The 2005 retreat takes place only three weeks after the resounding victory of the Portuguese Socialist Party, paving the way for the implementation of bold structural reforms envisaged by the future Prime Minister Jose Socrates and his government, which will be sworn into office on Saturday. Inspired by this success, the opening panel is assessing the current state of social-democratic political parties and discussing "winning strategies for the future".

The debates continue during three breakout sessions. For each of these sessions private discussion papers have been prepared by: Philippe Schmitter, Professorial Fellow at the European University Institute, on the necessity of democratic renewal; Kemal Derviş, Turkish Member of Parliament and former Vice-President of the World Bank on development policies and the Millennium Goals; and Jean-Philippe Cotis, chief economist and head of the economics department at the OECD, on the challenges of demographics.

The issue of development plays a central role during this weekend's discussions. *Policy Network* is building momentum ahead of the next G8 meeting and a regional Progressive Governance Conference in mid-July.

Setting out the ambitions for 2005, Peter Mandelson argues: *"We must use the combined power of the European Union to put trade at the service of development"*.

Writing in the new edition of *Progressive Politics*, Valerie Amos, former British Secretary of State for International Development, adds that: *"There is no contradiction between development policies and policies that safeguard security and stability."*

The retreat marks the mid-point in the preparation of the next Progressive Governance Summit to be held in South Africa in autumn this year. At last year's Budapest Summit the heads of governments commissioned *Policy Network* to set up joint studies on extending social justice in a globalised world, equipping people for change and enhancing engagement between citizen and state. In the presence of the sherpas at Warren House, *Policy Network* is presenting its plan of action for the forthcoming six months, and preparing a series of briefing papers that will form the basis for discussions.

Cooperation between the centre-left of different countries has never been more important. We have much to learn from each other's successes and failures. Reinforcing the collaboration with Democrats in the US is therefore one priority for 2005 and following on from Warren House, *Policy Network* will organise with its American partners a conference with thinkers and politicians of the US centre-left in Washington DC this July.

With crucial elections looming in the UK, Germany and Italy as well as nine national referenda on the European Constitutional Treaty, the meeting comes at a critical juncture for the centre-left.

Major Policy Network events in 2005:

- **Centre-left US-Europe Conference in Washington, June**
- **Regional African conference in Johannesburg, mid-July**
- **Progressive Governance Conference and Summit in South Africa, Autumn**

- ENDS -

For further information please visit our website www.policy-network.net

We can also be contacted by telephone on   (Friday and Saturday) or on
(Thursday - Saturday)

Policy Network
Annual Spring Retreat
Programme

Friday 11th March

11h00 onwards	**Registration**
12h00 to 13h30	**Progressive generation:** **Introduction and welcome**

Co-chairs   M. van Hulten and J. Moscoso

13h00 to14h15   **Lunch**

14h15 to 15h30   **Opening plenary:**
Where is progressive politics today?

Chair   P. Mandelson
Speakers   M. Schulz, D. Miliband, D. Strauss Kahn, and
                      B. Boorstin

15h30 to 16h00   **Coffee**

16h00 to 18h30   **Breakout sessions:**

Democratic renewal
Chair: F. Rutelli
Presentations: P. Schmitter
Comments: R. Tarraf and E. Guigou

Development policies and Millennium goals
Chair: M. Moore
Presentation: K. Dervis
Comments: C. Vergara and M. Gumbi

Demographic challenges
Chair: T. Szanyi
Presentation: J.P. Cotis
Comments: J. Bussemaker and L. Lanzillotta

18h30 to 20h00   **Reception**

20h00 onwards   **Dinner**

Saturday 12th March

08h00 to 09h30   **Breakfast**

9h30 to 10h00   **New dilemma's on solidarity**

W. Bos

10h00 to 13h00   **Progressive generation:**
Reports for breakout sessions

Chairs   A. Giddens and E. Morgan

Democratic renewal
Rapporteur   A. Paleckis

Development policies and Millennium Goals
Rapporteur   M. Melandri

Challenges of demographics
Rapporteur   M. Rebelo

13h00 to 14h30   **Lunch: Towards a progressive Europe**

Host   M. van Hulten

14h30 to 15h50   **Strategies for future success**

Chair   P. Mandelson
Speakers   G. Amato, R. Asmus and E. Pahad

15h50 to 16h00   **Closing remarks**

P. Mandelson

Coffee and departure

Center for Global Development

CGD Brief

A Better Globalization: Legitimacy, Governance, and Reform

By Kemal Derviş *

Despite the tremendous opportunities for growth and human welfare presented by advances in knowledge, technology, and globalization in recent years, insecurity and fear remain defining characteristics of globalization today. Many expected that the fall of the Berlin Wall and the end of the cold war would mark the beginning of a new era of peace and equitable global development. Instead economic, environmental, social, and political problems undermine security and prosperity, and violent conflict, terrorism, state failure, and deep new political divisions fuel new types of threats.

The international system, designed for the post–World War II period, needs radical reform, in both the economic and security domains. Globalization increasingly constrains public policy at the level of the nation-state, often provoking reaction within. Yet the solutions for the problems we face lie not in rejection of globalization or retreat into autarky, but in an improved institutional framework that takes into account the increasing interdependence and integration among the countries, regions, and people of the world.

At the heart of the governance challenge lies the irrepressible need for legitimacy, the lack of which will lead to chronic or acute conflict, an inability to implement policies, and wasted resources. A better globalization in the political and economic domains must therefore be driven by an unrelenting effort to establish and enhance legitimacy.

A Better Globalization: Legitimacy, Governance, and Reform is a reformist manifesto that argues that gradual institutional change can produce beneficial results if it is driven by an ambitious long-term vision and by a determination to continually widen the limits of the possible. It presses for reform on a broad front with a renewed, more legitimate, and more effective United Nations as the overarching framework for global governance based on global consent.

THE KEY DIMENSIONS OF THE RENEWAL ARE:

1. **Reform of the UN Security Council** to allow universal participation through a system of constituencies and weighted voting that balances continuity and change.

2. **A new UN Economic and Social Security Council** as an "equal partner" of the Security Council to replace the G-7 at the top of the global economic governance architecture.

3. **A Stability and Growth Facility** to help middle-income, emerging market economies reduce debt burdens without having to sacrifice the fight against poverty and macroeconomic stabilization.

4. **Meeting poor countries' special challenges** with a "big push" in additional development resources coupled with conditions that address the governance failures that threaten their effective use.

5. **A truly development-oriented, WTO-led trade liberalization,** able to win the hearts and minds of world citizens by spreading the benefits of trade and by compensating those who lose in the short run.

* This brief summarizes five key recommendations in the CGD book A Better Globalization: Legitimacy, Governance, and Reform by Kemal Derviş. Derviş is a non-resident fellow at CGD, a member of the Turkish Parliament, and former Minister for Economic Affairs of Turkey.
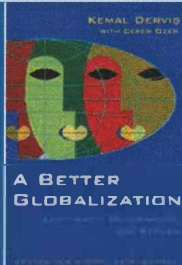
Recommendation 1:
Reform the UN Security Council (UNSC)

Reform the UN Security Council (UNSC) to allow the United Nations to reflect and deal effectively with the needs of the 21st century. The UNSC is at the center of global governance, yet it was designed for the postwar realities of a half century ago. Without restructuring to reflect today's world, the UNSC cannot provide effective and legitimate governance.

Key Elements

■ **Composition.** The new UNSC would still have permanent and non-permanent members, but it would represent all countries of the world and use weighted voting. A possible arrangement would have the United States, the European Union, Russia, China, India, and Japan as the six permanent members. Eight non-permanent members would represent five regional constituencies: Other Europe; Other Asia; Africa; the Arab League; and Latin America, the Caribbean, and Canada. Each constituency would have elected seats on the UNSC; the number would depend on the total weight and the number of countries the constituency represents. These seats would rotate every two years, as in the current practice. What would be different, however, is that each member of the UNSC would be allotted a share of the weighted regional vote determined by the votes received during the biannual elections in that constituency—for example, if Brazil and Chile were elected to represent the Latin American constituency, their votes would represent all Latin American countries, in proportion to the share of the votes they received in the constituency elections.

■ **Voting rules.** Features of the voting rules in the reformed UNSC would include:

■ Weighted votes: For each country, voting power would be based on four factors: population, GDP, financial contributions to the provision of global public goods, and military-peacekeeping capability. These weights would be updated every five years

■ Supermajorities: Instead of individual veto rights, supermajorities would be required for the most important decisions. For cross-border military interventions, for example, the supermajority required could be four-fifths of the weighted votes. For other matters, such as the application of sanctions, dispute settlement, and recognition of a new state as a UN member, the required majority might be three-fifths

■ US interests: The United States would have about 23 percent of the overall vote, reflecting its current economic and military capabilities and population. Thus, the United States could block any decision requiring a four-fifths majority but would have to seek support from others if it wanted to block other decisions. The proposed reform would be compatible with long-term US security concerns and allow the US a leading role in an international system that had greater legitimacy.

■ **Transition.** Transition formulas would be needed to get the UNSC from where it is today to where it should be in the long run. The veto rights of the existing permanent members could remain in place during the transition period, at least for the most critical decisions. Adjustment mechanisms would allow the new structure to evolve over time

Rationale for UNSC Reform

The proposal for restructuring the UNSC contained in the December 2004 Report of the UN Secretary-General's High-Level Panel on Threats, Challenges, and Change suggests increasing the number of countries in the UNSC in different ways. However, merely enlarging the Council would make it more unwieldy. Adding new members with veto power could increase the risk of paralysis. Adding countries without veto power could further undermine the UNSC's legitimacy, for the Council would consist of countries of roughly equal size or economic and military importance but unequal voting power.

This recommendation for UNSC reform runs in the same direction as the Panel's proposals but goes further. Its aim is to enhance the legitimacy of the United Nations while taking into account existing economic and military relationships and distribution of power. To that end, it envisages a UNSC that can promote and balance three elements:

■ Greater global democracy that recognizes the equal value of all nations and their citizens

■ The ability to work with existing nation-states that have legal status as sovereigns and remain fundamental units of the international system

■ The need to take into account the divergent economic and peace-keeping capabilities of these nation-states

Table 1 outlines a possible restructuring of the UNSC, including transition features

Table 1 : Key Differences between Existing and Proposed UNSC and UNESC Membership

	Existing UNSC Structure	Proposed UNSC Structure	Proposed UNESC Structure
Permanent members	5 – UK, France, US, China, Russian Federation	6 – EU, US, Japan, China, India, Russian Federation	6 – EU, US, Japan, China, India, Russian Federation
Veto power for permanent members	Yes, on any and all decisions	No Supermajorities required instead. Veto could be retained for the most important decisions during a transition period	No Supermajorities required instead
Non-permanent members	10–Asia (2), Latin America (2), Africa (3), Western Europe (2), Eastern Europe (1)	8–Other Asia (2), LAC and , Canada (2), Arab League (1), Africa (2), Other Europe (1)	8–Other Asia (2), LAC and Canada (2),Arab League (1), Africa (2), and other Other Europe (1)
Representation of non-permanent members	Rotating regional allocation Each member represents itself	Regional constituencies. Members elected by regional constituency and represent a share of a regional vote	Regional constituencies Members elected by regional constituency and represent a share of a regional vote
Voting weights	One country/one vote. but with veto of the 5 permanent members	Weighted voting based on population, GDP, financial contributions to the provision of global public goods, and military-peacekeeping capability	Weighted voting based on population, GDP, and financial contributions to the provision of global public goods

Recommendation 2:
A New Economic and Social Security Council (UNESC)

Bring the top governance of international economic institutions under the broad legitimizing umbrella of a reformed and more effective United Nations through a new United Nations Economic and Social Security Council (UNESC). While the reformed UNSC would oversee political and security issues, its new partner, the UNESC, would oversee global governance in the economic and social spheres. The two councils would function as a pair allowing for different importance or "weights" different nations have in the two spheres.

Key Elements

■ **UNESC mandate.** The UNESC would be constituted at a much higher level and with a stronger mandate than the existing ECOSOC, and it would be designed to increase coherence and efficiency in the economic (including environmental and social) spheres of the international system. For example, the UNESC would:

■ Provide a governance umbrella: The UNESC would be the strategic governance umbrella for the IMF, World Bank, and WTO as well as for all the specialized economic and social agencies in the UN system, such as the ILO, UNDP, and UNC-TAD It would provide strategic guidance, promote cooperation, and evaluate performance. It would have no executive function and no role in the management of the institutions themselves.

■ Appoint leadership: The UNESC would appoint all heads of institutions, using rigorous, transparent search procedures and criteria, which would include experience, proven leadership, and overall gender, race, and geographical balance. The current de facto requirement that the head of a particular institution should come from a specific country or region would no longer apply

■ Mobilize resources: The UNESC would help raise the resources needed to improve the international system in the economic sphere. It could play a key role in advancing the Millennium Development Goals and ensuring the required linkages between the UN, the World Bank, and other major actors.

■ **Voting structure.** Like the UNSC, the UNESC would function with permanent and non-permanent members and with a system of weighted votes and constituencies. A key difference is that military capability would not enter into the weighting. Voting

strength would be decided by three factors: population, GDP, and contributions to the financing of global goods

Rationale for a UNESC

Given the dominance of the G-7 nations in global economic governance, many in the world believe that the processes of global economic integration and trade are managed in a narrow and undemocratic way by the richest, most powerful nations. More inclusive groups, such as the G-20, broaden international deliberations but do not have significant decision-making power and fail to represent the smallest, poorest countries

The legitimacy of governance is critical for the effectiveness of international institutions. Despite the central role the Bretton Woods institutions have played in the world economy, and their resilience and adaptability to changing circumstances, fundamental doubts persist about their legitimacy and the impartiality of their advice, and therefore the effectiveness of their programs In the case of the WTO, despite a formal governance structure in which the devel-

oping countries have a much greater weight, the perception of overall G-7 dominance in global economic governance distracts from deliberation of important policy issues.

If the governance were considered more legitimate, conditionality would become more acceptable and debate could focus on the nature of policies and conditions without being derailed by apprehension about motives and intentions Hence, reforming governance structures is as critical as reforming the strategies and policies implemented by the international institutions.

The creation of a UNESC, long advocated in some form by progressive groups, would allow for increased legitimacy of the Bretton Woods institutions and the WTO through more inclusive and democratic governance of global economic issues. The evaluation and research role of the UNESC would also be perceived as more impartial and credible than current evaluation procedures, which are still tied to the institutions themselves. Table 1 outlines a possible structure for the UNESC.

Recommendation 3:
A Stability and Growth Facility (SGF) for Emerging Market Economies

The Stability and Growth Facility (SGF) would help indebted emerging market economies attain sustainable growth and viable public finances while allowing them to continue fighting poverty and progressing toward the Millennium Development Goals. Under the SGF the IMF, in close cooperation with the World Bank, would work with participating middle-income emerging market economies on a medium-term program with the explicit aim of reducing their chronic vulnerability to debt-related problems and setting a path for the growth of real income. Both Bretton Woods institutions could then work within a longer-term perspective.

Key Elements

- **Qualification.** Qualifying countries would be those that have a high debt burden and chronic vulnerability but are not currently in crisis such as Brazil, Ecuador, Indonesia, the Philippines, Turkey, and Uruguay To qualify, a participating country would have to be certified as having appropriate policies in place, including a medium-term growth program combining responsible fiscal policy with an adequate public investment program and structural policies leading to a substantial reduction in the debt indicators as well as progress on social problems and poverty reduction.

- **Eligibility.** The conditions attached to lending from the Bretton Woods institutions would be formulated such that the likelihood of outright disqualification would be low. The starting point would be reasonably sound existing policies, which would then be modified gradually to further strengthen the growth program. Fiscal policy, for example, would become more growth oriented, with a gradual change in the structure of revenues and expenditures, and aggregate fiscal targets would be determined

every year as a function of the progress made toward the desired debt indicators.

- **Phase-in.** Once a robust program is agreed upon, SGF financing would be phased in over the program period. Moral hazard would thus be limited by avoiding any large up-front disbursement. A participating country could count on a stable core source of medium-term financing that would not be subject to the ebb and flow of private financing.

- **Financial resources.** SGF resources would have to be provided at a cost low enough, and in amounts sufficient, for the debt reduction dynamic to work and for stabilization to occur—but not at the expense of poverty reduction and broad-based growth Hence, additional resources would be required from the international community to allow the IMF or World Bank to extend the loans at a relatively low cost. Allowance would have to be made for these resources when considering the proposals for global resource mobilization that have been made, such as development-focused issues of Special Drawing Rights or some forms of global taxation.

Rationale for an SGF

The public debt levels of emerging market economies have undergone a steady rise, from about 30 percent of GDP in the late 1960s to about 70 percent at the end of the 1990s. When crises occur, the burden of adjustment falls disproportionately on the poor and middle-income groups.

The proposal for an SGF offers middle-income countries a companion to the Poverty Reduction Growth Facility that exists for poor countries, providing more regular long-term financing at a moderate cost. The SGF would help countries grow out of their debt traps and protect them from future financial crisis. It would complement existing IMF facilities that provide financing to countries in crisis, and it would benefit from ongoing efforts to create mechanisms for orderly debt reduction and restructuring for heavily indebted emerging market economies. Decisive implementation of an SGF-type approach, incorporating a modest interest cost reduction, could gradually reduce the number of countries that remain vulnerable to financial crises and help eliminate the repeated need for crisis management.

Recommendation 4:
Make a "Big Push" to Meet the Special Challenge of the Poorest Countries

Meet the poorest countries' challenges with a "big push" in the form of significant new resources from donor countries—an extra $30 billion annually of additional aid resources for the poorest countries only, to be mobilized by the UNESC—coupled with rules that recognize the need for tough policy and governance conditions.

Key Elements

■ **New resources.** No single initiative is likely to mobilize the required resources—$30 billion annually above the existing post-Monterrey commitments—and repeated exhortations to raise aid budgets have not worked. Instead a comprehensive package could include a modest international taxation (for example, a carbon tax, a tax on armaments, a corporate tax surcharge, and so on); a development-oriented issue of Special Drawing Rights; and other innovative methods of development finance, such as the International Finance Facility proposed by the UK.

■ **Conditionality.** For a big push of this sort to succeed, there will have to be more conditionality rather than less, including sufficiently high standards in domestic governance, education, health, government budget composition, and political institutions. Conditions must be tough and comprehensive, but they must also support local reform efforts and reflect local conditions and priorities. For a broader conditionality to be acceptable in the international arena, international processes related to the poorest countries will have to be perceived as much more legitimate. The proposed UNESC would provide enhanced legitimacy and coordination and would spearhead the resource mobilization effort.

■ **Participation.** To promote greater effectiveness and support of programs financed by the IMF and the World Bank, these institutions could use a "peer participation" system that recruits professionals directly from the poorest countries to serve in fixed terms. For this effort to have a significant impact both on the nature of programs and on their local perception, these professionals would have to constitute at least 20 percent of all Bank and Fund staff working in the poorest countries. The UNESC could also create a special Policy Board made up of 20 to 25 senior members, with equal numbers of currently active policymakers in the poorest countries, eminent personalities from these countries (including representatives from the private sector), policymakers from middle- and higher-income countries, and representatives from international nongovernmental organizations and academia. This board would conduct an annual review of conditionality and policy advice contained in IMF and World Bank programs, including evaluation of the recent past and recommendations for the future.

Rationale for a "Big Push" to Meet Poor Countries' Challenges

Over the past three decades, a large number of poor countries have been essentially excluded from global growth. Many of them are failed states or are in imminent danger of becoming failed states. Varying degrees of state failure have been evident in countries such as Afghanistan, Angola, Burundi, Haiti, Liberia, Rwanda, Sudan, and Tajikistan. Countries as diverse as Chad, Côte d'Ivoire, Georgia, and Sri Lanka have come dangerously close to becoming failed states, and others, such as the Balkan states of Albania, Bosnia, Macedonia, and Serbia, are still recovering from war or internal turmoil.

This exclusion from the growing global economy of countries that have been marginalized by history, geography, civil war, governance failures, or foreign power struggles on their soil poses both a tremendous ethical challenge—hundreds of millions of human beings trapped in extreme poverty—and a significant global security challenge, as was demonstrated in the case of Afghanistan. Given the magnitude and persistence of the challenges facing the poorest countries, a big push with significant resources and effective, legitimate governance is needed.

Recommendation 5:
More Development-Oriented Trade

Reform the WTO process by focusing it on global development and giving a strategic oversight role to the UN Economic and Social Security Council (UNESC). The aim should be to win hearts and minds and to give the WTO greater legitimacy and capacity to manage the difficult economic and social trade-offs created by trade liberalization, to balance trade and non-trade issues, and to streamline and formalize WTO decision-making processes.

Key Elements

- **UNESC oversight.** The UNESC would not manage the WTO secretariat or the multilateral trade negotiations any more than it would run the IMF, the World Bank, or UNDP. But on the difficult judgments required between trade and non-trade objectives, the UNESC would have several roles:

  - Help negotiate global standards: The UNESC could work with the ILO and other organizations to devise frameworks for worldwide strengthening of labor, environmental, and other standards, reasonably differentiated according to country circumstances and initial conditions, and with specific targets to be revised every five years This would relieve trade negotiators of the additional burden of negotiating such standards during trade talks.

  - Mobilize resources: Working with the World Bank, the regional development banks, and UNDP, the UNESC could help mobilize and support the deployment of resources to compensate relatively low-income groups that stand to lose from liberalization or that face substantial adjustment costs, and thereby facilitate acceptance of compromise solutions to critical trade issues

  - Appoint leadership: The UNESC would also appoint the WTO's Director-General according to transparent criteria, as it appoints all other heads of agencies.

- **Improvements in WTO governance.** Without giving up the WTO's consensus rule for actual decision making, it would be beneficial to introduce more transparency and formality into the more restrictive ("green room") process by which countries currently reach informal agreements. This could be accomplished by requiring some objective criteria to determine participation in "green room" sessions, based on comprehensive geographic representation, volume of trade, and the relevance of a particular issue under discussion to a specific group of countries

Rationale for WTO Process Reform

To unleash the great potential benefits of trade in the fight against poverty worldwide, three issues need to be addressed.

The first concerns the possible negative impacts of liberalization. Although the rapid change associated with trade liberalization generates long-term benefits for most countries as a whole, it also creates casualties, especially in the short run. The threat of economic loss fuels anxiety about globalization, even in prosperous economies, which in turn fuels antiglobalization political pressures. If the potential benefits from trade liberalization are to be realized, ways to compensate groups that stand to lose from it must be found and integrated into global policy.

Second, the interaction between trade and non-trade objectives must be sorted out. Some key policy issues are directly related to trade or to its composition and direction, such as customs procedures, public procurement rules and regulations, labor standards, and environmental regulations. In a world of sovereign nation-states, trade negotiations are often the only venue in which one country can influence another's policies. But if the trade negotiation process is burdened by all the important problems of the world, it will collapse. Hence, there is a need for a reasonable allocation of tasks and responsibilities.

Third, governance of the WTO itself has become unwieldy Decision making has become difficult because of the size, complexity, and all-encompassing nature of negotiations. Agreements are stalled because everyone involved in a comprehensive round of multilateral negotiations is required to subscribe to policies in their entirety, regardless of ability or appropriateness for some countries. Moreover, with almost 150 members, the WTO's one-nation, one-vote principle is cumbersome and confers only a very restricted legitimacy Hence it is not surprising that informal procedures have taken over, with the biggest countries taking the lead in the "green room" process, and with various forms of pressure brought to bear on the smaller countries to conform.

The advantage of a strategic role for the proposed UNESC would be twofold First, the Council would have a global, comprehensive, and bureaucratically impartial perspective, which would help it fill gaps, organize possible synergies, and promote efficiency between organizations such as the WTO, ILO, WHO, and World Bank. Second, the UNESC's system of weighted voting would have sufficient legitimacy to gain broad-based support for realistic proposals that take into account the interests and concerns of different countries and country groupings without the threat of being stalled by one country

Advance Praise for
A Better Globalization:
Legitimacy, Governance, and Reform

"Kemal Derviş [has] the perspective needed to consider deep reforms in global governance."
—*Montek Singh Ahluwalia, Deputy Chairman, Planning Commission for India*

"The author's proposals are both idealistic and practicable. Decision makers have no excuse... they cannot ignore this book."
—*Giuliano Amato, former Prime Minister of Italy*

"One of the most imaginative solutions to the problem of reorganizing the United Nations."
—*Francis Fukuyama, Professor of International Political Economy, John Hopkins University*

"Derviş addresses the key challenges of our time with imagination and determination."
—*Abdullah Gül, Deputy Prime Minister and Minister of Foreign Affairs to Turkey*

"Concrete proposals for introducing the missing human and social elements into the mechanical processes of globalization."
—*Erdal İnönü, Former Deputy Prime Minister of Turkey*

"Derviş brings unique insight into improving the effectiveness and legitimacy of global institutions."
—*Paul Martin, Prime Minister of Canada*

"[The author] ... demonstrates a reassuring belief in the power of good public policy to shape a better society and in the power of ideas to change the world."
—*George Papandreou, former Foreign Minister of Greece*

"Derviş weighs in on the greatest debate of our time... Washington and Brussels better stand up and take notice!"
—*Dani Rodrik, Professor of International Political Economy, Harvard University*

"In this book [Derviş] skillfully uses his extensive national and international experience to discuss some of the difficult global issues of our time."
—*General Brent Scowcroft, former US National Security Advisor*

"For out-of-the-box ideas on [global governance], this is certainly the book to read."
—*Ernesto Zedillo, former President of Mexico*

Center
for Global
Development

CGD Brief

A Better Globalization: Legitimacy, Governance , and Reform

Kemal Derviş

February 2005

The Future of Democracy in Europe:
Trends, Analyses and Reforms

Summary Version of a Green Paper for the Council of Europe

Philippe C. Schmitter

European University Institute (Italy)

INTRODUCTION

"Democracy is the word for something that does not exist."
Karl Popper

For something that does not exist, democracy has certainly been much talked about recently. Moreover – at least in Europe – "real-existing" democracy seems to have a promising future, although it is currently facing an unprecedented diversity of challenges and opportunities. The issue is not whether the national, sub-national and supranational polities that compose Europe will become or remain democratic, but whether the quality of this regional network of democracies will suffice to ensure the voluntary support and legitimate compliance of its citizens.

The major reason for this optimism is simple: the democratization of Europe's "near abroad" and its subsequent incorporation within the region as a whole. With the success of these national efforts at regime change to its East, Europe has become and should remain an enlarged zone of "perpetual peace" in which all of its polities can expect to resolve their inevitable differences of interest peacefully through negotiation, compromise and adjudication. Moreover, there exists an elaborate Europe-wide network of trans-national institutions, inter-governmental and non-governmental, to help resolve such conflicts and draw up norms to prevent their occurrence in the future.

Ironically, this much more favourable regional context presents dilemmas of its own for democracy. Many (if not most) of the major historical advances in democratic institutions and practices came in conjunction with international warfare, national revolution and civil war. Fortunately, none of these Archimedean devices for leveraging large-scale change seems to be available in today's pacified Europe. It is, however, our presumption that democracy cannot only live with peace, but thrive with it – if, however, it can learn to reform institutions and practices in a timely and concerted manner.

We draw five (tentative) conclusions from this unprecedented state of affairs.

First, established democracies in Western and Southern Europe will find it increasingly difficult to legitimate themselves by comparing their performance with that of some alternative mode of domination, whether real or imagined. Now that liberal democracy has become the norm throughout Europe and overt autocracy persists only in countries with markedly different cultures and social structures, the standards for evaluating what governments do (and how they do what they do) will become increasingly "internal" to the discourse of normative democratic theory, that is to what differing conceptions of democracy have promised over time and for which citizens have struggled so hard in the past. Therefore, there should be a tendency towards a convergence in formal institutions and informal practices within Europe that will, in turn, lead to a narrower and higher range of political standards.

Second, new democracies in Central and Eastern Europe and the western parts of the former Soviet Union will find it increasingly difficult to legitimate themselves simply by arguing that they are so burdened by their respective autocratic heritages that they cannot possibly respect the norms of behaviour and attain levels of performance set by established democracies. The standards that their recently liberated citizens will apply in evaluating their rulers will rapidly converge with those already in use in the rest of Europe.[1] Polities failing to meet these standards will experience more frequent electoral turnover in power and may even be threatened by popular rebellion, unless their newly empowered rulers respect the rules established by the "real-existing" democracies to their West.

Third, in both cases, the polities involved will usually only be able to improve the quality of their respective democratic institutions and practices by means of partial and gradual reforms. Moreover, these reforms will have to be drafted, approved and implemented according to pre-existent norms. Rarely, if ever, will the opportunity present itself for a more thorough-going, large-scale or "abnormal" change. After all, how much change in the rules of democracy can one expect from rulers who have themselves benefited from those rules? The usual rotation of parties and party alliances in and out of power will, at best, open up only modest opportunities for change.

Fourth, we should therefore be guided by "possibilism" in our choices with regard to potential reforms of formal institutions and informal practices. We will be less

---

1. Needless to say, the recommendations and conventions of the Council of Europe have played a key role in setting and monitoring norms in both of these groups of countries.

concerned with what may be emerging "probabilistically" from the various challenges and opportunities that face contemporary democracies than with what we believe is possibly within their reach – provided that "real-existing" politicians can be convinced by "real-existing" citizens that the application of these reforms would make a significant improvement in the quality of their respective democracies.

Last, we must also be attentive to the principle of "transversality" which means that we will not limit ourselves to evaluating only the possible effects of any single reform measure, but always try to the best of our collective and interdisciplinary ability to seek out the interconnections and external effects that are likely to emerge if and when several reforms are implemented either simultaneously or (more likely) sequentially. As one of our participants said during the deliberations (citing R. W. Rhodes), "It is the mix that matters".

Our guiding hypothesis throughout this Green Paper will be that **the future of democracy in Europe lies less in fortifying and perpetuating existing formal institutions and informal practices than in changing them.** "Whatever form it takes, the democracy of our successors will not and cannot be the democracy of our predecessors" (Robert Dahl). There is nothing new about this. Democracy has undergone several major transformations in the past in order to re-affirm its central principles: the sovereignty of equal citizens and the accountability of unequal rulers. It increased in scale from the city- to the nation-state; it expanded its citizenry from a narrow male oligarchy to a mass public of men and women; it enlarged its scope from defence against aggressors and the administration of justice to the whole panoply of policies associated with the welfare state.

Our tasks in this Green Paper are to:

(1) Identify the challenges and opportunities posed to contemporary European democracy by rapid and irrevocable changes in its national, regional and global contexts;

(2) Specify the processes and actors in both the formal institutions and informal practices that are being affected by these external challenges and opportunities, as well as by internal trends that are intrinsic to democracy itself;

(3) Propose potential and desirable reforms that would improve the quality of democratic institutions in Europe.

(1) The Challenges and Opportunities: These are exceptionally diverse and strong. Certainly, we are condemned to live in "interesting times" in which both the rate and the scale and the scope of change seem to be unprecedented and, most important, beyond the reach of the traditional units that have heretofore dominated its political landscape. Most of today's problems are either too small or too large for yesterday's sovereign national states and, hence, within Europe there has been a vast amount of experimentation with devolution to smaller political units and integration into larger ones. For the first time, knowing the level of aggregation at which reforms should take place has become almost as important as knowing the substance of the reforms themselves. The classic question *Que faire?* has to be supplemented by *Où faire?*

Moreover, because they are coming from a relatively "pacified environment", the democracies affected will find it difficult to resort to "emergency" measures or "temporary" suspensions in order to pass reform measures against strong opposition. Granted that rulers will be tempted to enhance the sense of urgency by highlighting new threats to security and responses to them (such as "the war on drugs", "the war on terrorism", or "the fear of foreigners") and to exploit them for the purpose of inserting anti-democratic reforms, but the plurality of sources of information and the competition between politicians should limit this possibility in most well-functioning democracies. The key problem will be finding the will to reform existing rules with the very rulers who have benefited by them and who usually cannot be compelled to do so by an overriding external threat to their security or tenure in office.

One generic issue dominates all speculation about the future of democracy – namely, **how well do its well-established formal institutions and informal practices "fit" with the much more rapidly changing social, economic, cultural and technological arrangements that surround it and upon which democracy depends both materially and normatively?**

In this section of the Green Paper, we identified the following generic sources of change in the environments of European democracies. Each of them presents a **challenge** in the sense that it threatens the viability of existing rules and practices, but each in our judgement also represents an **opportunity** in the sense that it opens up the possibility for creative and imaginative reforms that could actually improve the performance of "real-existing" liberal democracies.

Globalization
European integration
Inter-cultural migration
Demographic trends
Economic performance

Technological change
State capacity
Individuation
Mediatisation
Sense of Insecurity

(2) Processes and Actors: In order to guide our effort a common focus, we used a generic working definition of democracy: **Modern political democracy is a regime or system of governance in which rulers are held accountable for their actions in the public realm by citizens, acting indirectly through the competition and co-operation of their representatives.** This did not "commit" us to any specific model, institutional format or decision rules. By leaving open the key issues of how citizens choose their representatives, what the most effective mechanisms of accountability are and how collective binding decisions are taken, this definition does not preclude the validity of what we later discussed as "numerical", "negotiative" or "deliberative" democracy.

This definition also provided us with a tripartite division of labour. Three types of actors combine through a variety of processes to produce the *sumum bonum* of political democracy, namely, accountability. We, therefore, divided our analyses of contemporary transformations and responses into those primarily affecting citizenship, representation or decision making.

More concretely, we analyzed the impact of the above mentioned challenges and opportunities upon

1. **Citizenship**
    Political discontent

    Cultural Identity and Protest

2. **Representation**

    Political parties

    Civil society

3. **Decision making**
    "Guarding the guardians"

    Inter-level accountability

    Mechanisms for direct citizen consultation

Our generic conclusion for each of the categories was that the °real existing° democracies of Europe had responded to these changes in their environment, either weakly or by attempting to reinforce existing rules and practices. In some cases, we did find very innovative efforts to transform challenges into opportunities, but these were usually at the local level and had failed to prevent a decline in the quality of their respective national institutions. Citizens had become increasingly aware of this and focused much of their discontent upon representatives, i.e. upon politicians as individuals and parties as organizations.

(3) Recommendations for reform. In our research on "actors and processes" in relation to the "challenges and opportunities," we discovered that politicians and citizens were not only aware of pressing needs for reform, but they were also responding to these needs. Contrary to the prevailing impression that the well-established democracies to the West are too sclerotic to make any substantial changes in their rules and practices and that the neo-democracies to the East are concerned only with mimicking these very same rules and practices, we found lots of examples of innovation and experimentation. Needless to say, these efforts were often scattered and too recent to be able to evaluate their potential contribution. Many were emerging from local levels of government and from specialized arenas of governance. Most often these reforms aimed at greater transparency and participation in decision making by citizens and "stakeholders". Not surprisingly, the growing problems associated with party finance and corruption elicited responses at the national level, although non-governmental organizations, such as Transparency International and international organizations, such as the Council of Europe, have also played an important role in identifying poor quality performance and setting standards. Around the more encompassing issues of globalization and international migration, reform efforts primarily involved trans-national organizations and international agreements, including Council of Europe framework conventions on such matters as the protection of national minorities, the participation of foreigners in public life and the rules relating to the acquisition of nationality. Although it was not founded for this purpose, the entire "experiment" in European integration could be interpreted today as an attempt to respond regionally to the challenge of globalization. Given the multiplicity of levels of aggregation and diversity in existing rules and practices among European democracies, it should come as no surprise that these responses have not been uniform and frequently have gone unobserved and under-evaluated.

We finally turned recommendations for reform. Some of them were inspired by the dispersed efforts that European democracies are already making to meet the challenges and opportunities of the "interesting times" in which we have been condemned to live. Unfortunately, however, many of these are so recent that we cannot be sure that they will succeed in improving the quality of democracy. Moreover, we also have to recognize that there are several problematic areas in which very little has been tried. For example, almost everyone by now recognizes that citizens are less and less likely to vote or to join political parties, but no one seems to be seriously trying to do something about this.

When recommending specific institutional reforms, we found it imperative to return to our starting point, which is, "democracy is the word for something that does not exist".

First, we recognized that promoting democracy will always be "unfinished business". Successes in coping with particular challenges or seizing particular opportunities will only shift expectations towards new ones in the future. Citizens will focus their demands for equality on new sources of discrimination, for accountability to new relations of domination, for self-respect to new arenas of collective identity. All that we can realistically hope for is that the reform measures we advocate will move the polity in a positive direction – never that they will definitively fill "the democracy deficit".

Second, we reject the notion that there is one ideal type of democracy that all European countries should adopt at once or even converge towards gradually. Therefore, it should not be the task of the Council of Europe to identify and advocate a set of identical reforms that would do this. Each member state will have to find its "proper" way of coping with the unprecedented range of challenges and opportunities that face the region as a whole. They have a lot to learn from each other, and the Council of Europe must play an active role in fostering that process, but the points of departure are different as are the magnitude and mix of challenges and opportunities. Hence, reforms in institutions and rules will not produce the same, positive and intended, effects in all countries that adopt them. Reforms that may be welcomed by the citizens of some member states might be resoundingly rejected by others. One could even argue that such diversity in meanings and expectations is a healthy thing for the future of democracy in Europe. It ensures a continuous diversity of political experiments within a world region whose units are highly interdependent and capable of learning – positively and negatively – from each other's experiences.

The recommendations for reform listed below are not guided exclusively by any one of the three contemporary models of democracy, but by the conviction that all "real-existing" democracies in Europe are based on some mix of all of them – and that this is a good thing.

Our "wish list" of recommended reforms. These recommendations are by no means endorsed with equal enthusiasm by all of the participants in our working group, but we have tried to follow the same guidelines and discussed them extensively among ourselves before proposing them.

1. Universal citizenship: would grant voting rights to all legally entitled citizens from the moment of birth, with one parent exercising these rights until the age of political maturity.

2. Discretionary voting: would allow citizens to spread their vote across candidates according to their intensity of preference and to vote for "none of the above" (NOTA) when no candidates were preferred.

3. Lotteries for electors: to award each voter with a ticket to one of three lotteries (one for first-time voters, one for consistent voters, one for all others) with prizes to distribute funds for public policies.

4. Shared mandates: would allow parties to nominate two candidates for each elected position, one to serve as the "senior" representative, the other as his/her deputy with the distribution of tasks to be determined by parties or candidates.

5. Specialized elected councils: would create representative bodies (where possible by election) to advise authorities on issues of specific concern to under-represented groups: youth, handicapped, pensioners, renters and so forth.

6. Democracy kiosks: would establish a national system of information and transaction centers at the local level where citizens (and denizens) could receive information and forms, complete business involving all public agencies and, eventually, vote electronically for candidates and in referendums.

7. Citizenship mentors: would create a corps of modestly remunerated volunteers to advise personally all recent arrivals and non-citizens about their rights and to help them to take advantage of opportunities.

8. Council of Denizens: would create a representative body (where possible by election) to advise authorities on issues of specific concern to legally resident foreigners and to distribute designated resources to them in case of need.

9. Voting rights for denizens: would grant to all foreigners, legally resident for a specified period and without criminal convictions, the right to vote in elections at all levels of government, starting with local and regional ones.

10. Civic service: would establish an obligation of service (with modest remuneration) in public or semi-public institutions for all students upon graduation from secondary school for a period not to acceed six months.

11. Education for political participation: would provide primary and/or secondary students with the opportunity to serve as (unpaid) assistants or interns to office-holders, elected and selected, for short periods.

12. Guardians to watch the guardians: would empower the parliament to employ specialists who would have open access to all 'guardian' institutions and who would be responsible for reporting regularly on their performance.

13. Special guardians for media guardians: would create a special agency, responsible to parliament, for monitoring pluralism in the ownership of mass media entreprises and in the access of political forces to mass media outlets.

14. Freedom of information: would ensure by law the equal access of all citizens to multiple sources of information and to the training necessary to use new technologies for accessing this information.

15. A "yellow card" provision for legislatures: would empower legislative assemblies at all levels to issue a formal complaint when their legal or traditional powers had been usurped by a more or less comprehensive body.

16. Incompatibility of mandates: would prohibit all parliamentary representatives from running for office for more than one elected position and, hence, from occupying simultaneously more than one mandate.

17. Framework legislation: would encourage higher levels of government to approve legislation that would explicitly leave autonomy to make significant ajustments in regulation and expenditure to lower levels of government.

18. Participatory budgeting by citizens: would set aside a proportion of public funds in local governments for distribution by assemblies of citizens and/or designate general proportions of expenditures at higher levels by referendum.

19. A Citizens' Assembly: would establish an annual assembly composed of randomly selected citizens to review (and eventually to reject) a limited number of legislative drafts referred to it by a minority of regularly elected deputies.

20. Variable thresholds for election: would make it progressively more difficult for incument representatives to be re-elected by raising the necessary threshold for election.

21. Intra-party democracy: would provide monetary incentives in the form of public finance for political parties holding public assemblies for nominating candidates and/or discussing party positions on substantive issues.

22. Vouchers for funding organizations in civil society: would finance associations and movements accepting semi-public status with public funds of a fixed amount to be distributed by all citizens when their filing tax returns.

23. Vouchers for financing political parties: would finance all registered parties through the distribution of vouchers for a fixed sum by citizens when voting. Could be combined with NOTA voting to provide an accumulating fund for financing new parties.

24. Referendums and initiatives: would promote the extension of direct consultations of citizens at all levels of government, according to a general set of guidelines to protect local autonomy and ensure proper wording.

25. Electronic support for candidates and parliaments ("smart voting"): to make available to all citizens on a voluntary basis questionnaires concerning their policy preferences before an election and to make it possible to match these preferences with those of candidates for office.

26. Electronic monitoring and online deliberation systems: to provide a publicly organized and funded system for monitoring the legislative performance of all elected representatives and for communicating with these representatives.

27. Postal and electronic voting: to facilitate the use of easy and secure means of postal voting, as an intermediate step toward the eventual widespread application of electronic voting, once security issues have been resolved.

28. The Council of Europe as an agent for promoting of democratic reform: to establish a permanent working group composed of politicians and academics to identify experiments in the practice of democracy, to evaluate the impact of actual reforms, and to diffuse their findings among member states.

(4) Conclusions. Liberal political democracy, as presently practiced in Europe, is not "the end of history". Not only can it be improved, it must be – if it is to retain the legitimate respect of its citizens. It has done this several times in the past in response to emerging challenges and opportunities, and there is no reason to believe that it cannot do so in the present.

In this Green Paper, we have tried to use our collective imagination as theorists and practitioners of politics to come up with suggestions for reforms that could improve the quality of democracy in Europe and make it more legitimate in the future. Some of these have already been introduced – usually on an experimental basis – in a few polities; most, however, have never been tried. We would be the first to admit that not all of these reforms are equally urgent or feasible or even desirable. It is the task of democratic politicians to decide which are best and which deserve priority treatment.

We can, however, offer some concluding thoughts on those reforms that we are convinced should be considered most urgently. It is our collective judgement that the major generic problem of contemporary European democracy concerns declining citizen trust in political institutions and participation in democratic processes. Therefore, those reforms that promise to increase voter turnout, stimulate membership

in political parties, associations and movements and improve citizen confidence in the role of politicians as representatives and legislators deserve prior consideration, especially in those cases where they also make politics more entertaining. The second most important problem concerns the increasing number of foreign residents and the political status of denizens in almost all European democracies. Measures to incorporate these non-citizens within the political process should also be given a high priority.

We also wish to conclude by introducing a note of caution. Single reforms in the rules of the democratic game have rarely been efficacious "on their own". It has been packages of interrelated reforms that have been most successful in improving performance and legitimacy. Sometimes this was the result of an explicit and rational calculation of the interdependencies involved; most often however it was the product of the political process itself with its inevitable need for legislative alliances, compromises among competing forces and side payments to recalcitrant groups. In other words, in "real-existing" democracies, the design of reform measures is almost always imperfect, all the more so when the intent is to change the future rules of competition and co-operation between political forces.

Moreover, reformers have usually not been successful in predicting all of the consequences of the measures they have introduced. Almost always, these changes have generated unintended consequences – some good, some not so good. One should never forget that in a free society and democratic polity the individuals and organizations affected by political innovations will react to them and quite often in unpredictable ways. Most significantly, they will try to "game them", that is to exploit them in ways that benefit them in particular and, not infrequently, distort their intent in order to protect established interests.

All of this pleads for caution – especially, when introducing reforms that are genuinely innovative. Ideally, such measures should initially be treated as political experiments and conducted in specially selected sites – normally, at the local or regional level. Only after their effects have been systematically monitored and evaluated, hopefully by an impartial and multinational agency such as the Council of Europe, should they be transposed to other levels within the same polity or to other member states.

We repeat: **our democracies in Europe can be reformed**. They can be made to conform more closely to that "word that has never existed" and, in so doing, they can regain the trust in institutions and the legitimacy in processes that they seem to have lost over recent decades. But it will not be easy and it will take the collective wisdom

of political theorists and practitioners in all of the forty-five member states of the Council of Europe to identify which reforms seem to be the most desirable, to evaluate what their consequences have been and, finally, to share the lessons from these experiences among each other. With this Green Paper to the Council of Europe, we hope that we have made a contribution to initiating this process.

Policy Network Annual Spring Retreat

Warren House, UK

11-12 March 2005

Paper for discussion

Challenges of demographics: Outline of presentation

*Jean-Philippe Cotis**

Chief Economist and Head of the Economics department, OECD

The changing demography of OECD Countries

- Since the post WWII boom in fertility rates they have declined to below replacement levels. As a result of this development a large population cohort is about to pass into retirement at the same time as smaller population cohorts enter the labour market for the first time. This development is transitory, but its economic consequences cannot be ignored.

- At the same time life expectancy without major disability has risen on average 2 ½ years per decade and looks set to continue to improve (Graph 1). It is not entirely clear whether these developments should be described as "ageing" or "living younger later".

---

* Jean-Philippe Cotis graduated from the Ecole Supérieure des Sciences Economiques et Commerciales (ESSEC) and the Ecole Nationale d'Administration (ENA). After joining the French Ministry of Economy, Finance and Industry as an economist (1986-1988), he held the position of Economic Advisor to the Minister (1993-1994) then Director of the Economics Department (since 1997). Frequently working with international institutions, he was chair of the Economic Policy Committee of the European Union (2001-2002) and of the OECD's Working Party No.1 (on such themes as labour markets, macroeconomic policies and taxation). He has been the OECD's Chief Economist and Head of its Economics Department since 2002.

The impacts of demographic developments, given current policies

- The old-age dependency ratio is expected to rise in all OECD countries (Graph 2).
- This is especially the case in the European transition economies and Italy and Japan
- With the available quantity of labour shrinking, economic growth will be negatively affected.
- Growth may also be indirectly affected to the extent that higher taxes are needed to fund pension and health systems.

The negative economic consequences of "ageing" need not materialise, but current policies are exacerbating them

- Economic catch-up for many years was taken for granted, but in the large continental European countries it stalled during the 1980s and reversed in the 1990s (Graph 3).
- The main source of this weakness is lower labour utilisation. This is especially evident among people aged over 55 years (Graph 4).
- There is a debate, however, as to the source of low labour utilisation on the continent. Some argue it is a reflection of cultural choices, others including the OECD say it stems to a large extent from misguided policies that are hampering labour supply.

Labour supply of older workers in OECD countries

- To shed light on this matter, we have analysed the determinants of the employment rate of ageing workers (Graph 5).
- We find that in some countries public policies discourage continued work effort beyond the age of 55. A summary measure of these disincentives is captured by an indicator we call the implicit tax on continued activity. This tax represents the income forgone by a person who would like to continue to work despite the possibility of joining a pre-retirement scheme benefiting from public transfers (Graphs 6 and 7).

- The indicator shows that the in those countries where the implicit tax is high, the participation rate of ageing workers is typically below the OECD average (Graph 8).
- Econometric analysis is able to measure the size of the impact on labour supply from these public policies. We can then simulate the consequences of various policy reforms.
- For instance, when the distortions favouring early retirement are removed and replaced with actuarially neutral retirement incentives, we find that workers in continental economies may wish to work as long as their American or Scandinavian counterparts (Graph 9).

Ageing presents OECD countries with major challenges

With a continuation of current policies we can expect therefore:
- Weaker improvements in living standards
- Large budgetary pressures through increased spending on old-age pensions, health and long-term care for the elderly. The trend towards early withdrawal from the labour market, unless reversed, will also result in lower tax contributions.

Decisive policy reforms are needed

- OECD expertise shows that the key to success is increase labour supply. In this respect, as noted above, removing the distortions that favour early retirement would make a major contribution towards limiting the negative impact on growth. It would also help solve the public finance issues.
- However, with the baby boomers approaching retirement, increased labour utilisation alone is likely not enough. There is still a need to make some parametric adjustments to public pension systems.
- Given the trend towards increased longevity without major disability, the notion of a statutory retirement age is perhaps archaic. If retirement incomes are set by a more neutral policy context, the age of retirement should be a choice made by the individual. Retiring later would pay off in the form of higher pensions. And retiring early would imply lower pensions unless offset by higher income from savings. In such a context, it is likely

that effective retirement ages will move somewhat in tandem with life expectancy without incapacity.

- A more diversified structure of retirement income is also needed. Sources other than pay-as-you-go systems should play a growing role in the provision for retirement.
- In the context of a more diversified income structure there is also a need to ensure financial markets offer a range of products that enable flexible vehicles for saving and management of risk. For instance, through the development of annuity markets.

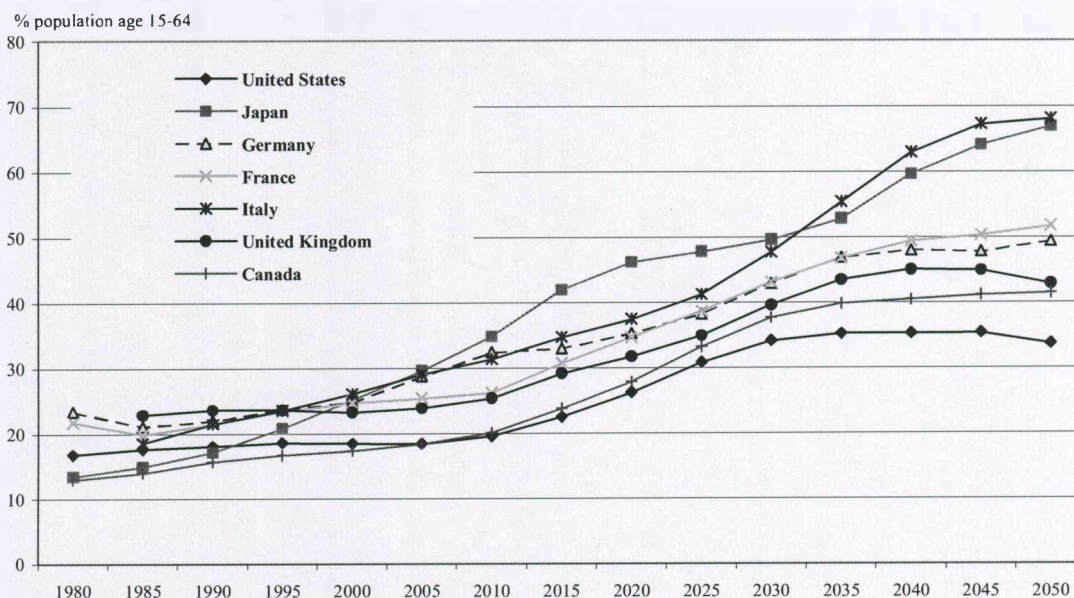## Graph 1: Increases in life expectancy for different age groups, OECD average
Change in years over the last 40 years.

Years

| At birth | At age 40 | At age 60 | At age 65 | At age 80 |
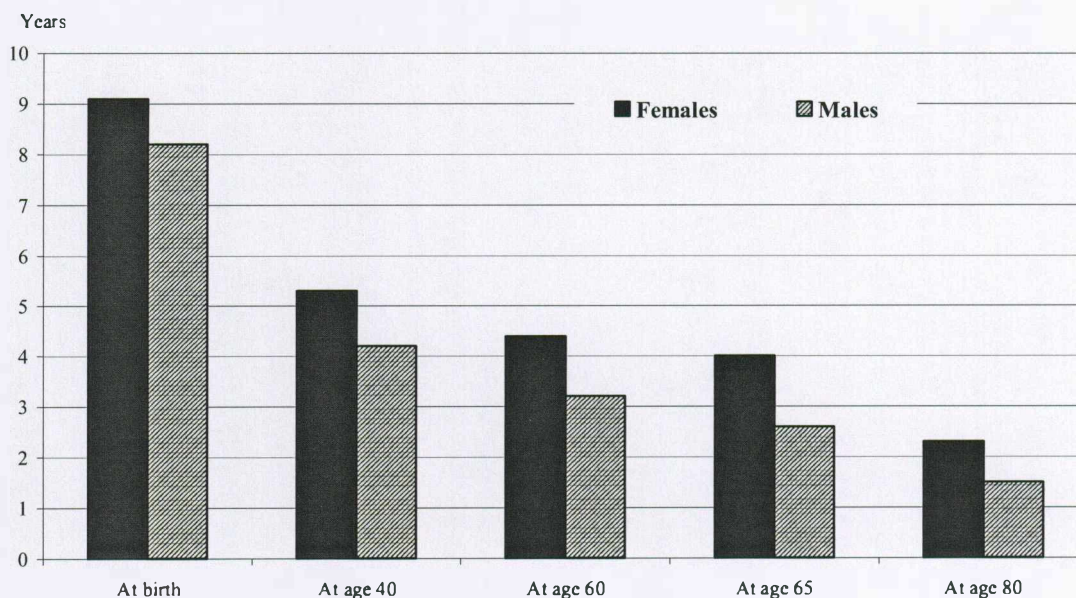
Source : OECD *Health Data* .

Graph 2: Old-age dependency ratio in G7 countries
Population age 65 and over as a percentage of the population age 15-64
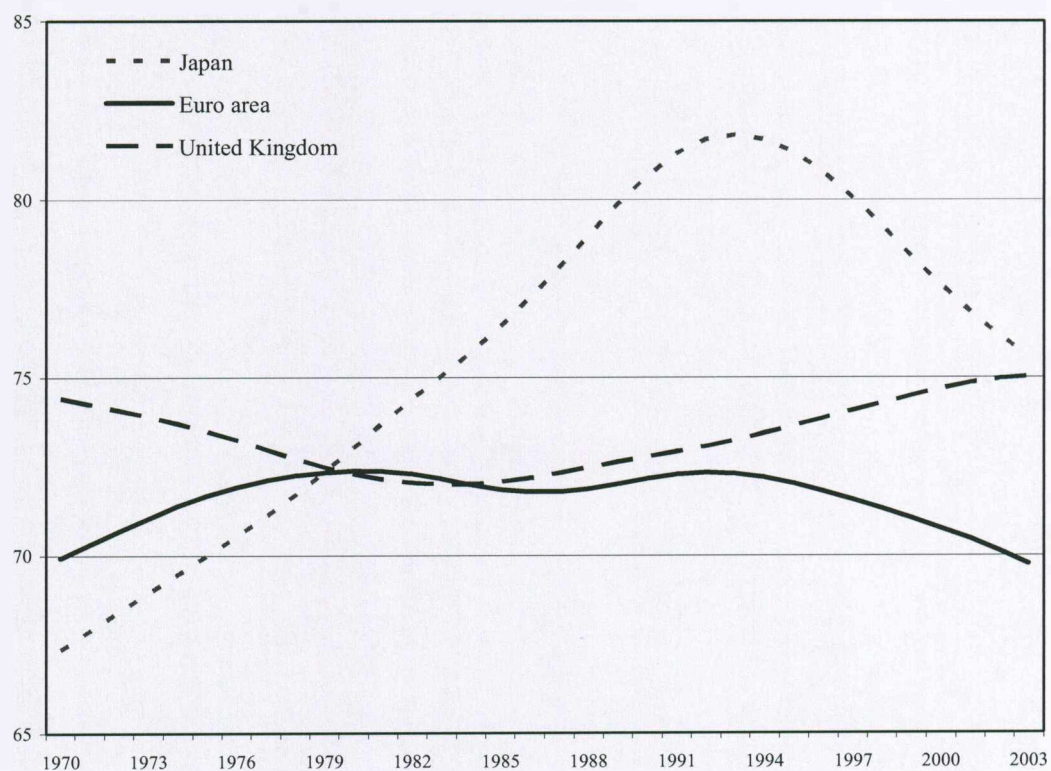
% population age 15-64

Source: OECD/DELSA Population Database.

Graph 3: Real per capita GDP has dropped relative to the United States

Trend indices, based on 2000 PPPs and 2000 prices [1]

Index US GDP per capita
= 100

1. The trend is calculated using a Hodrick-Prescott filter (smoothing parameter set to 100) over a period
   which includes projections through 2010.
2. Euro-3 refers to Germany, France and Italy.
Source: OECD *Annual National Accounts.*

Graph 4: The sources of real income differences, 2002

Percentage point differences in PPP-based GDP per capita with respect to the United States, 2002

Percentage gap with respect to US GDP per capita   **Effect of labour utilisation** [1]   **Effect of labour productivity** [2]
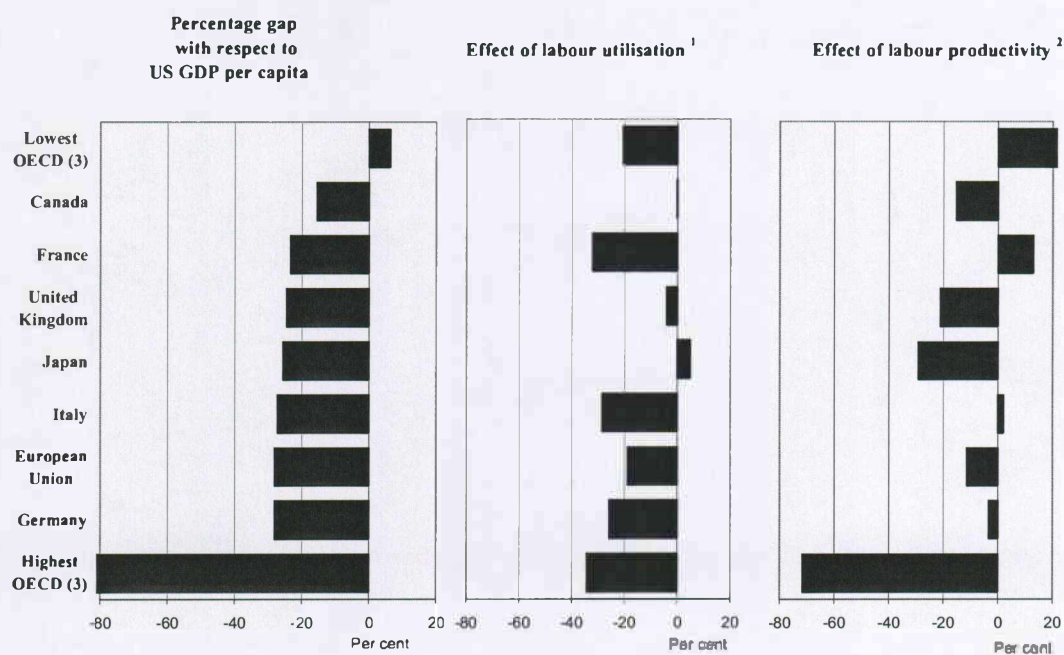
1. Labour resource utilisation is measured as total number of hours worked divided by population.
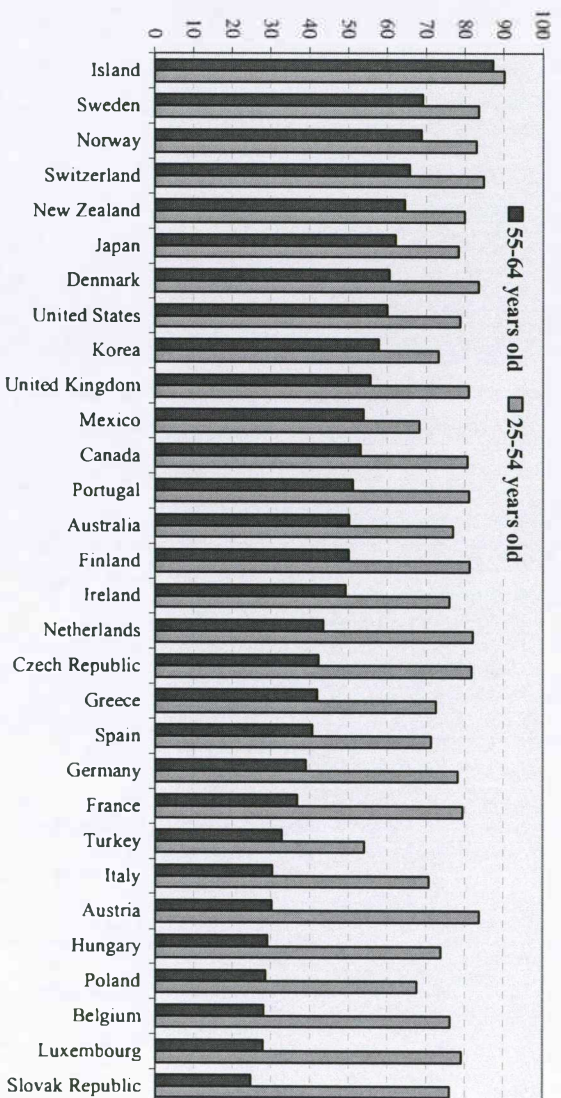
2. Labour productivity is measured as GDP (in 2000 PPPs) per hour worked.

3. Highest OECD refers to Turkey, lowest to Norway, ranked by total percentage gap with respect to US GDP per capita.

Source: OECD

# Graph 5: Employment ratios by age groups across OECD countries

Latest available year (2003 or 2002)

■ 55-64 years old ■ 25-54 years old

Island
Sweden
Norway
Switzerland
New Zealand
Japan
Denmark
United States
Korea
United Kingdom
Mexico
Canada
Portugal
Australia
Finland
Ireland
Netherlands
Czech Republic
Greece
Spain
Germany
France
Turkey
Italy
Austria
Hungary
Poland
Belgium
Luxembourg
Slovak Republic

0 10 20 30 40 50 60 70 80 90 100

Graph 6: Disincentives embedded in old age pension systems discourage older persons from working

Implicit tax rates on continued work over next 5 years in current old-age pension systems[1]

In per cent   At age 60
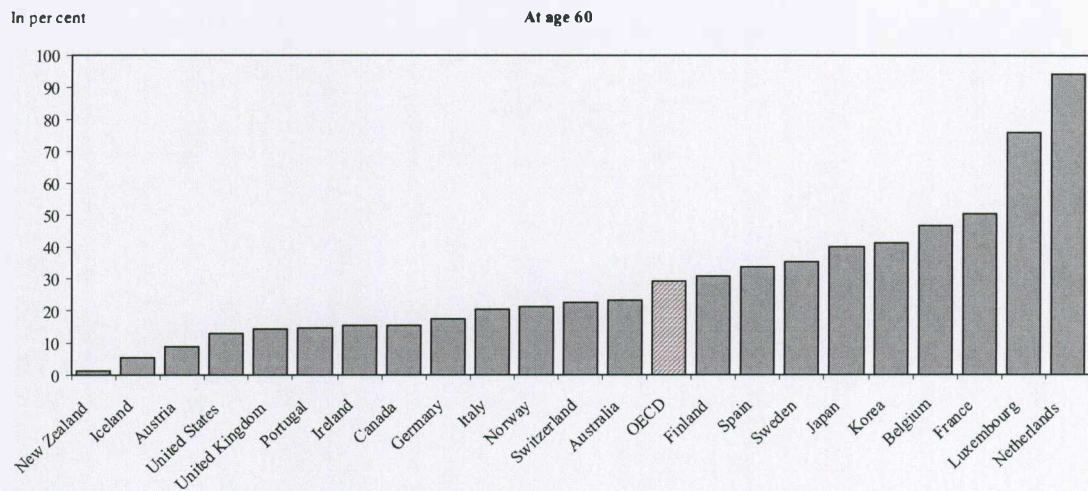
1. Single worker with average earnings.

Graph 7: Disincentives to older workers are also high in social transfer programmes

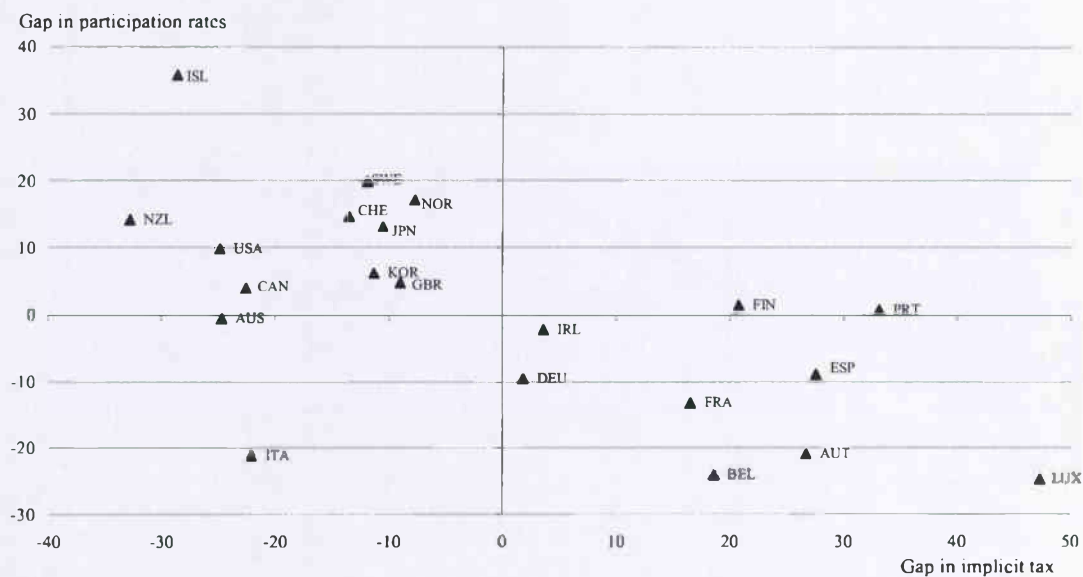**Implicit tax rates on continued work over next 5 years in current social transfer programmes[1]**

In per cent   At age 55
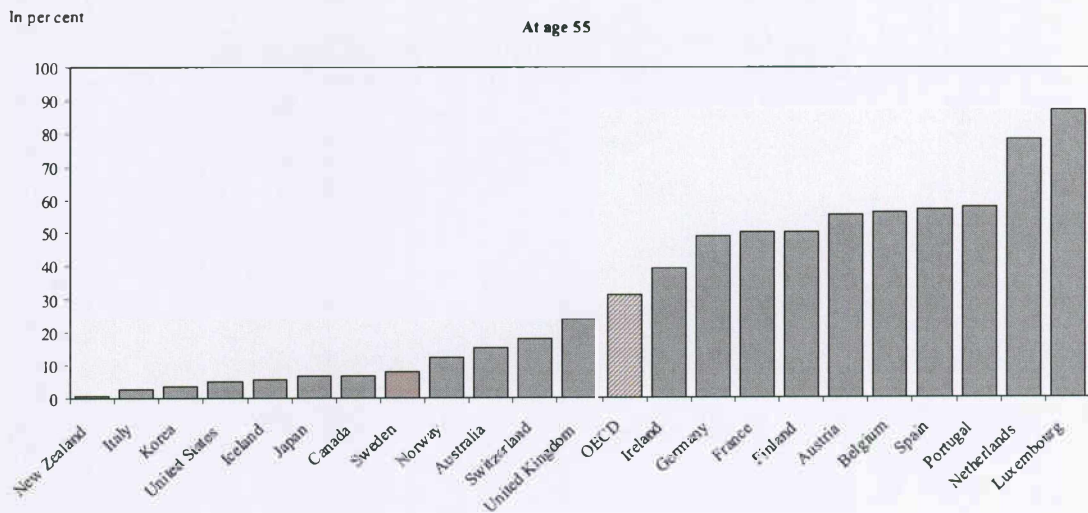
1. Single worker with average earnings.

Graph 8: Labour force participation rates of population aged 55-64 and the implicit tax on continued work [1]

Percentage points gap vis-à-vis OECD average

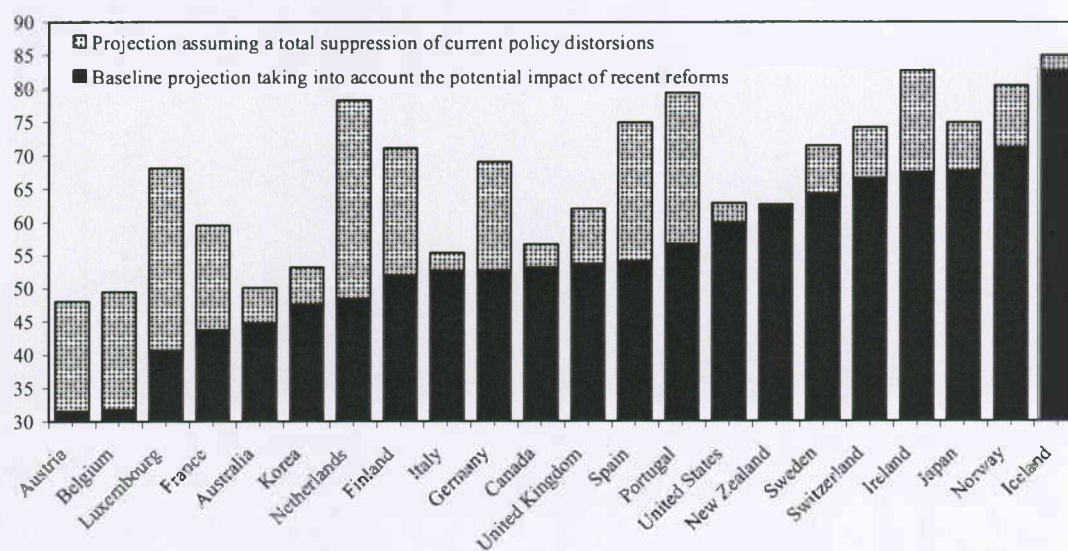Gap in participation rates

Gap in implicit tax

1. Average of implicit tax on continued work in early retirement route, for 55 and 60 years old.
Source: OECD *Labour Force Statistics*, 2004; OECD *Economic Policy Reforms: Going for Growth* 2005.

Graph 9: Potential impact of pension reforms on labour force participation of older workers

(projected labour force participation rates of the 55-64 age group in 2025 under different scenarios)

⊞ Projection assuming a total suppression of current policy distorsions

■ Baseline projection taking into account the potential impact of recent reforms

Source : OECD.