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From ‘Club of the Rich’ to ‘Globalisation à la carte’? Evaluating Reform at the OECD

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From 'club of the rich' to 'globalization à la carte':

On the successes and limits of reform at the OECD

Judith Clifton and Daniel Díaz-Fuentes

Abstract

Recognising the declining weight of its members in the world economy, the OECD, formerly known as a 'club of rich, industrialised nations', is undergoing unprecedented organizational reform, including a more inclusive membership logic, engagement with new global players, and outreach to developing countries, all with a view to guaranteeing its continued relevance as a central actor in the task of global policy provision. Using the concepts of global public goods, clubs and models of multilateralism, this article critically evaluates the successes and limits of the OECD's reform, arguing it is adopting a cautious approach to expansion – globalization ' à la carte'. Meaningful reform towards greater inclusion is apparent in the way research on non-members has been mainstreamed, and in its increased work with both emerging powers and developing countries. Limits to reform are found in institutional rigidities including its over-representation of Europe and under-representation of Asia and other continents, reflected through staff profiles and membership. These biases may in turn reduce its attractiveness as a global forum to new players, particularly, China.

Policy Implications

- Shifts in the world economy towards the east and the south pose significant challenges to international organizations, which must ensure processes of global governance fully involve key actors, in the quest for functional and legitimate global policy.

- The OECD is casting off its 'club' inheritance through unprecedented organizational change, including a more inclusive approach towards membership, and the adoption of a new agenda as regards the services and policies it provides.

- Future reform will be constrained until the OECD goes beyond its current approach of 'globalization *à la carte*' and convinces emerging powers - particularly the BRICS - as to the benefits of working with them.

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From ‘club of the rich’ to ‘globalization à la carte’:

On the successes and limits of reform at the OECD*[*]*

‘…the OECD is changing. It is becoming more inclusive, more sensitive to diversity and the many paths that have led to growth and development…the Organization’s new global strategy is increasing its relevance and responsiveness to the needs of the international community.’ (OECD, 2009a)

*‘Nor will anyone in the West have the courage to state another obvious truth: after having failed in its core mission, the OECD has clearly become a ‘sunset’ organisation. Its disappearance will have no impact on the developing world.’(*Mahbubani, 2008: 69).

The OECD has adopted a bold new mantra in recent years: to guarantee its global nature and relevance in the architecture of international organizations (OECD, 2006). Organizational changes toward this aim have accelerated. Enlargement to Chile, Israel and Slovenia in 2010, bringing membership to thirty-three countries, with planned imminent or short-term enlargement to Estonia and Russia, is rendering the organization’s traditional bent towards Western countries more diverse in political and economic terms. Deeper cooperation with important emerging economies - Brazil, China, India, Indonesia and South Africa – has been formalised through its ‘enhanced engagement’ programme, with a view to their possible future membership (OECD, 2005a). No longer is OECD research and analysis of non-members conducted ‘at the margins’ by its development-related bodies, since this work has been mainstreamed throughout the organization. Regional programmes have been set up throughout the

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developing world in Africa, Asia and Latin America (OECD, 2009a, 2009b, 2009c). The OECD is also seeking to play an increasingly influential role in the preparation for and holding of G20 summits, as well as to collaborate more extensively with an array of international, national and local organizations. But these ambitions raise important questions. From its establishment in 1961, the OECD constituted a North Atlantic organization, known colloquially as the ‘rich man’s club’ or the ‘economic NATO’. When founded, it replaced - while absorbing much of - the Organization for European Economic Cooperation (OEEC), essentially a *realpolitik* project promoted by the United States to oversee the management of Marshall Aid and coordinate economic policy in Western Europe during the post-war period, in preference to permitting a Bretton Woods organization to do so (ul Haq et al, 1995: Reinalda, 2009). Evolving over five decades, the OECD became known as an exclusive club with membership restricted to industrialised countries, mostly based on the transatlantic alliance. Given the OECD’s particular evolution and idiosyncrasies, can it emerge as a truly global actor, how, and what are the limits of this transformation? The central aim of this paper is to answer these questions.

To help frame the discussion, we utilise concepts of public and club goods and the related concepts, global and club models of multilateralism. Public goods are traditionally conceptualised as being non-rival in consumption and having non-excludable benefits, whilst club goods are thought of as being partially non-rival in consumption whilst the benefits of their consumption can be rendered excludable. Global models of multilateralism refer to inclusive forms of governance, where concerns focus on ensuring membership is representative, democratic and fair, and where participation means that members can actually contribute to and influence policy

outcomes (Kaul et al, 2003). Club models of multilateral cooperation, in contrast, are understood as those where a small number of rich countries forge the rules in often non-transparent ways, excluding poorer countries as well as other actors, such as labour, NGOs and civil society (Keohane and Nye, 2001). After setting out these concepts, we argue that the OECD historically constituted a club model of multilateralism *par excellence,* and opted to provide particular goods to a restricted membership from its origins to the end of the Cold War. Our argument is based on close examination of the evolving logic of OECD membership, its decision-making norms, its domination of staff by European nationals, and the organization's priorities as regards the goods it provided, how, and in whose interests. We then critically analyse the organization's efforts to transform itself from a club to a more global organization, which started gradually from 1989 but accelerated during the 2000s, particularly as regards its strategy towards greater inclusiveness through *rapprochement* with non-members. Reform has entailed significant change to its governance, organizational design and budget. We sourced information through eighteen interviews during 2009 and 2010 with high-ranking current and former OECD officials, including former Secretary Generals and their Chief Economic Advisors, current and former OECD Directors of Global Strategy, Economics, Trade and Agriculture, Development Cooperation, Public Governance and Territorial Development, Public Affairs and Human Resources, as well as through formal documents in the Paris archive, official data on the human resources profile of the OECD Secretariat from 1961-2009, personal staff memoirs, private notes, correspondence and secondary material.[1]

We find that organizational survival is the prime driver of OECD reform. The OECD has recognised above all the importance of functional challenges to its future efficiency

and legitimacy (Randall, 2001). OECD members and staff are cognisant that, firstly, member countries are increasingly vulnerable to emerging economies and, secondly, that members' combined share of economic growth is shrinking as emerging economies make their mark (OECD, 2010a. Its highest body, the Council, has publicly recognised that if the organization does not become more inclusive, it risks being ineffectual and, even, irrelevant (OECD, 2006). Confronting the challenges head on, heroic steps have been taken by officials and members to transform the organization, particularly as regards re-engineering its club mentality towards more inclusion through transforming its external relations with non-members. One indicator of change is that official documents have acknowledged there are more paths to development than the 'OECD way' (OECD, 2003). But two internal obstacles may slow down deeper change: firstly, vested interests of OECD members, particularly European ones, who may not always perceive sharing power with newcomers as being in their interest; secondly, the continued dominance of Europeans in OECD posts, which may limit the organization's effectiveness in attracting new members. But both these issues are linked to a formidable and ongoing external challenge: to persuade key non-members of the desirability of deeper integration into the organization.

Club versus Global Goods and Models of Multilateralism

Much of the discussion on club and global models of multilateralism in the international organization and political economy literature is based on seminal contributions from economics, particularly those by Nobel Prize winners Paul Samuelson and James Buchanan, on public goods and club theory, respectively (Samuelson, 1954; Buchanan, 1965). A 'pure' public good is a good (or, usually, a service) which is non-rival in

consumption and which has non-excludable benefits. Commonly cited examples are law and order, security and defence, economic and financial stability and communicable disease control. Once these goods have been provided, individuals can – and sometimes must – consume them. The goods' benefits are indivisible in that they exist for all individuals in the same amount and with the same characteristics. Some scholars have argued that public goods become more apparent when they are undersupplied: for instance, people take financial stability and health for granted, but are alarmed by financial crises or flu epidemics. Beyond 'pure' public goods are goods whose characteristics fulfil only part of these two requirements. For instance, some goods are rivalrous in consumption but their benefits are not excludable, such as the atmosphere. Other goods are partially non-rival in their consumption (until there is 'congestion'), but their benefits are potentially excludable. Some of these are classified as 'club goods' and text book illustrations include swimming pools, cable television and golf clubs, but a more relevant example for international organizations is knowledge. These classic definitions of public and club goods have been recently challenged and reconceptualised in a series of highly influential publications led by Inge Kaul under the auspices of the United Nations Programme for Development, as we discuss below.

Following this logic, Keohane and Nye (2001) analysed international organization reform using ideal-type models of club and global multilateralism. They defined club multilateralism as a form of governance dominated by a small number of rich and usually like-minded countries. Here, negotiations typically took place between technically trained national experts in specific issue-areas, for instance, linking trade, intellectual property rights or environmental regimes, across the leading capitalist countries. Excluded from discussions are developing and communist countries, as well

as experts from other potentially related fields (environmental and labour standard experts in trade talks, for instance). Because governance is closed-off and not transparent, decision-makers cannot be made fully accountable. Policies and other decisions emanating from such a process serve the interest of the selected few, reflecting national interests and cross-national compromises. Keohane and Nye argued that most international economic organizations, including the GATT and the IMF, were run as clubs until at least the late 1990s. However, the end of the Cold War marked a change, as club politics came under increasing attack due to functional and normative challenges (Randall, 2001). Functional challenges included the perception that developed economies were vulnerable to developing ones, so, club-like governance was seen as increasingly obsolete since it excluded key economies from partaking in financing and managing goods or services required. Related to this was the normative concern that broader and greater participation in organizations by developing countries and NGOs was required in order to ensure the legitimacy of organizations and compliance with the decisions they took. Not broadening the club towards a more global configuration of governance could mean policies are perceived as lacking legitimacy, even generating popular protest. Accepting the challenge that international economic organizations need to adopt more inclusive and broader forms of governance, scholars have put forward recommendations on how best this could be achieved.

One of the most influential recent contributions to this debate, both in policy-making and academic circles, has been articulated by Inge Kaul and associates (Kaul et al., 1999, 2003, 2006). Kaul's point of departure is to revisit the classic formulation of public goods, critiquing this as inadequate, since society has become highly capable at modifying the (non) rivalrous and (non) excludability of a good's benefits, for instance,

using technology. Samuelson's public goods theory is reconceptualised based on the insight that public goods are socially produced through political decisions. In addition, she critiques classic public goods theory as assuming provision is at the local or national level, as she argues that globalization has meant more public goods and bads can potentially spill over national borders. It follows that states need to adopt political decisions to prioritise provision and management of certain public goods in order to avoid their underprovision. Kaul *et al*. directly 'match' the design of international organizations with the efficiency by which they produce public goods. In particular, Kaul *et al*. argue that global models of multilateralism, which promote more inclusion, participation and democratic governance, are better equipped than club models in the task of providing and managing global public goods (Kaul et al., 2003). Club multilateralism can produce 'mismatch' when producing global public goods, since policy formation leaves out important actors involved in the producing of a particular good or the suffering of a particular bad, leading to poor quality policy and growing perceptions of illegitimacy, sparking discord. Coinciding with a number of international organization scholars, Kaul *et al*. encourage international organizations to shift away from club towards a more global multilateral approach (Helleiner, 2010; Woods, 2010). Now, it is over-simplistic to expect that global governance will simply replace club governance evenly across international economic organizations. Most will opt for mixes of governance arrangements, as Beeson and Bell argued in the case of G20 governance (Beeson and Bell, 2009). Nevertheless, there is a trend whereby club governance is increasingly perceived as inadequate, whilst major international economic organizations, such as the IMF and the World Bank, are embracing more inclusive, diverse approaches (Keohane and Nye, 2001). The OECD is amongst these reformers, as we argue in the third section. Before we examine the extent and limits of its reforms,

we use the concepts of club and global goods and models of multilateralism to examine the evolution of the OECD's club inheritance.

The Club Inheritance of the OECD

For the OECD to successfully transform itself from 'club' to more 'global' governance, it must overcome a distinct challenge not faced by peer organizations with more universal membership such as the IMF, the World Bank or even the GATT/WTO: for decades, most countries in the world were unwelcome to join the 'club', whilst its Western members assumed they were 'developed' or economically 'superior' to their Eastern and Southern non-member counterparts. Today, the OECD is seeking to 'woo' some of those very countries it previously deemed unsuitable for membership. In order to explore the club inheritance of the OECD we examine four significant aspects of its inheritance: the logic of its membership; norms governing decision-making; the evolution of its staff by number, profile and nationality; and the kinds of public goods or services it provided and in whose interests. On all counts, we argue that, until the beginning of change from 1989, the OECD constituted a club model of multilateralism *par excellence*.

What logic guided OECD membership? Analysis of the evolution of its membership points to a predominant logic bound up with Cold War politics and capitalism which remained largely unchanged until the 1990s. The OECD was created in 1961, replacing, whilst also inheriting important features - including membership - from the OEEC. The OEEC, in turn, was essentially a *realpolitik* project, established in 1948, in parallel with the Berlin Blockade (1948-9) and the ensuing Korean War (1950-3), on the initiative of

the United States, in order to control Marshall Aid distribution and the reconstruction of Western Europe more directly than it would be able to via the International Bank of Development and Reconstruction (ul Haq et al, 1995). Its contemporaries labelled the OEEC the 'economic counterpart' of NATO and the political 'rival' of the Molotov Plan, later to become COMECON (Gordon, 1956). Its membership was restricted to certain Western European members; Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom and both occupied zones of Western Germany. Though much later, during the 1990s, OECD publications would make reference to one of the core values of its members as being 'democratic', this was not always so, as lacking democratic government did not prove a barrier to joining or remaining a member, as borne out by the instances of members under authoritarian rule - Greece, Spain, Portugal and Turkey. Together, OEEC members developed a strong 'club-like' mentality, which often involved assuming confrontational postures towards the Soviet bloc.[2] Physically, its headquarters were located in a privileged Parisian suburb, in the *Chateau de la Muette*, previously home to French royalty and rebuilt for Henri de Rothschild, before being occupied during the Second World War by the German Naval Command until it was taken over by the United States Army. Marshall Aid was terminated in 1952 and the European economy recovered quicker than had been expected. Rather than disbanding the OEEC, in 1961 - the same year as the Berlin Wall was being built - the OECD was established to replace it. Contemporary scholars understood the purpose of the OECD was to help consolidate the transatlantic military and economic alliance between North America and Europe in a context of the Cold War and of increased interdependence (Diebold, 1963). The OECD inherited all the OEEC members, in addition to the US, Canada and Spain, taking its membership to twenty. It

also inherited its infrastructure in Paris and its nearly 620 (overwhelmingly European) staff. Expansion beyond the original set of members was restricted to Japan (1964), Finland (1969), and 'Western offshoots' (Maddison, 2006) Australia (1971) and New Zealand (1973). Though membership had expanded to the pacific, the organization remained a predominantly transatlantic one, and members assumed that the main attraction of the OECD for new members was economic activity within the transatlantic axis.[3] Membership expansion froze from 1973 onwards, coinciding with the crisis of United States' hegemony epitomised by the collapse of the Gold Standard and the first petroleum crisis. It would not be until after the end of the Cold War that the question of OECD enlargement would find its way back to the negotiating table, as we discuss in the third section.

Decision-making norms at the OECD differ, as in other organizations, depending on the layer of governance in question. The OECD governing structure is pyramidal, comprising the Council at its apex, the Committees and the Secretariat. Governance in the Council is achieved through one representative for each member plus the European Commission, each of whom have one vote. Countries which do not agree with a decision may abstain and are not subject to comply. Member representatives are most often ambassadors who work on a full-time, permanent basis in Paris. The preferred method of decision-making at the Council is consensus-seeking. Theoretically, then, each member has an equal say, though members of the European Union enjoy a strong presence both through the sum of their members as well as through the Commission representative. The Committee structure, which has grown organically, is often seen as the OECD's most unique organizational feature: here, national policy-makers from the capitals interact with each other and also with professional staff working on the same

issue-areas from the Secretariat to debate, produce and diffuse policy. By 2010, there were around 200 committees, sub-committees and working groups on a great diversity of topics. Each of these bodies is allowed to establish their own rules for membership: whilst many are open to all OECD members, a few are restricted to 'inner circles' of select members.[4] One of the most influential of these bodies, Working Party 3 on Policies of the Promotion of Better International Payments System, of the Economic Policy Committee, is run by G7 members plus the Netherlands, Sweden, Switzerland and the European Commission. Should other countries wish to participate, they can only do so when invited under observer status. This norm has caused tensions when the OECD has sought to broader participation by inviting China as observer, which complained about the participation rights of Europe, particularly, small economies, such as the Netherlands.[5] Business and workers' interests have been organised in the OECD through the Business and Industry Advisory Committee and the Trade Union Advisory Committee since 1962. It was not until the 2000s that the OECD institutionalised relations with civil society through organizing open 'forums' and increasing invitations to participate in committees, partially in reaction to unexpected popular outcry from the middle of the 1990s against its proposals on the Multilateral Agreement on Investment (Kobrin, 1998).

Governance of organizations is also shaped by those individuals working inside it. Though data on staff numbers, profile and nationality are imperfect indicators, this is one route to offering some insight into an organization's inheritance. The OECD has always recruited on merit and does not use national quota systems. Yet for decades, its staff was dominated by nationals from three post-war allies, France, the United Kingdom and the United States, in that order. When the OECD replaced the OEEC, it

inherited nearly 620 staff, over 70 percent of whom were French nationals, followed by the British, comprising nearly 13 percent.[6] Staff profiles are tiered into four categories: 'A' grade are professional staff, including economists, policy-analysts, head of departments, deputies or directors; 'B' are secretarial, technical or support staff; 'C' are manual staff and 'L' are translators. In 1961, the OECD inherited a staff dominated by administrators: over half the posts were 'B' posts, while 'A' and 'C' categories accounted for around 20 percent respectively. French nationals were particularly dominant in secretarial, manual and linguistic posts, but also occupied nearly 38 percent of professional posts, as seen in Table 1.

INSERT TABLE 1 AROUND HERE

The 'golden age' for recruitment was between 1961 and 1973, as shown in Table 2. In this period, staff numbers doubled, to 1,580, whilst the OECD became increasingly professionalized as 'A' grade staff increased to one third of the total. During this time, the presence of Americans in professional posts increased whilst the hold of French and British nationals slowly fell. By 1973, the three countries combined held 57 percent of 'A' jobs. Just as 1973 marked the end of OECD membership expansion, it also marked the end of the golden age for recruitment. Worse was to follow: the arrival of Ronald Reagan in the United States and Margaret Thatcher in the United Kingdom coincided with a period of recruitment stagnation across all categories.

INSERT TABLE 2 AROUND HERE

So, in 1989, on the eve of the end of the Cold War, the three post-war allies, France, the United Kingdom and the United States, accounted for 70 percent of OECD jobs. To put this into some perspective, Japanese nationals had barely made incursions into the OECD, totalling only 37 staff, despite the fact that membership dated from 1964 and the country being a major contributor to the budget. While we recognise that staff nationality is a crude indicator, it arguably became more important from the 1980s, when the tradition of awarding indefinite contracts as 'international civil servants' was drastically reduced, replaced by fixed-term contracts, with the consequences that hired staff would seek to maintain interests 'back home' rather than prioritise the defence of international, collective interests.[7] Dominance by France and the United States is also visible in recruitment at the top levels of the organization. Between 1961 and 1984, the OECD Secretariat was headed by a Secretary General from a smaller European country, Denmark and the Netherlands, supported by two deputy directors, one from the United States and the other from France. It was only in 1984, when the French diplomat Jean-Claude Paye was selected as Secretary General, that France relinquished its traditional post as deputy. Changes to this configuration at the top did not start to change until 1990, as we discuss below.

What public goods or services has the OECD provided, how, and in whose interests? The organization has little recourse to mandating countries through passing laws and, since the OEEC lost its role in allocating Marshall Aid, the OECD has not had funds to dispense. The goods or services it produces are usually understood to fall under the concept of 'soft governance' (Mahon and MacBride, 2009). One of the most important services produced by the OECD is the vast databases on a multitude of economic and social phenomenon, collected, organised and analysed by its staff. This data constitutes

the bedrock upon which the organization conducts its analysis, publishes reports and formulates policy recommendations. The tradition of collecting and assorting data commenced under the OEEC, which pioneered in Europe the standardisation of national accounts, information required in order to calculate Marshall Aid allocation (Maddison, 1994). Over the next few decades, efforts increased to collect and analyse a broad range of data on OECD members, not just on economic issues, but also on education, social policy, technology, innovation, employment and so forth. However, data collection and analysis of non-members was of secondary importance (Maddison, 2005). Typically, projects involving non-member data were conducted by the Development Centre, and usually financed by particular members on a voluntary basis (through 'part 2' of the budget). OECD reports on non-members took the form of 'unidirectional' recommendations, since it was assumed that its members and staff enjoyed superior policy 'know-how' based on the assumption of the superior functioning of their economies.[8] It was also often assumed that the 'OECD way' to economic growth, pursuing broadly liberalization strategies, was a 'one-fits-all' recipe that could be applied to diverse economies and societies. It was not until the 2000s that the OECD acknowledged their errors and the need for a more nuanced approach which appreciated diversity and difference (OECD, 2003).

A second major service is the OECD's role as host of forums for policy-makers enabling them to meet peers from other member countries as well as the relevant OECD expert staff to discuss a particular agenda. These forums tend to be held behind closed doors and many policy-makers and staff regard them as one of the organization's chief assets. From the policy-makers' perspective, their advantage is that policy-makers can talk frankly and exchange ideas in private, without having to be seen to 'win' any

particular debate.[9] The tradition of holding 'secretive' meetings dates back to the OEEC's organization of meetings to discuss the sensitive topic of Marshall Plan Aid allocation.[10] But the opaque nature of these forums has aroused suspicion and criticism from observers, who have claimed they have served as places where the richest member countries can forge common postures with their allies before taking their agenda onto other international organizations or back home. During the 1970s, the forums were used by the United States to engineer a Western consensus on the G77's demand for a Generalised System of Preferences before confronting them at the UN (Meltzer, 1976).

One of the outcomes of these forums leads us to a third major OECD service, the establishment of an array of governance concepts, including 'Codes', 'Best Practice', 'Guidelines', 'Standards', 'Norms', 'Principles' and 'Criteria'. Once established, the OECD uses these concepts as benchmarks with which members' – and often, non-members' – policy practice is evaluated. In addition, policy-makers can use the concepts to justify policy domestically, ostensibly legitimised, as they are, as 'best practise' from rich, developed countries. Again, the origins of this work go back to the OEEC, responsible as it was for ensuring Marshall Plan Aid candidates were implementing trade and capital liberalization policies to the satisfaction of the 'paymaster'. To ensure this was so, candidates had to present their policy achievements to an elected peer country, which would then subject the candidate country to rigorous questioning on their progress, a process known as 'confrontation'. If the candidate could not defend their position, they would be forced to modify policy before receiving finance from the Marshall Plan (Pagani, 2002). Though the OECD subsequently lost this financial leverage, nonetheless, the process was gradually diffused across most levels of the organization. Today, 'peer review' and 'peer pressure' are considered one of the

OECD's major attributes, to the extent this was emulated by another 'club', the European Union, under the name 'Open Method of Coordination' (Schäfer, 2006). Scholars studying compliance argue that intellectual pressure and the desire to be seen to be 'doing the right thing' help explain the OECD's success (Webb, 2004).

In synthesis, we have argued that the OECD, though ostensibly an economic organization, was organized along political lines associated with the Cold War, as reflected in the composition and evolution of its membership and staff. Its major tasks, data collection and analysis, organizing forums and establishing governance concepts for policy evaluation, were conducted for members' economies in their interests. The use and appropriateness of their work for countries beyond members was not an issue. As a consequence of this inward-looking stance, the OECD became over-confident its policies were applicable universally. The assumption was that all countries seeking to develop successfully should follow its guidelines and recommendations. This confidence started to sap – gradually – once members and staff recognised the world was changing and the OECD being gently nudged out from its centre: the import of their situation dawned slowly and reform began.

From Club to Global Actor? Assessing OECD Reform

Reform of the OECD from a club to a more global organization occurred in two phases. The first phase was triggered by the end of the Cold War, which OECD officials and members perceived as a political – but not an economic – challenge to the organization. The challenge was understood as an important, but not a 'life-threatening' one; reform was somewhat slow, and the OECD 'club' approach did not disappear. Indeed, it was

not until the second phase of reform, from the end of the 1990s, that decisive and bold action was taken to attempt to reform the organization, including transforming what was increasingly perceived as an obsolete 'club' approach into a more global organization.[11] Our analysis evaluates the import of reform, particularly as regards changes in the logic of membership, organizational changes to staff and governance, and the ways in which the organization produced goods and services and for whom.

Post 1989 Reform

The fall of the Berlin Wall and subsequent collapse of the Soviet Union was interpreted by OECD members and staff as proof of the superiority of the kinds of economic policies the organization had advocated since its origins, thus taken to legitimise the organization, particularly its economic functions. On the other hand, the political logic around which the organization had evolved had changed dramatically. With the end of the Cold War, questions about the future utility of the OECD increased and pressures grew from members to reduce its budget. Staff recruitment stagnated. As communism collapsed, change emerged, as regards membership, organization and purpose, but only slowly. Only in 1990 was Japan granted one of the three Deputy Secretary General posts. Still, the 'club' approach was not altered in this period. Indeed, OECD members and officials later concluded the lack of real change had been a mistake, as we discuss.

Despite multiple countries in Eastern Europe expressing interest in joining the OECD from 1989, its own members limited enlargement. OECD officials argue that membership expansion is based on two internal dynamics which seek to combine attaining 'symmetry' with political 'horse-trading'.[12] In 1991, members agreed to accept

only three candidate countries from Eastern Europe: the (then) Czechoslovakia, Hungary and Poland. Their restrictive approach can be explained by the fact that many non-European members did not to want the organization to become ‘even more’ European. Accession to Eastern Europe was ‘balanced’ by the agreement to expand to Mexico, which joined the NAFTA in 1994 and whose accession was promoted by the United States, and South Korea. Enlargement thus proceeded with Mexico (1994), the Czech Republic and Poland (1995), Hungary and South Korea (1996) and, finally, the Slovak Republic, in 2000. On joining the OECD, Mexico and South Korea left the G77, as it was perceived joint membership involved a conflict of interest. Symbolically they left behind their status as a ‘developing’ economy. Interestingly, Chile’s accession in 2010 differed, as it remained in both organizations, to the consternation of some G77 members (Deen, 2010). The OECD was later to acknowledge errors it made during the management of this stage of enlargement, particularly as regards its approach to the Eastern European members. These countries’ accession had been made conditional on their following successful adoption of economic policies recommended by the OECD, set out in their program ‘Partners in Transition’. But these policies assumed a ‘one-size-fits-all’ recipe of price and trade liberalization, macroeconomic stabilisation, privatization and the creation of market institutions should be applied to all countries (OECD, 2003). Later, officials acknowledged their lack of experience in managing non-Western economies had meant they had underestimated the diversity of these economies and their need for institutional building: they had shown themselves somewhat ill-equipped to understand what was required for successful transition (OECD, 2004).

Seeds of future reform were sown, however, as OECD officials modified the priorities as regards what goods the organization should provide, and how. Before 1989, most

OECD work on non-members had been considered a secondary activity. Publications on non-members generally took the unidirectional form of 'policy advice from the OECD'. Immediately, in 1990, the Centre for Cooperation with European Transition Economies was set up and dozens of economic and policy studies ensued including the first – and last - *Study of the Soviet Economy*, in conjunction with the IMF, the WTO and the EBDR in 1991. Most staff lacked experience working on transition economies, and some training was in order (OECD, 2004). The OECD 'club' approach was not undermined; yet work 'on' non-member economic systems had begun in earnest.

Going global – à la carte

Genuine attempts to transcend its 'club' mentality really commenced from the end of the 1990s. Reform was principally driven by functional concerns.[13] Both members and staff increasingly came to the view that the organization's restrictive membership was becoming its principal handicap. Economic governance would become difficult if not impossible if major economic players were not involved. Moreover, the 'rich man's club' was looking increasingly less rich. The shrinking share of economic wealth constituted by the OECD was encapsulated in Angus Maddison's final report for the OECD before his death, in 2010, *Shifting Wealth*. According to his calculations, OECD members' share of the global economy measured in purchasing power parity was 59 percent in 2000: by 2010, this had dropped to 50 percent and, by 2030, would drop to just 43 percent, as seen in Table 3. The share of G20 non-OECD members – Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia and South Africa) had increased from 22 percent in 1990 to 31 percent in 2010, and was predicted by Maddison (2010) to reach nearly 36 percent by 2030. Between 2000 and 2010, OECD exports had fallen from 71 to 60 percent of world totals. The 'rise of the rest' was understood as structural,

not transitory, and supported by new dynamics including ‘south-south’ trade, investment and technology transfers between firms and industrial clusters based across Asia, Latin America and Africa (OECD, 2010a). For decades, the OECD’s involvement in these regions had been minimal. It now *needed* them to bolster its own capacity to govern, its legitimacy and its relevance (OECD, 2004). Reform was implemented in the shadow of increasing financial pressure on the organization by its members who questioned its continued relevance. Donald Johnstone’s election as Secretary General from 1996 to 2006 was made conditional on his delivering sharp cost and staff costs.[14]

INSERT TABLE 3 AROUND HERE

Introspective soul-searching, critical self-assessment and complex negotiation marked the winding process towards agreeing on a new strategy. Senior officials were charged with spear-heading a reform strategy while identifying its potential obstacles. One such obstacle was the public image of the OECD: during the 1990s, its officials had made overtures to East Asian ‘tiger’ governments, but these were met with suspicion since the organization was still associated as the champion of the north in the Cold War.[15] Its unidirectional approach to policy advice for non-members was perceived as patronising and not always appropriate for non-Western countries. Another potential obstacle to change were OECD members themselves, especially smaller European countries, unconvinced as they were of the needs to share their privileges with more members. A further challenge was OECD staff itself, both professional and administrative, most of whom lacked an understanding of non-Western economies, languages and cultures (OECD 2005a).

Gradually, a consensus was forged on a blueprint for reform, with enlargement at its heart, which was implemented from the second half of the 2000s. Critically, enlargement was made conditional on prior approval of governance and budget reforms. As a sign of the changing times, for the first time, a Secretary General from a developing country, Mexico, was elected from 2006. The major significance of the governance reform, passed in 2006 - which had mainly been at the insistence of the United States - was the introduction of the Qualified Majority Voting mechanism. Decisions no longer required unanimity but could be taken with support of 60 percent of members, unless they were blocked by a group of three or more members who combined 25 percent of Part 1 of the budget (OECD, 2006). Budgetary reform was completed in 2008. Previously, the United States paid 25 percent and Japan nearly 20 percent of the core budget, whilst two thirds of members paid less than 2 percent each and one third less than 1 percent each. A new system was introduced whereby one third of the core (Part 1) budget would be equally financed by all members, phased in over a ten year period, while the cost of the other two thirds would be shared according to capacity to pay. The overall effect was that the share of the budget paid by the United States and Japan would decrease (OECD, 2008). Another decision was that that new members would have to cover all the costs of membership, paying more than that by original members of the same size (Bourgon, 2009).

Enlargement finally got the green light. Roadmaps for accession to Chile, Estonia, Israel, the Russian Federation and Slovenia – five countries which had all previously signalled interest in joining - were signed in 2007. Again, the combined geographical profile of the accession countries reflected the desire of OECD members to balance ‘European’ versus ‘non-European’ entrants. Chile, Israel and Slovenia acceded during

2010, Estonia's accession expected to occur during 2010. Russia's accession, however, was delayed. Of these five countries, Russia had been the first to be considered as a candidate for accession as far back as the mid 1990s. Prime Minister Chernomyrdin had expressed an interest in Russia's joining in 1996, to which the Council replied formally that this was an 'ultimate shared goal' in 1997. Since then, extensive cooperation took place but a number of obstacles reared their heads both from within Russia as well as from certain OECD members. Delays ensued as frustration grew. When the 2007 roadmap was drawn up, Russia was nearly not included, being listed only at the last minute after intensive lobbying. Its future accession has been made conditional on its joining the WTO and signing the OECD anti-corruption convention, and top officials remain optimistic, though there is are private concerns Russia should not be kept waiting too long.

But even with the addition of Russia, this wave of enlargement does little to fundamentally alter the declining economic importance of OECD members. Recognising this, a programme entitled 'enhanced engagement' was launched, also in 2007, for implementation in five key economies: Brazil, China, India, Indonesia (due to pressure by Australia) and South Africa. Though these countries had not necessarily stated their interest in joining, they were targeted by the OECD as countries that 'might eventually be willing and able to join' (OECD, 2010b as well as being those the organization *needed* to engage with in order to presume it was representative of the world economy. From 2008, these countries were invited to participate in the main economic sessions of Ministerial Council Meetings, as well as in a select number of committees and working parties at different levels of intensity, from ad-hoc to regular or full participation. This participation of these non-members in OECD business is

ongoing and a comprehensive list of individual countries' participation is published as part of the OECD *Global Relations Programme*. Participation, interestingly, is quite uneven: Brazil and India are much more involved than China. Brazil participates in over a dozen committees, from environmental policy to trade, competition and science and technology, while India is involved in the committees on agriculture, often, with full member rights, fiscal affairs, information and communications technology, consumer policy, steel, higher education and statistics (OECD 2010b: Table 4). In contrast, China's participation is mostly limited to work by the Committee on Fiscal Affairs. Interestingly, non-member such as Argentina and Singapore are active in more committees than China.

Overtures by the OECD towards more inclusive governance can, and do, backfire. It takes two to tango, after all. The case of China, an OECD priority, is revealing. Formal bilateral relations between the OECD and China were pioneered by Secretary General Jean-Claude Paye (1984-1996) and were centred on taxation. By 2005, OECD officials perceived relations with China were blossoming (OECD, 2005b). Though some members queried China's human rights record, it was decided that the advantages of engaging with China far outweighed any potential disadvantages. Tensions in the relationship started to emerge, however. China was concerned about the over-representation of Europeans in the OECD: for instance, if it attended Working Party 3 meetings, Chinese delegates had to listen in silence to speeches by small countries such as the Netherlands. OECD members and officials became concerned that China enjoys its services but does not intend to commit itself to its standards and norms through membership. Tensions came to a head in 2009 with the OECD's tax havens work, which included a project to name and shame 'non-cooperative' tax havens. Hong Kong

and Macau were included on the provisional list: China responded furiously, stating this was their affair. The OECD finally backed down, removing both, on the agreement that China would assume responsibility for their management. Still vexed, China blocked the OECD from participating in the G20 summit in London in April 2009. The OECD returned to G20 business when, on the direct invitation of President Obama, Angel Gurría attended the Pittsburgh meeting in September 2009 (OECD, 2010b 11).

Another strand of reform is organizational, relating to OECD staff and the ways in which work was done. After freezes on recruitment during the 1980s and 1990s, new blood was recruited into the OECD, especially at professionals at the lower level, as shown in Table 2. Despite the share of French, British and American staff in 'A' category posts having fallen, in 2009 the three countries combined still made up 45 percent of these jobs and nearly half the top 'A 5-7' posts. Prior to reform, most OECD work on non-members was done through the 'Centre for Cooperation with Economies in Transition'. This was replaced by the 'Centre for Cooperation with Non-Members' in 1997. Staff received training in non-Western economies and languages, and different theoretical perspectives, and was encouraged to adopt less confrontation and more confidence-building approaches to non-members. But this was quickly perceived as not going far enough: OECD work for non-members was still perceived as being to patronising and 'missionary' by internal critics. A more 'aggressive' strategy which ensured other countries deemed vital for the organization's future were brought on board was required (OECD 2004). This required that key countries be treated as equals or 'peers' (OECD, 2010b 5). So, work on non-members was reformed: in 2001, the nearly 120 staff working at the 'Centre for Cooperation with Non-Members' was transferred directly into standard OECD Directorates. Henceforth, OECD work on non-

members would be mainstreamed; a publication on agricultural reform in Africa would henceforth be published by the Directorate on Agriculture, as part of core OECD work. By mainstreaming work on non-members, it was hoped the OECD's former emphasis on training and assistance could be replaced by policy dialogue, and promotion of best practices, standards and instruments (OECD, 2005a). The reform also meant that work on non-members would be financed by the core budget, not by voluntary contributions.

Finally, OECD reform has attempted to render the distribution of the goods and services it provides more inclusive. This has taken two major forms: the establishment of 'network' governance across all continents, and accelerated collaboration with other organizations, including at international, national and local levels. Network governance is organised on a regional basis, and targets Europe, Caucasus and Central Asia, Latin America, the Middle East and North Africa, Africa, and other Asian non-members. OECD staff attempt to identify areas of existing work that are of interest to the region. Incentives are offered to staff to establish relations with governments or institutions such as development banks and other organizations, and then to identify common projects. Countries from these regions are also invited to participate in various OECD committees and working parties at different levels (ad-hoc, regular or equivalent to a member). Secondly, significant steps have been taken, particularly from 2005, to sharply increase the OECD's collaboration with other international, regional and local organizations in the production of joint reports, or the holding of jointly organised conferences or training sessions. This is justified by the need to legitimise OECD output around the world, especially in those areas where it has not traditionally worked, as well as to avoid duplication. A comprehensive inventory of these activities outlining the

nature of the activities, expected outcomes and the division of labour has been published by the OECD and reveals a clear change in strategy (OECD, 2007).

Discussion

Established in 1961, the OECD, inheriting much from its predecessor, the OEEC, functioned as a club model of multilateralism *par excellence* for much of its history. By restricting membership to certain Western capitalist economies, it was deemed by some an excellent place for discussion by the powerful countries, as negotiations among a few, homogenous members were less burdensome than those at more universal fora, such as the UN (Fratiani and Pattison, 1976). When the Cold War ended in 1989, the OECD lost much of its original political rationale, and yet its economic rationale, as a champion of Western-style capitalism, was, to some extent, legitimised. But the loss of its political rationale - coinciding with the hostile decade of the 1980s for international organizations - resulted in its coming under increased pressure by members to cut costs. Its critical challenge, however, was economic, in the form of a gradual recognition that OECD members were increasingly vulnerable to the economies of non-members and, also, that OECD members were shrinking in economic importance in the shadows of emerging new economic players. If it was no longer a club of Western allies fighting communism and only a declining club of the rich, industrialised nations, what did its future hold?

Real reform accelerated from the turn of the twenty-first century. At its heart was the recognition that the OECD club needed to address its place in the changing global economy by becoming more inclusive. For members, it was vital that key economic

players were brought in if economic governance was to be meaningful. For staff, enlargement became one of the main keys to organizational survival. Inclusion did not amount to a strategy to transform itself from a club to a fully inclusive or global organization. The new logic of inclusion follows a strategy of incremental enlargement: going global 'à la carte'. Four new members joined in 2010 but, even with the accession of the Russian Federation, OECD members' share in the global economy will not increase. The so-called 'enhanced engagement' programme reveals the OECD's interest in the 'big players', especially China and India, but also Brazil, South Africa and Indonesia. Critics might say the OECD is not interested in inclusion; it is merely wishes to extend the club to a few other rich countries. But its reform is not superficial. Change is palpable in a change of attitude; pride has been swallowed and staff and members are determined to engage with non-member countries as 'partners'. For decades, the goods and services provided by the OECD were nearly exclusively for Western developed economies. This is changing – gradually - in the recognition that the 'OECD way' is not the only way, and that there are different legitimate approaches to development. OECD services for non-members are no longer to be unidirectional 'policy advice' but to take the form of 'policy dialogue'. Mainstreaming its work on non-members across all Directorates is one important example of this change. But is all this reform too late to guarantee the OECD's role as a key player in the architecture of global governance? In its favour, the OECD has earned a solid reputation for producing data and analysis: indeed, this is its chief asset in its search for a role in global governance. New structures, such as the G20, lack a Secretariat, so there are avenues for synergy here. Its main disadvantages continue to be its legacy as a transatlantic organization, with the bulk of jobs still staffed by Western Europeans and Americans. This may limit its capacity to communicate with and understand non-Western potential members,

particularly, Asian ones. Finally, the big question remains unanswered: the OECD needs the emerging economies, but do they need the OECD?

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[*] Stephen Marris and Angus Maddison, both of whom provided help during the writing of this article, sadly passed away before it was completed. The authors would like to dedicate this paper to their memories.

[1] In order to enjoy frank discussion with OECD high officials, interviews have been anonymised.

2 Interview with OECD officials, July 2010.

[3] Interview with OECD officials, July 2010.

[4] A comprehensive list of the participants in OECD subsidiary bodies is at 'On-line Guide to Intergovernmental Activity', http://webnet3.oecd.org/OECDgroups/

[5] Interviews with OECD officials, July 2010.

[6] Data on five decades of OECD staff was provided by the OECD's Human Resources Department.

[7] The death of the international civil servant in the OECD was lamented by Stephen Marris, Economic Advisor to Secretary General Emile Van Lennep, who left the organization in 1984 after 27 years due to the rise of national politics. See Marris (1983).

8 Interviews with OECD officials, July 2009 and July 2010.

[9] Interviews with OECD officials, July 2010.

[10] OECD History Website
http://www.oecd.org/document/48/0,3343,en_2649_201185_1876912_1_1_1_1,00.html

[11] Interviews with OECD officials, July 2010.
[12] Interviews with OECD officials, July 2010.
[13] Interviews with OECD officials, July 2009.
[14] Interviews with OECD officials, July 2010.
[15] Interviews with OECD officials, July 2010.