3-26-2009

As Financial Crisis Engulfs World Economy Expert Commission Unveils Plan For Profound Reform Of Global Financial Construct, In General Assembly

United Nations: General Assembly

UNITED NATIONS | PRESS RELEASE

AS FINANCIAL CRISIS ENGULFS WORLD ECONOMY, EXPERT COMMISSION UNVEILS PLAN FOR PROFOUND REFORM OF GLOBAL FINANCIAL CONSTRUCT, IN GENERAL ASSEMBLY

Thematic Dialogue on World

Financial Crisis (AM & PM)

Economic Globalization Outpacing Political Globalization, Commission Chief

Says, Proposing Creation of Economic Coordination Council, Global Reserve System

With the world facing the first crisis of the modern age of globalization, a commission of economic experts chaired by Nobel Laureate and former Chief Economist of the World Bank Joseph Stiglitz today called for the creation of a global reserve system and a global economic coordination council as part of a fundamental reform of the international financial architecture.

"These are ideas whose time has come," Mr. Stiglitz said, as he introduced the commission's draft recommendations, which include immediate prescriptions essential to global recovery, as well as an agenda of deeper systemic reforms needed to ensure that such a recovery would be sustainable.

The Commission of Experts on Reforms of the International Monetary and Financial System, as the group convened last year by the President of the General Assembly is formally known, argues that the financial crisis that rapidly spread from a small number of developed countries to engulf the global economy has provided tangible evidence that the international trade and financial system should be profoundly reformed.

The Commission's 18 members, who viewed their work as complementary to efforts being undertaken by the Group of Eight (G-8) and the Group of Twenty (G-20) to address the current financial crisis, intend to issue a final draft of their recommendations in May ahead of the "highest-level" United Nations conference on the financial crisis to be held from 1 to 3 June in New York.

"We agreed at the beginning to focus on the impact on developing countries and on the poor in both developing and developed countries," Mr. Stiglitz said. "These often-neglected issues were first and foremost on our mind."

To address the current crisis and modify global structures to prevent recurrences, he said economic systems needed to reflect the concerns of citizens worldwide. While a global reaction was needed, the current locus of response was lodged at the national level. As each Government considered its possible range of actions, their potential ripple effects in other countries were often neglected.

Thus, the Commission recommended that national stimulus packages should be judged on their global impacts. Further, those packages should dedicate 1 per cent of their total outlay to developing countries to offset the impact of financial crisis. The Commission also recommended the issuing of Special Drawing Rights (SDRs) and gave support to regional efforts like the Chiang Mai initiative to augment developing countries' resources. Those schemes should avoid conditionalities.

As part of the expanded support for developing countries, the Commission also called for the immediate creation of a new credit facility. If it was established quickly enough, Mr. Stiglitz said, it could be a means of disbursing the necessary funding. Developing countries should also be given policy scope to engage in counter-cyclical actions. In the absence of a successful completion of the Doha trade round, the markets of advanced countries should be opened to least developed countries via the rapid implementation of existing multilateral trade negotiations. Protectionism should also be avoided in any crisis response.

Other recommendations promoted actions to address flawed incentive structures, unreformed corporate governance, with the Commission suggesting that what were needed were real and substantive regulatory reforms that went beyond the financial sector to address underlying problems in corporate governance and competition policy and tax structures that gave preferential treatment to capital gains.

Over the longer term and as part of the agenda for systemic reform, Mr. Stiglitz said a global reserve system would reduce the current systems' endemic inequity, which was perhaps best exemplified when developing countries lent money to the United States at very low interest rates instead of developing their own countries. The final version of the Commission's report due out in May would outline how a transition could be made to that system.

The current crisis had laid bare globalization's double-edged nature: the rules of the game meant the bad crossed borders along with the good, he said. As countries around the world had grown more interdependent, economic globalization had in some sense outpaced political globalization. For that reason, the Commission was calling for a global economic coordination council that would operate at a level equivalent with the General Assembly and the Security Council and would meet annually at the Heads of State and Government level to assess developments and provide leadership in economic, social and ecologic issues.

Following Mr. Stiglitz's introduction of the Commission's draft recommendations, presentations by four other Commission members detailed several regional perspectives on what was needed for global recovery and highlighted that, while the need for a "global new deal" required a "G-192" to be involved in designing sustainable solutions, those solutions had to be tailored to each country since "one size did not fit all".

During the ensuing discussion among Member States and representatives of civil society organizations, speakers from developing countries lamented the fact that the recommendations did not contain specific references to least developed countries' access to resources. Several representatives from developed countries voiced support for the Commission's goal of providing global solutions that would protect the world's poorest people. They hoped the upcoming G-20 summit in London produced a substantial response that incorporated the concerns and goals of developing and developed countries alike. Several delegations requested that the recommendations contained in the Commission's final report should be prioritized.

An afternoon panel on the reform of the international institutions emphasized the need to mobilize the entire United Nations system, including the Bretton Woods institutions, to address the crisis. Indeed, the United Nations was the right place to plan the reorientation of the international financial system, but, to do so, it had to go beyond the interests of individual countries, especially the largest ones.

The General Assembly will meet at 10 a.m. on Friday, 27 March, to conclude its interactive thematic dialogue on the financial crisis.

Introduction of Recommendations

Opening the morning session, its moderator, Park In-Kook of the Republic of Korea, noted that the Commission's recommendations would serve as an input for the United Nations conference on the financial crisis in June. He highlighted as among the document's most salient points the conclusion that "the welfare of developed and developing countries is mutually interdependent in an increasingly integrated world economy. Short-term measures to stabilize the current situation must ensure the protection of the world's poor, while long-term measures to make another recurrence less likely must ensure sustainable financing to strengthen the policy response of developing countries".

He said the document also stressed that, as the world focused on the exigencies of the moment, the overarching priorities of other long-standing commitments -– namely the achievement of the Millennium Development Goals and protecting the world against the threat of climate change –- should not be diminished. In fact, appropriately designed global reform was an opportunity to accelerate progress towards meeting these goals. Towards that goal, the report recommended the creation of various new systems that deserved attention: the creation of a new credit facility; a panel to provide independent international analysis on questions of global economic policy modelled after the Intergovernmental Panel on Climate

Change (IPCC); a global economic coordination council as an alternative to the Group of Twenty (G-20); a financial products safety commission; a global financial regulatory authority; a global competition authority; and an international bankruptcy court.

JOSEPH STIGLITZ, Chairman of the Commission of Experts, and Professor at Columbia University in New York, said the Commission had only been able to reach consensus because its 18 members were committed to creating a response to the economic crisis that would foster a more rapid recovery and make it less likely that this kind of event would occur again. There were many forums in which the issues were being discussed, from intergovernmental groups to non-governmental organizations, but the members had agreed at the outset to focus on the impact of the crisis on developing countries, and the poor in both developing and developed countries.

"These often neglected issues were first and foremost on our mind," he said, stressing that the current document containing the recommendations was a work in process that presented a summary of the Commission's views as they stood today. A longer document expanding some ideas and alternative approaches to the basic ones currently presented would be issued at the end of May, in preparation for the United Nations conference in June.

One underlying problem that had not received sufficient attention, but that had been at the heart of the Commission's deliberations, was the insufficiency of global aggregate demand. That had led to excess supply and unemployment. The International Labour Organization (ILO) estimated that the number of unemployed had risen by 30 million from 2007 to 2008 and could possibly reach 50 million. That would be felt acutely in developing economies as tens of millions of people were pushed into poverty. Even in developed countries, many faced losing their homes, savings, health care and the ability to access other necessities. The world had clearly failed to create a system that provided adequate social protections for people in both developed and developing countries. That situation would not be solved overnight, or even in the next year, but it was imperative to begin working on it now. Indeed, it was particularly ironic to see insufficient aggregate demand in a world where so many basic needs were unmet. All of the world's economies would have to be restructured and the Millennium Development Goals would have to be met.

He said one reason for low aggregate demand was growing inequality. Money was being transferred from those who needed to spend to those who did not. Additionally, one outcome of other recent economic crises like the Asian crisis was reserve imbalances. Countries had realized that they needed to accumulate large amounts of reserves to protect themselves in the global landscape, but those reserves had in some cases grown to trillions. Such actions were individually rational, but deadly on a global scale and exemplified the paradox of thrift. Today, the strategy of accumulated massive reserves in case of a rainy day seemed exceptionally rational since the world now faced a storm. But money that was not spent reduced global aggregate demand.

Meanwhile, the unbridled consumption of the United States consumer had kept the world going, he said. But the richest country in the world had been living beyond its means. When criticized, the response had been, "you should be thankful". But there was clearly a fatal flaw in the system if such outsize consumption was required to keep the economy going, and no one could disagree with the fact that this system was now broken, at great cost to everyone in the world. Moreover, after United States and European banks were fixed, it would be impossible to go back to the status quo ex ante, as insufficient aggregate demand would still exist. Spenders could not continue in their profligate lifestyles, and the technology and housing bubbles should not be replaced by other bubbles.

He further stressed that the world economy should also be restructured to meet the longer-term climate crisis. While the world would recover from the global financial crisis, unless appropriate action was taken, it was less clear that it would recover from the environmental crisis. This fact had also been at the forefront of the Commission's discussions.

Among other problems that had contributed to the current crisis were limited monetary policies that focused only on inflation and not on the larger key issue of long-term monetary growth, he said. That focus on inflation had prevented a sustained consideration of the underlying problems of financial stability. Regulatory problems had compounded that situation. Insufficient regulation had caused problems, not only in the financial sector, but in other areas of national economies. For example, banks had been allowed to grow so large that they were deemed "too big to fail". Market economies worked when effective competition existed, but when there was a failure in competition, as in the case of mammoth banks, they broke. As a result, the Commission was calling for the establishment of a global competition authority.

Flawed incentives were another problem, he said. The fact that those in the financial system had responded to the incentives they were given proved the economic principle that incentives mattered. It was clear that the problems of corporate governance that had been recognized early in the decade during the Enron and WorldCom scandals had not been appropriately addressed.

Turning to the issue of globalization, he noted that those countries that had engaged most substantially in globalization had been among the most successful in the last few years. But the present crisis had shown that the bad crossed borders along with the good. The rules of the game had allowed the United States' failure to spread around the world and, while the United States might be wealthy enough to protect its citizens, many other affected countries were unable to do so. Thus, it could be said that economic globalization had in some sense outpaced political globalization. Countries around the world had grown more interdependent, but the political institutions to deal with adverse consequences or to prevent them from arising in the first place did not exist. It was time to consider what steps to take to create a global economic system that was less likely to have the kinds of problems being seen today.

There was no other way to look at the current synchronous economic downturn than as the first crisis of the modern age of globalization, he said. Europe's hope that there had been a decoupling after the Asian crisis that protected it from any failure in the United States had proven to be a myth. Indeed, America had successfully exported its deregulatory philosophy. If it had not, it would not have been able to export its toxic assets and the impact of the current crisis would have been much worse on it. As a result, the United States could perversely be said to be benefiting from globalization in the current crisis.

Turning to the inclusiveness of the system, he said that it was important to create systems to reflect the concerns of citizens worldwide. A global response was needed, but the locus of response was currently lodged at the national level. Each Government was considering actions that would largely benefit only itself without accounting for the spillover of externalities. Without a broader focus, it was likely the magnitude of the response on a global scale would be insufficient. Also, the dangers that could arise as each country tried to maximize the benefits it would receive from its own policies had been seen in the 1930s when "beggar thy neighbour" policies had been the typical response to global depression. That inward-looking focus became more alarming when it resulted in protectionism. After the G-20's declaration last November that it would not engage in protectionist responses, 17 of the 20 countries had adopted protectionist policies.

Another complication, he noted, was that most of the trade agreements were not designed with a global crisis in mind. While the United States might promise it would not violate World Trade Organization agreements, in practice, that might mean that it would continue to buy from other developed countries, but could discriminate against developing countries. Likewise, while regulatory structures should be rethought, the scope for doing so might be inhibited by a number of bilateral and multilateral agreements, particularly financial agreements.

He said that, while every country in the world needed to have a stimulus package in response to the economic crisis, many of the developing countries did not have the resources to launch such measures without substantial support. But it was hard to imagine a robust global recovery without recovery in the developing countries. For that reason, additional funding was needed, and the Commission was recommending that developed countries set aside 1 per cent of their stimulus packages for developing countries. Elsewhere, Special Drawing Rights (SDRs) should be issued. Additionally, a variety of mechanisms for the disbursement of those funds was needed and should give the developing countries' policy scope to engage in counter-cyclical actions. That assistance should not attach conditionalities.

Noting that pace of reforms being discussed to address flaws in the existing institutional arrangements in the International Monetary Fund and the World Bank was not fast enough, he said competition in disbursement facilities would be a good thing and some –- especially regional ones -- should be explored. To that end, the Commission was recommending that a new credit facility should be created as a matter of urgency. If it was established quickly enough, it could be a means of disbursing those funds.

Turning to the longer-term reforms, or "quite short-term" since a quick recovery would be impossible without them, he highlighted the need for a global reserve system and a global economic coordination council. When the Bretton Woods institutions were created, their "godfather", John Maynard Keynes, had had in mind the creation of a global reserve system. While there was the beginning of such a system with the creation of the Special Drawing Rights in 1969, it had been done in an episodic way. If a global reserve system had been needed in 1945, the need was all the greater more than 60 years later.

The problems of the current system were manifold and contributed to global instability as well as the insufficiency of global aggregate demand, he said. The current system was also marked by a kind of inequity that was perhaps best exemplified when developing countries lent money to the United States at very low interest rates instead of developing their own countries. They chose to do so because the global instability was so great that they believed it was better to have those reserve funds than to spend the money domestically. Nevertheless, the global system had been fraying for a long time with the dollar being much more volatile. Further, after a glance at the balance sheet of the United States Treasury, anxieties were growing. While it was an old idea, it was time to do the work to create the global reserve system, and the longer version of the Commission's report would outline how a transition could be made to that system.

Obviously, global economic policy had not been well-managed, he said. Current systems did not ensure global stability and, while a long discussion could be held on why the current systems had failed, there was a clear need for a global economic coordination council. The Commission envisioned a two-stage path for its creation, modelled on the Intergovernmental Panel on Climate Change. At the initial stage, an independent panel would identify problems. At the next stage, the panel would move towards a political body. It would facilitate coordination as well as identify gaps in institutional structures, and then, hopefully, outline a process for closing them by analyzing the scope of the problem and proposing solutions.

"These are ideas whose time has come," he said, stressing that the Commission hoped "to mobilize a consensus to address some of the most important issues facing the world today".

Comments by Commission Members

Contributing to the discussion were the following Commission members: Heidemarie Wieczorek-Zeul, Federal Minister of Cooperation and Development of Germany; Benno Ndulo, Governor of the Bank of the United Republic of Tanzania; Pedro Paez, former Minister for Economic Coordination for Ecuador; and Yaga Venugopal Reddy, former Governor of the Reserve Bank of India. The session was moderated by Park In-Kook, Permanent Representative of the Republic of Korea.

Ms. WIECZOREK-ZEUL said we are "experiencing a rupture of historic dimensions in this world" and it was the international community's responsibility to act with short-term and long-term measures. She said 100 million more people could be trapped in poverty in developing countries, and the achievement of the Millennium Development Goals could be threatened. This was a global crisis needing global solutions, a "global new deal". All countries needed to be involved in a sustainable solution that enveloped a broader process involving all the "G-192".

The crisis reflected problems that went beyond policies in banking and finance, she said. The international community also had to fight environmental crises, such as global warming. This economic crisis should be used to correct all global problems. She noted that the Commission had been set up under the umbrella of the United Nations and it went beyond short-term measures.

She said the Commission supported the creation of a global reserve system and a global coordination council. The world needed global cooperation and regulation and an inclusive body representative of all continents. It would take time, but work should begin now with an international panel that could provide economic advice and develop longer-term solutions. She urged all industrial countries to maintain their commitments to official development assistance (ODA) and to dedicate up to 1 per cent of their stimulus packages in addition to ODA. The world should not await the conclusion of the Doha round of talks, but should act now to implement duty-free and market-free access for the poorest countries.

Mr. NDULO said the Commission recommendations put the plight of the poor at the core of global concerns, rather than relegating them to mere footnotes. The Commission had realized that poor countries were victims of a crisis that was not of their own making. Yet they had to be part of the solution. Two major concerns of developing nations were that the fallout from the crisis would reduce their economic gains and that their revenues from exports were declining, particularly as oil prices declined. He noted that the major growth points in Africa -- Nigeria, South Africa and Algeria -- had been hurt more than the average.

Africa wanted to avoid the situations experienced after previous global oil shocks and recessions, in which economies declined and previous gains made in areas such as education and health had been lost, he stressed. Things had to be different this time. Africa had a limited capacity to weather the storm and press ahead because of the magnitude of the crisis. A support agency was needed to protect the vulnerable and provide jobs, prevent food crises and protect against diseases, such as malaria. Over the medium-term, the concern was protecting investments and growth, and achieving the Millennium Development Goals. The proposal that industrial countries provide 1 per cent of their stimulus package towards ODA would go a long way towards helping the poorest countries.

Mr. PAEZ said some solutions that might have been called "extreme" six months ago were now seen more favourably and, in some cases, considered necessary. Peace and development were gambles being played out these days because the world now faced a two-fold situation between what could be and what the "Powers that be" -- who had led us to this crisis -- were proposing. For some of the proposed reforms to be achieved today, it was necessary to coordinate global initiatives with existing regional mechanisms. Specifically, there was a possibility for regions with institutional arrangements to move towards a process of international coordination, not only in the monetary field, but in the area of exchange rate stability. Progress in that realm could provide possible future solutions on the basis of international cooperation and, in the immediate future, prevent a trade war or a competitive spiral that would make cooperation difficult.

He said that the policy space of Third World countries should be broadened to enable them to implement counter-cyclical policies. That would mitigate the crisis' impact on the people of those countries and put a human face on the global response. An emergency provision was also needed within the World Trade Organization to give legitimate space to countries to comply with the rules and prevent a return to protectionism and trade wars. That would allow forward movement in a multipolar world and once again make trade viable. It was possible within the Food and Agriculture Organization (FAO) to define a set of problems, thereby making it possible for the current round of trade talks to move forward, but that had to include the input from those who were closer to the threat of famine or starvation. A special provision could redefine the framework of trade by linking it to mechanisms that supported financing for foreign trade. Those mechanisms would today and over the next four to five months establish a scenario that would reduce political instability and provide a sense that cooperation was achievable.

Mr. REDDY said the crisis was financial, economic and social, and the report represented the viewof the entire world community. It urged the management of the crisis over the long-term and it incorporated a development perspective, and not just a financial view, of the crisis. The Commission's work represented an open discussion that did not support any particular ideology. It included the practical experience of the Commission members.

He said many Asian economies were frustrated because they had taken measures to improve their macroeconomic picture after the crisis of the late 1980s, yet they were being affected by this crisis. The report showed that solutions had to be tailored to each country and that "one size did not fit all". Any stimulus packages could not be uniformly prescribed, and policy packages had to consider the possible response of the financial markets. The crisis required coordinated and harmonized efforts that would also address the medium and longer term. He urged the strengthening of regional initiatives as global institutions were reformed, in order to take account of the new realities. One of the Commission's most important recommendations was the creation of a global reserve system.

Discussion

In the ensuing discussion, many Member States welcomed the Commission's work but said it was too early to comment in detail on its recommendations and were eagerly studying the report. The concerns of many developing countries focused on the global declines in trade, the growth in trade protectionism that could accompany the crisis, reform of the International Monetary Fund, the need to maintain ODA commitments, and the proposal for a new lending facility.

The representative of the United Kingdom, which is hosting the upcoming Group of Twenty (G-20) summit, said he supported the Commission's approach to dealing with the crisis and its goal to provide global solutions that would protect the world's poorest people. He hoped the G-20 meeting would address that aspect. He had been pleased to hear the German Minister's statement urging industrial nations to maintain their commitments to ODA. Acknowledging the proposal to create a new credit facility, he noted it would take time to create such an institution and he questioned whether it would be better to use existing mechanisms over the short-term to help the poorest countries.

Acknowledging the Commission's recommendations as a "serious" document, Australia 's representative said the message that the G-20 was not inclusive enough had been heard, and the London summit had to produce a substantial response that incorporated the concerns and goals of developing and developed countries alike.

Several representatives urged the creation of a more balanced and fair trading system. The representative of Uruguay, speaking on behalf of the Rio Group, said reducing tariffs and other trade barriers would help the economies of many developing nations. She also urged the richer nations to boost their ODA commitments. The representative of India noted that the national stimulus packages could lead to protectionism through regulations on procurement, among other things. While lauding the report's draft recommendations, the representative of Nepal said the report fell short of his expectations and did not address the problems of vulnerable countries, such as landlocked nations like Nepal.

Professor STIGLITZ said the world was experiencing an unusual and severe crisis, and changes that had not been possible before, such as reform of the global reserve system, were now moving to the centre of the political debate. A longer report would address the crisis' effects on the most vulnerable countries. The Commission was very concerned about trade protectionism, and constant global debate on that topic would help curtail that phenomenon. The Commission was aware of violations of global trade agreements that undermined the creation of a level global trade playing field. The magnitude of some of the bailout plans demonstrated the imbalanced playing field, especially in such areas as financial services.

The crisis was a complex problem that required multiple reactions in multiple directions at the same time, such as stimulus packages and regulatory measures, he said. There was a great deal of uncertainty at present. Referring to the issue of reforming the International Monetary Fund (IMF), he said it was now known that the conditionality of IMF loans terms was counterproductive and major mistakes had been made. Many developing countries now attached a stigma to IMF and vowed not to use it. He urged the use of a variety of mechanisms for the distribution of funds, such as a new credit facility. It was possible to create a new financing facility fairly quickly. A global economic council could open up a new way to address the problems. It was not a panacea, just a step forward, he added.

Reflecting the sentiments of many speakers before him, Italy's representative said the various recommendations contained in the report should be prioritized. He supported the recommendation in paragraph 78 on creating an innovative mechanism for financing for development.

Bangladesh's representative, echoing the concerns of many speakers from developing countries, said the recommendations did not contain specific references to access to resources for least developed countries, most of whom lacked funding to implement stimulus packages. He asked the Commission to elaborate on how the most important development deliverables –- duty-free and quota-free market access for least developed countries -- could be implemented. Like many speakers, he noted that the current economic governance system was too volatile and dependent on the value of the United States dollar. It lacked the institutional structure for multilateral discipline and had led to high global imbalances. But the recommendations did not fully address an alternative global system.

Pakistan's representative said the United Nations would benefit from having a well-recognized economist as its chief economist and he asked if the Commission had considered the possibility of appointing one.

Indonesia's representative asked the Commission to further elaborate on the mandate and surveillance role of an early warning system for international financial institutions.

A representative of New Rules for Global Finance, a coalition of civil society organizations focusing on global financial architecture reform, said demand must be consistent with a sustainable planet and on enhancing quality based on equity and fairness. She supported the use of Special Drawing Rights as a global reserve currency and asked the Commission to set forth a way in which internal SDRs could be used as a currency outside the walls of the International Monetary Fund. SDRs were complex, and it was necessary to explain their use to the world. It was imperative to reform IMF to make it more balanced in terms of voting rights. She called for an evaluation of senior management, transparency of board decisions, the participation of parliaments and the United Nations, and creation of an external complaint mechanism. Those were very clear steps for introducing accountability. IMF should also be able to change the quality of conditionalities attached to lending. A report of two days ago stated that IMF was in fact changing its lending conditions for countries that were not low-income, whereby very wealthy nations like the United States no longer qualified for an IMF loan.

Representing the interests of the private sector, a member of the International Chamber of Commerce said the current situation was an explosive one and a market economy could only work with adequate rules. She said the immediate priority was to increase demand and credit, and she asked national and regional credit facilities to sharply expand their trade finance facilities. Governments needed to avoid protectionist measures in an inter-related world. They also needed to complete the long-stalled Doha round of global trade talks.

In response to audience remarks, Commission member WIECZOREK-ZUEL acknowledged that the protection of the most vulnerable people was necessary and it was vital to maintain ODA. The Millennium Development Goals had to be achieved. A global market existed and, while searching for a new balance between markets and States, States had to ask which organizations would be used to provide a balance to the global market. When complaining about the G-20, it should be asked "Who should rule the world?" There was a possibility to use existing organizations to create greater understanding of economic issues, and that could be done right away.

She said today's economic and financial issues were linked to other contemporary urgent issues, such as climate change. She noted that a successor agreement to the Kyoto Protocol was being negotiated this year. Funds gained from carbon trading and the auction of carbon emission allowances to reduce carbon emissions could be used to finance developing countries' needs. She urged Member States to use their time wisely and show courage. "It's up to you what we decide in June."

Mr. NDULO, responding to questions about the regulatory role of central banks in low-income countries, said those countries had been spared during the first direct round of effects of the crisis. Key indicators of their banks had been fairly robust due to their less sophisticated financial systems, more cash-oriented economies and much less dependence on credit. Their basic regulatory banking frameworks played quite an important role in that regard. But he was concerned about the second-round effect, which would be a much bigger challenge. The real task ahead was to mobilize enough resources to ensure that the distress of banking clientele was not passed on to the banking and financial systems.

He stressed the need to survive today in order to think about the medium term and long term. But unfortunately, resources did not come that quickly. Banks had earned some fiscal space and space in terms of debt limits. He called for organizing some funding as a percentage of gross domestic product (GDP) to help carry the burden on behalf of financial institutions, instead of letting them go it alone and be baldly hit as a result.

Mr. Paez of Ecuador said that not everybody was guilty of creating this economic crisis and the theme of legitimacy between North and South needed to be explored. Countries that suffered an economic decline would also enter a social decline, from which it would take years to emerge. The crisis could also provoke tensions between and within countries.

With political resolve, a new global reserve currency was possible in six months, he asserted, urging the private sector to act and regain lost time, and settle trading issues. A new world order was necessary. The international community should consider the environment, development and peace as it managed the economic crisis, he said.

Mr. REDDY said some financial innovations were good, but many had been mechanisms to circumvent financial regulation rather than mechanisms for innovation. A regulator must be convinced that an innovation was good before he approved it and he must see if it was beneficial vis a vis the costs. Only then should the innovation be established. That was the type of dynamic regulatory balance that had gone into the Commission's recommendations. Concerning the needs and merits of national regulation versus international regulation, he said that the current crisis had been caused by a lack of national regulation in many advanced economies, particularly in economies that wanted to be international financial centres. There should be minimum standards of regulation.

Panel I

Participating in the first panel, "Reform of International Institutions", were Ms. Wieczorek-Zuel, Federal Minister of Cooperation and Development of Germany; Francois Houtart of Belgium; Mr. Paez, former Minister for Economic Coordination of Ecuador; and Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development in the United Nations Department of Economic and Social Affairs.

In opening remarks, Mr. HOUTART said that the Commission's task was very well-defined. It could not tackle all issues. Its work was a process and its first task had enveloped reviewing existing institutions and developing new approaches. He wanted to use the word re-foundation rather than reform and the present time was as important as the period of creation of the Bretton Woods institutions. The world was experiencing the collapse of an economic model. It was not right that the search for speculative gains would provoke food and global economic crises. The new institutions could include an international court for economic crimes. The Commission could not avoid dealing with philosophical concepts such as growth, prosperity and development, or evolving new solutions to respond to the needs of the people. The United Nations was the right place to discuss the issues, plan the reorientation and reach a long-term perspective. The Organization should go beyond the interests of individual countries, however, especially the large countries.

Mr. PAEZ stressed the importance of making decisions and taking measures that would not have the world go back to the past. It was remarkable to see that the global crisis was being discussed in the United Nations with such intensity and seriousness. That would have seemed impossible a short time ago. The crisis was the result of the concentration of capitalist power. The Food and Agriculture Organization was now warning about the possibility of a food crisis. The United Nations had already reported that the world was experiencing a climate crisis. Now was the time to build all institutions to recover, from an economic point of view, the production of goods and services. For many people, the world no longer made sense. As more and more people lost their jobs and did not have enough food to eat, a sense of reason was being lost. That could lead to violence. But Special Drawing Rights had nothing to do with peace.

It was important to have technical viability to recover decision-making capacity so that people everywhere could recover a sense of things, he said. The crisis would be deeper if the world did not resolve the lack of aggregate demand, which had an important distributive factor. That had to do with international division of labour and production, trade, financial flows, speculation and debt. That was why a global holistic proposal was necessary. The entire United Nations system must be mobilized, including the Bretton Woods institutions, which had failed after imposing their stubbornness, dogmatism and a one-size-fits-all recipe. The United Nations system must be mobilized quickly. The sooner the damage was stopped, the better. It was crucial to link themes of macroeconomic and regulatory convergence with institution-building. Clearly, existing institutions had not worked.

Discussion

Next, in the discussion begun this afternoon, Member States and civil society talked of the need for reform of international institutions and for Governments to act to protect the interests of the poor. A representative of the Global Policy Forum said the existing hodgepodge of groups that passed for global governance had been a shocking failure. However, the crisis had created an opportunity to create new institutions. A new global economic council should be established within the United Nations, and be democratic and transparent.

With respect to the issue of institutional reform, the representative of Brazil questioned whether the report's ambitious goals to create new institutions were untimely in the midst of an economic crisis and would detract from efforts to reform existing institutions.

Ms. WIECZOREK-ZUEL said it was an issue of sequencing. Current Government structures were not representative of all interests. Regarding the new financial credit facility, it could be launched under the umbrella of regional development banks or the World Bank. It was necessary to envelop social and ecological standards as new solutions were developed. Discussion of those issues took time. She noted that existing institutions had low-financing costs and that meant more financing for developing countries.