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Press Conference by Commission of Experts on International Monetary, Financial Reform Recommendations to General Assembly

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There would be no recovery from the global economic crisis without a plan involving the developing world, Joseph Stiglitz, Chairman of the Commission of Experts on Reform of International Finance and Economic Structures, warned today after presenting the panel's preliminary findings to the General Assembly.

Speaking at a Headquarters press conference, Mr. Stiglitz said the Commission's forthcoming report would contain suggestions on reforms that, due to the severity of the crisis, had suddenly become relevant. "The nature of this crisis has opened up opportunities for change that I think would not have been conceivable even a few months ago," said the Nobel Prize-winning economist, describing the second-day of dialogue between Governments as "lively".

Experts on the Commission, convened by Miguel d'Escoto Brockmann, President of the General Assembly, include economists, policymakers and practitioners chosen from around the world for their understanding of the international financial system. They were tasked with reviewing the complexities of the system and exploring ways to secure "a more sustainable and just global economic order", according to a description on the Assembly President's website.

During the press conference, Mr. Stiglitz withheld comment on the stimulus package put forward by President Barack Obama of the United States, saying only that the Commission had also recommended a large stimulus, but with an emphasis on involving all countries. "A particular proposal is that 1 per cent of the stimulus package be spent on providing assistance to developing countries." It was "absolutely imperative" that all advanced industrialized countries make available resources to help nations lacking their own resources.

Accompanying Mr. Stiglitz was Jan Kregel, Senior Scholar at the Levy Economic Institute of Bard College and Rapporteur of the Commission, who added later that the 1 per cent in developed-country funds should be given directly to developing nations and not through an intermediary like the World Bank, which had itself proposed a "vulnerability fund" for developing nations. Without financial resources, development policies targeted at poor countries became "incoherent", making it ever more important for both developed and developing countries to work together.

The 22-member Commission also includes leading veterans of financial crises, including Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, whom Mr. Stiglitz described as among those who had "earned their battle stripes" in helping to manage the Asian financial crisis of 1997-98. She also provided expertise on Islamic finance, which was centred on "non-exploitative lending", and was the antithesis of American-style financing.

"One of the characteristics of the American financial market is that they discovered that there was money at the bottom of the pyramid and worked hard to ensure it didn't remain there," he quipped. "There has been a shortage of, you might say, ethics guiding lending practices." The Commission would push for a comprehensive regulatory system focused more intensely on large, "systemically significant" institutions and countries. The new regulations would be propped up by incentives encouraging good risk behaviour and policies that would keep banks from becoming "too big to fail", which, if it occurred, would leave the public with an enormous burden -- as had occurred with the failure of financial juggernauts in the United States.

He went on to say that, because the reforms were meant to apply across different countries, the Commission's report would make room for ways to implement the proposed regulatory system without opening avenues for regulatory arbitrage -- the practice of exploiting price differences of identical financial instruments in different markets.

One way to extend credit to poorer nations was through an improved credit system, built on a system of Special Drawing Rights (SDRs) pioneered by the International Monetary Fund (IMF) after the Second World War, he said. China's call today for the replacement of the United States dollar as the world's standard reserve currency had lent impetus to the revival of that notion, so that SDRs could function as a type of global reserve currency. SDRs were a potential claim on the usable currencies of countries belonging to the IMF, but the system had never been fully established.

Admitting that the IMF's SDR system was not problem-free, he said better rules were needed on how to distribute SDRs. The Commission's full report would lay out the options by which a new reserve fund might be set up, discuss who had the rights to draw from the reserve and for what purpose. The report would also contain suggestions on ways to conduct a smooth transition to the new system, possibly building on the Chiang Mai Initiative of the Association of South-East Asian Nations (ASEAN), created to manage regional short-term liquidity problems.

He said that, by his own optimistic estimates, the proposed new reserve system could be implemented as early as next year, although more conservative economists might not agree. The idea had long been discussed in academic circles, and policymakers had many templates to choose from.

He explained also that a large reserve of dollars in the hands of developing countries meant that poorer nations were lending "trillions of dollars" to the United States at close to zero interest rates when they themselves had huge needs. The problem with a single currency reserve system was that, no matter what currency formed the basis, countries would accumulate that currency in large reserves, forming a kind of "rainy-day fund". Such behaviour had become particularly exaggerated following the Asian financial crisis -- after the emergency had led to the near-depletion of reserves in some of the countries involved -- and carried a downward, or deflationary, effect on the world economy because reserve-rich countries did not spend as much as they could. The Commission would design a system to take such flaws into account.

Asked when he thought the crisis would end, he said he expected the economy to be "anaemic" for a long time. More to the point, there was great uncertainty about whether a recovery would be gradual, a robust upturn or otherwise.

Returning to his theme of inclusiveness, he added: "In the United States we look at our own data. But we work within a global economy […] and one of our points is that, to have a global robust recovery, you have to bring in the developing countries. Right now we're not doing that and they're just beginning to be hit."