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Lesson of the Finance Crisis: More Effective and More Democratic Global Structures; a New International Reserve System, Are Needed

United Nations: General Assembly

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THE INTERNATIONAL CONFERENCE ON THE WORLD FINANCIAL
AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT

PRESS RELEASE

LESSONS OF THE FINANCE CRISIS: MORE EFFECTIVE AND MORE DEMOCRATIC GLOBAL STRUCTURES, A NEW INTERNATIONAL RESERVE SYSTEM, ARE NEEDED

Expert panel releases recommendations to UN General Assembly, in advance of final report to June international conference on the impact of economic meltdown

(United Nations, New York, 26 March) Experts commissioned by the President of the General Assembly are proposing far-reaching changes in international finance structures, and strong measures to overcome the current economic crisis.

Led by Nobel Laureate Joseph Stiglitz, the Commission of Experts Reforms of International Finance and Economic Structures recommends in a report out today that one per cent of developed country stimulus packages be directed to the developing world, to fight poverty and build global demand.

While a coordinated stimulus is required for global recovery, many poorer developing countries do not have the requisite resources. It proposes a number of additional sources, including an immediate issuance of Special Drawing Rights (SDRs), and supports regional efforts, like the Chang Mai initiative. It emphasizes, however, that such funds should be provided without the inappropriate conditionality that has often been associated with such assistance in the past.

The **Commission of Experts on Reforms of International Finance and Economic Structures** also advise enactment of an already approved International Monetary Fund measure to double the SDRs available to hard-hit countries, up to SDR 42.8 billion.

To further help the world economy get back on its feet, and to guard against a repeat global financial debacle, the Commission proposes an overhaul of the current system of global reserves.

A new **Global Reserve System**, possibly based on greatly expanded SDRs, could contribute to economic stability and equity, the Commission says. It would reduce the deflationary effects of the massive reserve accumulations that countries have found necessary to protect themselves against the high level of global instability. Such a system is “feasible, non-inflationary and easily implemented,” and counteracts the risk of a rapid fall in the value of a major reserve currency, gutting hard-earned reserve funds.

The Commission of Experts was empanelled last year by General Assembly President Miguel d’Escoto Brockmann, in response to the downward spiral of the world economy.

Its recommendations will be considered at a **Thematic Interactive Dialogue** on the crisis, taking place 25-27 March at UNHQ, Conference Room 4. National representatives, UN officials, experts and civil society stakeholders will participate. The dialogue is open to the media.

Both the recommendations to the GA and the Interactive Dialogue will inform preparations for the upcoming **International Conference on the Global Economic and Financial Crisis and its Impact on Development**, to be held 1-3 June in New York.

The Commission emphasizes that the welfare of developed and developing countries is interdependent in an increasingly integrated global economy, and also that an inclusive global response to the crisis must encompass not just the G-7, G-8 or G-20, but the "G-192" (number of Member States in the General Assembly). Short-term measures to stabilize the current situation must ensure protection of the world's poor, the Commission says, and should blend into reforms to prevent future financial catastrophes and to address current global inequalities.

Other structures proposed by the Commission include:

- an elected and representative **Global Economic Coordination Council**, within the UN system, to meet annually at head-of-state level to assess developments and problems, coordinate policies, and lend leadership on social and environmental as well as economic concerns. Such a body would provide "a democratically representative alternative to the G20," the report says.
- a **Global Financial Regulatory Authority** and a **Global Competition Authority**, accountable to the Coordination Council, under more broad-based governance than the current Financial Stability Forum, to oversee global financial stability, to prevent regulatory arbitrage, to harmonize regulations, and to prevent the growth of multi-national firms that represent a threat to competition or pose a problem because they have become too big to fail.
- a new **international credit facility** that could provide additional credit to developing countries without pro-cyclical conditionality and whose governance would be both more representative of the new donors countries and more sensitive to the concerns of the developing country. It might be most rapidly opened under the umbrella of the World Bank, where efforts already are under way to remedy inadequacies in governance and lending practices, or in regional development banks, where developing countries enjoy more equitable representation.

REVIVING GLOBAL TRADE

The Commission will present a further range of recommendations at this week's interactive dialogue. These include establishment of a mechanism for resolving sovereign debt and cross-border investment disputes; better mechanisms for managing the risks faced by developing countries, especially in the management of their debt, and a broad array of proposals for improving the regulation of the financial system.

With trade volume projected to decline for the first time in decades and at the steepest rate since the Great Depression, the Commission cautions against protectionist measures because of their restrictive effect. But it notes that subsidies (including recent bail-outs and extensive guarantees) can be 'can be just as detrimental to the efficiency of a free and fair trading system as tariffs. Indeed, they may be far more inequitable, because rich countries have more resources ..." The economists advocate fulfilment of the 2001 Doha declaration on development, the immediate opening of markets in the developed countries to goods from the least developed countries and the immediate implementation of the 2005 World Trade Organization ministerial agreement reached in Hong Kong on eliminating all forms of developed country export subsidies by 2013.

To obtain a copy of the Commission report, see <http://www.un.org/ga/president/63/>

For more information, contact the UN Department of Public Information, Ao Kong at konga@un.org, 1 212 963 6816

To attend the Thematic Interactive Dialogue, fill out a form on the UN Media Accreditation Unit website at <http://www.un.org/media/accreditation/liaison.htm>