

MAKING GLOBAL FINANCE WORK FOR PEOPLE AND THE PLANET

Civil Society Consultation for the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System

Civil society organizations are mobilizing around the world to make their voices heard in global discussions on how to respond to the financial and economic crisis. Many of their concerns and proposals have been channeled to the President of the UN General Assembly's Commission of Experts that has been set up to analyze this crisis and propose adequate solutions. This briefing gives an overview of these recommendations. It is a summary of a larger report, that compiles proposals ranging from measures to deal with the immediate consequences of the crisis to deeper reforms of the global financial architecture.

The ongoing financial crisis and its continuing spillover into the global economy has created a crisis of survival for the poor – nations as well as people. Economies have been slowing down, jobs have been lost, capital inflows are drying up, commodity prices and exchange rates are showing signs of increasing volatility, and all these factors are pushing countries to the brink of economic crisis.

ActionAid International



Solutions to the present crises should not be premised on re-establishing or saving a failed system, but on changing it. The UN can and must rise to this occasion.

Jubilee South



In the wake of the global financial and economic crisis, the President of the UN General Assembly set up a commission of experts chaired by Nobel Prize Laureate Joseph Stiglitz, whose mandate has been to reflect on the causes of the crisis, assess its impacts on all countries and suggest adequate responses to avoid its recurrence and restore global economic stability. The Office of the President of the General Assembly asked the United Nations Non-Governmental Liaison Service (NGLS) to consult with civil society groups across the globe and to compile their views into a single report as an official input to Commission's deliberations (see methodology on page 4).

Main civil society proposals

While the responses to the consultation were many and varied, there were several central themes that emerged. First, almost all respondents agreed that the **responsibility for the current financial crisis lies in the developed world**. It is therefore developed countries that must undertake the most fundamental reforms, both in terms of their domestic policies and in the positions they take in international economic governance fora. For most respondents, the current global financial and economic crisis exposed a **misguided macroeconomic policy framework** that civil society had denounced for decades and was symptomatic of a **democratic deficit in global economic governance**, including the lack of meaningful voice for developing countries in relevant decision-making fora.

Many argued not only for a **stronger role for the United Nations** in the immediate response to the crisis: responsibility for coordinating the longer term global economic and financial reforms should ultimately fall squarely with the United Nations, as the most globally representative and participatory body currently in existence. Major reform decisions that will affect all countries cannot be left to the G8 or even the G-20. In the same vein, when calling for **in-depth reform of the World Bank, the IMF and the other principal international financial institutions (IFIs)**, as well as the possible creation of new global regulatory bodies, most respondents advocated that these be brought institutionally under the purview of a strengthened United Nations, and be in practice **accountable to UN human rights, development and environmental objectives** (Chapter 2).

A new package of debt cancellation would release funds in developing countries which can be used to stimulate the economy and provide social protection to the most vulnerable, as is being done in the North. Eligibility for debt cancellation should be based on a measure of debt sustainability connected to human development, which would mean much greater debt cancellation for many more countries.

Jubilee Debt Campaign UK

The financial crisis is a systemic crisis that emerges in the context of global crises (climate, food, energy, social...) and of a new balance of power. It results from 30 years of transfer of income from labour towards capital. This tendency should be reversed.

"Let 's put finance in its place!"
Belem 1 February 2009,
Sign-on Statement at
World Social Forum

There is a need for a new growth regime that – as was the case during the post-war period until the early 1980s – ensures balanced real wage growth in line with productivity increases.

ITUC and TUAC

[C]entral banks must become publicly accountable and dependent on publicly democratic political institutions.

SOMO

In a world of global banks and 24 hour financial markets, regulation is only as effective as the weakest link in the chain: tax havens are the weakest link.

Tax Justice Network

Immediate Response to the Crisis: A Strategic Opportunity

One way developed countries should take responsibility for the current crisis is first, to **maintain their ODA commitments**; and, second, prepare a **"global financial stimulus package"** that would be directed at developing countries.

This package should bring **no new debt** nor should it be attached to **conditionalities** that would limit developing countries' ability to respond to the crisis in a flexible manner. Indeed, the package should enhance their ability to choose from a range of policy options including **capital controls** (which should be "re-legitimized" as essential crisis prevention and mitigation tools) and various **counter-cyclical measures**. This stimulus could also include **debt relief** from arrears accumulated over the previous decades. Any kind of stimulus should take the **social dimensions** of the current crisis into account and **gender** impacts in particular.



Almost all submissions raised the need for introducing some kind of **"social floor"** in the wake of the current crisis. It was argued that various forms of social protection – often the first victim of budget cuts – should instead be expanded in this time of crisis. Many insisted that these measures would in fact have a positive long-term impact on the development of all countries. The crisis should further be an opportunity to **reorient macroeconomic policies** (including the mandate of central banks) so as to be made consistent with full and productive employment (decent work for all) and development goals (Chapter 3).

Indeed, most respondents urged governments "not to waste" the current crisis but to use it as **an opportunity to address the other "crises"** (food and climate, jobless growth and below-poverty-line informal work) and to develop **long-term sustainable social and economic development** strategies. Respondents were adamant that the crisis be used as an opportunity notably to develop a **green global economy that respects and preserves our global common goods, prevents further global warming and ensures a sustainable, safe and clean environment for future generations.** [Social Watch]

International Tax Cooperation

The multiple dimensions of international tax policy were treated by many contributors as a major regulatory issue, as well as a necessary redistributive instrument. **Tax loopholes translate in regulatory loopholes**, as well as a **massive hemorrhage of public revenue** and source of global injustice. Resource mobilization through international tax cooperation was seen as all the more necessary in the current context of gargantuan deficit-funded bail outs and stimuli in rich countries and constraints on the ability of poorer countries to pursue counter-cyclical policies and maintain budgetary spending. This included cooperation to **curb or eliminate tax havens, tax evasion and transfer pricing**, regional cooperation to **set floors on corporate taxes**, as well as various forms of international taxation (notably a **currency transaction tax**) that could raise significant resources as well as play a regulatory role. Some called for the creation of an **International Tax Organization** while significantly strengthening the UN's work on tax cooperation in the interim (Chapter 1).

Re-regulating Finance to Work for People and the Real Economy

A host of concrete proposals were put forward to bring transparency to the financial system and downscale systemic risk, including by **shutting down secrecy jurisdictions**, **raising capital requirements** on derivatives and hedge fund markets, placing **limits on leverage ratios** and **effective “socialization” of financial institutions** that are “too big to fail.” With the dual food and energy price crises that preceded the full global impact of the financial crisis, many contributors stressed the need for special public measures to **curb or eliminate speculation on staple-food-related-commodity and energy markets**.

Various proposals mentioned the need for **“counter-cyclical” regulation** as an essential alternative to the pro-cyclical “boom and bust” policies that characterized the self-regulation paradigm embodied in Basel II. Beyond that, participants saw a regulatory role in **directing finance to long-term societal goals** and bringing it back to one of its core functions of **financing production in the real economy**. This could be achieved through a combination of prohibitions, penalties and incentives, the screening of capital entries, and new regulations that favour (instead of *de facto* penalizing) cooperative forms of finance and community reinvestment. It also meant a **fundamental review of rating agencies** and redefining risk criteria to include parameters of long-term sustainability and social cohesion (Chapter 1).



A new sovereign debt architecture

Many international campaigning networks on debt provided a comprehensive approach to construct a new sovereign debt architecture, including a fair and transparent orderly **debt workout mechanism** and the **cancelling of odious and illegitimate debt**. Frequent mention was made of what was described as the historic decision taken by Norway to cancel several claims on the basis of **“failed development policy”** and **“co-responsibility.”** In addition, the **comprehensive debt audit** conducted by Ecuador and the suspension of payments on some claims subject to further investigation were cited by many contributors as a model the UN should encourage and support.

There was a wide call to review and **redefine debt sustainability** in terms of human development and human rights goals. It would aim also to deter creditors from engaging in irresponsible lending and could form the basis for developing a common platform or covenant for principled and responsible financing (Chapter 4).

Trade Dimensions



For many respondents, the current crisis has exposed export-led growth as a failed development model and point out that several aspects of **current trade and investment agreements** (as well as some still being negotiated) hamstringing government’s ability to effectively respond to the crisis by **limiting the array of policy options available**. The most important issue was that trade and investment agreements allow developing countries the necessary **policy space to undertake counter-cyclical measures** that will allow them to better cope not only with the current crisis but to also implement policies and programmes that can allow for improved social protection and economic development.

Better regulation of commodities exchanges alone will not ensure more stable and remunerative commodity prices. Public management of commodities stocks and tough enforceable trade disciplines on the dumping of commodities at below cost of production are other policy tools needed to stabilize prices for investment and planning.

Institute for Agriculture and Trade Policy

How do we allow for differences in the institutional structures across countries without resulting in uniform regulations nor regulatory competition; how do we allow for differences in regulatory structure given different levels of development of national financial sectors?; As we formulate global regulation on the financial sector, how do we consider differences in across countries’ capacity to implement and enforce these rules?

Women’s Working Group on Financing for Development

The fast dissemination of the crisis shows that the fate of developing countries in the trade system does not lie so much in the achievement of enhanced market access as on meaningful reforms to the international financial architecture in which context such trade is conducted.

International Working Group on Trade-Finance Linkages-Steering Committee

All current trade negotiations both on the multilateral and bilateral level must be put on hold until the necessary firewalls to protect the financial system from future shocks are put into place, and until a better understanding is reached on the links between trade policy and financial stability at this moment. Both bilateral and multilateral (GATS) trade agreements that call for the deregulation of financial services and the elimination of performance requirements for foreign investments should be renegotiated.

Social Watch

In this vein, many called for the **suspension or revision of current trade negotiations**, including the Doha Round, the revision of existing trade and investment agreements and a commitment from developed countries not to impose protectionist measures to protect or stimulate their own economies at the expense of others.

Global Financial Architecture: Redressing Global Imbalances and Asymmetries

Many contributions proposed various measures to address global imbalances and asymmetries in the global economy which contributed to the current and past crises and reinforced global inequities, notably in terms of **South-North net financial flows** and unequal capabilities in crisis response. Regional approaches as an alternative or stepping stone to **multilateral exchange rate stabilization** were indeed emphasized by a number of participants, often described in the context of more comprehensive regional development agendas, including the *Banco del Sur* in Latin America, and **regional currency arrangements and reserve pooling**. Mention was made notably of the “Ecuadorian proposal,” involving intensified regional monetary cooperation towards regional exchange rate mechanisms, the pooling of reserves and their convertibility into a new artificial regional currency.

A few participants contributed and commented on proposals for more fundamental global financial architecture reform involving the creation of a **new global reserve system** to anchor exchange rates, with “seigniorage” (emission) capacities, and involving symmetrical disciplines on surplus and deficit countries. Proposals ranged from the IMF issuing **Special Drawing Rights (SDRs)** for financial and currency stabilization as well as development objectives, to the establishment of an **International Money Clearing Unit (IMCU)** that only central banks would hold among nations that would abide by the rules of a clearing union system. This system would involve **symmetrical responsibilities among surplus and deficit countries**.

Others were more circumspect about global monetary solutions. A key question in the possible move to a new system of fixed exchange rates was how the initial rate of each country would be set in the context of power imbalances associated with asymmetric currency values. Until such **political obstacles** could be surmounted, many preferred regional approaches (coordinated multilaterally), and insisted that the first line of defense for developing countries remained the effective use of capital controls (or “capital management” techniques) to manage destabilizing capital movements (including speculative attacks on national currencies), screen the quality of capital entries and prevent capital flight (Chapter 4).

To download the full report, access all civil society submissions and other information on the consultation, visit: <http://www.un-ngls.org/cfr>

United Nations ' Non-Governmental Liaison Service (NGLS)

The United Nations Non-Governmental Liaison Service (NGLS) promotes constructive relations between the United Nations and civil society, including through dynamic partnerships to foster greater coherence around cross-cutting and emerging issues on the UN 's agenda and by facilitating meaningful civil society engagement in UN processes.

Drawing on its inter-agency nature and UN system-wide perspective, NGLS provides strategic information, analysis and support to a wide range constituencies, using its unique convening and networking capacity to strengthen multistakeholder dialogue and alliance-building on core UN issues.

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Implement an international monetary system based on a new system of reserves, including the creation of regional reserve currencies in order to end the current supremacy of the dollar and to ensure international financial stability.

“ Let 's put finance in its place! ”

**Belem 1 February 2009,
Sign-on Statement at
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Strengthened regional and sub-regional schemes for monetary cooperation hold the key to lower dependence on the currencies of a few dominant countries. Ultimately, a more balanced and development friendly system for multilateral management of exchange rates will be one that builds on, and seeks to gradually coordinate, South-South regional currencies and currency units.

CIDSE

Methodology

NGLS undertook a three week on-line consultation which was designed to be as inclusive as possible and to solicit feedback on Commission 's four working group themes: (1) Financial regulation; (2) Multilateral issues; (3) Macro-economic issues and addressing the crisis; and (4) Reforming the global financial architecture. The process generated nearly a 100 contributions, many of them from different international networks (or networks of networks) and federations that bring together millions of people on different issues across several countries North and South. NGLS compiled the main findings into a single report that was circulated to Commission members in advance of their plenary meeting in Geneva on 10-11 March 2009.

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