Causes and Solutions to the Global Financial Crisis

President of UN General Assembly invites Expert Panel

By Global Research

Theme: Global Economy

Global Research, November 03, 2008
United Nations General Assembly 3
November 2008

More information and complete text of statements and panelists' presentations could be found on the PGA website http://www.un.org/ga/president/63/interactive/gfc.shtml.

Concerned about the global repercussions of the financial crisis, on 30 October 2008, General Assembly President, Mr. Miguel d'Escoto (Nicaragua), invited a panel of experts to hold an interactive discussion with Member States on causes and possible solutions. The panel was composed of Professor Joseph Stiglitz (United States), Professor Prabhat Patnaik (India), Professor Sakiko Fukuda-Parr (Japan), Dr. Pedro Páez (Ecuador), Professor Calestous Juma (Kenya), and Dr. Francois Houtart (Belgium). The panelists made presentations that were followed by an interactive dialogue and a question and answer session. The panel discussion was moderated by Mr. Paul Oquist, Senior Adviser to the General Assembly President.

General Assembly President Miguel d'Escoto opened the event by indicating that the crisis had spread "like a plague" to all countries of the world and emphasized the need for a more secure and sustainable economic order. He announced his decision to establish a Task Force of Experts, headed by Professor Stiglitz, to undertake a comprehensive review of the international financial system and to suggest steps to be taken by Member States to secure a more just and stable economic order. Mr. d'Escoto indicated that the true dimension of the crisis was yet unknown, said that what was once described as "rational exuberance" is now seen as "unbridled greed" and added that States had lost sight of the responsibility to take care of their citizens. He stressed that the response must be multi-faceted, called for long-term measures that go beyond quick-fixes and said that it must take into account the poor. "We are not looking for poorly conceived institutions, we are not looking for the next bubble to burst leaving people feeling deceived and neglecting the needs of the poor," he said and noted that the current financial architecture does not respond to this reality. He indicated that the G-8, G-15 and G-20 were not sufficient to solve this problem – "only the G-192, with full participation and within a truly representative framework will restore confidence." He stressed that all nations must be guided by financial discipline, including the rich and powerful, and called on the Member States "to be guided by a passion for justice, fairness and inclusiveness to restore the sense of trust in each other, our governments and our institutions."

Professor Joseph Stiglitz, a Noble Laureate and Professor at Columbia University , said that the current financial crisis, which began in the US and then spread to Europe , has now become global and requires a global response by an institution that is inclusive and that has political legitimacy. He indicated that any response should be based on social justice and solidarity that goes beyond national boundaries. He stressed the need to reflect on the role of financial markets in the economy, said they should be evaluated on how they serve citizens and added that they were not an end in themselves – they were a means to economic growth and prosperity for all, including homeowners, ordinary people and the poor. He explained that the underlying doctrine of the current system is flawed and said that this was the root cause of the problem. “What is good for Wall Street is not necessarily good for all”, he said, and added that “trickle-down economy” had been consistently rejected as a means to provide prosperity for all. He also indicated that, in the past, the global financial system often worked to the disadvantage of developing countries. Banks in developed countries, for instance, were encouraged to lend short-term to developing countries – while this provided greater liquidity to the former, it led to greater instability in the latter. He noted that pro-cyclical monetary and fiscal policies were often foisted on developing countries, while developed countries followed countercyclical policies. That situation must change, he said. Creation of an external shock facility was a good idea, as was creating a multilateral reserve system with greater stability. There must also be more cooperation in setting macroeconomic policies, and the creation of a financial regulatory commission should be studied urgently. He stressed that the international community must commit itself to developing the institutions and instruments for increasing the stability and equity of the global financial system, and called for a reform in the governance of the international economic institutions and standard setting bodies. The reforms undertaken, for example, in IMF governance, so far have been inadequate. Unless far more fundamental reforms are taken, it will not be possible for these institutions to play the role they should – decision making must reside with international institutions with broad political legitimacy, and with adequate representation of both middle income countries and the least developed countries. He concluded by saying that the only institution that currently has broad legitimacy is the UN.

Professor Prabaht Patnaik, Professor at the Centre for Economic Studies and Planning at India said that the cause of the problem was located in the fundamental defect of the free market system regarding its capacity to distinguish between “enterprise” and “speculation” and hence, in its tendency to become dominated by speculators, interested not in the long-term yield assets but only in the short-term appreciation in asset values. He said John Maynard Keynes wanted this link to be severed through what he called a comprehensive “socialization” of investment, whereby the State, acting on behalf of society, always ensured a level of investment in the economy, and hence, a level of aggregate demand that was adequate for full employment. In the process of globalization, the role of nation-State has been undermined. As a result, fiscal intervention, as a means of sustaining growth, was replaced by globalized finance and de-regulation and an alternative paradigm was adopted whereby “bubbles lead to booms” instead of financial and economic stability ensured by sound long-term macroeconomic policies. He noted that the response measures had also been inadequate because injection of liquidity alone is not the answer; it has to be accompanied by injecting demand into the market through State investment in infrastructure and social services. The financial crisis will impact developing countries because of the ensuing recession which will contract demand for commodities, as well as sources of credit and financial flows. Even during the economic boom, the conditions of the poor worsened. Part of the response lies in supporting the livelihoods of peasants and small producers in developing countries through greater fiscal pro-activeness and expenditure for the revival of agricultural production.

Professor Sakiko Fukuda-Parr, Professor of International Affairs at The New School, said that in responding to the financial market crisis, much of the attention had been on the global financial markets and its major players, but as the crisis unfolds, we need to turn our attention to the implications for people, especially in poor countries. She noted that the impacts on developing countries are not so much from the financial crisis but more from the recession in the global economy and noted that the contagion, particularly to emerging economies such as India , China and Brazil , is already being felt. The effects include: fall in commodity market prices, contraction of markets for export products due to economic downturn and decline in ODA flows and in other capital flows, including remittances. She highlighted the human consequences of the economic crises, and said that women often bear the brunt because they are the first to be laid off and, as household incomes decline, women spend more time trying to produce and/or process food. Such “unpaid work,” is not included in national accounts, but is essential for human survival and if monetized would account for 2/3 of the value of global GDP. As a response, she said priority should be placed on protecting the vulnerable by not cutting on development aid budgets, promoting employment, controlling inflation and investing in social services such as health care.

Professor Calestous Juma, Professor of the Practice of International Development at the Belfer Center for Science and International Affairs of the Harvard Kennedy School of Government, suggested that the impact of the crisis on developing countries could be mitigated by using technological innovation as a driver for economic growth. He explained that economic growth, in essence, is the transformation of scientific and technological knowledge into goods and services. By promoting more capabilities and harnessing opportunities in these areas, developing countries could strengthen their capabilities to buffer the negative consequences of global crises. He said the United Nations could play a key role in fostering the creation of a new regime of financial diplomacy that would bring together the global community to identify and share best practices in managing the relationships between finance, innovation and development. He stated that reforming the Bretton Woods Institutions could be a long and tedious process and said that innovative ideas could come from regional processes and bodies. He said regional initiatives could be interesting sources of solutions because some regions had already confronted similar financial crises in the past and had learned some lessons that could be shared with others. In this regard, he indicated that the UN offered good ground for collective learning to detect, prevent and mitigate financial crises.

H.E. Mr. Pedro Páez Pérez, Minister for Economic Policy Coordination of Ecuador and President of the Ecuadorian Presidential Commission for the New Regional Financial Architecture-Banco del Sur, said that, given the speed and depth with which the crisis was unfolding, a regional “Monterrey agreement” among South American countries was urgently needed to act as a common framework in which the exchange rates of participating countries would be monitored, assessed and, if possible, agreed at the subregional level, according to the principle of mutual concern for exchange-rate credibility and stability. The coordination of relatively flexible regional-block agreements was the most plausible way to achieve a rapid outcome, and their success could generate the political momentum for further institutional agreements that could open the horizon for a holistic and stable new global financial architecture.

Professor Francois Houtart, Professor Emeritus at Belgium ’s Catholic University of Louvain and founder of the Tricontinental Centre, said the world needed alternative choices and not just regulation. It was not enough to rearrange the system; the system must be transformed. It was a moral duty, and in order to understand that one must adopt the viewpoint of victims. When 850 million people were living below the poverty threshold, and the climate was getting increasingly worse, it was not possible to talk only about the financial crisis. All the systemic breakdowns had led to a real crisis of society. There was need for a long-term vision based on renewable, rational use of natural resources, which pre-implied a different approach to nature. That meant respect for the source of life, rather than unlimited exploitation of raw materials.

Speaking during the interactive dialogue were the representatives of Qatar, France (on behalf of the European Union), Antigua and Barbuda (on behalf of the G-77/China), Mexico (on behalf of the Rio Group), Spain, Philippines, United States, Venezuela, China, Chile, United Kingdom, India, Jamaica, Japan, Argentina, Egypt, Brazil, Nicaragua, Portugal, Morocco, Indonesia, Bolivia, Singapore, Honduras, Republic of Korea, Ecuador, Belarus, Canada, Kenya and Germany.

Everyone welcomed the initiative by General Assembly President Miguel d'Escoto to convene an expert panel to discuss the financial crisis and many agreed that it ought to be the first of many steps taken by the United Nations to address and tackle this issue. Member States also welcomed the establishment of a Task Force of Experts to undertake a comprehensive review of the international financial system and to suggest steps to secure a more just and stable economic order. There was consensus on the need to address the crises on a global level and as soon and as effectively as possible to mitigate its impact for all, especially for the most vulnerable. Concern was expressed at how the crisis, compounded by other factors such as food security and the cost of fuel, could impact on the achievement of the internationally agreed goals for development (IADGs), including the MDGs.

The G-77/China indicated that the crisis is unprecedented because the epicenter is the richest and strongest country in financial terms and this evidences the weakness of the current international financial architecture to prevent crises of these sorts. The Group highlighted the loss of public confidence not only in governments but also in institutions and noted that the crisis cannot be dealt with effectively within the current institutional framework– there is a gap that needs to be filled through comprehensive review and reform of a systemic nature.

The EU agreed that the crisis illustrates deficiencies in economic and financial governance and called for a coordinated response that includes enhanced regulation through adequate standards, transparency, accountability and oversight. The EU emphasized the need to revert to the values of an inclusive market economy by making all financial players responsible. He noted the need for the transparency of financial instruments and institutions and stressed that managing them in a coordinated way at the national, regional and international level was crucial. The EU said that "the major upheaval we are witnessing transcends the field of finance – it will also change our vision of the world; it is a watershed moment that prompts the world to readjust and adapt itself."

There was agreement on the need to reform the international financial architecture, but there were differing views about the degree and scope of the reform. While some indicated that reforms of the IMF and World Bank were needed to ensure more inclusiveness of developing countries in decision-making processes, others argued that this kind of "tinkering" was insufficient and called for a paradigm shift away from free-market and neo-liberalism doctrines towards more socially and environmentally responsible ones.

Several countries, mainly from Latin America (the Rio Group), indicated that *regional responses* were the most appropriate way to prevent and control impacts of crises in the future because well coordinated macroeconomic policies and measures and sub-regional trade, investment and sources of finance, could act as effective buffers against this. In this regard, Ecuador proposed a Regional Monetary Agreement (RMA) among the countries of South America . He explained that the RMA would act as a common framework in which the exchange rates of participating countries would be monitored, assessed and, if possible, agreed upon at the sub regional level. He also referred to the need to go forward with the three pillars of the New Regional Financial Architecture agreed upon by the seven ministers of finance (Argentina , Brazil , Ecuador , Paraguay , Uruguay and Venezuela). Bolivia suggested that Member States request the Secretary-General to produce a report on how the US $1.5 trillion spent to bail out the banks, could have been spent to achieve the MDGs. Brazil indicated that a strong, coordinated and profound reform of governance structures and the institution of counter-cyclical policies, along with the role of the UN, should be considered as part of the solution. Developing countries such as India and China called for a successful conclusion of the Doha Round on trade and said that eliminating market distortions such as agricultural subsidies and correcting trade imbalances created by the intellectual property rights (IPR) regime, were effective means of ensuring market access and economic growth for developing countries. These countries also called for reform towards a new economic order.

Qatar, Morocco , Egypt , India , China, and other developing nations called for a strengthened partnership for development in reference to the upcoming Doha conference to review progress made in the Monterrey Consensus. Egypt proposed a separate conference to review and reform the international financial architecture. Kenya reflected on the need to assess the role of the State vis-à-vis the role of the market. He said the underlying problem was distortion of the market by speculators and lax regulation, and concluded that this is the result of an unfettered free market. He called for a Secretary-General's report on measures that the international community could take. The Philippines noted the need for setting limits on risk exposure and called for a standardized financial framework across the board for risk and liquidity management; rules for cross-border lending should also be established.

The UK said that a global response was the only way to address the crisis and called for urgent reform and renewal of the financial system. The representative indicated that the new global governance should have: an early warning system; stronger cross-boarder supervision; mechanisms for collaboration and supervision and regulation across all countries. He stated the need to create a new IMF facility for emerging economies in the current crisis and stressed that this time of financial turbulence would be the worst time to turn back on the MDGs. The financial crisis only increases the urgency to act and we must harness the Doha Review Conference to respond to new challenges, including food security and climate change. Germany questioned the underpinnings of the "bubble" and asked how much of it was based on real economic growth and how much on mere speculation. The representative stressed the need to go back to basics and called for reflection about how unsustainable consumption and production patterns had contributed to a "virtual" economy that eventually bursts, and reaffirmed Germany 's ODA commitments. Spain called for strong multilateral cooperation to confront the crisis and called for enhanced oversight and surveillance authority by the IMF to anticipate and prevent crises of the like from happening.

The US thanked participants for the frank discussion, noted that financial markets continue to be strained and called for a joint response to address the crisis. The representative acknowledged that the US domestic financial system needs to be reformed towards increased transparency, supervision and regulation, but noted that balance had to be struck between regulation and open markets. He reported that the US had taken aggressive action to protect the domestic and economic system by injecting massive amounts of capital to avoid the crisis, and stated that global financial institutions should be able to recover with these measures. He noted the need to strengthen financial institutions and spoke about working together in a coordinated manner. In this respect, he referred to the High Level Meeting for the G-20 to be convened by the White House on 16 November 2008 and said that the IMF, World Bank, the UN Secretary-General and the Chair of the Global Stability Forum had been invited to consider principles, policies and measures to address the crisis and its impact on emerging economies. He indicated that this meeting is envisioned as the first of a series, and added that the US stands ready to assist countries that find themselves under pressure. He called for a rejection of protectionism as a response and referred to the benefits of open trade as a source of global economic growth. Japan said that the current crisis and the contraction of global credit would have an impact on developing countries, indicated that the IMF should provide any needed assistance and said that his country stands ready to provide additional assistance. Canada stated that market-based regimes have to be supported by adequate regulatory frameworks. He said misalignments of incentives and the failure of effective regulatory systems had combined to produce the crisis. He called for strengthened regulatory regimes and indicated that the role of international institutions was critical; all alternatives should complement each other, including the role of the UN and the Bretton Woods Institutions.

The discussion concluded with general agreement on the pressing need for global solutions and concerted action based on inclusive and legitimate decision-making processes and on the role of the United Nations in this respect. The PGA emphasized, in his closing remarks, that the UN was accustomed to dealing with problems without borders, and that its system of regional commissions, specialized agencies, funds and programmes drew on a deep pool of expertise and wisdom that would be very helpful in providing support for long-term solutions to the crisis.

The original source of this article is United Nations General Assembly

---

Articles by: **Global Research**