UNITED NATIONS CONFERENCE

World Financial and Economic Crisis and its Impact on Development

Draft Outcome Document

Presented by the H.E. Miguel D'Escoto Brockmann,

President of the General Assembly

Draft 1.0

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The G-192 Conference Process

1. We the Heads of State and Government and other Heads of Delegation representatives of all 192 Member States of the United Nations, the G-192, met in New York from 1-3 June for the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development. This historic meeting is the second held by the United Nations on the financial and economic system and architecture, the first being the United Nations Conference on the Monetary and Financial System held in Bretton Woods in 1944 with the participation of all of the then 44 members of the United Nations.

2. The lines of action approved by the Heads of State and Government and other Heads of Delegation based on the Outcome Document that the President of the General Assembly formulated, taking into consideration broad-based consultations with Member States and input documents received from numerous sectors, as well as an inter-governmental negotiation process, should be operationalized into actionable proposals at the ministerial and technical levels. The President of the General Assembly should maintain the Conference open, name ministerial and technical level working groups, and program subsequent meetings with the first at the technical and ministerial level to take place in the first fortnight of September, 2009, and the last at the level of Heads of State and Government prior to the end of the 64th General Assembly. The current President of the General Assembly, as well as those members of his staff who have been most involved in the preparation of this conference and, obviously, the Presidential Commission of Experts, which has made excellent contributions, should provide continuity to this process through to its culmination.

3. The companion document "Report of the Secretary General: Conference on the World Financial and Economic Crisis and Its Impact on Development" (A/Conf.21/4) describes the grave economic and social crisis and its deepening impact on development.

G-192 Conference Objectives and Principles

4. We are determined to take prompt, decisive, harmonious, coordinated and convergent action to address the root causes of the crisis, mitigate its global impact, prevent similar crises in the future, and restructure the world financial and economic system and architecture to achieve a more inclusive, equitable, balanced, stable, and sustainable socio-economic model compatible with life on earth and the overcoming of poverty and inequality. These actions should be undertaken at the international, regional and national levels through new international and regional institutions, the reform of existing ones, and harmonious, coordinated national, macro-economic policies. **We recognize that addressing root causes requires dealing with the combined value and ethical, environmental and social, financial and economic, food and energy, market and state, and political and institutional crises that challenge our civilization.**

5. The anti-values of greed, individualism, and exclusion should be replaced by solidarity, common good and inclusion. The objective of our economic and social activity should not be the limitless, endless, mindless accumulation of wealth in a profit centered economy but rather **a people centered economy that guarantees human needs, human rights, and human security, as well as conserves life on earth.** These should be universal values that underpin our **ethical and moral responsibility for the stewardship of the Earth for all living things,** ourselves, our children and grandchildren and all future generations.

6. Mother Earth can live without human beings but we cannot live without Mother Earth. The values and ethics required for survival demand that we combat climate change and global warming, loss of habitat and mass extinctions, deforestation and loss of water sources, soil degradation and desertification, pollution of oceans, fresh water, the air, soils, other species and ourselves, as well as the overuse of the world's resources. Each year we consume one third more of what the planet is able to regenerate. Without change, we will need two planets Earth by the year 2030.

7. The prevailing socio-economic system concentrates income, wealth and power through cyclical booms and busts with winners and losers in both. The political economy of the model has sought to reduce concentration through anti-monopoly laws and redistributive policies such as progressive taxation and public social service delivery. The values and ethics required for survival demand that inequality be actively reduced. The recognition of asymmetries between the rich and the poor with compensation for them has been proven to reduce inequalities between and within nations. Overcoming poverty and reducing inequality are core objectives of a people centered economy that addresses human needs, human rights and human security.

8. The economic cycle and financial market volatility are an integral, recurring part of the prevailing socio-economic system. There have been four major market crashes in the last 150 years (1873-1896 "The Long Depression", 1907 "The Bankers Panic", 1929-1943 "the Great Depression" and 2007-2009 "Ongoing Economic Downturn"). Likewise, there have been 22 recessions in the United States since 1900 and dozens of other recessions and crashes in other countries. Laws, rules, regulations, and institutions have attempted to reduce volatility in financial markets, but capital actively innovates to escape controls. Examples include hedge funds, derivatives and globalization itself through which corporations use regulatory arbitrage to find the most favorable conditions for their activities.

9. Volatility is particularly acute when financial capital becomes hegemonic. In this regard it is telling that according to UNCTAD financial service profits as a percentage of total corporate profits rose from 6% in the 1980s to 40% in 2007. Through the shadow financial sector, hedge funds, and derivatives, virtual financial sector market value grew to 6 times (about US$300 trillion) the real world economy (about US$50 trillion) by 2008. The principle should be that the financial sector provide services to the real economy at a reasonable cost and not be the prime center of profit accumulation as recently occurred with disastrous consequences. When the financial sector becomes hegemonic a bubble and crash are to be expected.

10. Food and energy were part of the 2006-2007 speculative binge that drove prices to record highs, symbolized by US$147 dollars per barrel of oil, and then the crash that took oil to US$30 a barrel in a matter of weeks. Derivatives, exchange traded funds, highly leveraged markets, naked short selling and naked Credit Default Swaps all contributed to the volatility. **Food and energy markets should be especially protected from speculation.**

11. The market without regulation destroys the environment, concentrates income, wealth, and power; increases inequality, and favors financial capital leading to volatility and eventual financial crashes. After 1980 massive, systematic deregulation led to the eventual crash of the ill-fated combination of unlimited avarice with self-regulation. The principle must be to assure **a new balance between the Market and State control of market forces in accordance with a people centered economy that prioritizes the fulfillment of human needs, human rights and human security.**

12. Globalization without effective global or regional institutions is leading the world into chaos. It impedes the global decisions and actions necessary to confront the challenges facing humanity, especially in the environmental area. The control of global institutions by forces that are both reticent to democratize but eager to minimize has contributed to the world political malaise of lack of solutions to urgent global problems. Some countries have found that the best route to determining their own destiny is in regional organizations. The principle should be to strengthen the United Nations and especially the General Assembly as the body with one nation one vote that can create a global institutional sphere with legitimacy. At the same time, the regional level should be strengthened.

13. We pledge to recover and restructure avoiding war (World War Two ended the Great Depression) or the economic warfare of protectionism as well as competitive cycles of devaluations (that hampered recovery in the Great Depression). Advanced industrial countries should observe their pledges not to undertake *protectionist* actions, and even more importantly ensure that bailout and stimulus packages do not further distort the economic playing field and increase global inequality.

14. Measures to restore domestic financial markets in developed countries through *subsidies* to financial institutions have been accompanied by a sharp reduction in flows of capital to developing countries. It is important to ensure that these measures do not create a new form of financial protectionism. **Financial subsidies 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 to support subsidies.**

15. It is essential that all governments and all international organizations support restructuring that addresses the underlying factors that condition the combined crises our civilization faces. This is essential if the world is to emerge from the crisis with a sustainable, balanced economy. It is not enough, nor possible nor desirable, simply to return to the status quo ex ante. Initiating restructuring may, in addition, produce immediate dividends in the form of enhanced confidence.

16. In restructuring, appropriately designed short run measures may be complementary to long term goals, especially those related to investment in the environment, food and energy, health and education that can transform the current socio-economic model.

Proposals of Lines of Action **Restucturing International Institutions**

17. The proposed agenda consists of the following six priority lines of action:

1. **Global Stimulus for Restructuring and Survival**
2. **Finance for Restructuring and Survival**
3. **Emergency Trade Stimulation and Debt Relief**
4. **Global and Regional Reserve Systems**
5. **Regulation and Coordination of Global Economy**
6. **Restucturing International Institutions**

1) Global Stimulus for Restructuring and Survival

18. In the face of an UNDESA estimated per capita growth rate of -3.4% in 2009, all countries should apply counter-cyclical policies to stimulate their economies through public investment, especially in needed infrastructure that generates employment. The stimulus should be timely, have large "multipliers," help address the strains posed by the economic downturn on the poor, help address long run problems and prevent instability. The decisions on stimulus are currently national, but they should be judged on their *global impacts;* if each country looks only at the national benefits versus costs, e.g. an increased national debt, the size of the global stimulus will be too small, spending will be distorted, and the global impact will be eviscerated. To avoid this result a Global Stimulus is necessary. The world wide perspective on restoring aggregate global demand can also minimize protectionist tendencies better than national programs.

19. The Global Stimulus for Restructuring and Survival consists of massive short, medium and long-term investment in the environment, food and energy, health and education to both stimulate the world economy and lay the basis for a new economy based on human needs, human rights and human security that contributes to life on Earth and the survival of human beings. These include the prevention, mitigation of, and adaptation to, global warming; the reversal of loss of habitat and mass extinctions; reforestation and planting water; soil conservation and anti-desertification efforts; anti-pollution programs in all spheres, and reducing unsustainable levels of demand on the world's resources; among others. A vast expansion of agriculture, especially strengthening small and medium sized producers can contribute to global food security and poverty reduction. Alternative energy development is an example where the new balance between the market and the state can operate in the interest of human needs, human rights and human security. Development is essential and thus it should take place irregardless of market profitability. Global investments in health and education contribute to global public health and poverty and inequality reduction for the benefit of all. In sum, restructuring must be based on massive green, energy and social investments brought about by strong incentives and deep reforms of national and international policy frameworks, as well as of financial mechanisms.

20. The current crisis is the last opportunity to right the world's policy and investment priorities. If environmental, energy and social investments are not part of the restructuring to overcome the current crisis, it is highly doubtful that they will subsequently ever be undertaken on the scale required to achieve the necessary results. We must overcome the bad habit of never financing sufficiently the solution of any given major problem, leading to the accumulation of unsolved problems and of multiple crises, leading to the breaking point we are now living.

2) Finance for Restructuring and Survival

21. Developing countries will need substantial funding to participate effectively in the Global Stimulus for Restructuring and Survival, as well as to finance additional expenditures needed to protect the most vulnerable by strengthening social protection, to provide trade finance and finance to private corporations whose sources of international credit may have dried up, to bolster domestic financial institutions weakened both by the withdrawal of funds and by the precipitous collapse of export earnings.

22. Sources of funding for developing countries that could be activated quickly and are not subject to inappropriate conditionality are necessary. Indeed, additional funding is required just to offset the imbalances and inequities created by the massive stimulus and bail-out measures introduced in advanced industrialized countries that lead to an ever more unequal playing field,

23. For the Global Stimulus to be effective and simultaneously initiate the process of restructuring the socio-economic model with full participation from developing countries, it is estimated that the annual sum of US$3 trillion (5% of world GDP) is necessary.

24. The menu of sources of possible sources of financing include:

a. Special Drawing Right (SDR) Emissions
b. IMF and World Bank Funding
c. Regional sources of liquidity
d. Global Stimulus Fund
e. Innovative forms of financing
   Global public goods
   Global taxation with parallel national taxation option
f. Government non debt, non interest bearing emissions for stimulus infrastructure
g. Overseas development assistance

25. An important source of funding could be provided immediately by completion of the issuance of Special Drawing Rights approved by the IMF Board in September 1997 through the proposed Fourth Amendment of the Articles of Agreement to double cumulative SDR allocations to SDR 42.8 billion. In addition, rapid action should be taken to provide for the issuance of additional SDRs through standard procedures in the amount of at least $1 trillion per year for the duration of the crisis. Larger sums should also be considered in light of the fact that this sum to finance the restructuring that can overcome the crisis is less than the amounts being spent on bank bailouts and other subsidies that create greater distortions and inequalities. These SDRs should be distributed not on the basis of IMF quotas which concentrates the SDRs in the developed countries, but on the basis of need and effectiveness. If that is not possible with IMF a World Monetary Board could be created and empowered to set up a SDR mechanism.

26. G-20 announced at the April London Summit a one time US$1.1 trillion stimulus that includes a US$250 billion SDR emission, US$200 billion to stimulate international commerce and US$650 billion for IMF funding. The IMF funding should be without conditionalities and allow policy space for each country to implement investments within the framework of the Global Stimulus for Recovery. The funding should also be grant rather than loan based in order to avoid generating further inequalities, considering that developed country stimulus packages are expenditures rather than credit based. IMF has announced US$6 billion for the 49 least developed countries. The insufficiency of these funds by year 2009 crisis standards may be appreciated by the fact that this is less than the bailout of a single mid-sized bank in a developed country.

27. It is now evident that regional economies will be much more important after this crisis than they were previously. Regional efforts to augment liquidity should be supported. For instance, extension of liquidity support under the Chiang Mai initiative without an IMF program requirement should be given immediate consideration. Regional cooperation arrangements can be particularly effective because of a greater recognition of cross-border externalities and greater sensitivities to the distinctive conditions in neighbouring countries. The recent SUCRE agreement between Latin American and Caribbean ALBA+Ecuador countries represents another opportunity. The ALBA and PETROCARIBE energy agreements with Venezuela generate funding for social and infrastructure investment through long term, solidary financing of half of each countries oil bill.

28. In order to mobilize additional funds, the creation of a new credit facility is a matter of urgency. The current system does not provide an efficient mechanism for mobilizing the funds available in countries that have accumulated large reserves. It would be beneficial for all participants in the global economy if savings from emerging markets could be utilized in support of developing countries. Existing facilities presently do not meet these needs for two reasons. Government agencies in some emerging market countries are reluctant to provide development funds to existing multilateral institutions, because these countries are often under-represented in their governance structure and because they perceive the policy advice and conditionalities provided by these institutions as inappropriate to the needs of developing countries. The reluctance of many countries to accept assistance from certain institutions and the reluctance of some potential lenders to provide funds to certain institutions constitutes an impediment that may not be fully addressed by the proposed institutional reforms that are likely to be made in the short run. In addition, there is a lack of appropriate funding facilities to respond to the interests of some developing countries with high reserves, such as sovereign wealth funds that seek investment possibilities with acceptable return and limited risk. The current financial system does not provide this intermediation facility that called be called the Global Stimulus Fund.

29. The Global Stimulus Fund, should be designed with the intention to attract funds from countries that have accumulated large international non-borrowed reserves. These funding commitments could be backed by guarantees provided by advanced industrial countries. They could be leveraged by borrowing in global financial markets. With regard to the utilization of the funds there are different (complementary) options. First, there is an urgent need for balance-of-payment and budget financing, with the objective to increase developing countries' capacities for anti-cyclical fiscal expenditures. Secondly, the funds could be used for priority investments within the framework of the Global Stimulus, where some of the emerging markets have a particular interest, such as developing agriculture in Africa and their capacity to export, thus contributing to food security in other regions such as in Asian and Arab countries. Another possibility is to use those funds to help developing countries finance guarantees for trade credit or for the debt of their corporations, forestalling the risk of a run on these corporations.

30. The Global Stimulus Fund would require a different governance structure from existing global financial institutions, reflecting the new sources of global financing and the necessity of giving a greater voice to emerging markets and countries providing the funds, but also by giving voice to recipient countries. They could be located under the umbrella of existing institutions – such as the World Bank or Regional Development Banks with an alternative governance structure, such as is the case with the Global Environmental Facility (GEF) or established as a new institution.

31. New, innovative sources of funding may be achieved through global public goods or an international tax base. The menu of options includes:

a. Global Public Goods Management (Regulation with taxes, permits, fines and controls)

    i. International Ocean Waters Management

    ii. Space Management

    iii. Cyberspace Management

b. International Taxation (Contribute to ecological equilibria controls and reduction of speculation in financial markets as well as generate income)

    i. Carbon tax

    ii. Pollution emissions tax

    iii. Financial transactions tax

32. The approval of these sources of financing and the assignment of their administration to new or existing agencies should be undertaken by the United Nations General Assembly. For those countries that have political constraints on accepting international taxation, agreements could be reached on the legislation of identical, parallel national taxes. This would allow a Carbon Tax, for example, to be universal and thus avoid fiscal arbitrage, even if all countries were not participating in the international tax, per se.

33. A Environmental Refugees Program should be established for environmental refugees affected by climate change and rising sea levels. They should receive humanitarian and development support from all relevant United Nations agencies. Financing should be derived from the Carbon Tax.

34. Governments with the conditions to so, can also consider coordinated emissions of non-debt, non-interest bearing currency to finance Global Stimulus environmental, energy, and social infrastructure investments. For smaller, weaker economies,

35. In times of crisis it is most important that all donor countries comply with Overses Development Assistance (ODA), maintaining or achieving at least the 0.7% of GDP level that is the accepted standard. New forms of financing for development will take some time to be approved and implemented, and in the meantime ODA is absolutely essential to immediately confront the crisis and its concequences in developing countries.

3. Trade Stimulation and Debt Relief

Trade Stimulation

36. The fastest and most effective stimulus that can reach low and middle income countries is immediate trade stimulation and debt relief.

37. The G-20 created a US$200 billion facility to stimulate credit for world trade. Banks in low and middle income countries should also be included and if the amount is insufficient, iti should be increased so that letters of credit can stimulate international commerce world-wide.

38. There is a need for the completion of a truly development-oriented trade round, to create an international trade regime which truly promotes growth in the developing countries. It is essential, that in all trade negotiations, the long recognized principle of special and differential treatment of developing countries be preserved.

39. While a successful completion of the Doha trade round would be welcome, its impact on the crisis and its development dimension are still unclear given the lack of an agrememt to date. There are, however, a number of measures that have already been agreed in multilateral trade negotiations which could be implemented rapidly to support developing countries impacted by the crisis. These include implementation of duty-free, quota-free market access for products originated from LDCs. In addition, the agreement reached at the WTO´s Hong Kong Ministerial session in 2005 provided for the elimination of all forms of developed country export subsidies, at the latest by 2013, should be implemented immediately. There is no reason to await a general agreement before implementing these measures.

40. The immediate abolition of agricultural subsidies would be the most effective stimulus for developing country agriculture. If it remains politically impossible to abolish the subsidies in a given country, then it should pay compensation for the unfair trade practice to developing countries. There should be an internationally approved sanction to facilitate implementation. The combined weight of subsidy and compensation for the subsidy could convince tax payers and their parliamentarians that agricultural subsidies in developed countries are not a good idea. In addition, cotton subsidies should be abolished immediately as they distort prices to the detriment poor African countries.

41. Overt protectionism includes tariffs and domestic restrictions on procurement contained in some stimulus packages. Because of complex provisions and coverage of international trade agreements, seemingly “symmetric” provisions (e.g. exceptions of the application of provisions to countries covered by particular WTO or other international agreements) can have markedly asymmetric effects. Subsidies, implicit and explicit, can, as has been noted, be just as distorting to open and fair trade. There may, in some cases, be pressure for banks receiving large amounts of government assistance to focus on lending domestically. While the temptation that gives rise to such measures is understandable, efforts need to be made to finance additional support to developing countries to mitigate the impact of the crisis as well as of both open and hidden subsidies (i.e. state assistance through lending programs and guarantees) in order to avoid further distortions.

42. Policy space is circumscribed not only by a lack of resources and conditionalities, but also by international agreements that often accompany assistance. *Many* bilateral and multilateral trade agreements contain commitments that circumscribe the ability of countries to respond to the current crisis with appropriate regulatory, structural, and macro-economic reforms and rescue packages, and may have exposed them unnecessarily to risks derived from failures elsewhere in the global economic system.

Debt Relief

43. Several developing countries are facing debt sustainability problems. A large number of sovereign defaults would quite obviously have a negative psychological effect on the world economy and recovery. The Debt Sustainability Framework may act pro-cyclically, because debt ratios tend to rise as tax revenues decline and expenditures might rise due to the crisis. In view of this, there should be an assessment of debt dynamics in the light of the current crisis, as well as a review of MDBs' policies. In those countries where the crisis is seriously threatening debt sustainability, consideration could be given to debt moratoriums and, where appropriate, partial debt cancellation within the framework of a permanent international debt regime (SDRM). Furthermore, low-income countries in particular need more access to highly concessional funds if they are to meet their essential spending needs without getting back into debt difficulties. Also, MDBs and other donors should make every effort to make repayment flexible in response to exogenous shocks.

44. Without debt relief low and some middle income countries are not going to be able to finance counter-cyclical policies and therefore do their part in the global stimulus required for recovery. Public investment in labor intensive public works would have a stimulus effect for the countries themselves and the world economy.

45. A number of countries may face difficulties in meeting their external debt commitments as the crisis worsens and debt rescheduling becomes more and more difficult due to an increase in creditors not represented in the Paris Club. The current crisis has already seen a number of bankruptcies of companies that operate across national borders, and their number is likely to increase. The absence of a formal mechanism for dealing with the impact of cross border bankruptcy and insolvency, especially when related to financial institutions, transmits the adverse economic effects to the global economy.

46. This should be improved through a framework for handling cross border bankruptcies. One way by which this might be done is through the creation of an independent structure, such as an International Bankruptcy Court. The United Nations Commission on International Trade Law provides a model that could be extended to the harmonization of national legislation on cross border disputes dealing with trade in financial services.

47. It is especially important to achieve a uniform approach to financial and investment disputes on bankruptcy and insolvency, given the fact that the regulations dealing with these matters included in bilateral free trade agreements often transcend existing multilateral treaties and national legislation.

3) Global and Regional Reserve Systems

48. The global imbalances which played an important role in this crisis can only be addressed if there is a better way of dealing with international economic risks facing countries than the current system of accumulating international reserves. Indeed, the magnitude of this crisis and the inadequacy of international responses may motivate even further accumulations. Inappropriate responses by the International Monetary Fund (IMF) to the 1997-1999 South East Asian Financial Crisis, have led some countries to accumulate large reserves as a defense against crises and in order to avoid having to recur to the IMF. Other heads of Finance Ministries and Central Banks who have experienced the humilliating loss of sovereignty and policy space that IMF Adjustment Programs represent also will go to great lengths to avoid them. This makes reforms of the kind described here all the more essential.

49. These dangers of a single-country reserve system have long been recognized, as the accumulation of debt undermines confidence and stability as evidenced by the current crisis. But a two (or three) country reserve system, to which the world seems to be moving, may be equally unstable. What is clear is that the reserve currencies should not be based on national currencies. This creates situations where financial discipline can be lost with disastrous consequences for both the reserve currency country and the world economy.

50. To resolve this problem *a new **Global Reserve System***—what may be viewed as a greatly expanded SDR, with regular or cyclically adjusted emissions calibrated to the size of reserve accumulations—could contribute to global stability, economic strength, and global equity. The distribution of the SDRs should not be according to IMF quotas but according to a more democratic, needs based formula. If that is not possible in the IMF framework, the SDRs should be issued by a new World Monetary Board appointed by the United Nations General Assembly.

51. During the transition phase of introducing the new reserve system the range of activities involving the use of the SDRs should be broadened. In addition to implementing a regular mechanism for the allocation of SDRs this would encompass the following steps: setting up a settlement system between the SDR and other currencies; promoting the use of the SDR in international trade, commodities pricing, investment and corporate book-keeping; creating financial assets denominated in the SDRs to increase its appeal; improving the valuation and allocation of the SDR.

52. Currently, poor countries are lending to the rich reserve countries at extremely low interest rates. However, the emergency measures introduced in support of developed country financial systems have brought radical changes in the management of central bank balance sheets that have generated concern and anxiety over the long-term stability of the value of the assets held by developing countries in developed country financial markets. This creates additional uncertainty concerning the stability of global financial markets.

53. Global instability and the desire to determine one´s own destiny without the impositions of central powers and their financial agencies have led to the articulation of regional arrangements. The Chiang Mai Agreement of the nations that suffered South East Asian crisis now disposes of US$125 billion to conciliate regional commerce. Asean plus three would include China, Korea and Japan in this arrangement. There is currently currency swap between China, Japan and Korea. Japan has recommended in the past an Asian Monetary Fund that now is being revisited. Likewise, in Latin America a Bank of ALBA has been created, as well as Unified System for Regional Conciliation (SUCRE is the acronym in Spanish) that can also serve as a reserve currency. It is now clear that the world economy will emerge from the current crisis more regionalized and less globalized than when it began.

54. Regional commercial and reserve currency arrangements will require inter-regional conciliations through a new Global Reserve System that is feasible, non-inflationary, and could be easily implemented, including in ways which mitigate the difficulties caused by asymmetric adjustment between surplus and deficit regions and countries.

5) Regulation and Coordination of Global Economy

Regulation

55. The immediate causes of the financial crisis are widely viewed to be the result of the failure of regulatory policies in the advanced industrial countries. While full regulatory reforms take time, it is imperative that work on regulatory reform begin now. The collapse in confidence in the financial system is widely recognized as central in the economic crisis; restoration of confidence will be central in the recovery. But it will be hard to restore confidence without changing the incentives and constraints facing the financial sector. *It is imperative that the regulatory reforms be real and substantive, and go beyond the financial sector to address underlying problems in corporate governance and competition policy, and in tax structures, giving preferential treatment to capital gains, that may provide incentives for excessive leverage.* While greater transparency is important, much more is needed than improving the clarity of financial instruments. Even if there had been full disclosure of derivative positions, their complexity was so great as to make an evaluation of the balance sheet position of the financial institutions extraordinarily difficult. Still, there is need for much greater transparency, including forbidding off balance sheet transactions and full expensing of employee stock options.

56. Well regulated economies have to be protected from competition from economies with inadequate or inappropriate regulatory systems. The problems of regulatory arbitrage and tax evasion are closely linked. Tax havens and financial centers in both developed and developing countries *that fail to meet basic standards of transparency, information exchange and regulation should be given strong incentives to reform their practices*, e.g. by restricting transactions between financial institutions in those jurisdictions and those in more highly regulated countries. Institutional arrangements for improving harmonisation and transparency should be strengthened, including the United Nations Committee of Experts on International Cooperation in Tax Matters as proposed in Paragraph 16 of the Doha Declaration. Also other international arrangements and conventions such as United Nations Convention against Corruption should also be strengthened. All of these provisions should equally apply to developed and developing country financial centers and no measures should apply to the latter that are not equally applied to major centers. The right of developing countries to participate in the financial services industry must be protected.

57. Financial policies, including regulation, have as their objective not only ensuring the safety and soundness of financial institutions and stability of the financial system, but protection of bank depositors, consumers and investors and ensuring financial inclusion - such as access to all banking services including credit, and the provision of financial products which help individuals and families manage the risks they face and gain access to credit at reasonable terms. It is also imperative to make sure that the sector is competitive and innovative.

58. The current crisis has made it apparent that there are large gaps and deficiencies in the regulatory structures in place in many systemically significant countries. It is also apparent that while effective regulatory system must be national there must be some global regulatory framework to establish minimum national standards and also govern the global operations of systemical relevant global financial institutions.

59. Sustainable recovery will depend on appropriate regulations (across countries, products, and institutions). Regulations should be based on what things are, not what they are called, i.e. insurance products should be regulated the same way, whether called insurance or not. Financial regulators should be mandated to ascertain the safety and appropriate use of various financial instruments and practices, including through the creation of a Global Financial Products Safety Commission. This commission is necessary because it has been demonstrated that these instruments can destroy even the largest hedge funds, banks, insurance companies, and local governments, as well as the economies of entire countries and the world. The Commission must be global because these instruments will circulate globally in a global, cyberspaced financial market.

60. Core depository institutions should be restricted from undertaking excessively risky activities and tightly regulated. There also needs to be close oversight over all highly levered and all systemically significant institutions. But there should be oversight over all financial institutions. Institutions can quickly change into systemically significant.

61. The fact that correlated behavior of a large number of institutions, each of which is not systemically significant, can give rise to systemic vulnerability makes oversight of all institutions necessary. There needs to be tighter regulation of incentives, especially in the core institutions; part of the current problem is a result of distorted incentives which encouraged short sighted and excessively risky behavior. It may be easier to regulate incentives than every manifestation of perverse incentives. There need to be restrictions on leverage, with automatic countercyclical capital adequacy and/or provisioning requirements*.*

62. The regulation of the activities of private investment funds, equity funds and hedge funds is not globally uniform, creating the potential for regulatory arbitrage. Funds should be registered in the countries of their operations and provide appropriate reporting to regulatory authorities. In addition, banks must define limits for transactions with hedge funds.

63. There should be no retreat from mark to market accounting for institutions with short-term funding in order to provide full transparency for investors and regulators. Other institutions may be encouraged to supplement mark-to-market accounting with valuations that are more appropriate to the maturity of their liabilities. In addition, steps should be taken to enforce transparency norms and public accountability for all public companies.

64. The large scale use of unregulated, unsupervised OTC derivatives has resulted in undue complexity, opacity, and mis-pricing of these instruments, and facilitated capital avoidance by financial institutions. These practices have weakened our financial system significantly and made resolution of failing firms extremely difficult.

65. Where appropriate, steps should be take to develop regulated exchanges for trading standardized contracts of systemically significant derivative contracts, with the associated regulatory restrictions including limits on non-commercial traders. Regulations should insure that derivative instruments are held on balance sheets, valued at independently audited real transaction prices,with appropriate capital provisioning, and clarity of purpose. The use of over the counter contracts by core institutions should, in general, be discouraged, but whenever used, there should be ample and adequate margin.

66. Other needed reforms, include Credit Rating Agencies and systems of information provision. Only buyers should remunerate credit rating agencies, all payments from sellers of securities should be prohibited as an obvious conflict of interest.

67. The Financial Stability Forum was created in the aftermath of the 1997-8 financial crisis in order to promote international financial stability, improve the functioning of financial markets and reduce the tendency for financial shocks to propagate from country to country, and to enhance the institutional framework to support global financial stability. It is now apparent that the reforms that it has proposed, although important, have not been sufficient to avoid major global financial instability. If it is to become the main instrument for the formulation of reforms of the global financial system it must take into consideration the importance of financial stability for the development of the real economy. In addition it must increase the representation of developing countries to adequately reflect the views and conditions in these countries and be made accountable to a democratically representative institution such as the Global Economic Coordination Council proposed below.

68. The development of financial institutions that are too big to fail has played an important role in the development of the crisis and has made the resolution of the crisis both difficult and costly, both for taxpayers and for the global economy. It is imperative not only that there be adequate oversight of these large institutions but that efforts be made to limit their size and the extent of their interactions, to limit the scope of systemic risk. This will require more effective global cooperation in financial and competition regulation. Movement towards this goal might be enhanced by taking steps to lay the groundwork for a Global Financial Regulatory Authority and a Global Competition Authority. With so many firms operating across borders, it is difficult to rely on national regulatory authorities. There may be large externalities generated by the action (or inaction) of national authorities. A potential, but partial, remedy to this difficulty is the proposal for a College of Supervisors to oversee systemically relevant global financial institutions. This could provide an initial basis for a more comprehensive Global Authority that could be subsequently organized.

69. In the absence of adequate global coordination, financial sector regulation will need to be based on the host country, not the home country, and may entail requiring the establishment of subsidiaries, rather than relying on branches.

70. While inadequate regulations are partly to blame for the current crisis, in some cases good regulations were not effectively applied and enforced. This highlights the need for reforms in regulatory structures, including reforms that make the possibility of regulatory capture less likely. The weaker is the system of global regulation, the more segmented will financial markets have to be to ensure global stability.

Coordination

71. There is a need for substantial improvement in the coordination of global economic policy. Global economic integration has outpaced the development of the appropriate political institutions and arrangements for governance of the global economic system. In the short term, there should be an appropriate mechanism within the United Nations System for independent international analysis on questions of global economic policy, including its social and environmental dimensions. Following the successful example of the Intergovernmental Panel on Climate Change (IPCC), a similar panel could be created to offer consultancy to the General Assembly and ECOSOC, but also to other international organizations to enhance their capacity for sound decision-making in these areas. At the same time, such a panel would contribute to foster a constructive dialogue and offer a regular venue for fruitful exchange between policy makers, the academic world and key international organisations. The Panel should comprise well respected academics and other specialists from all over the world, appropriately representing all continents, as well as representatives of international social movements. Being made up of outstanding specialists, the Panel should be able to follow, analyse and assess long-term trends, key developments and major dynamics for global change affecting all people around the globe, identify problems in the global economic and financial architecture, and jointly provide options for coherent international action and recommendations for political decision-making processes. This panel could be designated the Global Council of Financial and Economic Advisors.

72. The General Assembly could also create a Global Economic Coordination Council elected amongst member states on a rotating basis through regional representations should also be formed to assess developments and provide leadership in economic, social and ecologic issues. It would promote development, identify gaps that need to be filled to ensure the efficient operation of the global economic and financial system, and help set the agenda for global economic and financial reforms. It would be supported intellectually by the work of the Global Council of Financial and Economic Advisers from academia and civil society Representation would be based on the constituency system, and designed to ensure that all continents and all major economies are represented. The Council would advise the General Assembly and ECOSOC and make presentations at the time of the General Debate and the ECOSOC Spring Meeting with IMF and World Bank.

73. ECOSOC should be empowered to assume its Charter given function of superivising and coordinating all UN related agencies, including IMF and World Bank. An obligatory review process should be instituted to make effective this function that will also require fortifying specialized support staff.

74. The surveillance of economic policies should be especially focused on systemically significant countries, those whose bad performance is most likely to have global consequences. Such surveillance should focus not only on price inflation, but on unemployment, financial stability, systemic stability related to the presence of built in stabilizers or destabilizers, and systems of social protection. Surveillance should be undertaken by independent agencies that do not have a financial interest in the affairs of the subject which may color the evaluation process. Such surveillance could be assigned to three entities that should advise ECOSOC and the United Nations General Assembly on the state and risks to the world economy. At the staff level, they should be the ECOSOC support agencies, UNDESA and the United Nations Regional Economic and Social Commissions. At a permanent advisory level there would be the proposed Global Economic Coordination Council and for an even more independent third opinion, the Global Council of Financial and Economic Adivsors from academia and civil society.

6)Restucturing International Institutions

75. There is a growing international consensus in support of reform of the governance, accountability, and transparency of the Bretton Woods Institutions and other non-representative institutions that have come to play a role in the global financial system, such as the Bank for International Settlements, its various Committees, and the Financial Stability Forum. These deficiencies have impaired the ability of these institutions to take adequate actions to prevent and respond to the crisis, and have meant that some of the policies and standards that they have adopted or recommended disadvantage developing countries and emerging market economies. Major reforms in the governance of these institutions, including those giving greater voice to developing countries and greater transparency are thus necessary.

76. The root structural flaw in these organizations is the lack of democracy. The most basic reform would be to eliminate veto power by a single State or small group of States. Without this, other reforms lack meaning. Above and beyond their financial intermediation, these entities should not be allowed to approve or enforce rules unless they democratize. “No taxation without representation” should also apply to the economic rules of the game.

77. The top executive posts in IMF and World Bank should be elected on the basis of one country one vote qualified candidates from each region of the world, before being exercised again by the countries that have previously controlled these positions.

78. New structures are also necessary to achieve recovery and restructure the prevailing the socio-economic model. They should be created by the United Nations General Assembly who should also approve their budgets and supervised and coordinated by ECOSOC with the staff support of UNDESA and the United Nations Regional Economic and Social Commissions..

79. In summary, the new entities proposed are the following:

Global Stimulus Fund

Global Public Goods Authorities (Sea, Space, Cyberspace)

Global Tax Authority

Global Financial Products Safety Commission

Global Financial Regulatory Authority

Global Competition Authority

Global Council of Financial and Economic Advisors

Global Economic Coordination Council

World Monetary Board (Contingent SDR emissions)

80. The law and other governmental institutions is what humanity has developed across the millennia to order human relations and channel conflicts. This has worked at the tribal, local and national levels, as well as somewhat at the international level. The situation we face in the XXIst Century is that it is not possible to continue globalizing human relations without global regulation and institutions. Our growing global problem set will also eventually require global financial mechanisms to solve them. There are serious constraints to achieving this, but until we do, globalization without global institutions will continue to lead the world into chaos. It is up to the G-192, the General Assembly of the United Nations to assure that the Global Stimulus for Restructuring and Survival generates new global institutions as part of the same process that overcomes the crisis and restructures our socio-economic model.