Parliamentary Hearing at the United Nations

Room 4, North Lawn Building
2-3 December 2010
New York

Towards economic recovery:
Rethinking development, retooling global governance

THURSDAY, 2 DECEMBER

10 a.m. - 10.30 a.m. Opening session

Statements by:

- Mr. Joseph Deiss, President of the General Assembly
- Mr. Zukang Sha, Under-Secretary-General, Department of Economic and Social Affairs, United Nations
- Dr. Theo-Ben Gurirab, President of the Inter-Parliamentary Union

10.30 a.m. – 1 p.m. Session I
Overview: Current risks to economic recovery, and the continuing structural imbalances in the global economy

The global economic and financial crisis is far from over. By most accounts, the recovery is weak and may stall. Yearly growth estimates for many leading economies are lower than expected. Worse still, unemployment remains at historic highs in many countries and shows no signs of abating. The problem is more intractable than anticipated and a stronger, more coordinated global response is needed.

One year ago, the immediate response to the crisis emphasized the need for a counter-cyclical stimulus to the global economy. Today, several leading economies are going into reverse gear, making budget cuts to reduce government deficits, both short and long term. While fiscal prudence has its merits, many fear that it is poorly timed, penalising the global recovery and the economic prospects of the countries directly concerned.

More important, some of the fundamental macroeconomic imbalances that led to the crisis in the first place appear unchanged. Surplus exporting countries continue to have difficulties in developing their own internal demand, with the corresponding inability of deficit countries to overcome their competitive disadvantages. The international trade and finance regime continues to restrict domestic reform necessary to carry out policies to diversify the economy or protect against external shocks.

Without a firm intention to correct these imbalances through new institutional arrangements, with better coordination of national macroeconomic policies, growth patterns may remain skewed and lead to further economic instability down the line.

Leading questions:

- On balance, how do we assess the global response to the crisis?
- Are structural issues in the global economy being adequately addressed and are institutional arrangements up to the task?
- Have prospects for development and the Millennium Development Goals in particular improved as a result of the response?
- Is this a good time for austerity measures and how should they be tailored to lessen their negative effects?
- How to ensure that the recovery is strengthened and will not be jobless?

Discussants:

- Hon. Donald H. Oliver, Q.C., Senate of Canada
- Mr. Robert Vos, Director, Development Policy and Analysis Division, Department of Economic and Social Affairs, United Nations
- Ambassador Hardeep Singh Puri, Permanent Representative of India to the United Nations
- Ms. Sarah Anderson, Director, Global Economy, Institute for Policy Studies (USA)

3 p.m. – 6 p.m. Session II
Reforming the international financial system: a critical look at key issues on the UN agenda

The international response to the crisis over the last year has left a number of issues unresolved, including key questions about debt management, capital movements, and currency reserves.

Unsustainable debt levels have been a problem in the developing world for decades. While multilateral initiatives have helped, the crisis has caused many countries, including middle income ones, to incur new debts. A new debt crisis may be on its way. The recent upheavals in Greece highlighted how developed countries are not immune to the possibility of sovereign debt defaults. One suggested remedy that has received particular attention is the establishment of an international debt workout mechanism. Broadly, the proposal calls for an international system of debt restructuring, in the form of a court or other impartial arbitrator, similar to many countries' bankruptcy laws. While some countries would like to see this proposal come to fruition without further delay, others raise political or technical concerns.

Excessive capital and financial liberalization was one of the root causes of the global crisis. Since the financial crisis, a few emerging market countries have instituted capital controls, and the IMF has acknowledged that the use of capital controls can be effective under certain conditions. Yet, two years into the crisis, the general policy stance about capital movements remains unclear. Innovative proposals such as the institution of a modest tax on short-term financial movements have yet to be agreed on. Some also question the capital liberalization provisions that are embedded in many trade agreements.

Well before the crisis it was clear that the current reserve system was flawed. It has a tendency to create excess global liquidity, volatile exchange rates, and by extension, generally unstable macroeconomic conditions. However, the question of the feasibility of a global reserve system based on a basket of currencies – as opposed to a dominant currency - remains unresolved. While there is agreement today that the IMF-managed Special Drawing Rights should play a bigger role, the potential of this remains far from clear.

Leading questions:
- What is the problem with today's debt management regime? How would an international workout mechanism work in practice?
- Are capital controls necessary to stabilize the global economy and how should they be applied?
- Should there be a tax on short-term (speculative) financial flows?
- How should the global reserve system be shaped to ensure stable exchange rates to help support growth and development? Is a basket currency of sorts feasible?

Discussants*:*
- Hon. Abdullaziz Abubakar, Chairman of the Aids, Loans and Debt Management Committee, National Assembly of Nigeria
- Ambassador Morten Wetland (Norway), Co-Chair of the ad-hoc Working Group of the General Assembly on the global financial and economic crisis
- Ms. Isabelle Mateos y Lago, Head of the Policy and Strategy Unit, Strategy, Policy and Review Department, IMF
- Dr. Rodney Schmidt, Principal Researcher (Finance and Debt), The North-South Institute (Canada)

6 p.m. – 8 p.m. ***Reception in honour of participants: Entrance Hall, North Lawn Building***

FRIDAY, 3 DECEMBER

10 a.m. – 1:00 p.m. **Session III**
Rethinking sustainable development within the current global economic and environmental framework

The need for enhanced global governance also applies to the question of environmental sustainability. Current patterns of consumption and production are incompatible with long term environmental sustainability. With further population pressures on the horizon, coupled with developing countries' adherence to the predominant growth model, there is little doubt that more economic upheavals are ahead unless decisive action is taken. Governments must lead, but real change will also depend on the private sector.

The problem of global environmental governance is clearly illustrated by the issue of climate change, where an agreement to replace the Kyoto Protocol is still out of reach. The reasons for this are complex, but they boil down to a concern that internalizing greenhouse costs into the economy may hamper competitiveness, job creation, and growth. The international regime of trade and finance is not always supportive of national climate change policies either. A review of trade and finance agreements from the standpoint of environmental sustainability is more necessary than ever. There also has to be more coherence between trade agreements and environmental agreements.

The problem of environmental governance is compounded by the complexity of institutional arrangements at the global level. Developing countries' efforts to protect their natural resources and biodiversity, and to curb greenhouse emissions, will continue to depend on a viable regime of technology transfers and financing. Yet, for climate change alone, financing is broken down into several facilities with complex rules and regulations. More important, international funding commitments for the environment are only a fraction of the estimated need.

<u>Leading questions</u>:

- How could global environmental governance be improved?
- Can decoupling of growth from the environment be achieved under the prevailing economic model?
- How can global financing for climate change be scaled up? Should there be a global carbon tax?
- Should funding mechanisms for the environment be consolidated?
- What are some of the tensions between trade agreements and the environment and how can these be resolved?

<u>Discussants:</u>

- Mr. Laszlo Borbely, MP, Minister of Environment and Forests of Romania, Chair of the United Nations Commission on Sustainable Development
- Senator Cesar Augusto Borges, Senate of Brazil
- Ambassador Ulibarri-Bilbao, Permanent Representative of Costa Rica to the United Nations
- Ambassador Charles Thembani Ntwaagae, Permanent Representative of Botswana to the United Nations
- Mr. Ricardo Sanchez, Deputy Director, New York Office of the United Nations Environment Programme (UNEP)

3 p.m. – 5:30 p.m. Session IV
Providing leadership in global economic governance: empowering the UN, the role of the G20, and the need for transparency and accountability in decision-making

The global economic crisis has exposed the need for stronger regulation and intervention in the economy, nationally and internationally. The G20, a forum of industrialized countries and emerging economies, took the lead in providing the most immediate response to the crisis leading to a coordinated global stimulus package of some $5 trillion. The G20 now defines itself "as the premier forum for international economic cooperation" and is acting as a central coordinator of national macroeconomic policies as well as the main driver in the reform of international financial institutions.

Yet, the place of the G20 in global economic affairs remains a subject of debate. As a recent discussion in a special Working Group of the UN General Assembly shows, many countries take issue with the G20. As a self-appointed informal body of a few countries, they argue, it lacks legitimacy. While recognizing the economic weight of the G20 (representing some 85% of global GDP), several countries argue that the decisions of the G20 affect everyone and so should be taken by a more representative body such as the United Nations. They further contend that the G20 lacks an enforcement and oversight mechanism to ensure accountability and transparency.

In short, the concern is that the G20's pre-eminence undermines the authority of the United Nations as the only organization with global membership where every country has a voice. There is no shortage of ideas as to how the United Nations could strengthen its position as the steward of global economic affairs. A commission of experts (Stiglitz Commission) that examined this question last year recommended the establishment of a Global Economic Coordination Council composed of a small number of countries (each representing a larger constituency of countries) to supplement the ECOSOC as a faster decision-making body, as well as the establishment of an Intergovernmental Panel of experts to analyze systemic risks in the global economy. Neither proposal has gained much support, however.

While everyone recognizes that the G20 has a role to play, there is a need to better define this role vis-à-vis that of the United Nations.

<u>Leading questions:</u>
- Should decisions of the G20 be subject to further debate by the full membership of the United Nations before they become "binding" on the international community?
- How, institutionally, should the G20 be linked to the United Nations?
- Should the proposals of the Stiglitz Commission for two new economic bodies be placed back on the agenda?
- What role should parliaments play in providing greater transparency and accountability in global economic governance?

<u>Discussants</u>*:*
- Dr. Janos Horvath, MP, President of the Hungarian Inter-Parliamentary Group, professor emeritus in economics
- Ambassador In-Kook Park, Permanent Representative of the Republic of Korea to the United Nations
- Ambassador Maged Abdelaziz, Permanent Representative of Egypt to the United Nations
- Mr. Michael Hammer, Executive Director, One World Trust (UK)

5:30 p.m. – 6 p.m.   Summary of the meeting and closing remarks