

# Should the United Nations have a role in reforming the global economic and financial system?

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On June 26, in New York, the high-level United Nations Conference on the World Financial and Economic Crisis and its Impact on Development adopted unanimously an Outcome Document that opens a door - if a small one - to a possible UN role in the reform of global financial governance. The preparations for the UN Conference however, had confronted severe difficulties. The run-up to the conference highlighted sharp differences between Southern countries who want to give the UN more say in tackling the financial crisis and Western governments, who prefer to strengthen their work within the Group of 20.

Until now, global financial and monetary issues have been the responsibility of the International Monetary Fund and the Group of 8, relying on the expertise of the Basel Committee on Banking Supervision and the Financial Stability Forum (now Board). However, with this present financial crisis - originated in the North with negative consequences in the South - political pressure begins to change this. Impacts of the crisis, such as slowing growth rates, rising unemployment, and declining budgets are now beginning to also affect developing countries. Developing countries, including the poorest countries, therefore claim that everybody should have a stake in financial regulation. It is in this context that the demand for this global conference on reform of the financial and monetary system emerged.

The final result of this UN Conference is a compromise text and does not meet the high expectations of a number of governments. Nevertheless, some common ground has been reached, which could be the basis for concrete policy changes. For example, governments agreed to "the need to ensure that all tax jurisdictions and financial centres comply with standards of transparency and regulation", and they stress the "need to further promote international cooperation in tax matters."<sup>1</sup> Governments also noted that the "crisis has intensified calls by some States for reform of the current global reserve system to overcome its insufficiencies", and they "acknowledge the calls by many States for further study of the feasibility and advisability of a more efficient reserve system ...and the complementary roles that could be played by various regional arrangements."<sup>2</sup> Developing countries were also given a green light to "seek to negotiate agreements on temporary debt standstills between debtors and creditors, in order to help mitigate the adverse impacts of the crisis"<sup>3</sup>. Disappointingly, governments could not agree to the establishment of a fair and transparent debt work-out mechanism.

## Global economic governance

The financial and economic crises demonstrated that 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 of the global economic system.

Heavily debated were proposals made by the UN Commission of Experts chaired by Joseph Stiglitz, supported by the German Chancellor Angela Merkel to create a new Global Governance Coordination Council. Such a body is intended to become a representative forum within the UN system to address areas of concern in the global economic system. It would meet annually at head of state level to assess developments and provide leadership in economic, social and environmental issues. Representation would be based on the constituency system, and designed to ensure that all continents and all major economies are represented. At the same time, the council must remain small enough for effective discussion and decision making. All important global institutions, such as the World Bank, the IMF, WTO and ILO would have to provide supporting information and participate in the Council. This new mechanism would facilitate cross-ministerial

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<sup>1</sup> UN draft outcome document A/CONF.214/3, para 38,39

<sup>2</sup> UN draft outcome document A/CONF.214/3, para 36

<sup>3</sup> UN draft outcome document A/CONF.214/3, para 15

and cross-institutional discussion of global economic and financial concerns. It is a major disappointment that the Conference failed to create such a new body, demonstrating that the time seems not ripe yet to come to a consensus on broadening global governance beyond the self-appointed Group of 20.

It can be regarded as a promising first step however, that consensus has been achieved "regarding the possible establishment of an *ad hoc panel of experts on the world economic and financial crisis and its impact on development*. The panel could provide independent technical expertise and analysis, which would contribute to informing international action and political decision-making and fostering constructive dialogues and exchanges among policymakers, academics, institutions and civil society."<sup>4</sup>

The UN Conference also agreed on exploring principles of an overall normative framework of global governance, which could establish a framework for the world economy and for mechanisms of international cooperation in response to mutual economic vulnerabilities: "The ongoing crisis has highlighted the extent to which our economies are integrated, the indivisibility of our collective well-being and the unsustainability of a narrow focus on short-term gains. We reaffirm the principles of sustainable development and underscore the need for a global consensus on the key values and principles that will promote sustainable, fair and equitable economic development. We believe that corporate social and environmental responsibility are important elements of such a consensus".<sup>5</sup>

### **The way forward**

One of the most hotly contested issues in the run-up to the UN conference was whether the conference would have ongoing follow-up mechanisms. In the end, governments came to an agreement to establish an open-ended working group of the General Assembly to follow up on specific issues contained in the outcome document, such as crisis mitigation, the restructuring of the financial and economic system and architecture, external debt, and international trade. We will need to closely monitor the next steps of this new instrument.

Although the number of commitments reached is very limited, these few agreements can be regarded as openings for reforms to the global economic and financial system. The conference that just concluded in New York constitutes recognition that the UN should have a role in ensuring that the global economic and financial system works for developing countries, where international financial institutions have staggeringly failed.

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<sup>4</sup> UN draft outcome document A/CONF.214/3, para 56e

<sup>5</sup> UN draft outcome document A/CONF.214/3, para 41