

P R E S I D E N T O F T H E 6 3 R D S E S S I O N
U N I T E D N A T I O N S G E N E R A L A S S E M B L Y

To the Inaugural Meeting of the Commission of Experts of the President on Reforms of the International Monetary and Financial System

UN Headquarters , New York, 5 January 2009

Professor Stiglitz,
Members of the Presidential Commission,
Colleagues,
Friends All:

I am delighted to welcome you to the United Nations for this first meeting of the Commission of Experts on Reforms of the International Monetary and Financial System.

Your presence here today, and the commitment you have made to assisting the General Assembly in defining its approach to the remaking of our global financial institutions, is a testament to the vital importance of the General Assembly – to what it can and must become as a guardian of the legitimacy of those institutions.

The Authority of the General Assembly

I find it strange is that many people should have come to believe that the UN General Assembly is NOT perceived as the natural and unavoidable forum for chartering any legitimate effort to recast the institutions and the rules of the global financial system.

Certainly, the original Bretton Woods conference was sponsored under the aegis of the emerging United Nations organization.

The Charter clearly spells out extensive responsibilities of the General Assembly in fostering economic cooperation among the member states. The Charter also establishes among its “principal organs” the Economic and Social Council in order to give effect to these responsibilities.

And the Charter declares, in Article 57, that “[t]he various specialized agencies...shall be brought into relationship with the United Nations in accordance with the provisions of Article 63.”

Article 63, in turn, expands the potential scope of that relationship by stating that “*The Economic and Social Council may enter into agreements with any of the agencies...defining the terms on which the agency shall be brought into relationship with the United Nations.*” And it concludes with the assertion that “*Such agreements shall be subject to approval by the General Assembly.*”

Formally, there can be little doubt that the Charter assigns to the General Assembly a primary responsibility for oversight of the specialized agencies.

A more recent and far more specific mandate comes in the concluding document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus (A/CONF.212/1.1/Rev.1), which took place at Doha, Qatar from November 29 to December 2, 2008.

Because the work of this Commission is so closely connected to the Doha Declaration on Financing for Development, I will quote the relevant language in paragraphs 78 and 79 at length:

“78. Welcoming the on-going international discussion on global economic governance structures, we acknowledge the need to ensure that all countries, including low-income countries, are able to participate effectively in this process. This debate should review the international financial and monetary architecture and global economic governance structures in order to ensure a more effective and coordinated management of global issues.

Such a debate should associate the United Nations, the World Bank, the IMF, and the World Trade Organization, should involve regional financial institutions and other relevant bodies and should take place in the context of the current initiatives aimed at improving the inclusiveness, legitimacy and effectiveness of the global governance structures. ...

“79. The United Nations will hold a conference at the highest level on the world financial and economic crisis and its impact on development. The conference will be organized by the President of the General Assembly and the modalities will be defined by March 2009 at the latest.”

It would be difficult to conceive of a clearer mandate for the work of this commission than the one given by the more than 150 nations, including all of the G-20 countries, that participated in the Doha Conference and were parties to the final consensus document.

A Solemn Responsibility

I believe it would be an unconscionable dereliction of duty for the GA not to take a view and not to engage its members in the difficult but necessary task of defining the pathway for re-forming our global financial institutions.

As the members of this group already know, the impact of crisis in the financial system, as evidenced many times – I would say continuously – in the last three decades, goes far beyond economic stability and growth.

I am very pleased that Mr. François Houtart and Ali Boukrami have agreed to participate in these proceedings as my special representatives and that they and Professor Stiglitz will be leading a discussion of the wider social impact of the current crisis later this morning. This is indispensable context for our work.

The Need to Re-Charter and Transform the Global Financial Architecture

In preparation for this meeting, I asked my staff to outline the five worst things that can happen on account of the failure of our global financial institutions. The discussion that followed was instructive – and frightening. Many of the worst things have already happened, and what has not happened may be worse still – and appears to be rapidly becoming inevitable.

The following short list only illustrates *some* of the dangers we have faced or can expect to face soon, and highlights a few of the most urgent issues that we must address and overcome within a thoroughly transformed global financial system.

Shifting the burden of adjustment onto the poor: In the 1980s, many developing countries were brought to the brink of economic collapse with the sharp rise in real interest rates and the abrupt cessation of private banking flows. The global economic powers, backed by the financial institutions, successfully organized and supported a creditors cartel, but also prevented debtors from organizing similarly to design a more reasonable and flexible workout. Then, under the aegis of the Bretton Woods institutions, the lion's share of the burden of adjustment was placed on the most vulnerable populations.

The results were catastrophic. In Latin America, the economic recession was on the order of the Great Depression, and recovery took ten years – the “lost decade” of the 1980s.

Imposing extreme economic theories inflexibly on countries in need of assistance: In the following decade, the economic policies of the global financial institutions were defined in Washington and appropriately called the Washington consensus. These policies were applied to emerging economies with particular roughness, without voice or vote for the states affected.

They imposed upon national governments the Hobson’s choice of political delegitimization or economic isolation.

Forcing countries to adopt pro-cyclical policies in the midst of crisis: At the onset of the East Asian financial crisis of the late 1990s, the Bretton Woods institutions, in particular the IMF, demanded policy adjustments that worked forcefully to deepen and spread, rather than attenuate, the crisis.

The peculiar, but widely noted result was that those nations that were most compliant with the Fund’s prescriptions tended to fare the worst.

Imposing a double standard for fiscal and financial discipline: Throughout the last three decades, a select few nations – those with majority voting rights or with pre-emptive veto power – have arrogated to themselves the power to define the rules of the global financial institutions. But the rule makers themselves refused to be bound by the very same rules they had created. They vigorously and effectively resisted all attempts to impose financial discipline, or even to expose information about growing financial risks.

We are now living with the awful consequences of this double standard. The failure of the global financial institutions to address rapidly growing – and recognized – financial imbalances among the economic great powers, particularly in the world’s largest economy, has demonstrated the fatuousness of market fundamentalism and brought us all to the brink of global catastrophe.

Destroying global capital and credibility for national political expediency: Worst of all, evidence is mounting that the actions now being undertaken to resolve the current crisis, in particular the massive creation of money by the world’s largest central bank, may be setting the stage for an even more profound financial crisis in the near to medium term.

There are estimates that East Asian countries hold as much as \$3 trillion in U.S. dollar denominated assets. If these claims were to be substantially diluted or in any way repudiated, the results would include the wholesale destruction of the hard-earned savings of nearly half the world’s population, the obliteration of the last vestiges of trust among the world’s leading economies, and an inevitable break-up of any hopes for an open and dynamic global economy.

The Work of the Commission

While the mandate of the Commission as defined at Doha is fairly broad, the terms of reference developed by the Chairman with my staff provide some clarity on the scope of your work.

More generally, it is vital that the Commission work to achieve at least three broad process goals:

First, to prepare a report that will provide a basis for deliberation among the Member states and guidelines for action by the heads of state or government who will participate in the conference mandated at Doha. The report should define broad principles to guide the transformation of the global financial architecture as well specific recommendations for restructuring institutions, establishing more adequate relations between the United Nations organs and the specialized agencies, and defining appropriate policy frameworks.

Second, to engage and coordinate with other entities undertaking parallel initiatives to make recommendations for re-forming our global financial architecture. The goal of the Commission is not to pre-empt or supersede the work of the G-20, the Financial Stability Forum, some of the very fine work being done by the World Bank and IMF staffs, numerous high-quality private initiatives under way around the world, or, for that matter, the work of the UN's own agencies, such as UNCTAD and DESA.

Rather, the goal is to provide the coordinating guidelines for a comprehensive approach, and to define the ultimate pathway to legitimacy for any proposal. The General Assembly has a unique role to play in the process of re-chartering and transforming the global financial institutions. For only the G-192, among all of the world's institutions, can claim to speak on behalf of the community of the whole.

And only the General Assembly has the authority to approve, definitively and finally, the reforms that are necessary to establish a truly comprehensive global framework.

Third, to engage the representatives of civil society through the non-governmental organizations accredited before the United Nations. It is vital that the report of the Commission place its work in the broadest possible context, recognizing the expansive scope of impact of the current financial crisis.

It is critical too that the Commission understand that one of its most important contributions will be to help ordinary people gain a better understanding of the workings of the global financial system and thereby come to participate more actively in their own countries' economic governance and in the global forum that is the United Nations.

My staff and I, in accordance with the Doha Conference consensus document, have undertaken to define the modalities for fulfilling the Doha mandate. I have shared a draft proposal with Professor Stiglitz and I understand the Commission will be given an opportunity to review the proposal and make suggestions for revision.

With your indulgence, I would like request that the Commission add one more charge to the points already identified here.

One of the factors that has weighed heavily upon the effectiveness and vitality of the General Assembly has been the GA's alleged lack of expertise on financial matters. The membership of this Commission clear belies that allegation. Indeed, I cannot conceive of a body of comparable size, or indeed any size, that could compare favorably with the expertise and experience gathered here today.

My request is that you consider how this Commission, or a similarly composed body of experts chosen not as representatives of nation-states, but as a globally representative body of the best our world has to offer, might be organized and sustained to provide ongoing support for the work of the General Assembly.

I look forward to your thoughts on how we can make our effort inclusive, consequential, and effective. Please accept my sincere gratitude for the work that you have volunteered to undertake in order strengthen the ability of all people to contribute to and benefit from an economically more robust and secure world.

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