

UNCTAD Public Symposium 2010
10 - 11 May, 2010

"Responding to Global Crises: New Development Paths"

Inputs received

Towards a new monetary, economic and financial order

Luc Guillory
Partage International
Tel: + 33 614 70 18 94
Email: luc.guillory@wanadoo.fr

Abstract

New foundations are needed. Consolidating the tumbling order will not work. Tomorrow cannot be like yesterday. We are standing at the crossroads and this is a time of major opportunity for change.

What is needed is not a mere compromise on present multilateral arrangements and the current 'laissez-faire' but a complete restructuration of our international economic relations. Market forces are based on competition. Competition is based upon greed and fear. We must introduce 'Justice' at the core key of the next economic order for only justice will satisfy the basic human needs of all and will bring about harmonious development, stability and world peace.

A new assumption in monitoring global trade, financial and monetary system will promote genuine cooperative efforts towards equilibrium, in opposition to the present day floating, asymmetrical and unbalanced system, which provides many opportunities to win over assets, profits and influential positions on the global markets, but gives no direction and has put the future of the world in jeopardy.

Disclaimer:

The inputs are made available by the UNCTAD secretariat in the form and language in which they were received. The views reflected in the documents do not necessarily reflect the views of the United Nations or UNCTAD.

The tumbling order of global competition

Old habits die hard. Though we are facing the most challenging global economic, financial and social crisis ever, the *'business as usual'* attitude has come back to the forefront and tenants of the old competitive order look with one complacent eye at the suffering millions whilst their second eye scrutinize at boosted stock markets opportunities and golden bonuses brought about by the disrupted yet temporarily bailed out markets.

The «*Triumph of greed*» as Nobel Prize Joseph Stiglitz puts it, seems to wipe away the reality of the 1.5 billion brothers, sisters, men, women, parents, elders and children, who are now bitterly suffering of hunger and malnutrition.

Meanwhile the G20 has proved unable to become a leading forum for a global restructuring of the economic order. National and other vested interests seem to paralyze any significant action. Lack of political leadership towards building up a new global financial architecture has resulted in weak announcements and aborted reforms. Status quo prevails.

Nevertheless, other financial and monetary tsunamis are threatening to burst out beyond any possible control by international institutions. The devastating domino effect has temporarily been stopped but the thousands of billions of rescue packages provided by governments and granted to private corporations 'too big to fall' have not revamped the dying order of global competition..

The crisis that will not go away

'Rethinking global economic governance' cannot be achieved through mere *'trade and financial reforms'* because the dominating forces which have ruled the world economy have shown so far no genuine interest in working towards a harmonious human development within the boundaries of the planetary resources. The so-called «*economic growth*» in the last decades has been built upon a mountain of debts, a burgeoning expansion of the financial sphere, overvalued assets, 'creative' accounting practices, and frenetic materialistic consumption in developed places of the world.

Furthermore, while joint efforts at Copenhagen have failed to force leading nations to pledge and take the appropriate measures to stop and reverse the causes and effects of climate change, the *'irrational exuberance'* which characterizes the financial markets has resulted in the deepest collapse of the world GDP and led the US, the European Union and Japan to provide an unprecedented USD 2.400 billions bail out package in tax measures and direct supports, in particular to banks and financial institutions. Further to the bail out of financial private conglomerates and private shareholders, we may now have to rescue nations. In other words, this economic system has not been able to meet basic human needs such as food, healthcare, education, despite overproduction capacities, boosted global trade and free capital flows.

Towards a new world economic governance

A new monetary order

Using the US dollar (or any other particular or limited basket of currencies) as the reserve currency acknowledges that nations abide to the supremacy of one nation, and to its own particular vision of what economic international relations and practices should be. A complete platform of a very given model of international economic relations is thus conveyed. It includes the deregulation movement which has pervaded the world during the last 30 years. This poses the problem not only of the supremacy of one guarantor country for the entire world, but also of the ideology which supports that economy.

What is needed is not a mere « ball rolling » movement but, rather, a complete changeover of vision of economic relations between nations as well as the will to build up a cooperation by which global monetary balance at the service of the needs of all nations will be met.

The new reserve currency must include from its inception the basis of international justice and become the pivoting element of convertibility for all currencies, with a limited spectrum of variations. All currencies should take part to it. Nations as a whole must become the stakeholders of a new and more inclusive international monetary system.

We live in a limited world, with limited resources. Therefore, with regards to the goal of sustainable development, it is of utmost importance that the new currency take into consideration the limited resources in commodities of the planet. The world stands on the verge of major natural disruptions and disasters. It is time to link sustainable economy to planet resources and the capability of monetary expansion should therefore be monitored, controlled and limited, versus the erratic expansion of liquidities which has characterized the last thirty years.

A new monitoring authority

The present rule of G7, IMF and WTO totally reflects an ideology which has promoted fierce competition between social systems, freedom for capitals but not well being for populations, and which tends to protect the vested interests of powerful nations who dominate the policy making institutions.

It is time to shift from that unbalanced system to another rule where one nation equals one voice, without any discriminating right of 'veto', in which synthesis and global equilibrium are the guidelines of institutional action. This is why the United Nations system offers the best and most legitimate platform to monitor the international monetary system.

The new monetary order should reflect a radically different principle (and of course not allow any other single nation or group of nations to step in and simply take over), with welfare of all nations at the center of its considerations.

A call to an international conference to build new foundations for the economic, monetary and financial order is needed. This conference should be held under the auspices of the UN system. Unctad could be the hosting, promoting and organizing platform.

This conference might focus its initial efforts primarily on :

- providing an emergency relief program for the poorest sections of the world population
- establishing a multilateral cooperation to create a new monetary and financial order which will include a new international currency that will serve as global trade and reserve currency, altogether with a strong regulation of the financial practises and institutions,
- launching a global Marshall Plan

New international currency for global trade and as reserve currency

Monetary and other imbalances have led to macroeconomic disequilibrium whereby none of the major challenges facing humanity such as eradicating endemic poverty and hunger and creating a balance in the use of the natural resources of the planet have had any chances to be met. There is an estimated USD 6.000 Billions of currency reserves in the world. Part or most of this huge amount of resources cannot be recycled into productive measures in economy, education, health, cultures, enhancing of local development policies...

New global currency and reserve system

Restoring balance in the international monetary system requires the setting up of a new currency based on fixed basket of values, unsubmitted to market forces and speculation. The principle could be close

to the Special Drawing Rights issued by the IMF, but a new definition must prevail, based on the sum total of all currencies in the world combined to a basket of other commodities, Common Goods assets.

The purpose is to provide for a safe and stable fund reserve at low interest rates especially intended for developing and emerging nations. Access to capital markets is difficult, expensive and unstable. Crisis of the past have shown how fast retrieving could the private capital market behave in case of problems.

One may argue that a global change of reserve currency may result in disrupted economic relations and chaos. It has to be monitored in an appropriate manner of course. And chaos *is* already rampant *because* of the present economic dispensation. Would a sovereign debt crisis burst out tomorrow, what would be left of the present monetary and economic order ? Expansion through deficits paid by other nations, overinflated expansion of credits, increase in revenues fueled by booming financial markets and frantic consumption have put more pressure on the necessity to attract flows of capitals to feed the machine ; bubbles after bubbles, crisis after crisis, yet bailed out markets have been rescued but the roots of imbalances and injustice never tackled. Now the world faces a major risk of monetary and public debt crisis as predicted by the Brandt Commission (North South Report, 1980).

Other measures

It is certain that many other measures are required to establish a new cooperation, promote a balanced, sane, stable and fair international economic and trade system, remove distorting and asymmetrical conditions, release the financial forces nowadays captured by stock markets, and thus create the conditions towards synthesis and global well being. This will probably include, though not be limited to :

- The complete eradication of the world fiscal paradises whereby huge amount of financial resources are being diverted for no benefit at all to humanity.
- An increase in international Aid to Development which was originally targeted to 0.7 % of GDP but rarely met.
- The release of the world savings from the hold of financial and speculative stock markets mainly driven by short term motives. Private savings could be used to finance many development projects against the promise of a fixed retribution. Bonds of Common Goods or other similar assets could be developed and promoted in a new type of regulated market.
- A set of regulations and a package of taxes on financial transactions : further to previous ideas such as the Tobin tax, it becomes obvious that speculation could be discouraged and in anyway slowed down through a mechanism of regulations which could include progressive taxes on transactions according to parameters such as risks, social and environmental impacts and others, using a classification as it exists for hazardous products.

Emergency relief program

More than 1.5 billion people are now suffering from hunger and malnutrition, in a world of plenty. Despite appearances and commonly admitted ideas, there is a surplus of food of some 12% *per capita* in the world. Huge stocks of food get spoiled in the warehouses of the world in the sole purpose to maintain market prices, while some national agricultures are widely subsidized in some developed nations.

Competition in the field of agriculture and food supplies together with conditionalities by the IMF to impose low tariffs and remove import restrictions in developing nations have often led to a devastation of local agriculture in poor countries. Reforms should be undertaken to reverse the trend, set up mechanisms to transfer know how and resources so as to revamp local agricultural industries, promote green technologies and biological agriculture in the scope of attaining self sufficiency.

Meanwhile, security inventories should be built up in the world with appropriate mechanisms for countries in need whenever natural disasters occur and threaten their food resources. These mechanisms could be designed in such a way that countries in need would be enabled to tap in those

security inventories without having to borrow from the capital markets at expensive costs. We share one humanity and one life. It is the most hideous crime in this world that wide sections of populations are being allowed to starve. It is only our complacency which prevents the complete eradication of extreme poverty and hunger on the planet. Security inventories, built out of existing surpluses, should be kept permanently until nations ultimately reach national self sufficiency.

Global Marshall Plan

A total cancellation of the debt owed by LDCs is an absolute necessity. The burden of debt has long proved to be one of the most hindrant component to any stable economic and social development in those countries and to their correct integration in the global economy. A complete relief of the third world debt is thus indispensable to alleviate poverty.

Beyond this preliminary step, a huge transfer of money, technology, know how and assistance to enable the LDCs and lower segment of developing nations to build up sustainable agricultures and economies is needed.

It is likewise a must to reverse the conditionalities imposed upon developing nations by the IMF, which have so often led to a heavy burden upon the shoulders of the poor sections of their population. A genuine empowerment will enable these nations to monitor their development, to regain sovereignty over their national strategic assets, to feed their people and be fully integrated in the international economic community, as opposed to simply be exporters of raw materials and commodities in the sole scope to raise currencies and pay back the service of their debt.

A Global Marshall Plan will provide for a mechanism by which transfer of money, technologies, know how and other resources will be made effective to meet the needs of the developing nations.

This involves the collection and registration of the needs, the inventory of global production capacities (and we have overcapacities nowadays) and the setting up of the appropriate mechanisms to create a common pool of resources in which the nations in need may tap.

The United Nations will necessarily have a key role to play in monitoring such a program in all its aspects :

- the negotiation of a global agreement to define the rules and *modus operandi* of this Global Marshall Plan,
- the actual monitoring of its actuation,
- the coordination of all actors, institutional, governmental and others, involved in the implementation of such a program.

The needs of the developing nations cover a wide spectrum of particular situations. Standardized models therefore may not be appropriate, whereas individualized contracts might have a better chance to be adapted to each country, culture, economic and social situation, as well as geographic and climate conditions.

The counterpart to the international effort will certainly include many commitments from the receiving nations and the UN monitoring agency will also have a key role to play in supervising the interplay between aid received and both the implementation of the related programs and commitments nationally, such as :

improved governance practices, tangible investments in universal education, development of appropriate health infrastructures and programs, reduction in armement expenses, promotion of green and sustainable economy, setting up of programs in favor of biological and sustainable agriculture (such as organic farming, as it has been highlihgted by Unctad), development of renewable energies, other commitments to reduce climate change causes and effects....

Thus a give-and-take contract may be issued and implemented under the supervision of an *ad hoc* UN agency which, we may anticipate, is likely to be created for this purpose.