



**Towards economic recovery:
Rethinking development, retooling global governance**



Parliamentary Hearing at the United Nations

New York, 2 – 3 December 2010

Summary and Main Conclusions

The 2010 parliamentary hearing took place at United Nations headquarters in New York on 2 and 3 December and was attended by some 160 parliamentarians from fifty countries and five regional parliamentary organizations. Dr. Theo-Ben Gurirab, President of the Inter-Parliamentary Union, welcomed the participants and introduced the opening speakers.

Opening Remarks

Mr. Joseph Deiss, President of the United Nations General Assembly, expressing appreciation for the strong commitment of parliaments to the Millennium Development Goals, recalled that at the recent MDG summit, the Inter-Parliamentary Union had called on parliaments to ensure that the Goals were translated into national programmes and laws, that sufficient funding was made available for development cooperation activities and that governments followed through on their official development assistance commitments.

Coordinated action is needed to avoid costly 'beggar-thy-neighbour' policies and to overcome the crisis for the benefit of all countries.

Joseph Deiss, President, United Nations General Assembly

The current turmoil on global financial markets was an illustration of the fragility of the world economy and the weakness of the underlying economic fundamentals. Exchange rate misalignments and current account imbalances were hampering the recovery, and protectionist measures were

contributing to trade distortions. Coordinated action was needed to overcome the crisis for the benefit of all countries. Governments must also work together to reconcile economic growth and environmental concerns, including through the adoption of the green economy as a more sustainable development model.

Many current challenges could not be solved by States acting individually. Rather, they had to be addressed through global decision-making and global action – in other words through global governance. He stressed that that concept was not the same thing as global government, but was a way of organizing decision-making in a world of sovereign entities, and should be based on the principle of subsidiarity. The global governance landscape had become more complex with the emergence, alongside the traditional international organizations such as the United Nations and the Bretton Woods institutions, of informal groups of countries such as the G20. However, while those smaller groupings could sometimes act more expeditiously, their lack of inclusiveness made their legitimacy questionable.

The United Nations had a pivotal leadership role to play in a global governance structure that was efficient, open and representative. World leaders had clearly stated that the United Nations was the central forum for global governance but that urgent reforms were needed to make the Organization fit for the job. He had therefore proposed global governance as the topic for the general debate of the sixty-fifth General Assembly and, as a first step towards that end, had convened informal meetings of the General Assembly to allow all Member States to express their views on the discussions and the outcomes of the G20 summit held in Seoul on 11-12 November 2010. That was an essential element in the process of giving more legitimacy and accountability to proposals affecting countries that had not had the chance to participate in the first stages of decision-making at the summit.

As a further step, he also intended to organize a General Assembly thematic debate during the first half of 2011 to reflect on mechanisms for reaffirming the central role of the United Nations in a governance system that was inclusive and representative. Parliaments had a crucial role to play in such a system by

providing political support on the issues discussed and the resolutions adopted by the General Assembly and by ensuring accountability and transparency in decision-making processes.

Mr. Zukang Sha, Under-Secretary-General, Department of Economic and Social Affairs, United Nations, warmly welcomed the participants on behalf of the Secretary-General. He observed that the world economy was entering uncharted waters: weaknesses in major developed economies continued to hinder global recovery, jeopardizing world economic stability. While much attention was being focused on immediate global imbalances, little strategizing was being done on long-term global economic dynamics and how to harness them in order to advance peace, security and development. Parliamentarians had gained much knowledge and insight from the recent economic crisis, and the international community needed their experience to inform economic priorities and strategies for the future.

The economic crisis had directed attention to global governance mechanisms, with the G20 moving into the spotlight of economic policy coordination. While the Group had helped prevent a worsening of the situation, it had also drawn criticism about its exclusive membership. The United Nations needed parliaments to work with it in impressing on the G20 governments the need for inclusiveness.

The G20 could and should complement the work of the United Nations. That had started to happen in the development arena, but there was a need for much greater focus on development within the G20, since goals such as poverty eradication were intertwined with the achievement of economic stability.

The pathway to a peaceful, inclusive and prosperous world was through sustainable development, which was not only about the environment, but was an integrated approach that tied together economic, social and environmental goals. Parliamentarians were close to the heartbeat of governments' development priorities and to the purse strings, and the world was counting on them to guide and educate their colleagues and ensure that sustainable development policies and programmes were prioritized.

Support and input from parliamentarians was also needed in order to maximize the success of the Rio+20 conference on sustainable development to be held in 2012. The conference would have three objectives: to renew political commitment, to assess progress made and to identify emerging challenges.

The world had entered a new era. The harsh lessons of the recent past had altered fundamental assumptions about economics. He urged parliamentarians to seize the moment and strive to ensure that the economic directions and policies of the future would foster sustainable development

Dr. Theo-Ben Gurirab, President of the Inter-Parliamentary Union, thanked the two preceding speakers for their words, and the participants for attending. He noted that parliamentarians had once again come together at United Nations headquarters to discuss the global economy and the need for a stronger response to the on-going crisis. Some headway had been made in addressing the enormous economic disparities that many had come to accept as part of their daily lives. In Europe, for example, bank bonuses had been sharply curbed, which should help to dampen enthusiasm for the kind of financial risk-taking that had recently had such destructive consequences, particularly for poor countries.

Once again we come together at the UN headquarters to discuss the subject of the global economy. We come to talk about the rich and the poor. This city of extremes is a good place for such a debate: a city of tall glass towers and of people who sleep rough at their feet.

Theo-Ben Gurirab, President, Inter-Parliamentary Union

Nevertheless, the global economy continued to be characterized by a predominance of finance over the real productive economy: Wall Street was once again announcing record profits while at the same time unemployment and poverty worsened worldwide.

That strange disconnect must not be treated lightly. Two years of talks during IPU and

United Nations meetings had produced few results in practical terms. The poor continued to endure pain and hardship while the rich accumulated ever more wealth.

How should policy-makers respond? Was the solution to tighten the belt of austerity in order to ward off the threat of debt crises? Or was it better to provide more stimulus to assist the recovery through job creation? Those were questions with which all governments and parliaments and the United Nations had to grapple.

Session I: Current risks to economic recovery, and the continuing structural imbalances in the global economy

Panellists: 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; H. E. Hardeep Singh Puri, Permanent Representative of India to the United Nations; and Ms. Sarah Anderson, Director, Global Economy, Institute for Policy Studies (USA)

In their examination of the topics under this theme, Senator Oliver suggested areas where parliamentarians could help prevent a recurrence of the crisis, Mr. Vos examined some economic uncertainties ahead, Ambassador Puri explored the impact of the crisis on the Millennium Development Goals; and Ms. Anderson considered aspects of the response by the United States. Their main points are summarized below.

In the wake of the global crisis, critical efforts are in hand to create regulations and other safeguards to prevent a recurrence. Regulations and safeguards are what parliamentarians do; it is their area of expertise. Financial sector reform in advanced economies is needed to restore credit markets to health, and parliamentarians must play a role in implementing that reform.

In response to the need identified by the G20 in Pittsburgh in 2009 to increase capital requirements, central banks have agreed on the Basel III Accord, which is designed to strengthen the banking sector's ability to absorb future shocks. Although details will not be finalized until the end of the year – a process in which parliamentarians should play an important role – the Basel Committee on Banking Supervision has drawn up agreements regarding higher quality and levels of capital to protect against losses like those associated with the recent crisis, a harmonized leverage ratio, capital buffers, liquidity standards and stricter standards on disclosure. Since one of the main areas of expertise of the IPU is accountability and transparency, it should be involved in ensuring that these agreements are adhered to.

However, despite these new requirements, the Basel III Accord includes no enforcement regime whatsoever, relying inadequately on self-assessment and peer review. Parliamentarians should press for the Accord to include effective means of enforcement. As legislators, they also have an essential role to play in ensuring that governments are not allowed to seek less stringent requirements for their banking systems, or biased interpretations of the rules, and that implementation of standards is consistent across countries, with a rules-based approach incorporating meaningful sanctions.

Banks are capitalists when they make a profit and become socialists when they sustain a loss.

Roberto Leon, MP, Chile

The incipient recovery from the worst recession since the Great Depression is fragile and uneven, with the world economy expected to expand by 3.1% in 2011 and by 3.5% in 2012, which is less than will be seen in 2010, and far from sufficient to recreate the jobs lost because of the crisis.

Several weaknesses in the developed countries pose a threat of “double-dip” recession in the coming years: the lack of employment growth; the reluctance of the banking sector to lend any money for productive investment; the halting by many governments of fiscal stimulus programmes, which will impede any improvement in the employment situation; the negative effects of a distorted monetary expansion in which large amounts of liquidity, rather than helping growth in the rich countries, are simply being moved to the poorer ones, weakening currencies and destabilizing commodity prices; and finally, the retaliatory exchange rate interventions by some countries, with attendant risks of protectionist measures in response.

Those risks could bring about even weaker growth than at present expected, in both developed and developing countries. In order to avoid such a negative scenario, some related major policy challenges have to be addressed. The first is to provide additional fiscal stimulus, by using the fiscal space that is still available in many countries, even if that might not appear to be the case because of their high levels of debt. Such stimulus must be closely coordinated between those countries that do have some fiscal space and those that have none, thereby providing external demand for the latter. The second challenge will be to redesign that stimulus to provide more direct support for job growth, with less emphasis on tax cuts and more on direct spending. Thirdly, there is a need to find greater synergy between fiscal and

monetary stimulus, while counteracting increased currency tensions and volatile short-term capital flows. Fourthly, development finance must be made available for developing countries with limited fiscal space and large deficits, including resources for achieving the Millennium Development Goals and investing in sustainable growth. Finally, policy coordination among the major economies – which has weakened despite the ringing declarations from the G20 – has to be strengthened.

As to whether prospects for development have improved, there seems to be a certain complacency at the present time about the Millennium Development Goals, as if having had the MDG summit in New York in September will be sufficient to solve the remaining problems. Governments recommitted to achieving the Goals, but whether that will happen remains to be seen. Analysis of numerous countries, all of which have suffered the same external shocks, appears to indicate that those that have engaged in more counter-cyclical fiscal responses and also protected their social spending have been less impeded in their progress towards the MDGs than the others. Meanwhile, discussions on development assistance have turned acrimonious, with the developing countries claiming that the developed ones are not keeping to their commitments, and the developed countries asserting that they are doing all they can afford.

In its consideration of how to resolve the problem of trade imbalances, the United States has focused too narrowly on China's currency manipulation. While that aspect is certainly one reason China's exports are artificially cheap, another major factor is represented by the very low labour costs in China. Moreover, the underpaid Chinese workers will not have much money to buy goods, either from their own domestic producers or from abroad. Any serious attempt to deal with trade imbalances must also pay attention to the labour rights issue.

The United States could be criticized for injecting too much liquidity (through "quantitative easing") into the global economy. There had been no attempt to coordinate with other countries, nor any sensitivity to the legitimate fears of emerging market governments that the additional \$600 billion of capital would spill over into their markets and inflate their currencies. However, the US Government does not currently have many options for reducing the country's unemployment rate of nearly 10%. Following the recent elections in the US, a bigger and better stimulus programme, one that would create jobs directly, is politically off the table.

In the discussion that followed the panellists' remarks, parliamentarians noted that the world is facing a two-part contradiction. On the one hand developed countries are under pressure to reduce their budget deficit, while at the same time they are being urged to adopt counter-cyclical budgetary policies to relaunch economic activity. Fiscal incentives would surely worsen their situation, the more so as some of those countries have spent considerable sums on social protection measures to attenuate the consequences of the crisis for individual citizens.

On the other hand, weak growth in developed countries coupled with dynamic growth in emerging countries is causing a series of imbalances: trade deficits contrasting with trade surpluses, undervalued currencies contrasting with overvalued ones and destabilizing interest rate differentials.

In response, it was suggested that in most of the developed countries, the cash flow cost of debt is still very low. Thus as long as a country can ensure that its economic growth rate is high enough and its interest costs low enough, then it can still borrow more money to devote to stimulus without adding to its public debt ratios. Retrenchment, on the other hand, would lead to lower growth, resulting in less government revenue and widening fiscal deficits.

While there might be a preference in some quarters eventually to have macroeconomic policy matters resolved in a United Nations Global Economic Coordination Council such as recommended in the Stiglitz report¹, smaller than the General Assembly but more inclusive than the G20, for the present the G20 was the reality to be engaged with. A greater role for the UN on macroeconomic issues would probably come about gradually, in a step-by-step rapprochement between the United Nations and the G20; the latter's outreach efforts were encouraging first steps.

¹ Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Financial and Monetary System, 21 September 2009

Several delegates from Scandinavian countries observed that part of the reason their countries have been less affected by the crisis than others is the higher-than-average participation of women in their economies. Human capital is one of the most powerful drivers of economic growth, and it is clearly advantageous to make use of the half of human capital represented by women's capabilities, including in

If that bank had been called Lehman Sisters, things would have been very different!

Monica Green, MP, Sweden

senior economic positions. Indeed, discussion of global economic recovery must include consideration of why so many women around the world are not able to realize their full potential.

China's surging trade surplus is one of the key factors in the current economic imbalance, and is

largely a result of the fact that the exchange rate does not accurately reflect the fundamentals of the Chinese economy. At the same time, current conditions have led to erosion of confidence in the dollar, which stands at the centre of the international monetary system. The flow of funds away from the dollar has added to the upward pressure on the value of the currencies not only of the developing countries, but even of developed ones such as Japan. As measures are taken throughout the world to rectify the economic imbalances and adjust the monetary system, it is important to prevent those initiatives from giving rise to protectionism, which will impede the incipient recovery in the global economy.

It was observed that whenever a crisis occurs, there are always calls for action and new initiatives outside the established bodies such as the United Nations, the World Bank or the IMF. Does that indicate a failure of the United Nations system?

In response, Ambassador Puri stressed that, given the nature of the economic and financial crisis, the United Nations could have done very little to stem it. The UN's need for democratic process and consensus among its 192 member States would not have allowed for quick action towards the kind of macroeconomic coordination that was required. Even the IMF and the World Bank found themselves somewhat helpless, as the crisis arose so suddenly and on such a large scale. In such circumstances, sometimes there is no option but to step outside the established institutions to take emergency action. As soon as possible, however, the focus should return within the United Nations, in order to ensure legitimacy and representativeness. From now on, the United Nations must be involved in resolving the broader issues of global economic governance.

With regard to the monetary situation and its currency consequences, what is needed is greater coherence between fiscal policy and monetary policy. The early part of the crisis response brought massive injections of liquidity to the banking system, but now much of that money is still being held, unproductively, in the banks, either as cash or in the form of low-yield government securities. Then came the quantitative easing policies, but, again, the money being printed is still being used to buy up government securities. Thus the result is a circular process not contributing at all to job recovery, which is what will create more spending power for the people, increase demand and thereby give businesses an incentive to start investing and hiring.

It is certain that China's currency must be revalued as part of any solution, but that process has to be done gradually, to avoid triggering asset price inflation. At the same time, China will need to invest in restructuring its economy and allowing real wages to rise, in order to increase domestic consumption. All that will take time.

Part of the role of the IMF is supposed to be to outlaw artificial devaluations designed to expand exports, but today such devaluations are an everyday occurrence, and nothing is said. Too concerned with policing the economic activities of the developing countries, the IMF proved incapable of seeing that in the developed country where it had its own headquarters, a disaster was unfolding on such a scale that it would have worldwide repercussions.

It is going to be very difficult to rebuild trust in the international financial system, given that the institutions that previously supervised the financial behaviour of countries – the poor ones more than the rich ones – were caught unprepared. It is time for parliaments and parliamentarians to step forward and design a new and more democratic system.

It was suggested that some developed countries are using the crisis as an excuse for not meeting their official development assistance (ODA) commitments, thereby jeopardizing attainment of the MDGs.

Meanwhile each year there are net financial flows from poor countries to rich ones, amounting in 2010 to US\$ 600 billion, or five times the ODA budget, which are then invested in rich countries' dollar debt.

The following conclusions and recommendations emerged from the discussion:

- With a real risk that the global recovery is too weak to generate enough jobs, and hence additional demand to sustain further growth, further stimulus is needed. However, opinions are divided on the question of how to create such stimulus without adding to public debt. How to assess the sustainability of public debt remains an open question as well: a fair assessment must be made before any potentially damaging austerity measures are considered. Countries should cut their military budget before they cut social spending.
- The imbalances between surplus and deficit countries must be corrected if there is to be a long-term recovery. That will require better coordination of national macroeconomic policies. In particular, printing money to create monetary stimulus should be done in close coordination with other countries. The G20 is currently the only body in a position to bring this about, but a way must be found to empower the UN as a more legitimate and representative institution for global governance.
- Parliaments must help make the financial industry more transparent and accountable, with supervision incorporating a proper enforcement mechanism, rather than being left to peer pressure or voluntary measures.
- Greater voice and participation of the developing countries in the international financial institutions and other standard-setting bodies on a basis of equity is essential to sustain pro-poor economic growth.

Session II: *Reforming the international financial system: a critical look at key issues on the UN agenda*

Panellists: Rt. Hon. Fabian Hamilton, MP, (United Kingdom); H. E. Morten Wetland, Permanent Representative of Norway to the UN, 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, Policy and Strategy Unit, Policy and Review Department, IMF; Dr. Rodney Schmidt, Principal Researcher (Finance and Debt), The North-South Institute (Canada)

In this session Mr. Hamilton contributed ideas on issues relating to the international debt regime, Ambassador Wetland examined the relationship between the United Nations and the G20, Ms. Mateos y Lago gave some thoughts about the international reserve system and capital flows, and Dr. Schmidt explored the idea of a currency transactions tax.

It was suggested that a fundamental flaw of the current financial architecture is that there is no genuine debt management regime. Instead, governments handle their country's debt in different ways, largely on the basis of political dogma rather than fiscal effectiveness. A mechanism similar to national bankruptcy laws might well be an effective way of managing international debt, although in the case of Greece and Ireland, the debt crises have come about because those countries have, by adopting the euro, abdicated their right to devalue their own currency.

<p><i>As parliamentarians we have to be both idealists and pragmatists.</i></p> <p>Fabian Hamilton, MP, UK</p>
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When the Lehman Brothers bank collapsed in 2008, the response was swift, indeed faster than anything that could have been done within the United Nations. At its London summit, the G20 adopted effective policy measures applicable to its own 20 member countries, measures which were then, notably, emulated by many less wealthy countries. By so doing, countries succeeded in avoiding mutually destructive policy measures such as more trade barriers. However, at the same time, there was a growing frustration within the United Nations because most countries felt they had no way of influencing what was about to befall them.

After the G20 summit in April 2009 and the United Nations high-level conference on the world financial and economic crisis in June, a UN working group was established to examine the crisis and the UN's response to it. The deliberations of the working group have revealed a great interest in a closer and

constructive relationship between the membership of the United Nations and the G20. As part of efforts to bring the two bodies closer together, the UN Secretary-General attends the G20 meetings, and before doing so seeks advice from the Organization's Member States.

Countries send people to the United Nations, or to the Bretton Woods institutions, and they don't always read from entirely congruent scripts...

H. E. Morten Wetland (Norway), Co-Chair of the ad hoc Working Group of the General Assembly on the global financial and economic crisis

The UK presidency of the G20 broke new ground by informing the United Nations membership thoroughly about the preparations for the London summit in 2009. That outreach effort was subsequently taken further by the Korean presidency, which presented the topics that would be discussed at the Seoul summit in 2010, and received feedback from the UN Member States.

One striking phenomenon over roughly the past ten years has been the very dramatic increase in reserve accumulation, driven by the emerging market countries, with levels far exceeding prudential requirements to protect against shocks. This situation comes at a very high cost, notably because those reserves represent resources that are not invested in emerging and developing economies but rather in very low-yield government debt paper from developed countries. In 2010, for the emerging markets, that cost is calculated as 0.5% of GDP: a massive amount of resources not put to better use.

Globally, there is also a cost in the form of persistent imbalances. Some countries have to run up trade surpluses to accumulate these reserves, while others refuse to let their exchange rate appreciate to a realistic level, contributing to persistent current account surpluses. Additionally, to meet this extremely large demand for reserves there is a very narrow supply, the global reserve system being dominated by the US dollar. (The US economy accounts for about a quarter of the global economy but the dollar accounts for almost two thirds of global international reserves.) That essentially means that if monetary policy mistakes are made in the US, everyone pays the price.

Potential alternatives to the dollar might include the euro or the yen, but at present the economies of the countries using those currencies are facing major debt problems. While the debt situations of low-income and emerging market countries are not as bad as often thought, many advanced economies are already exceeding what are considered sustainable levels of debt and are projected to be in an even worse position by 2015.

One possible solution would be to make more use of Special Drawing Rights (SDRs), which are synthetic reserve assets essentially created by the IMF as needed and allocated to its members in proportion to their IMF quotas. This was done for instance in 2009 at the peak of the crisis, when the Fund created a US\$ 250 billion supply of international reserves in the form of SDRs.

With regard to global capital flows, the reason they have recently become such a prominent issue is that they are very large and very volatile, particularly in the context of the very small financial markets in emerging economies. The better growth potential in the emerging economies, compared to the advanced ones, is causing global portfolio reallocation, but the drawback is that a very small portfolio reallocation in advanced countries equates to a massive inflow into emerging markets, destabilizing their currency and threatening to cause damaging credit bubbles.

A step to alleviate such impacts, one which also addresses part of the problems of the international reserve system, is to strengthen the global financial safety net. If countries are going to face massive and speculative capital movements they need something beyond their own reserves in order to deal with them. Over the past year the IMF has significantly boosted that aspect of its financing, both by increasing the resources available and by overhauling the facilities under which financing is provided when capital flows out of a country.

Regulating the flow of capital in and out of a country is important to overall macroeconomic stabilization. However, there are alternatives to outright capital controls that are generally less economically damaging, both nationally and globally. For example, where a country's currency is very undervalued, allowing the exchange rate to appreciate in response to large capital inflows can be better for the country itself and for its neighbours in the global economy. Tightening fiscal policy may also be beneficial. But while the idea of restricting capital flows is not in itself particularly appealing, capital controls or prudential measures may ultimately be necessary as the last resort.

Following the Monterrey Consensus of 2002, one of the new instruments considered for raising finance for development was a currency transactions tax, in the form of a relatively small proportional levy charged on every foreign exchange transaction and transferred to an appropriate body, perhaps the relevant country's Treasury, perhaps an international agency set up under the auspices of the United Nations. Contrary to a view often voiced, a currency transactions tax would be quite easy to implement, given the technical infrastructure that underlies foreign exchange markets. Nor would it be necessary for all countries to coordinate the implementation of such a tax: it could even be done by a single country acting alone.

Such a tax would serve a two-part purpose. On the one hand, it would serve to discourage speculative trades (very short-term, high-frequency currency transactions). With an increasing disconnect between finance and the productive economy, a currency transactions tax would be used to slow speculative financial activity down to the speed at which the exchange of real goods and services takes place.

On the other – and this is the aspect which has been highlighted more since the financial crisis – a currency tax would serve to raise revenues. The financial sector generally is undertaxed, and there is an imbalance between the private rates of return in the financial sector and the social rates of return in the economy as a whole. -Additional revenues could be used to address any one of a multitude of needs: poverty reduction, attainment of the Millennium Development Goals, climate change mitigation or alleviation of sovereign debt crises.

One study by the North-South Institute calculated that a tax set at an extremely low rate, in line with the normal fluctuation in bid-ask spreads in the global market, and applied to trades in the dollar, yen, euro and pound sterling, would bring in revenues of US\$ 33 billion per year: not a huge amount, but far from insignificant. The same study estimated that such a tax would cause a drop in transaction volume of about 14%.

In the ensuing discussion of these topics, it was suggested that in addition to a tax levied purely on currency trading, a levy should be imposed – as had been proposed by the IMF – on the profits of all kinds of banking transactions. The proceeds could then be applied to create an emergency fund on which the banking system would be required to draw in case of future difficulties. It would then be the banks themselves that would have the responsibility self-insure, rather than expecting to be bailed out by the State and thus the taxpayer – a solution that is neither morally nor economically defensible.

The concern was raised that a tax on currency transactions could burden trade in real goods and thereby hamper the development of the poorer countries. It could also burden capital flows intended for investment, and might lead to the emergence of a parallel illicit financial market, or even barter, to avoid the tax. Delegates asked whether there were any successful examples in practice of a transactions tax, not as a revenue-raising mechanism but as a tool for moderating capital inflows in order to ward off speculative attacks.

Panelists stressed that the tax would be levied only on very high-frequency, very short-term investments in foreign exchange. Capital flows related to productive assets would be affected only to a negligible degree. With regard to the use of a currency transactions tax as a way to moderate capital inflows, this is not completely uncharted territory, as the tax would simply increase transaction costs and slow rates of transaction back down to the levels of 15 years ago, when, after all, the foreign exchange markets had operated fairly effectively.

There was a broad consensus that the present international monetary system is a source of imbalance and that a new and more satisfactory arrangement must be found. However, it was also pointed out the present discussions on a future system are taking place under the duress of the crisis, and not because countries have spontaneously decided to make improvements. It was also noted that it is only very recently that serious consideration has been given to reform of the system; thus it is still too soon to know where countries stand on the various issues. The debate is just beginning, and there are going to be surprises. Some fairly modest proposals, such as that of adopting targets on national current account balances, have already been rejected. Others that might be seen as more ambitious, such as making greater use of the SDR in one fashion or another, seem to be gaining traction.

It was pointed out that parliamentarians from some countries would have difficulty in explaining to their constituents that their country was potentially going to be part of a reserve system based on the SDR

instead of the dollar, if such a system was going to be governed by the IMF, where decision-making authority is skewed toward the developed countries. Ms. Mateos y Lago responded that the IMF is very aware of what some call its democratic deficit, and has just completed a major reform of its governance structure, with a major shift in voting power from the developed countries to emerging markets. In addition, all future executive directors will be elected, not – as in some cases up to now – appointed by individual countries.

The following conclusions and recommendations emerged:

- Currency exchange rates must be stabilized through better international cooperation. At some point the international reserve system will have to move away from the dominance of the US dollar, but a clear alternative has yet to emerge. If a basket of different currencies is to be used, it will be important that the currencies of emerging economies such as China be part of it. That would also help address some of the trade imbalance between China and the US, which remains a destabilizing factor for the global economy as a whole.
- It was suggested that the United Nations should play a central role in formulating a comprehensive debt relief mechanism in order to free up the meagre resources of the developing countries for economic and social development. This might be done by setting up a special subsidiary body of the General Assembly, on the basis of the organizations' universal membership and legitimacy.
- The idea of a tax on speculative and short-term financial flows has potential, particularly as it would be technically feasible for countries to apply the tax on transactions in their own currency without the need for a global agreement. The tax would primarily impact hedge funds and commercial banks, whose overall tax burden is generally below that of other industries.
- It is indeed lamentable that in many countries, banks that reported huge profits up to the crisis then received State aid and thus weathered the storm virtually unscathed. Private investors and savers, meanwhile, saw their assets plunge. It is also regrettable that, at least in some cases, international support channeled to central banks to assist countries in the wake of the crisis was instead passed on to inject liquidity into private banks, with no benefit to those countries' real economy. To avoid a repeat of such situations, banks must be induced to create a system of self-insurance against losses due to excessive risk taking.
- Capital controls may be imposed whenever necessary to prevent currency overvaluations, asset bubbles and other negative consequences in receiving countries. One unresolved issue, however, is whether controls should be imposed only as a last resort after other measures have been tried, as the IMF has proposed.

Session III: Rethinking sustainable development within the current global economic and environmental framework

Panellists: Mr. László Borbély, Minister of Environment and Forests of Romania, Chair of the United Nations Commission on Sustainable Development; Senator Cesar Borges, Senate of Brazil; Mr. Ricardo Sanchez, Deputy Director, New York Office of the United Nations Environment Programme (UNEP); and H. E. Charles Thembani Ntwaagae, Permanent Representative of Botswana to the United Nations

In their consideration of this aspect of the crisis, Minister Borbély gave some views on the situation from the perspective of the Commission on Sustainable Development; Senator Borges examined the relationship between economic growth and sustainable development, with particular reference to Brazil; Mr. Sanchez presented some ideas on global economic governance from the point of view of UNEP, and Ambassador Ntwaagae acted as moderator and synthesized the other panellists' presentations, which are summarized below.

The current economic crisis offers an opportunity to re-examine the transition to a green economy, which must be a premise for solving the challenges related to the Millennium Development Goals. Consolidation of international environmental governance must be accompanied by a strategy aimed at strengthening sustainable development within the United Nations. Such a strategy should aim to enhance cooperation among the relevant bodies within the framework of the United Nations Development Group and to

reinforce the role of the Economic and Social Council and the Commission on Sustainable Development, in order to better integrate sustainable development principles throughout the UN system.

It might be advantageous to create a specialized agency for environmental protection as an integral part of UN efforts to promote sustainable development, based on the structures and systems that have already proved viable. At the same time, efforts to ensure sustainable development must be pursued at national, regional and global level. To that end, the international community needs to agree on certain specific results that must be achieved in the years to come, including promoting sustainable agriculture, enhancing global food safety, advancing the sustainable generation of bio-energy and improving developing countries' access to existing and new sustainable markets.

In the context of the present multiple and interrelated crises, economic growth is possible but only within certain limits. Growth has to be correlated with the sustainable use of natural resources as well as with sustainable consumption and production, in particular in the context of the 10-Year Framework of Programmes on Sustainable Consumption and Production, about which a clear political message is expected at the forthcoming 19th session of the Commission on Sustainable Development.

Although results still fall short of the targets of the various multilateral environmental agreements, progress has been made possible by those conventions in defining sustainable development paradigms and outlining an agenda of principles for environmental protection. Those achievements have undoubtedly influenced public policies in various countries.

In Brazil, while convinced of the need to maintain the pace of economic growth, with measures to create jobs and increase incomes, the Government is also aware that it must not lose sight of its essential commitments to rational use of natural resources, as well as to sustainable consumption and production patterns. For example, Brazil has undertaken a national voluntary commitment to reduce projected greenhouse gas emissions by between 36.1% and 38.9%, by 2020. The National Policy on Climate Change promotes mitigation and adaptation actions through fiscal and economic measures, including differentiated tax rates, exemptions and incentives to encourage emission reduction.

Furthermore, through its National Fund on Climate Change, Brazil has become the first country in the world to use oil industry resources in mitigation and adaptation efforts. The Fund's budget of US\$ 500-600 million a year is supplied from a 10% levy on oil industry profits. These resources will be used to help regions that are especially vulnerable to climate change.

Tax incentives have contributed to a success story in the protection of the Amazon forest, enabling the creation of an industrial hub in the city of Manaus, home to high-technology industries that combine competitiveness with environmental responsibility. Recent studies have shown that the presence of the industrial hub, creating income and employment alternatives, has contributed to a reduction in deforestation of at least 70% in Amazonas state between 2000 and 2006, and has thereby prevented carbon emissions estimated to equate to US\$ 10 billion. If ecosystem services resulting from preservation are taken into account, the estimated total saving rises to \$158 billion.

International environmental governance has been under discussion since the Earth Summit in 1992, and will be one of the main issues to be discussed at the 2012 United Nations Conference on Sustainable Development (Rio+20). The Cartagena Package, adopted by the UNEP Governing Council/Global Ministerial Environment Forum in 2002, presented a group of important recommendations for achieving improved international environmental governance, such as enhancement of capacity-building and technology transfer for developing countries, strengthening of both UNEP's scientific base and its financial base, and improved coordination and coherence across the United Nations system.

Since 2002, several concrete outcomes have resulted from the Cartagena Package, such as the Bali Strategic Plan for Technology Support and Capacity-building in 2005, or decisions to strengthen dialogue among the different multilateral environmental agreements and UNEP. Several steps have been undertaken to strengthen UNEP's scientific base, including a recent proposal to establish an intergovernmental science-policy platform on biodiversity and ecosystem services. Progress has been made towards increasing the financial base, but much remains to be done, as voluntary contributions cannot support all of UNEP's activities.

In the ensuing discussion, a wide variety of views was revealed, although there was general agreement on the need for urgent action to protect the environment and make development sustainable. In particular, urgent attention needs to be paid to the impact of climate change on the poorest as well as the link between climate change and security issues within and between countries.

By some estimates, the demand for both food and energy could rise by 50% by the year 2030, while demand for water could rise by 30%. Meeting such demands will require major investments and enhanced political and economic cooperation, all integrated in a sustainable development approach.

Meanwhile, climate change is already having real effects, and as usual it is the poorer countries that are suffering. A recent example is the deadly flooding in Pakistan. In the wake of this and other environmental emergencies, urgent reforms are needed to protect poor and vulnerable countries. Rio+20 would be the right moment to take such decisions but it seems that if that is to happen some initiatives will have to be started immediately.

The industrialized countries must do more to contribute to protection of the environment, for example through voluntary contributions to an international fund set up to that end. If the voluntary approach does not succeed, it was suggested, serious thought must be given to direct budgetary contribution from the developed countries. An assessed contribution of 0.5% to 1% of developed countries' GDP would yield \$200 to \$400 billion for such purposes. Other delegates pointed out however that most developed countries have not even fulfilled their commitment to provide 0.7% of gross national income as official development assistance – what chance is there that they will do more?

We can only look on the ecological damage, and weep, while the polluters shed crocodile tears at the disappearance of the tropical forests.

Djibril Mama Debourou, MP, Benin

Others, again, suggested that the major powers are truly not concerned about environmental degradation, being determined not to succumb to agreements likely to slow down their industrial production, and that economically weak countries, particularly in Africa, are in no position to stand up against the destruction of their ecosystems.

Delegates from some developed countries recalled early efforts by their Governments to legislate greater environmental responsibility in production, which had initially met resistance but had eventually proved to be prescient, as the resultant low-consumption and low-emission products have become best-sellers both domestically and internationally. Successful introduction of such standards, or rules on energy conservation and recycling, requires the imposition of targets to be achieved. It is also necessary to prepare and raise awareness in industry, among local authorities, and in individuals, particularly the young, with teaching about environmental impact starting in early childhood.

Some delegates voiced concern at various countries' practice of growing crops to make fuel rather than to feed people. UNEP has done studies examining how to ensure that the production of biofuels is sustainable and is not short-changing food production in the interests of transportation. Senator Borges pointed out that in Brazil the production of ethanol is not in competition with production of foodstuffs: the country has ample growing areas to do both. But the situation in Brazil may not be typical of other countries, and Brazil does not seek to impose its model on them.

The following conclusions and recommendations emerged from the discussion:

- The financial and economic crisis has created room for public policies grounded in more environmentally and socially sustainable bases. Many fiscal stimulus packages contain measures specifically aimed at greening the recovery, including renewable energy, green buildings, clean transport and efficient water and waste management. But more needs to be done. In particular, all the major producers of greenhouse gases need to join in efforts to fight global warming. An effective international framework has to be established; simply extending the Kyoto protocol commitment period will not be enough.
- The current institutional fragmentation of global environmental governance must be resolved. The proposal that UNEP should be endowed with greater core funding and take on a greater coordinating role among other environmental institutions has merit. Similarly, the three main conventions – on climate, biodiversity and desertification – might well be brought under a single umbrella to maximize

synergies at both operational and policy levels. Regional environmental agreements may be viable in the short term, but they cannot substitute for global agreements that call upon all countries, rich and poor alike, to do their part, in a spirit of common but differentiated responsibility.

- Consumption and production patterns are still well above the earth's carrying capacity. Decoupling of economic growth from environmental impacts is not occurring, despite official commitments. To advance in this area will require obtaining greater efficiencies throughout the economy, but also a stronger move toward the green economy. All advanced economies should carefully track their consumption and production patterns, and should also prepare a plan for the transition to a green economy.
- Governments must play a leading role in environmental sustainability, but must also work in close partnership with the private sector. Public investment must be targeted to induce more private investment in the green economy. When the less wealthy countries take it upon themselves to set aside budgetary resources for renewable and green economy projects, it will encourage concerned investors to join in. A global carbon tax, or alternatively a levy on various modes of transport, might be a way to help finance green technology transfers, climate change mitigation activities and other environmental projects in developing countries. In all these matters, politicians must be on their guard against private interests and lobbies: decisions must be made in the public interest only.
- Green innovation is regarded as a driving force for growth. Investment in the environmental field will eventually facilitate economic growth and job creation, provided it is done strategically to promote the wider use of the most advanced low-carbon technologies, and to further develop innovative technologies. It is likely that in the short term, changing over to green production, including of energy, will increase its price. Governments have to find a balance between the short-term costs and the advantages for all in the medium and long term.
- Both international trade and protection of the environment are crucial for the well-being of human society, but a large number of the norms in the multilateral environmental agreements clash with the trade rules of the WTO. In order to achieve an environmentally sound world, trade and environmental interests need to be integrated. As long as the two spheres operate separately, and set out divergent goals, neither regime will ever be fully effective.
- In spite of all these challenges, it is important to note the progress has been made on the legislative front in many countries in just twenty years. It is also important at this stage for parliamentarians to enact legislation that helps change public attitudes so that people will become more conscious of how their behaviour might impact the environment. Citizens are growing apathetic about the environment because progress is too slow and there is little leadership to push for change. It is a duty of parliamentarians to keep issues at the forefront of people's minds when the media have lost interest in the topic.

It is not realistic to expect people to have environmental sustainability in their heads while they have nothing but hunger in their stomachs.

Senator Rosario Green Macías, Mexico

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

Panellists: Dr. János Horváth, President of the Hungarian Inter-Parliamentary Group; H. E. Park In-kook, Permanent Representative of the Republic of Korea to the United Nations and Co-chair of the Preparatory Committee for the Rio+20 conference; H. E. Maged Abdelaziz, Permanent Representative of Egypt to the United Nations; and Mr. Michael Hammer, Executive Director, One World Trust (UK)

In their consideration of the topics of this session, Dr. Horváth examined the crisis in terms of economic theory; Ambassador Park discussed aspects of the relationship between the United Nations and the G20 in the context of Korea's presidency of the G20; Ambassador Abdelziz looked at that relationship from an institutional point of view; and Mr. Hammer gave some views on accountability and oversight of the G20.

Finance, a part of economics, has come to dominate consideration of economics as if it were the whole discipline. Today's most innovative minds – modern-day Henry Fords – are not designing and inventing

“The time is out of joint...”

Hamlet, quoted by Dr. Horváth

material things, they are reading financial statements and working in the unreal world of money. This is a disjointed or misaligned state of affairs.

How has the world got into this state? By somehow slipping away from that economic organizer, the fresh breeze of competition. The money world, the financial sector, has become monopolistic, with a limited number of actors dictating to the rest of the world how things will be. As Adam Smith cautioned, when businessmen get together, their talk usually turns to means of stifling competition. In the 19th century, the United States initiated anti-trust legislation, which spread all over the world in the ensuing years. But by the end of the 20th century, as if everyone has forgotten all about the anti-trust idea, the monopolies have prevailed, or are at least close to doing so. What makes the situation more burdensome is that monopoly allies itself with the polity, and as a result the world finds itself in thrall to oligarchies. Oligarchy is the ailment of our society, a society in which people pay taxes in order to bail out those who mismanage. The role of parliaments is to tell governments that their responsibility is not to take matters in hand because the competitive sector is not working as it ought to; the responsibility of governments is to compel competitors to compete, and to outlaw monopolistic practices.

The current crisis situation has four salient aspects. The first is that no country can handle the situation alone; second, the most vulnerable people and nations are the ones hardest hit; third, the crises (economic, financial, food, water and fuel) are all inextricably intertwined; and fourth, without immediate action the multiple crises would have dragged the world down to total chaos. In the context of this fourth aspect, the G20 acted decisively and with efficacy in terms of stimulus and financial packages to avert disaster.

But at the same time, those positive actions of the G20 triggered intense discussions on the relationship between it and the United Nations, a relationship which needs to be complementary and mutually reinforcing. A cooperative relationship, one of inclusive engagement.

In the case of the Seoul G20 summit, that inclusive engagement had two main elements. The first was that the Korean presidency invited non-G20 countries, representing interest groups, to the summit: Ethiopia as Chair of NEPAD, Malawi as President of the African Union, Viet Nam as Chair of ASEAN, and more. Secondly, the G20 under its Korean presidency listened attentively to the concerns of the non-G20 States, and to those of the United Nations as a body, with regard to the G20 itself.

While the G20 fundamentally has a very specifically focused financial and economic agenda, at the same time it does have sufficient flexibility to allow the host country to propose some additional agenda items. On this occasion, the Korean Government selected two such items: the development agenda and the financial safety network.

Why the development agenda? Under the United Nations, development is currently encapsulated in the MDGs, which address the human dimension of development rather than economic development itself. Thus the UN's focus on the Goals can be considered a demand-side view of development: it deals with the question of how to distribute the outcome of economic development. By contrast, the G20's approach can be seen as a supply-side view, concentrating on increasing the size of the macroeconomic pie before considering how to cut it up. The Korean Government concluded that studying the issues from that perspective might be a fruitful route for finding ways of enhancing countries' ability to reach the Goals.

Paradoxically, the financial crisis may have created an opportunity for the United Nations to undertake an in-depth examination of its role in global governance and thereby become more effective.

Membership in the 192-nation UN is governed by two basic rules. One is the capacity to pay – in other words the size of a country's economy determines its share of the United Nations budget; and the second is the principle of one country, one vote, regardless of the size of each country's population or economy. By contrast the G20 is self-convened, neither elected nor appointed; it makes no attempt at geographical balance – for example, only one African country is represented – and it invites interest groups to its meetings based on its own vision of how those groups might be useful to its work. Through its lack of inclusiveness, the G20 has neither transparency nor accountability.

However, it has to be conceded that the Group was effective at assuaging the financial and economic crisis and recreating trust in the international economic and financial system. Thus it does have a role to play, and consequently there has to be some kind of interaction between it and the United Nations. How should that interaction be crafted? Which should work to gain the trust of the other? The United Nations wants to establish good relations, but it is the responsibility of the body that is issuing these sweeping macroeconomic decisions, impacting the whole world, to approach the United Nations and propose how they should work together. Not the other way round.

Nor is it for the G20 to take over aspects of United Nations work which the Member States wish to see remain in the hands of the Organization. For example, it appears that the next G20 summit is going to be discussing institutional reform at the United Nations – reform of the Security Council, reform of the Secretariat – but these are matters that should remain within the purview of its own 192 Member States.

Further, the G20 has nothing of the order of a “treaty body” tasked with reporting on its proceedings and ensuring opportunity for public scrutiny. Its accountability and where it sets the boundaries of its work are therefore primarily determined by itself, in a process of self-regulation that is in part spurred by civil society response, which ranges from investigation of the G20’s operations to street protests at their results.

Although scrutiny, oversight and ensuring that governments do their job are parliamentarians’ daily bread, parliaments have been markedly muted in engaging with the G20. Research conducted at the One World Trust covering parliaments in both developing and developed countries has revealed a number of reasons, including that parliamentarians themselves do not consider that they are empowered to engage substantively with global macroeconomic governance issues, and that in any event there is virtually no domestic political reward for doing so.

Yet, given the immense impact that the G20’s handling of economic governance issues has on people all around the world, some might argue that this represents a significant failure of parliaments to fulfill a critical duty to their constituents. However, research also reveals that there is a range of parliamentary best practices that can be tried in order to engage more meaningfully with the G20. Exacting accountability from the G20 will entail collective action by parliaments, doing what they are already doing at domestic level and expanding it to international affairs. This will mean fuller exercise of existing powers and practices of parliaments, such as proactive use of powers of inquiry in ad hoc committees and more conscious use of opportunities for setting agendas and scheduling parliamentary debates. Additionally, parliamentarians need to reflect on their relationship with civil society. Both groupings care about the same people: where there is competition and distrust between parliaments and civil society, efforts should be made on both sides to empower each other in the interests of those people.

Participants in the debate that followed the panel presentations generally agreed that the G20 by the speed of its actions had provided an effective macroeconomic response to an unprecedented crisis situation. The crisis had also highlighted the urgent need for serious reform at the United Nations, one that can help it adapt to the present state of the world. There is no place for turf wars between the United Nations and the G20: the issues at stake are much too important, and the two bodies are quite different in nature. The dialogue between them must follow the paths already mapped out by the UK, Canadian and Korean G20 presidencies, which will also be pursued by the French presidency. A mutually beneficial relationship between the G20 and the United Nations will not happen as a matter of course; it will need careful oversight by various stakeholders, including parliamentarians, so as to ensure respect for the collective interests of our planet.

A small number of delegates expressed skepticism about the concept of mutual respect between the United Nations and the G20. On the contrary, they felt, the G20 has no regard for the United Nations and its universality. The G20 exists only, in this view, to serve the interests of its tiny number of members, while the United Nations tries desperately to establish – if not the utopian concept of equality – at least justice among nations.

Ambassador Park, in particular, disagreed with that view, recalling that the origins of the Group were not as a self-centred rich countries’ club; it had been set up as an urgent reaction to the Asian financial crisis in the late 1990s. However, a degree of fine tuning is needed to make the actions of the G20 beneficial to all, including the developing countries. He recalled that, in addition to the agenda item on development

issues, the Korean G20 presidency had added another: the financial safety network. In the wake of the financial crisis countries have accumulated huge dollar reserves for self-protection, which amounts, however, to a huge burden of unproductive money. Consequently the G20, at the suggestion of its Korean leadership, is examining the possibility of creating some form of reserve system which could alleviate that burden on the developing countries.

The following conclusions and recommendations emerged from the discussion:

- While its lack of inclusiveness and legitimacy is a major limitation of the G20, the United Nations has shortcomings, too. In particular, its pace of reform is too slow, and there is also some dissatisfaction with the extent of the reforms. Operating by consensus with 192 parties is also difficult, opening up opportunities for countries with a private agenda to block progress on purely procedural grounds. If the United Nations is to develop a strong and fruitful relationship with the G20 it must first show that it is able to reform its own processes to deliver quick and effective responses to global economic issues.
- However, responsibility for the slow pace of reform lies with the Member States of the United Nations. Something as far-reaching as Security Council or General Assembly reform involves political decisions that cannot be pushed through unilaterally by the Secretariat. Additionally, the major powers must be willing to bear the cost of such reforms. The IPU must play a role in all this by urging its members to work cooperatively and supportively on reform of the Organization.
- The IPU could contribute to enhancing the relationship between the United Nations and the G20 by calling for specific improvements in each body. That would demonstrate that there is a real expectation from the people, through their parliaments, for such improvements. The IPU should also be more pro-active when it comes to developing a parliamentary response to the G20.
- Most parliaments were not simply handed their oversight authority; they gained it over time through a lot of hard work. Parliamentarians should claim and exert a more robust oversight role at the both the national and international levels, even though that authority may not be fully spelled out in the law from the beginning.

Closing remarks

Dr. Theo-Ben Gurirab, President of the Inter-Parliamentary Union, recalled that he had been present at the United Nations in 2000 when world leaders, in the Millennium Declaration, had called for a presence of the IPU in the work of the United Nations, especially the General Assembly. The annual parliamentary hearings at the UN underline the importance of the partnership between the two institutions, one representing countries through governments and one doing so through parliaments. The relationship is on firm ground, indeed advancing from strength to strength.

The two days of debate had ended on the very challenging topic of the relationship between the United Nations and the G20. All were agreed that both bodies are here to stay, and thus the task is to find the best way for them to work together.

He called on all the parliamentarians present to continue to hold true to their duty as representatives of their electorate and as citizens of their countries, observing that the best-governed countries are those where the legislature and the executive share with the people the same sense of common purpose for the future.