

## **Theme**

**Enhanced public governance for fast and coordinated policy response and the need for a new international financial and economic architecture**

***“ROAD MAP TO A NEW ARCHITECTURE”***

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### **The Global Crisis**

Rapid and coordinated policy responses to major policy issues are no longer possible at only the sub-national and national levels. Enhanced public governance also requires taking into account neighboring countries, sub-regions and regions, as well as the international and global levels in the policy matrix. This applies to the fundamental policy issues of our time: water and food; inequality and poverty; financial and economic crisis; environmental decline and pandemics; energy, deforestation, desertification, climate change and global warming; organized crime, drugs, arms and terrorism; and, weapons of mass destruction, wars and threats of war.

This is the case because globalization has been too fast, the market has become too dominant, the State has become too weak, regulation too impotent, speculation too profitable, the virtual over real economy too multiple, financial capital too hegemonic, investment too short-term, monetary supply too astronomic, the reserve currency too undisciplined, debt too staggering, trade imbalances too chronic and political power too concentrated. These ills are interrelated through various vicious circles. The conclusion of this analysis is that globalization without global institutions is leading the world into chaos.

No single country can devise effective, rapid and coordinated policy responses to solve any of the basic problems. This applies to the United States of America as well as to Europe or Japan or China or my own country Nicaragua, as well as to all of the other developing countries.

We all inhabit the damaged financial and economic architecture that resulted from the New York financial services earthquake of September, 2008, whose tsunami reached every country in the World. The earthquake and ensuing tsunami registered over US\$50 trillion in accumulated wealth lost, almost a full year of global GDP. There are hundreds of millions of victims who have lost their jobs, pensions,

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savings, businesses, livelihoods, dignity and hope for the future. For the poor this translates into hunger, disease and death for millions.

The importance of the international level in the search for solutions makes it quite unfortunate that it has a proven inability to solve any of the major issues, not even one. At best stop-gap improvisations to limit actual or potential damage can be identified in largely ineffective, slow and poorly coordinated international policy responses as part of public governance structures in frank decline.

The current structure of world power is grid-locked by vicious circles of the ills previously enumerated. The ills cracked the always weak value and ethical foundations of the architecture and deformed its structures even prior to the earthquake. They now impede the obvious but daunting task of building a new architecture on solid value and ethical foundations with structures whose design assimilates what has occurred and what needs to be done.

There are major moral issues at stake. We will bequeath to our progeny a world considerably worse off than the one we inherited: environmental degradation and contamination, climate change and global warming, an economy that loses jobs massively in decline and creates few on the upswing, and children born into collective insolvency due to massive, inherited debt. The concepts of inter-generational justice and social justice have both been sacrificed on the altar of short-term greed.

However, we all know that the chances for the construction of a new international financial and economic architecture are slim indeed, due to the vicious circles of the ills, decision-making grid-lock and the hegemonic nature of the power structure. That portends a high probability for recurrent and escalating crises. Avoiding them is not possible without a new architecture. Achieving that will probably require successive crises far more catastrophic than the current Great Recession. However, not even to attempt to act with foresight in the face of imminent danger would be historically irresponsible and immoral.

The failure of the current generation of world leadership to rise to the occasion of the crisis is probably beyond repair. A shift from the generational beneficiaries of the crumbled architecture to a generation of its victims could create a new situation, unless they also prioritize their current creature comforts above the survival of future generations.

## **Road map to a New Architecture**

The premises of the roadmap are few and quite simple:

- 1) Global problems require global solutions
- 2) Global solutions require global financing
- 3) Global financing should be distributed globally
- 4) Global distribution should lead to enhanced public governance

### **1) GLOBAL PROBLEMS REQUIRE GLOBAL SOLUTIONS**

Global solutions cannot be found through the G-7, G-8 or G-20, or any such ad hoc grouping with no basis whatsoever in international law. No one would accept today at the national level that the richest and most powerful openly abrogate to themselves making decisions on behalf of everyone. Why should that be any more acceptable at the international level with G-20 or with the boards of directors of IMF or World Bank?

The United Nations is our last, best hope for enhanced public governance at the global and international levels, but it is hopelessly inoperative. The UN needs reinvention along the following, or similar, lines:

- The General Assembly should be strengthened as the international policy parliament of humanity. All international policy making bodies should be brought under the General Assembly. This includes IMF, World Bank, all other UN agencies and the World Trade Organization.
- The Secretary General should be directly elected by a two thirds majority of the General Assembly for a four year term, renewable once, and should be susceptible to removal by a two thirds no confidence vote at any time.
- The key positions in the Secretariat and all of the Heads of UN agencies (including the IMF and World Bank) should be elected by a two thirds vote of the General Assembly. Positions should rotate among regions and the regional groups should endorse their regional candidate.
- All important measures should be passed by a two thirds majority of the General Assembly. Consensus should no longer be considered necessary for approval.
- All measures involving sanctions or interventions should be passed by a two thirds vote of the General Assembly and of the regional group concerned.
- Peace should finally be declared for World War II and we should move on by abolishing the Security Council.

These measures would create a platform for enhanced public governance and fast and coordinated responses at the international level. However, they cannot be effective without global financing.

## 2) GLOBAL SOLUTIONS REQUIRE GLOBAL FINANCING

It is no longer possible for the same small set of countries to perennially finance international organizations, the international financial institutions, the multilateral agencies, bi-lateral aid, peace keeping operations, humanitarian assistance and disaster relief. Funds were not available for a global stimulus to the global economy in the current financial and economic crisis, opening the possibility of a double dip Great Recession. They will not be available either for the mitigation or adaptation required to confront climate change and global warming. The sums involved cannot even remotely be handled by the current financial and economic architecture. Nor is it desirable that international finance is based on the same small set of countries. It is their continued control over international finance that has led to the survival of neo-colonial power relationships into the 21<sup>st</sup> Century.

The world has global problems that require global solutions with global financing. The sources and means of financing should advance the objectives as well as provide financing for their solution. There should be no extraneous conditionality placed on the use of the funds to solve the priority problems.

The United Nations General Assembly should have the power of global taxation and the power to create commissions to manage global public goods in the interest of all humanity. To assure global acceptance and legitimacy it is recommended that the General Assembly vote a two

thirds majority three times on global taxation and global public goods issues. The first vote by the General Assembly with one nation one vote is the legal basis. A second vote with all countries having one vote plus additional votes in accordance with their proportion of the world's population (See Annex A). In the third vote each country has one vote plus additional votes in accordance with their proportion of World GDP (See Annex B). The two additional votes are necessary because countries with large populations and/or economies will be contributing the overwhelming majority of the taxes, fees and fines legislated. It is therefore critical that their citizens and governments consider that the measures are fair and legitimate.<sup>2</sup> All countries rights are protected in the first vote of the General Assembly in that only with two thirds of all nations can any legislation advance to the second and third votes on global taxation and public goods issues.

The most promising global taxes are:

- 1- Global Carbon Tax
- 2- Global Soil, Air and Water Pollution Tax
- 3- Global Deforestation Tax/ Reforestation Tax Credits
- 4- Global Financial Transactions Tax

The most important commissions for global public goods are:

- 5- Global International Waters Commission
- 6- Global Space Commission
- 7- Global Cyberspace Commission
- 8- Global International Antarctica Commission

Each of these taxes and commissions should improve the environment and reduce world inequality. They will also allow for the collection of taxes and concession, license and usage fees and fines for international finance. The sum of the funds generated will total in the trillions and be applied to enhanced governance at all levels.

### 3) GLOBAL FINANCING SHOULD BE DISTRIBUTED GLOBALLY

The United Nations General Assembly budget that must be approved by a two thirds majority of all of its members will allocate global finance to the U.N., UN agencies, regional organizations and nation states. Nation states will in turn redistribute to the sub-national and community levels.

A Global Stability Fund will seek to maintain financial and economic equilibrium that reduce inequalities. Poorer regions and nation states will receive more funding as compensation to reduce asymmetries through a Global Equality Fund. The General Assembly and ECOSOC will

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<sup>2</sup> In the distant future the "Population Vote" (Annex A) could evolve into an elected Lower House and form a bicameral parliament with the General Assembly which would be the Upper House of the governments of the world with one country one vote. At that time perhaps world inequality might have been reduced to the extent that the "Economic Vote" (Annex B) could be abolished altogether.

be advised on the Stability Fund and the Equality Fund and other economic issues by a Global Economic Coordination Council of experts.

A Global Environment Fund will directly counteract environmental decline throughout the world. A Global Warming Fund will directly finance mitigation and adaptation actions throughout the world. A pro-poor, green economy will be receive a strong stimulus from these Funds. Countries will also receive a percentage of the global taxes collected in their territories as well as compensation for their role in global tax collection.

The funds collected will be converted into a new reserve currency based on a basket of other currencies and/or basic commodities. It could be based on the current Special Drawing Rights of the IMF or a totally new currency. This will give the United Nations and not a single or small group of countries the right of international seignorage. UN emissions can produce non debt, non interest bearing finance for global investments based on the needs of humanity by direct spending. The most basic investments for survival must be made on the basis of the prioritization of global human needs and not on their rate of return. The green economy must happen whether it is competitive or not. We have already wasted 40 years since the 1970's waiting for alternative energy to become more profitable than fossil fuels.

#### 4) GLOBAL DISTRIBUTION SHOULD LEAD TO ENHANCED GOVERNANCE

The strengthening of the United Nations politically and financially will enhance international governance and initiate some forms of global governance (for example, global taxation and global public goods managements).

The regional level will also be strengthened. Indeed, the world will emerge from the current Great Recession less globalized and more regionalized than was the case prior to the crisis, with or without reform at the international level. The reasons follow:

- The uncanny coincidence that all global and international organizations wind up controlled in one way or another by the United States and Europe. If the COP-15 and CPM-5 2009 meetings in Copenhagen are any indication, they now also want to extend this to international conferences and their outcomes. Regional organizations represent a way to avoid this situation.
- The lesson of 2007-2009 that speculation in basic products (food and oil) and deregulated derivatives (Collateralized Debt Obligations CDOs and Credit Default Swaps CDSs) in a few hegemonic financial centers could lead to hedge funds and investment banks making hundreds of billions in yearly profits at the expense of trillions in losses for the entire globalized, world economy.
- The fear that the United States will pass on the cost of the current crisis represented in its huge (US\$14.5 trillion) and rapidly growing (US\$1.8 trillion in 2010) debt to the rest of the world via devaluation and inflation of the dollar, as it did to Latin America in the 1980s via interest rate hikes that led to the "Lost Decade" (-1.9% contraction of the aggregate Latin American economy in the decade).
- The desire to reduce exposure to the dollar as the reserve currency in order to protect their interests given the fear of dollar devaluations and inflation, as well as to achieve discipline in

international finance through the imposition of financial discipline on the U.S.A. Regional reserve mechanisms such as Banco del Sur or Banco del ALBA in Latin America can also allow a portion of national reserves to work for national and regional development instead of engrossing the balance sheets of US and European reserve currency banks.

- The attempt to minimize exposure to a global architecture that contains the “super bubble” of the US\$ 605 trillion in notional value of unregulated Over the Counter (OTC) derivatives (Bank of International Settlements data), held overwhelmingly by U.S. entities, that represent a virtual economy 10 times the size of the real economy. The market value of the OTC derivatives is US\$ 25 trillion, 43 % of the global GDP. These innovative financial instruments have an established history of creating crisis situations. Collateralized debt obligations largely contributed to the US\$600 billion 2008 bankruptcy of Lehman Brothers. Derivatives led in 1994 to US\$1.6 billion in losses for Orange County, California. In 1998 derivatives led to the crash of the hedge fund Long Term Capital Management (LTCM) and a US\$3.6 billion bailout organized by the Federal Reserve Bank of New York to save Wall Street Banks exposure to LTCM. Derivatives also bankrupted in 2008 the largest insurance company in the world, AIG, and the U.S. Federal Government floated a US\$182 billion bailout to pay AIG’s counterparties consisting of over a dozen banks headed by Goldman Sachs, Deutsche Bank, Merrill Lynch, Société General, Barclays, Rabobank, Danske, HSBC, Royal Bank of Scotland, Morgan Stanley, Wachovia, Bank of America and Lloyds Banking Group. In sum, derivatives have earned the title Warren Buffet gave them of “economic weapons of mass destruction” and represent an unregulated, systemic risk to global finance.

- The desire to reduce the economic weight of international financial capital that no longer provides financial intermediation and risk management services at a reasonable cost, but which rather has become a major profit accumulator. In the 1980’s the Financial Services Sector received on average 6% of total world-wide corporate profits while in 2007 this had risen to 40%. (UNCTAD). Both the Head of the Financial Services Authority of the United Kingdom and the President of the Bank of International Settlements of Basilea have looked favorably on the Financial Transactions Tax for the purpose of reducing the currently disproportionate weight of finance capital in the economy.

- Regional and bi-national mechanisms for the conciliation of trade can lead to annually balanced rather than perennially imbalanced trade, using regional or national currencies. An example of the former is the SUCRE trade compensation and regional currency of the Bolivarian Alliance for our America, best known by the Spanish acronym ALBA. Bi-lateral trade compensation agreements using national currencies include agreements between China and Brazil, Argentina, Uruguay and Paraguay. Brazil and Argentina also have such an agreement among themselves. In this mechanism, the party with a surplus is compensated in the national currency of the party with the deficit which is then used to finance imports that balance out the trade.

- Another relevant process is the experimental regionalization of the Chinese Yuan in Guangdong and the delta of the Yangste River for trade and reserve purposes with Hong Kong SAR, Macao SAR, ASEAN as a group, Malaysia, Indonesia. South Korea and the extra-regional partners of Belarus and Argentina.

- The creation of regional stabilization mechanisms such as the Chiang Mai Initiative of ASEAN and Chiang Mai + 3 (ASEAN plus China, Japan, South Korea) that has a US\$120 billion reserve so as

to avoid falling into the clutches again of the IMF with its one size fits all pro-cyclical policies as occurred to all of the South East Asian countries, except Malaysia, in the 1997 crisis, The Initiative provides a regional standby loan facility without conditionality. This is commonly seen as the precursor of an eventual Asian Monetary Fund.

- The objective of slowing and possibly reverting the net capital outflow from the developing countries to the developed countries which totaled US\$568 billion in 2009 following on US\$891 billion in 2008, for a two year total of almost US\$1.5 trillion. (UNDESA data).
- The desire to participate in the cutting-edge finance for development mechanisms that are emerging not from North-South “external cooperation” but rather from South-South Solidarity at the regional level. An outstanding example are the Oil Agreements with Venezuela whereby 9 ALBA countries and 19 PETROCARIBE countries get half their oil bill financed for 25 years, 2 years grace period and 2% interest per annum. This converts half the oil bill which for small, poor countries is the greatest brake on growth into development finance for social and economic infrastructure and poverty reduction without extraneous conditionality. This is the most promising innovation in development finance in the world and could accelerate global poverty reduction if other oil exporting countries would adopt similar policies or if an international facility with the same effect were to be established.

The sum total of these measures, most of which are not plans but rather on-going processes, will with time transform world trade and capital flows to the point that the countries that now resist new reserve currency and trade arrangements will themselves convene a Bretton Woods II to attempt to save their declining positions.

Within this new architecture, the national level will have regional, international and global political and financial supports, including guaranteed, stable and predictable income, without extraneous conditionality, with which it can undertake fast and coordinated policy responses in interaction with the sub-national level. This as part of enhanced governance at the regional, international and global levels as well, permitting fast and coordinated policy responses within and between levels. For example, a policy on Chlorofluorocarbons (CFCs) at the international level (U.N. General Assembly) can be applied at the regional, national, sub-national and community levels with global financing at all levels. This is the way our global problems can begin to have global solutions through global financing.

It will be said that this road map is utopian which indeed it is. However, utopias are necessary. They are like stars in the night. We can never reach them but they allow us to navigate in the darkness. They give us our heading. Without them all would be darkness and we would lose our way.