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UN panel calls for new global reserve, credit systems to avert future crises

General Assembly President Miguel d'Escoto Brockmann (right) and Joseph Stiglitz

10 September 2009 – A high-level United Nations commission on the world financial crisis today called for a new global reserve system that does not rely on a single currency like the dollar, a new global credit facility to complement the International Monetary Fund (**IMF**), and a new global coordination council that would be more inclusive than the current G20 bloc of countries.

"This was not just a problem of something going wrong with the plumbing, and you call in a plumber and you unclog the pipes and everything goes back to where it was," the commission chairman, Nobel Prize-winning economist Joseph Stiglitz, told a news conference ahead of the release of its report on 22 September.

"These problems reflect deeper systemic problems that have to be addressed and we cannot and we should not go back to the world as it was prior to the crisis… the crisis highlights many inadequacies in our in our global financial architecture."

Even after fixing the banking crisis there will most likely going be a problem of insufficient aggregate demand to stimulate the global economy since savings rates are already increasing in the United States, "which may be good for their balance sheets, but it means that the problem of aggregate demand is quite serious," he said.

Much of the current help to developing countries is in the form of loans, with much of what the IMF gives in short-term loans, but developing countries do not want to go back into debt. "One of the concerns that the Commission had was the belief that there should be a diversity of mechanisms through which funds are disbursed," Mr. Stiglitz added.

Turning to the idea of a new global economic coordination council, he said it would "help identify problems in the global economic structure, propose alternative ways of addressing those problems."

He cited the need for coordination in regulatory structures. "The notion of self-regulation… is really rather absurd. It became part of the prevalent paradigm but it was clearly wrong," he stressed.

“It’s going to require rethinking a lot of the premises in the way people thought of economic policies. For instance, a mantra was capital market and financial market liberalization, a kind of extreme deregulation, but we now know that that was wrong.”

Mr. Stiglitz said that in a world of globalization it does not make sense to have a single currency, the currency of one country, as the basis of a global economic system. “It makes sense to move towards a global reserve system… [that] would be both more stable, would help invigorate global aggregate demand and would actually be more equitable than the current system,” he added.

“Under the current system developing countries are lending trillions of dollars to the reserve currencies, to the United States, at essentially zero interest rates. Now it’s a kind of foreign aid to the United States, and some people might say the United States needs some foreign aid, but it’s not what you might call an equitable system. A global system would increase the stability of the financial system. Everybody would benefit.”

The panel of experts from various disciplines is known officially as the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System and Assembly President Miguel d’Escoto said it had now provided “a comprehensive analysis” on all issues discussed at the meeting on the crisis that he convened in June.

It will serve “not merely to restore life to our economy, but even more, to build a global ecology that offers hope, economic security, and sustainability not for a few, but for all of our brothers and sisters on this planet,” he added.

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