

10 May, 2009

From: Gemma Adaba

MEMO

Re: A Tale of Two DODs (Draft Outcome Documents)

In my Email of Friday 8 May, I promised to provide comments on the Official DOD released that day by the PGA, and the leaked text of the Co-Facilitators which, in breach of due process was never tabled, and officially does not exist. Here they are.

The Co-Facilitators' DOD

The Co-Facilitators' text would, in principle, have provided a reasonably satisfactory basis for negotiations, although it starts off from a cautious analytical base in terms of identifying the root causes of the crisis, and consequently lacks the strong development focus of the Stiglitz Commission Report, and push for solutions that prioritize policy space for developing countries, and clear development outcomes, including through a comprehensive range of systemic and global governance reforms. It takes a pragmatic and incremental approach to reforms, and attempts to position the UN within the global governance context of “ongoing work of established forums and mechanisms for resource mobilization, surveillance and regulation, coordination of policy action“, recognizing that this work needs to “be improved upon according to [the] respective mandates and procedures [of the UN as well as economic, financial and trade institutions], and that the process of institutional and systemic reform will be shaped by existing international agreements.” **Significantly, it explicitly recognizes the competence of the ILO in providing a global response to the jobs crisis, through “a Global Jobs Pact on the Decent Work Agenda.”** (para 45)

The Co-Facilitators' DOD recognizes the tremendous human costs of the crisis, including people's loss of jobs, incomes, homes, and signals the disproportionate impacts on women. It highlights a number of negative impacts at macro-economic level, including severe economic contraction, dwindling FDI, severe reductions in world trade, massive withdrawal of capital flows from emerging and developing countries, growing budget deficits and falling tax revenues, drastically reduced access to credit and trade financing, declining remittances. The analysis of the root causes of the crisis is quite broad and general, and limited to one paragraph. (para 7). The DOD situates the causes of the crisis in the failures in regulation and oversight of the financial sector, irresponsible leveraging and risk-taking including in the shadow financial system, and the pursuit of unsustainable profit at the expense of equitable human development.

The DOD proposes a number of priority areas for decisive action, and elaborates on these, including greater coordination among countries of their stimulus action plans, allowing policy space and national ownership of development strategies, and creation of new funding and liquidity facilities and front-loaded instruments for developing countries, with disbursements for infrastructure investment and countercyclical policy measures. The IMF's moves to "modernize conditionality" are hailed as a positive step in facilitating the implementation of such measures. The DOD further recommends south/south cooperation, highlighting as a plus, the responsiveness of regional and sub-regional institutions to the constituencies they serve.

The DOD stresses the need for social safety nets, social protection and food security, and calls for increased resources for the World Bank's Vulnerability Fund in that regard, as well as for a joint UN system-World Bank mechanism for implementation of the Fund. The draft calls for increased support for the Secretary General's High-Level Task Force on the Global Food Security Crisis, as well as for initiating work on a Charter for Sustainable Economic Activity.

The DOD incorporates the recommendations of the Stiglitz Commission Report for a multi-stakeholder Panel of experts to provide advice to the GA and ECOSOC on global economic, finance, trade and regulatory issues, as well as for a Global Economic Council. But apart from that, very little from the Stiglitz Commission Report is reflected in the Co-Facilitators' text. While they did consult Member States widely, they undoubtedly made the political assessment that lowering the bar on reform-oriented proposals would be better in terms of increasing chances of building consensus towards an agreed outcome document. The thrust of the PGA's intervention in launching his DOD was to imply that this was a wrong judgement call. It was better to start off the negotiations by raising the bar, and this is what his DOD purports to do.

The PGA's DOD

The PGA's DOD, **the** Document officially on the table for negotiations, takes the high moral ground and is hard-hitting in terms of identifying the causes of the crisis in, among others, the "speculative binge" that drove up energy and food prices, the "unlimited avarice" inherent in the systematic trends in deregulation since the 1980s, "the anti-values of greed, individualism and exclusion." and "the limitless, endless, mindless accumulation of wealth in a profit centered economy" that ignores the need for "a people centered economy that guarantees human needs, human rights, and human security, as well as conserves life on earth." Paragraph 1 of the DOD pretentiously dubs the Conference as a second Bretton Woods Conference, and para 2 gives a prominent role for the PGA in presenting **his Outcome Document** to Heads of State for approval, taking into consideration broad-based consultations, and an "an inter-governmental negotiation process."

It further seeks to ensure that the PGA of the current 63rd session of the GA, as well as his technical team and Commission of Experts have a continuing role during the 64th GA. It therefore charts out an unusual set of procedures that run contrary to the member-driven

negotiating processes characteristic of the GA, where the outcome document is the result of a negotiating process among Member States. Para 2 makes negotiations out to be only part of a broader process. This approach, coupled with the PGA's outright rejection of the Co-Facilitators' text, will be quite troubling to Member States. No one quite knows where all of this will lead.

That said, the body of the DOD reflects much of the Stiglitz Commission Report, making a compelling case for a departure from business as usual, calling for coordinated measures that decisively address the underlying factors at the root of a crisis that seriously challenges our civilization, and proposing a reform agenda along six priority lines of action: (para 17)

- 1. Global Stimulus for Restructuring and Survival**
- 2. Finance for Restructuring and Survival**
- 3. Emergency Trade Stimulation and Debt Relief**
- 4. Global and Regional Reserve Systems**
- 5. Regulation and Coordination of Global Economy**
- 6. Restructuring International Institutions**

The DOD then goes on to flesh out the measures under each line of action, highlighting the considerations underlying them. The **Global Stimulus for Restructuring and Survival** prioritizes countercyclical measures, physical and social infrastructure investments that generate employment, and that focus on the green economy and small scale agricultural production.

The **Finance for Restructuring and Survival** section states that the funding pledged by the G20 summit is inadequate, makes the case for higher funding levels (\$3 trillion annually to fund the Global Stimulus Plan, and outlines a menu of possible sources of financing including SDRs, IMF and World Bank funding, regional sources, innovative forms of funding, Government non-debt, non-interest bearing emissions for infrastructure investments, and ODA. It goes on to flesh out how these various sources could work for the benefit of development, and highlights the need for inclusive banking and governance arrangements.

The **Emergency Trade Stimulation and Debt Relief** section calls for the rapid implementation of measures already agreed in multilateral trade agreements that would help developing countries weather the crisis, including: implementation of duty-free, quota-free market access for products originated from LDCs, and the elimination of all forms of developed country export subsidies. The immediate abolition of agricultural subsidies is hailed as “the most effective stimulus for developing country agriculture.” The debt relief sub-section argues that addressing the issue of debt is integral to strengthening the capacity of developing countries to implement countercyclical measures. It proposes a range of solutions, including debt moratoriums, and partial debt cancellation where appropriate, within the framework of a new Sovereign Debt Restructuring Mechanism (SDRM) The United Nations Commission on International Trade Law is proposed as a model that could be used for the harmonization of national

legislation on cross border disputes dealing with trade in financial services, and for the creation of a new International Bankruptcy Court to handle cross boarder bankruptcies.

The **Global and Regional Reserve Systems** section highlights the inadequacy of a reserve system based on one or a small group of currencies, and recommends the creation of a new Global Reserve System based on greatly expanded SDRs, with distribution of SDRs based on a democratic, needs-based formula rather than IMF quotas. This will contribute greatly to global financial stability and equity, according to the DOD.

The **Regulation and Coordination of the Global Economy** section is quite extensive, calling for, among others, the regulation of tax havens and financial centers in both developed and developing countries, OTC derivatives, equity funds and hedge funds. Institutional arrangements for this regulatory environment include existing ones such as the United Nations Convention on Corruption and the United Nations Committee of Experts on International Cooperation in Tax Matters which should both be strengthened, as well as new ones: A Global Financial Products Safety Commission could be tasked with assessing the safety, risk level and appropriate use of different financial instruments. To promote more effective global cooperation in financial and competition regulation, including oversight and limiting the size of large institutions a Global Competition Authority is called for.

The **Restucturing International Institutions** section covers the familiar ground of increasing voice and vote of developing countries in the IFIs, and democratizing procedures for selection of the top executives of these institutions. Ensuring broad representation in the Bank of International Settlements and the Financial Stability Forum is also covered in this section. Finally, the Global Economic Coordination Council is charged with coordination, harmonization and general oversight.

General Comments

The PGAs DOD provides a set of ambitious proposals to respond to the crisis. It could be difficult to garner broad consensus on these proposals, especially since the PGAs approach and departure from established protocols has nettled, if not alienated many member states. In a forthcoming policy Statement, I think we should, nevertheless, support the worthwhile proposals from a trade union perspective contained in both DODs. Notably, we must support the ILO Jobs Pact and Decent Work Agenda as outlined in the Co-Facilitators' DOD, seeking to provide a strong case for proposals in that regard.