Global Economic Governance Conference

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The global financial crisis and its economic and social consequences evidenced the importance and urgency of dealing with global governance issues that have long remained unsolved: What should the appropriate national and regional response be during a recession? How can the international community better coordinate the macro responses in a legitimate and institutional way? How can we strengthen financial regulation, nationally and internationally? These and other crucial questions were addressed by the policy-makers, scholars, analysts, and multilateral institution officers who gathered at the Global Economic Governance Conference organized by the Initiative for Policy Dialogue (IPD) and the Foundation for European Progressive Studies (FEPS) at the Brookings Institution in Washington, DC on October 7th and 8th, 2010.

The conference was part of an ongoing effort of IPD's Governance of Globalization Task Force to stimulate debate on crucial global economic governance issues, as well as FEPS' commitment to seek out fresh thinking in reshaping and reorganizing the economy in a more progressive, equal, and balanced way. As Mr. Poul Nyrup Rasmussen stressed in his keynote inaugural speech, political players must understand that the global financial crisis deserves a political economic response in accordance to the magnitude and character of the crisis. He also stressed that progressives should be clear that creating jobs in developed countries should not be seen as in conflict with those created in developing ones, but that they complement each other.

This report sums up the most relevant points from the presentations and discussions of the conference.
The first section reviews the discussion on institutional issues for global governance, while the second section presents the panel ideas on macro-governance. The third section draws from Joseph Stiglitz's keynote speech the second day of the panel, titled "Curing Global and Regional Imbalances". The fourth section summarizes the panel on finance and development, while the fifth section presents the arguments discussed on the panel on trade. The final section presents the main points stated at the public and concluding panel: "Global Economic Governance for World Development". The full presentations and discussions of the public panel can also be seen on www.policydialogue.org.

Discussion on Institutional Issues for Global Governance

Massimo d'Alema opened the first panel by stating that reform is a question of necessity. He affirmed that incorrect ideas such as self-regulating markets and social order without state involvement were a great illusion, which had affected progressives and conservatives alike, and he called for the need to build a new financial architecture and a monetary system to ensure sustainable development. He stressed the need to have global public goods in the center of global economic governance. To achieve this, he pointed out that the European Union provides an example of cooperation at the supranational level, and that a more integrated Europe could play a better role in global governance. He finally argued in favor of reform for global institutions to improve their accountability and legitimacy. He suggested that a triangle of G20,

UN, and IMF should be formed in which the three complement each other. He was particularly in favor of expanding voting power for emerging countries and one seat for the EU.

In his intervention, Pravin J. Gordhan highlighted the importance of first identifying and agreeing on the meaning of global governance reform, since a traditional view would argue in favor of only rebalancing the relationship between China and the U.S., while a more modern view would consider that a broader reform should be done. There is a crucial need to agree on what is meant by progressive global governance. It would be futile to talk about new global architecture unless it's informed by a body of thinking that supports equitable and sustainable growth under a new synthesis of economic thought, as Roy Culpepper pointed out. Gordhan mentioned several obstacles that needed to be addressed to conduct reform. For example, he mentioned that all institutions needed to make decisions faster and in a more efficient way. Cultures that are embedded in international organizations need to be slowly changed, and power structures should be rebalanced to embrace a plurality of ideas, backgrounds, and geographies. Along this line, Heidemarie Wieczorek-Zeul, Jose Antonio Ocampo, Maria Joao Rodrigues and other participants, stressed the need to find a better and more equal way to include developing countries in global institutions, given that the G20 does not legitimately represent 172 countries. Heidemarie Wieczorek-Zeul also encouraged discussion on further strengthening the Economic and Social Council to enable it to fulfill the role ascribed to it in the Charter of the United Nations, as agreed at the International Conference on Financing for Development in Monterrey, Mexico in 2002, the Monterrey Consensus. The Council should fill gaps in issues where the World Bank, IMF, and WTO conflict. Maria Joao Rodrigues agreed with the proposal, adding that as per the Stiglitz proposal to the General Assembly, the composition of this global economic coordination council should be very specific.

Contrary to the general view that the G20 should be more institutional and perhaps linked to the UN to have more legitimacy, Ngaire Woods argued in favor of the G20 by mentioning its benefits. Woods stressed that the G20 was swift in its response to the crisis and has been good at distributing tasks across different organizations in a timely manner. She said she considered the G20 not only a decision- making body but also an effective agenda-setting group. The G20 could be a crisis committee, while the international organizations make, implement and monitor policies. The G20 and international organizations are not mutually exclusive, but rather, complements to each other. José Antonio Ocampo disagreed, stating that the G7 and the G20 sidetracked other international organizations, and that all the decisions made by the G20 could have been made by the IMF. Woods countered by saying that if the IMF had been the one to decide to issue additional resources, it would have taken years to respond. Other participants (such as Massimo d'Alema) continued to stress that the G20 needed to fix some of its legitimacy problems, such as better representation of developing countries– poor countries are not represented at all (according to Gordhan and Wieczorek-Zeul). Ocampo added that the proposal to enlarge the G20 would not solve the problem because it weakened international organizations, which should be the basis for global decisions. Arturo O'Connell held that the problem with the G20 is that it imposed on developing countries what the IMF was unable to. "We were told that we should set the example to other countries."

Woods, however, was less enthusiastic about strengthening global financial architecture, since she questioned the legitimacy of the Bank of International Settlements (BIS) and the Financial Stability Board (FSB) as true global institutions. She called for robust measures at a national and regional level, before seeking a new global architecture. Stephany Griffith-Jones disagreed with the idea of waiting for the FSB and other supranational financial regulatory institutions to be more representative before giving them more power. "As of now we are hostage to arbitrage and volatile global capital flows. The only ones represented in financial global architecture are financial markets. If that is the situation, then it's better to have stronger global regulation," she said.

Espen Barth Eide, Sony Kapoor, and Arturo O'Connell pointed out the political difficulties ahead. Kapoor mentioned that the EU, being the most comprehensive and complete governance mechanism, still had not been able to act fast or guarantee good regional outcomes and that limited results would be achieved at the global level. "Bureaucracies and ideas die hard," O'Connell said. Barth Eide stressed the need to discuss what the most politically feasible or acceptable solution was, rather than the desirable characteristics of the most effective mechanism.

Finally, during his intervention, Murilo Portugal mentioned some of the reforms and measures taken by the IMF in the financial crisis. In terms of lending, the IMF has increased resources without conditionality, eliminated interest payment on loans for two years for low income countries, and has created a precautionary credit line for countries with good economic policies with almost no conditionality. In terms of surveillance, the IMF is discussing a new multilateral instrument to tackle the "spillover effects" of policies of systemic countries. In terms of governance, he argued that the IMF is the "G192", and that in 2008 there was a 3% shift of voting power to developing countries. He highlighted that change has also come in policy advice: "We recognized the importance of fiscal stimulus because we realized that monetary policy alone was insufficient with interest rates nearing the zero boundary." Critics, however, argued that the financial resources allocated in times of crisis were not enough, that lending to low income countries was still insufficient, and that ideology needed to change further.

Discussion on Macro-governance

José Antonio Ocampo started the discussion by highlighting the main problems of the international monetary system: 1) Asymmetry of adjustment tilted against deficit countries (surplus countries are not forced to adjust); 2) The world is hostage to U.S. domestic policy since the dollar is the reserve currency; 3) The self-insurance policy of developing countries, though rational from individual countries' points of view, fuels global imbalance.

The issues Ocampo considered important for the discussion include exchange rate regimes and capital account regulation, as well as the macro-governance system. In regards to the exchange rate regime, he mentioned that the high exchange rate volatility needed to be addressed and alternatives such as the targeted system proposed by John Williamson some years ago should be considered. Capital account regulation is central for the discussion, since it is a major issue for developing countries. There is a structural imbalance that forces developing countries to have higher exchange rates than developed countries and that drives capital flows to emerging markets. It is necessary to discuss what capital control measures imposed by developing countries would be acceptable for developed countries, as well as cross-border finance issues. John Williamson added that excessive capital inflows which are motivated by cyclical factors should be prevented.

In relation to the current monetary system, Nelson Barbosa added two more reasons why the system leads to more reserve accumulation. He stated that major emerging economies build-up reserves to avoid IMF borrowing and conditionality, while others support their export-led growth model by avoiding currency appreciation. In addition, since depreciations are only allowed via traditional restrictive monetary policy, but not by intervention in the foreign exchanges market, the only option is to accumulate reserves. He pointed out that the alternative would be a more democratic or more collaborative system, maybe based on SDRs. The discussion, however, is based in the unit of account, but does not deal with money issuance. Unfortunately, it is not easy to see how money will be created and what will back-up SDRs. John Williamson pointed out that the U.S. proposed the $250 billion SDR allocation last year, and therefore was not holding back on the use of SDRs. Other developed countries, particularly Germany, were showing some resistance. According to Williamson, developing countries are the ones who would benefit from additional allocations of SDRs and could make these more likely by holding a large part of their precautionary reserves in this form.

Ocampo mentioned that outside of Europe, there seems to be no coordination and little discussion on what the correct fiscal policy should be during the recession. Nelson Barbosa added that behind the currency wars, there is a desire to recover faster from the financial crisis and that there are only two ways to jumpstart the economy: to rely on fiscal policy or to try to devalue your currency to recover competitiveness. However, this may result in wage compression and reduced purchasing power without a true recovery. The ideal would be a progressive solution, but if this is not possible, a more plural structure should be aimed at and this can be promoted via the G20 and/or global institutions.

Referring to macro-governance collaboration, Ocampo mentioned that the main view has been that national policies are the ones that matter, with only some recognition that international coordination is needed. Is this the best agreement? A global governance system is an unsettled and insufficiently discussed issue, he said. Ocampo thus suggested mechanisms of coordination between different agencies in the international system. The main issue, he concluded, is that the IMF, World Bank and World Trade Organization should be part of the UN system to allow better coordination.

In the final intervention of the panel, Justin Yifu Lin presented arguments against three of the most common causes used to explain global imbalance. First, he argued that East Asian economies have adopted export-led growth models since 1960s. Therefore, the East Asian export-led growth strategy was not a cause of global imbalance. Secondly, he dismissed self-insurance motivation after the Asian crisis as a cause of global imbalance by stating that countries such as Japan and Germany have increased their trade surplus in the past year and are clearly not pursuing self-insurance motivation. In addition, China's surplus is too large to be solely explained by self-insurance. Third, he argued that China's exchange rate policy was not a cause of global imbalance give that China's trade surplus increased until 2005. Also, China's currency appreciated against the U.S. dollar by 20% in 2005-08 but during that time the U.S.-China imbalance increased substantially.

In his discussion, Lin offered alternative hypotheses to explain the global imbalance. He pointed out that the Fed's low interest rate policy after the burst of dot-com bubbles in 2001 could have caused the imbalance. Secondly, the lack of appropriate regulation due to deregulation in the 1980s, which led to over risk-taking, high leverage, and bubbles was also a factor. Third, the over-consumption in U.S. households and rising U.S. public sector debt contributed to the global imbalance. And lastly, the ability of the U.S. to run a persistent and large current account deficit because it had a reserve currency contributed.

Robert Kuttner argued that China was not setting the renminbi by free market mechanisms and that it avoided consumer imports, artificially depressed wages, and subsidized exports – even against its obligation to free trade as member of the WTO. Joseph Stiglitz commented that it was difficult to determine what a general equilibrium market rate would be, given the volatility of foreign exchange rates.

Roy Culpeper added that letting China float its exchange rate could create important economic distortions in the country. In response, Lin further argued that a sharp appreciation of the yuan would create a greater global imbalance given the structural setting of export and imports. He stated that the U.S. would continue to import from China but at a higher price, making the deficit even larger. John Williamson disagreed with this last argument, saying that if U.S. imports are assumed to be very price inelastic, then Lin was simply arguing in favor of an even larger appreciation of China's exchange rate to force adjustment. However, Williamson stated that it is not clear that China is following a mercantilist approach, but rather a self-insurance strategy with the end result of increasing reserve accumulation. He added that both China's and U.S.'s economic policies are to blame for the global imbalance, not only China's.

In relation to improving global governance to address the current imbalance, José Antonio Ocampo stated that the agenda of macroeconomic management is a total disaster, particularly in a world in which emerging markets will grow faster than high-income countries. As of now, emerging markets are intervening heavily in foreign exchange markets to avoid disruption and volatility. "They are in the business of intervening between private capital flows and US treasury securities, which is ridiculous," he said. Stiglitz added that large changes in prices and volatile capital flows have large welfare and distribution costs.

Ocampo concluded by saying that the rules of the game needed to be set up and a decision made on coordination. "If we are serious about coordination, let's allow full capital mobility with multilateral rules. If not, then the best arrangement would be minimum rules in the macro-level with the allowance for more national policy space for countries".

Curing Global and Regional Imbalances

Joseph Stiglitz opened the second day of the meeting by speaking about curing global and regional imbalances through the need for selective coordinated recovery packages. In his keynote speech, he presented different indicators and figures to explain why economic recovery is weak. Overall global economic recovery is weak and anything normal is years away, he said. For example, growth forecasts for the U.S in 2009 shrank by 2.9%; in 2010 the economy was projected to grow at 2.6%; but in 2011 and 2015 it is projected to grow at 2.3% and 2.5% respectively. Further, the IMF forecast for average GDP growth in the euro area in 2010 is 1.7%. Even so, output will remain well below that in 2008. The IMF forecast for 2011 is that a second dip will be avoided, but that there will be a significant slowdown in growth of 1.5% in the euro area.

Stiglitz felt more pessimistic about the U.S. due to the continuing weak labor market. From May through August, the jobless rate remained in the range of 9.5% to 9.7%. Government employment has fallen, since 114,000 temporary workers hired for the decennial census completed their work, while private-sector payroll employment continued to trend up modestly (+67,000). Within socioeconomic groups, youth unemployment is higher than the national average and the unemployment rate for African Americans is over 50% higher than the national average. Mortgage foreclosures continue, transforming homes from major assets to liabilities for American families. Lenders took back more homes in August than in any month since the start of the U.S. mortgage crisis. In all, banks repossessed 95,364 properties in August, up 3% from July and an increase of 25% from August 2009. Bank failures are also a key contributor to the weak economy, since banks were still on the FDIC's "problem list" in 2010 and credit has not been restored to pre-crisis levels.

The basic problem is that before the crisis, a consumption boom fueled by a credit bubble sustained the global economy. Savings rates fell to zero and now in the second quarter of 2010 savings are at a 6% rate. Neither consumption nor investment is filling the gap. Exports may fill the gap, but only if Europe grows. Unless there is some form of stimulus, both Europe and America will be in trouble. Stiglitz further warned that unless growth exceeds 3-4%, unemployment wouldn't come down, with long-term effects. If Europe succeeds in embarking on fiscal austerity, economic recovery may be jeopardized

Considering this situation, Stiglitz asked three questions: What are the alternatives to fiscal stimulus? Why might the stimulus not work? Can we afford a stimulus? To address the first question, he explained that even though monetary policy could in some circumstances be an alternative to fiscal stimulus, it is largely to blame in creating the crisis through false growth and that so far quantitative easing has not lead to economic recovery. At this point, small changes in interest rates will not change large business's decisions to invest, while small businesses get money mediated through an unrepaired banking system

and thus pay much higher interest rates. Another alternative to fiscal stimulus is competitive devaluation of exchange rate, although competitive devaluation only works if not everyone does it.

Stiglitz addressed the question of whether the country can afford stimulus by replying that we cannot afford not to do it, and that it will work. The argument from the right that government spending will crowd out investment and lead to higher interest rates is absurd, he said. On the contrary, some forms of stimulus can take advantage of changing inter-temporal prices, such as temporary investment tax credits, and lead to further private investment.
Stiglitz explained how global imbalances also cause problems for economic recovery. Some countries are producing more than they are consuming. For example, Germany in 2009 had a total consumption of \$2.698 trillion, or 79% of GDP. In the same year, China's total consumption was \$2.284 trillion -- only 46% of GDP. The other problem is the aggregate surplus created by the increase in global reserves, which is \$8.421 trillion now and has almost doubled since the beginning of 2006, and more than tripled since the beginning of 2002. These two phenomena have created a lack of global demand. In a well-functioning market, interest rates could adjust to induce consumption or investment and equilibrate demand and supply at full employment. Excess savings, however, are not being translated into more investment and interest rates can't go any lower. The lesson of the crisis is that normal adjustment mechanisms in a market economy may not be stable or efficient.

Consequently, a coordinated response to reform the global reserve system is needed. The UN Commission report provided the right framework. Also, assistance should be provided for countries that cannot implement fiscal expansion, and countries that can implement fiscal expansion should be encouraged to do so. There is no agreement for a global model, and thus regulators cannot decide if financial regulation should be strengthened at an international or national level. Global cooperation is needed to avoid weak global growth, protectionism, instability, and financial market fragmentation.

Discussion on Finance and Development

Stephany Griffith-Jones opened the panel by emphasizing that the financial sector should better serve the real economy, since for example it is not delivering adequate financing to small and medium enterprises. She emphasized that financial regulation needs to be strengthened and that although Basel III had some interesting and positive elements, including the idea of regulating excess liquidity, as well as increasing capital requirements and regulating leverage; however the latter has only been given a secondary role. A source of serious concern is whether the shadow banking system which faced little regulation in the years preceding the crisis would be regulated consistently with banking regulation.

Damon Silvers talked about the process in the U.S. to regulate the financial system and about the global debate on transactional taxation. He argued that the debate in the U.S. over the Dodd-Frank bill was comprehensive and more rigorous than expected. It represented two different views on what type of financial regulation reform was needed in the aftermath of the crisis. The Bush administration's point of view following the collapse of Bears Stearns was that we did not have enough regulators. The other point of view was that we needed structural change and a return to a New Deal banking regime where capital markets were silent.

Silvers stressed that further discussion should address the question of how to properly tax the financial system, particularly a financial transactions tax. There is a coordinated effort in the E.U. to introduce measures that would trigger a financial transaction tax at a level of 0.5%. The U.S. is an absent player in this matter. Joseph Stiglitz added that a financial tax (e.g. credit card fees) should be used for development purposes, not for the banks. Heidemarie Wieczorek-Zeul intervened by suggesting that a financial transaction tax could be helpful to finance developing countries' vast needs, since \$800 billion USD was needed to address climate change challenges and fulfill the Millennium Development Goals.

Robert Johnson also agreed with the idea of a financial transaction tax, adding that the crisis has lasted longer than expected, causing loss of tax revenues and other resources, which posed an additional problem. Nelson Barbosa agreed with the idea of a financial transaction tax, but he said it should move one step forward and find a way to include derivatives, since most of the volatility of financial markets came from them. It is hard to tax open positions where there is no flow. Silvers agreed that if the financial transaction tax did not encompass derivatives it would not work at all.

Stiglitz pointed out that when thinking about finance, there is a need to discuss what the functions of finance are. One wants reliable sources of finance with rules that promote stability, he said. Risks should be shifted from developing countries to developed countries, since developing countries currently bear most of the risk. On the micro level, financial institutions that actually provide credit to small and medium enterprises are necessary. Socially responsible long-term investors should be encouraged to be concerned about the environment, development, and the consequences of their actions. He added that the financial sector is pro-cyclical and not counter-cyclical. In March 2006, the IMF conducted a study on financial market liberalization and concluded that those financial markets where liberalization had been implemented had not stabilized financial flows and that the problem was governance in developing countries. This was inconsistent with their economic theory, Stiglitz said, and their conclusion was that there was a weird exception to the model, when in fact the model they were using was wrong.

Stiglitz noted that financial market liberalization has allowed banks to work anywhere in the world. The model pushed by many, notably in the E.U., was the single market principle model. However, from developing countries' point of view, banking requires a lot of local information to make decisions, which differs from the financial system in general (securities), since it is detached from the lending business. When the multinational banks move to developing countries, they are less concerned with traditional banking. The empirical work done proves that over a broad period of time, financial market liberalization has led to instability, has decreased the flow of funds to small and medium enterprises and has adversely affected development.

Stiglitz continued to say that part of global governance is trying to reintroduce finance agreements that benefit development. The UN Commission (also known as the Stiglitz Commission) has emphasized the need for rules for off-shore finance to be turned into on-shore finance. Lastly, Stiglitz mentioned that Sovereign Wealth Funds are a new set of players that may have a potential role as long-term investors with some degree of social responsibility. Norway is a marvelous example to the rest, he said, with a high degree of social responsibility.

Y.V Reddy followed, saying that people expect three things from the financial system. First, that the financial system should act as a consumption smoothening over time, particularly for low-income people; second, it should be able to facilitate payment transfers in an efficient and economical manner; and third, it should provide safe custody of savings without serious risk of loss of value. Most proposals to reform the financial system seek to correct the excesses that led to the crisis. Reddy said that there are currently two broad sets of ideas for reform: the idea that reform should be implemented at an individual country level vs. the idea that a minimum standard should be set as per G20 and Basel III agreements. There is need for global regulation, given that the impact of regulation on cross-border activities is unclear. Regulation for domestic banking activity has no global externality and so international banks that are large institutions that operate across markets and across tax issues are sources of instability and crisis. There is a need for a separate regulatory framework that focuses on those with substantial business who generate a systemic risk. Currently, India has more than minimum capital requirements for banks (as per Basel III), and banks are not excessively leveraged. There are two important reasons why banks in India are strong, these include financial sector management, which creates buffers for times of crisis and avoids over-risking activities, and regulation of financial sector, which can be a tool for fiscal management.

Robert Johnson praised the section in the paper on the American bill (Dodd-Frank) which had been characterized accurately, with ideas of what went wrong with the crisis and how it could be fixed. He stated that knowing how market regulators work and how they try to fix markets is important. The Federal Reserve did not function well in the previous 5 years before the crisis. In fact, the University of Chicago cynically proposed that if the Fed's regulatory power is expanded, then the financial markets will eventually capture them. Indeed, there is a big task ahead for international regulation if it is to regulate international banks. He pointed out for example how regulators tried in 2009 to map Citigroup legislation, and how the FDIC and the White House had concluded that they are so complex and interconnected with the world that they did not have the capacity to do it. An additional challenge is that off-balance sheet activities are not properly measured, so leverage ratios understate risks. Johnson concluded by mentioning that Basel III is designed using financial theories that do not describe the financial sector, but they are expected to work.

Stephany Griffith-Jones opened up the discussion to other participants by asking how the financial systems could come back to simplicity. During the discussion, Arturo O'Connell stated that most advanced countries grew with trade protection of their economies. Once they had developed, they not only liberalized but also insisted on imposing free trade on developing countries. There's a total parallel on banking and central banking which up to recently was using allocation by sectors. He thus argued that standards at international levels should take into account different levels of development. Government-owned banking has a role in developing countries that is different from the one it has in developed countries. In his experience, Latin American commercial banks devote themselves to consumption and short-term lending, while charging very high interest rates. He called for the need to strengthen and encourage banking in developing countries with longer term goals.

Sonny Kapoor was "shocked" at how narrow the discussion on reactive reform was, by focusing primarily on regulation. He argued that if the complexity of the financial institutions was looked at, many of their legal arms are tax-purpose driven. Christian Deubner asked if there was an issue of competing legislation to be paid attention to when making banks useful to the economy. From the E.U. perspective, he said, there are serious issues of competing legislation.

Damon Silvers concluded the debate by stating that the present fear of regulators and policymakers is that no one knows what will happen if large banks are put into a resolution process because of insufficient capital. He mentioned that the TARP is out of business as a source for additional capital and that although the Dodd-Frank bill includes the authority to inject capital into financial institutions, and raise the funding equal to the capital injection from the banking system later on, no one will have the courage to use it that way. There are different degrees of radical steps in a resolution process. For example, the federal government put General Motors through a resolution process focusing entirely on its long-term debt. Silvers said that it was disturbing to see the vast global web of other credit relationships that GM had and the potential for a systemic industrial crisis in the U.S. and in other countries in the world where GM was a major force. By narrowing the scope of the resolution simply to long-term debt, the rest of the issues remained irrelevant. Regulators must be ready to look at the asset side of the balance sheet and be prepared to restructure, he said.

Discussion on Trade

Pascal Lamy began the session's introductory speech by explaining the tension between trade policy and trade politics. He explained that trade policy is a reasonably straightforward issue -- we have a trade model and we know how it works -- but that there is a serious problem in domestic politics. Trade, he said, works with the cooperation of market forces and on the whole it favors consumers across the board, including poor consumers. Trade politics, however, are much trickier for several reasons. Favoring one industry may come at the cost of another, and it forces one to choose between constituencies. One must

appeal to the well-known solidarity of trade union leaders and ask them to think in broader terms, outside their interests, which may not be convincing. It is politically tricky, especially in market economies, because one can feel like a victim of unfair market competition. This is true nationally and internationally, he said. Trade opening is often a proxy for getting a semblance of unfettered markets. These factors explain trade politics and why they are so difficult to deal with, particularly when they are exacerbated by unemployment.

To reconcile both approaches, Lamy suggested that the right analysis must be done and communicated well and that the proper articulation must be found amongst governance levels. Trade issues are unfortunately rather complex and many incorrect analyses can flourish -- for example, thinking that lasting trade imbalances are a result of macro-economic imbalances and thus believing that the right policy is not trade policy, but monetary policy. Wage policy is another example. According to Lamy, there are huge differences in productivity between developed and developing countries and public audiences often ignore this. It is also important to look at the way trade was done before. Nowadays production is so globally fragmented that trade accounting is also spread out, which has to be considered. Thus, trade should stop being counted with added value. Trade is now conducted heavily through supply chains and services, taxing imports should also imply taxing exports as well. Another misconception is the notion that opening trade means opening immigration.

In finding the proper articulation between various government levels, there has been relative success in that politics has not been outpaced totally by economics in relative terms. Flexibility in disciplines is needed to allow calibrated policy space to address the tension between trade opening and global public goods, like health. The WTO is one of the islands of global governance but it is only one part compared to the role of domestic policies. The main focus for proper trade governance remains at national systems. The right level of trade governance, however, appears to be at a regional level and this is where improvements need to be focused.

Lamy commented on the paper by José Antonio Ocampo saying it was a good paper but that most of the main problems outlined in the paper have been addressed between 1995 and 2010. Developing countries have a voice in the system that is now well organized. One area where the paper remains true is that bilateral agreements are unfair and introduce distortions to the rest of the world (Ocampo was only present for Day 1 of the meeting and so was not able to respond to the comments).

Osvaldo Rosales stated that developing countries have problems defining the right trade policy in a world where technology changes so rapidly. In this regard, Ocampo’s paper is brilliant in laying out the asymmetries of the system, he said, but it is less bright in its proposals, because several are unrealistic and do not help progressive governments in developing countries. To understand the trade system, two elements should be considered according to Rosales -- the organization of work production through regional value chains and the increasing impact of trade competitiveness in agricultural products.

The major changes, he said, are the continuum and deepening of globalization trade and the shift of power between north and south. These changes are driven partly by trade openness but also by technological changes. The huge scale of the change could lead to an adjustment of the center-periphery process. This is not a world of “concentration of technological progress in the center” as Prebish had predicted, this points to a new age that is important to understand, and therefore, a need to think of a post-Doha agenda. In this context, the relevance of FTA’s and PTA’s is vital. Rosales suggested dealing with FTA’s, knowing that the ideal is a multilateral system but that FTA’s are the ones proliferating. Hence, it is possible to “multilateralize” the FTA’s. This is politically complex but more feasible than to try to eliminate them. It could be easier for parties to join by improving FTA rules by increasing strictness on rules of origin and improving the connection between FTA’s, keeping in mind development and equity elements in the agenda.

Yilmaz Akyuz pointed out that Ocampo's paper makes the important point that proliferation of FTA's are undermining tariffs, quotas and subsidies as the main instruments of trade and industrial policies. There is harmonization of policies across countries and they are not willing to use their policy space in tariffs and subsidies. Exchange rates and labor market policies have become more important determinants of trade outcomes and it is very difficult to have a policy with monetary chaos. So, what are the consequences? The share of labor income in GDP fell in most major economies, as wages lagged behind productivity growth. This happened due to exorbitant U.S. privilege and China, Germany, and Japan excessively relying on exports. Potential trade conflicts can arise from President Obama's initiative to boost exports in the U.S. through the National Export Initiative. Akyuz also suggested that conflict could arise from U.S. protectionist pressures, which are more visible now under recovery than during recession. In addition, tension with China, Germany and Japan could arise, since they would be forced to shift their export-led growth model to a consumption-led model. He concluded that proper alignment and stability of the exchange rates of major currencies is needed.

Other participants raised their concerns about open trade and their impact in developing countries. Sony Kapoor stated that the fiscal aspects in terms of the tariffs recollection were many as tariffs were completely eliminated. How can the WTO address the trade off for countries to forgo these resources as they open trade? Stephany Griffith-Jones was worried because we have free capital flows and we want free trade flows, but we do not have free labor flows. This, she said, creates distortions of income and distribution both within countries and internationally.

In response to the participants' questions and statements, Pascal Lamy stated that there is no one issue that mobilizes developing countries on one side and developed countries on the other. There is a big difference between theory and practice. FTA's are underused, and in that sense regional agreements would be better. He said that policy space is less lenient, but that it is good for good policy and is at the discretion of a country. In response to Akyuz's point that there is underconsumption in the world, Lamy said that there is no explicit mandate for the WTO to collaborate with the World Bank and IMF and have a coherent, agreed response. Furthermore, he disagreed that Germany is suffocating growth in Europe by artificially compressing consumption. The real incoherence stems from the incoherence in policies from WTO members, who happen to be the same members of the IMF and World Bank. Currencies are not heavily abused for export he added. Policy-wise, there is room for debate for the assumption that China's exchange rate policy is responsible for the U.S.' current account imbalance. Trade is a tool, and the trade model will adjust to a new growth model. He agreed that the right discussion is about jobs and it has to take place on a global level. Unfortunately, the WTO may not have the people for that discussion because as diplomats they do not have that mandate.

Public Panel: Global Economic Governance for World Development

Domenico Lombardi opened up the panel by stating that in a few years China's GDP will equate that of the U.S. In ten years, Asia's GDP will increase from roughly a quarter of the global economy to roughly one-third. The world economy and finance will become more globalized and there is an important governance gap. The panel focused on what the right institutional frameworks for accompanying these changes were.

Jomo Kwame Sundaram pointed out that the Bretton Woods moment for transforming the basic rules of the game had been lost. This moment came out of a sense of crisis and futility in the last quarter of 2008. There is a sense of complacency after success that has set in which has undermined the chances for reform. Bretton Woods came out of the commitment by President Roosevelt in 1944 to create an inclusive multilateral response to the failed League of Nations. Also, a number of developing countries -- mainly in

Latin America -- participated to create conditions to sustain growth, employment and post-war reconstruction and development.

The problems of the current system are the lack of a reserve currency system, which has contributed to the persistence of the imbalances, and financial deregulation over the last three decades that has created a system which is extremely incoherent, problematic, and difficult to reform. This is a situation that promotes capital account liberalization without sufficient safeguards.

Thinking of the crisis and its reform challenges, there is need for a system that finances growth more effectively and that is far more developmental. Financial inclusion is necessary and this was not discussed in Bretton Woods. Moreover, the range of issues on governance reform should recognize that Europe is over represented in the current Bretton Woods institution. If an inclusive multilateral system is built, there are other challenges such as a sovereign debt restructuring mechanism. The issue of international tax cooperation is also important, it is necessary to discuss how to bring about recovery in this very difficult situation. An availability of cheap credit before the crisis meant over-investment in a number of sectors and so we now have an excess of underutilized capacity and a reluctance to invest. Creation of incentives to restart a "global green New Deal" in investment and job creation, especially in terms of addressing environment sustainability, concerns in climate change, and problems of food agriculture, is necessary.

Finally, in addressing challenges to governance there are several proposals. These include the creation of an economic security council promoted by German Chancellor Angela Merkel and French President Nicolas Sarkozy. Due to the failure of the international community to move forward, there is a big vacuum that has been filled by the G20 and a number of international collaborations. The G20 has been helpful but it also has serious problems of legitimacy and accountability that need to be addressed.

Justin Yifu Lin talked about the implications of multi-polar world growth on global economic governance. A few industrialized countries dominated the world landscape before the year 2000. These countries mainly contributed to global GDP whereas the contribution of other non-G7 countries to global GDP was very small. By 2008, developing countries contributed 60% of GDP. After the crisis, almost half of global growth came from developing countries in terms of GDP and trade. Given these developments, the changing world landscape requires new world governance.

The World Bank, as a Bretton Woods institution, should reflect this new global scenario. Some improvements to increase representation have been made. The World Bank increased the voting power of developing countries by 47% and three managing directors hail from developing countries. The World Bank is a knowledge institution and in the past development knowledge would come from high-income countries. In this new world, knowledge can come from all countries.

At present, the G20 summit has proved to be effective in coordinating crisis responses. Global recovery is fragile and a sustained recovery depends on the elimination of high unemployment and large excess capacity in high income countries. The G20 is a good forum for discussing the current global challenges and finding solutions for sustainable global recovery and development. The way out for the developed countries and the global economy is to find large export demand for high-income countries capital goods export. Developing countries on the other hand have opportunities for bottleneck releasing and productivity-enhancing projects. Investments in those projects will create demand for capital goods produced in high-income countries and promote long-term growth in developing countries.

Joseph Stiglitz suggested an agenda for global governance and an institutional framework. In a sense, every aspect of the economy today is affected by what happens in the global context. Therefore, global governance must extend to every area. The comprehensive list includes: how to make a stable global financial system; covering risks of exchange rate volatility; risk is not shifted from the poor to the rich

like it ought to be in a well functioning market; developing countries need a reliable stable source of finance for development there are problems with sovereign debt restructuring mechanism; the reserve system is clearly antiquated. Another area that is important is technology and the knowledge gap between countries.

In the WTO, TRIPS has big deficiencies in protecting intellectual properties and promoting knowledge, which is a public good, Stiglitz said. Developing countries are asking for a development-oriented intellectual property regime. However, the recent rounds have not really addressed concerns of developing countries such as non-tariff barriers, migration, escalating tariffs and agricultural subsidies. The recent crisis highlights that the advanced industrial countries have provided massive subsidies to their agricultural, banking and auto sectors. This has caused the rules of the game to be changed in a fundamental way. Those who have incurred massive losses know that they can call on their governments for massive subsidies. Knowledge that there may be subsidies in times of loss presents an unfair trade advantage. In regard to global warming, developing countries need to be compensated for their environmental services. The issue of climate justice arises when developing countries provide resources, such as rainforests, yet they bear most of the cost of global warming.

When it comes to the institutional framework of global governance, many investment treaties provide rights without responsibilities, so almost every area of economic governance should be a subject for discussion. The current framework has a couple of issues. First, a compelling case for standardization has not been made because global economic governance has been taken over by special interests. There are special but large interests for whom gains are small and costs are dispersed among society and not very well understood. In addition there are structural problems such as the silo nature of the global framework yet the risks are complex interactions. This silo nature gives special interests broader sway. So, G20 is a step up from G7, but many countries are still not represented and the agreement lacks political legitimacy. There is a need for a global economic coordinating council which could be small enough for meaningful discussion but representative enough and with political legitimacy so that it could be more effective than the G20.

Pascal Lamy in his remarks stated that the WTO has discipline, long experience, and a dispute mechanism that works. In addition, there is increased ownership by developing countries in their decisions. There are still many challenges for the WTO, however, in regards to the trading system. For example, the rules of international trade as of 1995 remain unbalanced in favor of the developed countries. This was recognized in the Doha agenda and one of the main results is a strong pro-development view of the rules. Export agricultural subsidies should be eliminated. Two-thirds of WTO members are from developing countries and so the development agenda should be shaped by developing countries themselves. The second challenge is that for many countries access to markets makes no sense if they do not have the capacity to trade. The WTO is not a development agency, however, but there is a need to consider developing countries' necessities and bilateral development agencies. The third challenge to global governance is coherence. Trade inevitably connects different parts of human lives and that is an issue that deserves closer attention. There is a need to connect trade with global public goods. Proposals such as the global economic council may take long to set up and we should therefore start with what we have. For example, there is reasonably good interaction between international organizations and the UN system. The weakest link now, however, is between the UN system and the G20. If this link is not fixed, the capacity to produce coherence will be weakened. This is where we need to work most in global governance.

Massimo d'Alema felt that people who want to change the world need "intellectual pessimism and optimism of will", as Antonio Gramsci, the Italian intellectual, once said. The crisis exposed the contradiction of the so-called neoliberal globalization. It would be an illusion to believe that by a package of extraordinary measures it was possible to find a way to return to the previous setup. We risk a long period of low growth and higher unemployment, particularly for young people. Major countries today that

are seen as developing economies will probably be the only available engines of future economic growth. So far Europe has been hesitant in putting a premium on fiscal consolidation with respect to supporting demand and growth. There is a need to balance fiscal sustainability with promotion of jobs and growth. National stimulus packages are not enough and may not work, but that does not mean that we should give up on the stimulus. It means that we need to do it in a better-coordinated way.

There is a contradiction, d'Alema said, between a globalized economy and the inadequacy of nation states and the weakness of its international institutions. For many years economists said that the global economy did not need politics or institutions, and this was not true. The crisis shows that an economy without governance does not work. For Europeans, the first test is Europe itself. Current tensions among EU member states manifests that many inadequate instruments need to be reformed especially in the crisis. There is a need for a more integrated Europe if it wants to play a key role in reshaping global governance. Progress in global governance cannot be made without the UN as a fundamental pillar. Political drivers should be composed of a triangle of international agencies, the G20 and the UN. International agencies such as the IMF and World Bank should work together for reallocation of voting power for developing countries.

A more effective global governance system is essential for achieving two main goals. The first is to fight imbalances and inequality in our societies and the second is to promote new jobs and growth based on new technology, green research, and education. There is a need for a more active role of states as economic actors together with the private sector and long-term investors with social responsibility. The global agenda is the priority and there is no domestic solution for a global crisis, we need to work together and collect our ideas to influence policymakers and the public.

Dominico Lombardi suggested that perhaps the G20 could serve as a crisis committee, since it is effective and acts swiftly. In the first stage of the crisis the G20 was very effective, although the G20's legitimacy is still questioned. Joseph Stiglitz argued that the UN has legitimacy but has a problem with effectiveness. Institutions need to be coordinated, which the global economic coordinating council could do. This council would be a new body that does not have the failures of the previous model. In addition, it is important to bring this council within an international framework of the UN system. Frameworks should be developed to be more inclusive than the G20 and provide a more permanent basis of bringing in voices.

Jomo Kwame Sundaram stated that the G20 was useful in its first year. It has resisted protectionism and it played a role in coordinating monetary responses and facilitated fiscal stimulus. Since the middle of last year, however, there has been no other significant achievement; there is a need for something better than that to move forward. The main reason why there is no advance right now is because there is a division between Washington and the G7. The significance of that division and the problems it poses must be recognized. The lack of democratic representation within the G20 can be solved by a system of election from constituencies for representation through the UN system. This requires a Charter change in the UN, which can be easily resisted for a number of reasons. In the interim, there are at least two possible mechanisms that can be undertaken, if there is political will. First, there could be a special arrangement of the Economic and Social Council meeting at the leaders' level. Another alternative is for a general committee of the general assembly to meet on the leaders' level that would meet on the eve of the general assembly. What is missing is the sense of transformation, which was present in Bretton Woods and this included the commitment to create at that time the International Trade Organization. We have the WTO but it is not part of the UN system institutionally and this raises certain challenges.

In response to Sundaram's comments, Pascal Lamy stated that had the G20 not been there, there would not have been progress. In regards to the relationship of UN with G20, he suggested that the G20 should be made accountable to the UN, which is not that difficult to do. Within the MDG summit there has been

a good platform on how UN can be a good place for accountability. There is a group of countries working between the G20 and UN (codenames 3G -- Singapore, Norway, Rwanda, and the United Arab Emirates) who feel they should be entitled to be part of G20 and thus create that link. Politically, the WTO is part of the UN system but is not part of the administrative system of the UN.

Massimo d'Alema argued that the G20 should remain, as an informal body. The challenges to be faced cannot be overcome through the UN system. In order to combine legitimacy with effectiveness, the G20 should not repeat the mistakes of the G7 and G8. The concern for Europe is not G1 (G1 was finished with the Bush administration), but rather G2 (China). In order to avoid G2, Europe has to be politically united.

In a final comment related to the global green New Deal, Jomo Kwame Sundaram stated that in the original New Deal, 2 million jobs were created, which is a proportional equivalent of 5 million jobs today. That gives a sense of how much can be generated through such an initiative. It must also be global: the countries in most need and the ones that lack energy may be lured to the cheapness of fossil fuel energy. That is why there is a need to subsidize renewable energy. This can be done at a regional level, perhaps between Europe and Africa for instance. But it has to be a global arrangement and must include an effort to mobilize private funds, too. A single-minded solution, such as a global carbon tax, would only raise the cost for poor countries.