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Speaking Notes for Presentation to Inter-Parliamentary Union Hearing on
Nov. 19, 2009

How to make globalization work for the people:

Towards a socially responsible and democratic global economic system

Introduction

In my presentation I want to look beyond the discussion around the policies to deal with the present crisis and present some ideas on necessary reforms of the framework conditions of globalization, structural policy challenges which governments and Parliaments are facing worldwide. The crisis was not the result of bad behavior of financial managers, nor was it the final doomsday of capitalism. Rather, it showed the negative sides of the present system and the need to make the global capitalist system work better and more efficiently for the people.

Lessons to be learned from the crisis

The present crisis, unlike the Asian crisis, originated in the US, the strongest economy and rapidly contaminated the rest of the globe. The crisis is the result of excessive financial risk taking and has even infected economies, which followed sound economic policies. The crisis thus has laid open the negative sides of unregulated globalization with the imminent danger that the trust in the markets themselves and in the capitalist system has been severely shattered.

It is required now to look beyond the fiscal stimulus packages and the bailout policies, which contributed to get the world economy back from the brink, and it is instead necessary to engage in socially responsible and democratic reforms to domestic and international financial organizations.

The financial sector is crucial for any growth policy, since its basic function is to collect savings and make them available for productive investments. This function was not covered particularly well by the financial institutions in recent years, instead they got more and more involved in a behavior, which was called "Casino-Capitalism". This did not happen because of irresponsible behavior of individuals in those financial institutions, but because of a wrong incentive system in place and because of lack of an effective framework to regulate their behavior.

Now, that everyone knows that financial institutions are in reality public institutions, since the state would finally guarantee their survival, as long as they are big enough, it is more important even to create a strong and universal regulatory scheme in order to avoid another crisis of that scale.

Political support for such major reforms of the global economic system has to be built from the nation-state up, to the global level, and that is where Parliaments come into play.

It is also a crisis, which has shown the complete irrelevance of macroeconomic thinking of the last 30 years, based on the idea of deregulation and privatization and leaving everything to the market. Only through lack of regulation and too much openness of financial and capital markets derivatives could become almost weapons of mass destruction, pushing millions of people into unemployment and poverty.

It is important to ask why this theory failed to predict the crisis and why it has thus far failed to devise a socially responsible way out—one for the people and not just for finance. Its creators devised the original IMF to manage economic imbalances they saw as occasional occurrences. But haven't we seen in the interim that these imbalances are endemic to the way the global economic system is organized, that the BIS and UNCTAD were among those who warned of the danger, and in fact, that the IMF's conditionality was a policy that exacerbated these very imbalances?

So the first lesson is:

Lesson 1: Create a Transparent and democratic governance of the global economic system

The globalization process has outpaced the development of political institutions necessary to manage globalization. Global markets require global

political frameworks and institutions. The present crisis has already given birth to a new global institution, alongside the old ones, namely the G20 as a summit, not just a meeting of finance ministers and central bankers. This is a major acknowledgement by the leading governments that enhanced global cooperation and global regulation is needed. It is a step in the right direction, but not big enough a step.

The G20 has two deficits: It is self-appointed and it lacks the necessary legitimacy to really make it a worldwide global economic policy institution, although its membership is broader than that of the G7/G8. Some of the newly admitted members still complain that its inner workings are not sufficiently transparent and the majority of the developing countries are not represented at all. As long as that is the case, there is a danger that the world could become divided along new lines, namely between the developed countries, the emerging economies, and the poor countries.

The approach of the UN is different:

The report of the commission of experts of the President of the UN General Assembly suggested the creation of a truly Global Economic Coordination Council and a supporting high-level panel of experts. The debate in the General Assembly discussing the broad parameters under which a panel of experts and a Global Economic Coordination Council might be created just has begun this month. The council finally should get the same status as the Security Council and the General Assembly, which would give it tremendous weight and legitimacy for its decisions.

Still, there are many open questions around the establishment of the council, but whatever the outcome of the debate will be, there is definitely a need to provide a greater voice and better representation for developing countries, which represent a third of the world population, in global economic decision making.

The central challenge in reforming the present global economic system is dealing with the actual balance of powers that control these institutions and their governance. The IFIs—the IMF, World Bank, FSB and BIS—do not work for themselves but rather report to the central banks and finance ministries that together form the nation-based, sovereign backbone of the international financial architecture on which the IFIs depend. Reformers are wise to ground their strategy in this understanding. The advantage will be

gained in working first to hold domestic institutions accountable to citizens—and then insisting that the central banks and finance ministries hold the IFIs accountable—rather than in directing the majority of reform efforts and resources into engagement with the IFIs themselves.

Finally, governance is more than a mere set of rules for decision-making: at issue are the policies pursued, the interests served and the balance of both discernable and hidden power relations shaping governance. If a reform is meaningful or not will only be seen through its changes in policy, this is the only acceptable proof of change in governance.

On a final note I would just like to mention that new global governance structures are also needed in other policy areas: e.g. Climate change, energy crisis, food crisis, just to name a few. All these elements make for a better global economic governance system and also raise the need for a restructuring of present economic systems towards a green and sustainable system.

Lesson 2: Contribute to the globalization of Solidarity

The present crisis has revealed the negative side of globalization, namely the increasing inequality of incomes and wealth within and between countries. The crisis has not contributed to reducing the gap between rich and poor, although the rich lost a lot of their wealth, but the poor were still losing more.

We need a globalization of solidarity, not only a globalization of capital and trade. The crisis has shown that many of the global and national safety nets are frayed and 80% of the world population does not have adequate social protection.

The additional social costs of the crisis are tremendous: According to the ILO, up to 50 million jobs will be lost and more than 50 million people will be trapped in poverty. The financial and economic crisis has thus become a human crisis. Inequality has further grown. In the short run, unequal societies can grow for a number of years, but in the long run growth needs to be more equal, otherwise and inevitably countries will fall back into social conflicts negatively affecting growth. It is therefore essential to the creation of a socially responsible global economic system of governance to focus on the distributional aspects of policies.

Two policy tools are at hand: governments need to conduct an active labor market policy creating decent jobs and they need to extend social protection and social services to all giving everyone access. Although the origin of social security systems is in the developed countries, an extension and adoption in all countries, including poor developing countries is necessary and feasible. According to calculations of the ILO, offering basic social protection to all in need would require between 3 to 10 % of GNP, depending on the starting point for individual countries.

It would socially be absolutely desirable to quickly extend basic social services to all, but there is also an economic argument speaking in favor of an extension. The crisis dramatically reduced global demand. Redistribution from rich to poor has an immediate positive economic effect on demand, since the poor spend a higher share of their income than the rich.

Presently, even in the US there is a big political debate about the creation of a universal health care system, which is desperately needed since the US is the only major industrialized country without universal health care. But the principle should be also applied beyond the US and should cover all relevant risks to all inhabitants of all states.

Lesson 3: Formulate a new development paradigm

The crisis has revealed the negative side of globalization: increasing inequality of incomes and opportunities within and between countries throughout the world. This raises the question what do to in order to avoid similar crises in future. What is needed in addition to the short-term crisis management policies is a new approach toward development and a debate about how to balance Growth, social security and sustainability better than in the past.

This is a social challenge, as well as an economic and political one, because rising inequality threatens democratic achievements in many countries.

The world is now facing a window of opportunity to tackle all those challenges and turn the crisis into an opportunity to make the global capitalist system more socially responsible and democratic. This opportunity should not be wasted and Parliaments are the ones, which can question governments on these issues and promote the necessary reforms.

We should also not forget that there are more challenges to be tackled than just the financial and economic crisis: the food crisis, the energy crisis and climate change. Anything which will be achieved to set up new global governance structures will also contribute to deal with those crises better.

But Parliaments and political decision makers need to be aware that political resistance against major changes is strong. In the US, the banks and financial institutions spent this year already roughly 300 Million \$ for lobbying Congress against stronger regulation.

The G20 ministerial was created after the Asian crisis, the G20 summit in the present crisis. It seems that the global economic governance system is developing only when there are pressures brought about through crises. Since the present crisis is still not tamed there is a good window of opportunity to deal and push through with the reforms necessary in order to avoid another major crisis in the near future with all its negative impacts on the people.