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Policy Paper – Executive Summary

What's missing in the response to the global financial crisis?

Rethinking the international financial system during a time of crisis¹

Introduction

On October 19 and 20, 2009, the Halifax Initiative held a conference, co-hosted by The North South Institute, the University of Ottawa and the School of International Development and Global Studies (SIDGS), entitled *What's Missing in the Response to the Global Financial Crisis?* The meeting analyzed the challenges facing the global economy, discussed the ways in which the international community has responded to the current financial crisis, and identified shortcomings in these responses.

This policy paper is not a synthesis of the event itself. Rather it builds on key findings from the October conference and a range of views that have emerged over the past year. It provides recommendations for decision-makers on eight different issues related to the international financial system and its institutions ahead of the Group of Eight (G-8) and G-20 meetings in June 2010 in Huntsville and Toronto, Canada.

Policy Recommendations:

On 1) Rethinking the International Financial Architecture: Ahead of the G-20 meetings in 2010, Canada should work with like-minded G-20 countries to advocate for the creation of a new global currency reserve system with a true global reserve currency that could be built on the basis of the IMF's special drawing rights (SDRs).

On 2) Rethinking Globalization and our Approach to Growth and Development: In

2010, Canada should announce a national recovery strategy that focuses on long-term, decent job-creating, equitable and sustainable growth, through a transition towards a low-carbon green economy. Internationally, it should encourage other countries (both G-20 and non G-20 members) to do the same.

Both at home and abroad, Canada should prioritize its support for strengthening social protection systems, in particular health care and education, and the public provision of these systems.

Canada should continue to work with G-20 countries to do the following: put in place measures to tackle secrecy jurisdictions, and more specifically, advocate for the adoption of automatic information exchange procedures along the model adopted by the European Union; promote country-by-country reporting on accounts by multinational companies; and ensure alternative sustainable development paths for jurisdictions which have become dependent on financial secrecy. Instead of relying on the OECD approach, Canada should support the establishment of a full inter-governmental UN Committee of Experts on International Cooperation in Tax Matters.

On 3) Rethinking Governance of the Global Economy: In 2010, Canada should initiate a process with other countries to transform the

current structure of the G-20 into a forum that kick-starts a new era of multilateral cooperation—one that models democratic principles of inclusion, representation, transparency and accountability, with avenues for hearing citizens’ voices.

As a first step to developing a more representative and inclusive forum, Canada should propose expanding the current G-20 membership to include additional members responsible for representing regional interests—just as the EU already does—such as the African Union.

In the next few years, the G-20 should work towards eventually establishing a leaders’ summit, similar to the current G-20 meetings at the level of head of state, within the framework of the UN, in keeping with the calls by the UN Commission of Experts for a Global Economic Coordinating Council. Such a format would also help link decisions taken back to the broader membership of the UN.

As a first step to enhancing the G-20’s accountability, transparency and engagement with civil society, Canada should encourage G-20 members to build on the G-20’s Progress Reports on actions taken to adopt and enhance the accountability mechanisms the G-8 has begun to develop. Canada should advocate for the disclosure of agendas and background documents to be published on public websites well ahead of G-20 meetings

Canada should advocate for the adoption of a formal process for engaging civil society within the G-20 process, which at the very least is based on the best practices of the current Civil G-8 process. This might include forming expert working groups involving a range of stakeholders that could make formal submissions to the G-20 for consideration.

On 4) Rethinking the Governance of the International Financial Institutions (IFIs):

In general, Canada should actively support the adoption of the recommendations made by the civil society Fourth Pillar report on the IMF and

by the Zedillo Commission on the World Bank.

In particular, Canada should promote the democratic transformation of the IFIs by adjusting the voting share at the Executive and Governor Board levels of the IMF based on the principle of double majority voting and at the World Bank based on the principle of parity between developed and developing (or lending and borrowing) countries.

Canada should promote the reduction and reorganization of the size of both the IMF and World Bank Boards so that the chairs are equitably distributed between borrower and lender. Both Boards should eventually be composed entirely of elected chairs that represent multi-country constituencies. The five currently appointed chairs should be transformed into elected chairs and a ceiling (for example, of ten) should be placed on the number of countries per constituency to ensure a more even distribution of members across groups.

Canada should promote greater accountability for Bank and Fund policies and practice through more frequent and binding assessments of IFI operations by the Bank’s internal evaluators, informed by an external advisory council of experts.

Canada should continue to work with others on the Bank and Fund’s Executive Boards to ensure the institutions’ next heads are selected based on merit, regardless of nationality.

On 5) Rethinking Emergency Financing:

Canada should advocate for regular special, targeted allocations of SDRs, allocated according to need, used by countries to pursue their own development objectives and provided free of conditions. For countries which cannot afford to use their special allocation of SDRs, Canada should support the establishment of a fund to subsidize the cost of interest payments.

On 6) Rethinking “Policy Space” and Conditionality:

Canada should use its voice in IFI governing bodies and at the country program level to make strong representations against IFI

policy conditions that either constrain a national government's spending on social programs aimed at meeting people's rights or that restrict a country's choice for more expansionary, but still feasible, alternative fiscal and monetary policies. Instead, it should favour a borrower-lender relationship based on mutually agreed arrangements that help to guarantee respect for shared obligations under international human rights law and probity in public financial management.

To move away from a dependence on external sources of funding, Canada should prioritise the strengthening of tax authorities in developing countries as a goal of development.

On 7) Rethinking the Next Steps on Debt - Now and For the Future: In the short term, Canada should promote a moratorium on all external debt service payments of developing countries for a minimum of two years, or until such a time as those countries' economies have recovered.

Canada should support a comprehensive international loan audit process to identify and immediately cancel all illegitimate and odious debt of developing countries, to be established and executed by a United Nations body.

In the medium term, it should promote the cancellation of all external debt incurred by heavily indebted poor countries, taking into consideration the devastating impact of the current triple crises of finance, food security and climate change.

Canada should also work to ensure that new finance is extended in a responsible and transparent manner that supports development.

In the long term, Canada should advocate for the establishment of a Sovereign Debt Restructuring Mechanism that is part of the UN system.

On 8) Rethinking Trade: Canada should guard against unilateral protectionist measures that harm recover prospects in developing countries.

Canada should end its pursuit of bilateral trade and investment agreements with developing countries.

Canada should commit to promoting a new multilateral trade deal that prioritizes development and affords developing countries greater policy space to protect jobs, promote domestic industries and invest in green technology. This deal should include tools to support infant industries and small farmers in developing countries, allow for local procurement of services and ensure the rapid elimination of harmful agricultural subsidies.

Conclusion

When world leaders gather for the G-20 summit in Toronto in June 2010, Canadians will have an unprecedented opportunity to regain and reassert Canada's historical role as a bridge-builder—now between industrialized, emerging and low-income economies—and as a global leader. We call upon the Canadian government to go beyond the essential first steps it has taken to address the immediate impacts of the crisis, towards more far-reaching changes that fundamentally reshape the global economy, its governance and its institutions. These decisions must be made in a forum that guarantees the representation of a wide variety of voices and a diverse range of policy views.