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Policy Paper

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

Rethinking the international financial system during a time of crisis[i]

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 brought together experts from a range of backgrounds to analyze the challenges facing the global economy, discuss the ways in which the international community has responded to the current financial crisis, and identify shortcomings in these responses.

The current crisis has not only exposed long-standing and deep-rooted fragilities and imbalances in the global financial system, but it has also led to an intensification of efforts to reform and strengthen the existing international financial architecture.

Since September 2008, when the financial crisis took on global dimensions, the 'Group of 20' (G-20) has met three times at the level of Heads of State, producing and implementing a long list of policy commitments in the areas of global governance, emergency and trade finance, macroeconomic surveillance, regulation of the banking sector and reforms to address secrecy jurisdictions (also known as "tax havens"). These efforts have addressed some of the immediate impacts of the financial crisis; but the speed, range and depth of the impacts suggest that the international financial system requires additional and profound changes to ensure a stable and sustainable global economy as we move into the next decade of the 21st century.

To achieve this, Canada faces three principal challenges:

- First, the government must ensure that actions taken are commensurate with the scale, depth and urgency of the crisis and its impacts. Given the interconnected and interdependent nature of the global economy, addressing this and future crises will require changes at both the national and international levels;
- Second, the changes must be ambitious enough to prevent the outbreak of a similar crisis in the future;
- Third, the government must work actively to maintain, and in some cases generate, the political momentum needed to achieve such far-reaching changes.

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.

1) Rethinking the International Financial Architecture

The depth and breadth of the financial and economic crisis, which unfolded following the meltdown of the subprime mortgage market in mid-2008, has exposed the unsustainable nature of the global imbalances between surplus and deficit economies, the fragility of the current financial architecture and the need for significant and systemic changes to the international system.

Financial crises have been a recurring characteristic of the international financial system over the past two centuries, but have become more pronounced and far-reaching with the advent of financial and capital account liberalization.[ii] Since the collapse in the early 1970s of the gold standard and the Bretton Woods system, which had ushered in two decades of relative global prosperity and monetary stability, the world economy has arguably been operating through what academic and economist Robert Triffin characterized as a "non-system", "anchored primarily on a national, paper reserve currency, that is, the dollar."[iii] Over the 70s, 80s and 90s, efforts did not aim to correct the deep-rooted flaws of such a system—for example, by establishing a true international reserve asset—but rather sought to manage it through piece-meal reform that filled new gaps exposed by crises as they emerged. For example, following the 1997 Asian crisis, the Financial Stability Forum (FSF) was established to help stem the outbreak of future crises. Now, following the current crisis, the G-20 has simply mandated the same institution, the (now) Financial Stability Board (FSB), to work with the International Monetary Fund (IMF) to provide an advance-warning system of future financial risks[iv] rather than take a hard look at some of the systemic failures that have taken us from one crisis to another.

In the absence of more far-reaching reforms, countries that have survived previous crises have pursued their own *ad hoc* measures, building up substantial hard currency reserves in an effort to buffer themselves against future crises and speculative attacks. For example, in 2000, the Association of South East Nations (ASEAN) plus China, Japan and South Korea launched the Chiang Mai Initiative, now a $120 billion arrangement to offset sudden outflows of foreign currency in order to avoid abrupt destabilization of national economies. Since 2006, efforts to develop alternatives to the current system have also begun in Latin America through the Bank of the South and the *Alianza Bolivariana de los Pueblos de América* (ALBA). But building up vast currency reserves (above all in Asia) has an opportunity cost—it diverts resources that could otherwise be used for productive investments in the real economy, exerts deflationary pressures on economies and generates monetary instability.[v] This may be a price that countries are willing to pay, opting for regional initiatives in the absence of more systemic global solutions that work for them. But as the past three decades have demonstrated, crises are intrinsic to a globalized economy, not exceptions to be treated on an *ad hoc* basis.[vi]

At the heart of the problem is the US Dollar-dominated international currency reserve system. The accumulation of extensive foreign exchange reserves by some emerging market economies, in particular China, and excessive consumption by others, in particular the United States and Europe, are responsible for large and unsustainable global imbalances.[vii]

This unbalanced situation has intensified recent calls for a new global reserve system. Such a new system should reduce the reliance of the global economy on a single currency—the US dollar[viii]—but also address the inequitable nature of the current reserve system which places the burden of adjustment solely on deficit countries instead of mitigating the difficulties caused by asymmetrical adjustments. Such a system could be built on the basis of the IMF's special drawing rights (SDRs)—a weighted basket of currencies, including the Dollar, the Pound, the Yen and the Euro—that acts as the IMF's own reserve currency and that should perhaps now also include the Chinese Yuan. SDRs could be issued in accordance with the demand for liquidity, estimated by the United Nations (UN) to lie somewhere between US$150 to US$300 billion per year, and in a counter-cyclical way during economic recessions and crises.[ix] The creation of such a new global reserve system is feasible, anti-inflationary and more equitable than the current system. It could be easily implemented and would engender a more stable financial system that will be beneficial for all countries. Moreover, it would avoid the build up global imbalances and preclude the need for countries to dedicate much-needed resources towards massive national hard currency reserves, which is a waste of such assets.

Recommendation:
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).

2) Rethinking Globalization and our Approach to Growth and Development

Globalization, and the liberalization agenda that has accompanied it, has steadfastly dismantled financial, economic and trade barriers between nations, integrating countries into an interdependent globalized economy. As a result—and as the global financial crisis has clearly demonstrated—our economies are so inextricably intertwined through global supply chains that no single economy is fully insulated against, or "decoupled" from, the impacts of regional or even national shocks.

Over the past decade and a half, "globalization" has contributed to high rates of economic growth in numerous countries, largely through increased global trade. But the "financial liberalization" of the economy, which has accompanied this process, has also given rise to unsustainable bubble economies detached from "real production". Short-term consumption, speculative investments in a virtual "paper" economy and the liberalization agenda have created a situation of growth without productive investment or more decent and secure employment. Global financial assets—including equities, private and public debt and bank deposits—stood at US$178 trillion in 2008, down from a high of US$194 trillion in 2007—equivalent to 343% of Gross Domestic Product.[x] By comparison, annual global trade at US$16 trillion seems miniscule.[xi]

This economic growth has not been distributed equally. Inequality within and between nations, and within and between regions, has grown at an alarming rate as wealth has increasingly become concentrated in the hands of the few.[xii] Furthermore, over the past decade, capital has increasingly been flowing "uphill" from poor to rich countries—net capital transfers from Southern countries to the rest of the world increased from US$127 billion in 2002 to US$627 billion in 2007.[xiii] Even a sustained period of growth over the past five to ten years has still left the vast majority of developing countries short of reaching the Millennium Development Goals.[xiv]

The limited capacity of states to raise revenue from the economic activity occurring within their boundaries has been further undermined through the globalization of financial flows, the increasing complexity of multinational corporate structures and supply chains and through the explicit policy of some jurisdictions to attract and harbour capital through lax regulation and financial secrecy. Over $600 billion, or nearly three times the current levels of external debt of sub-Saharan Africa, has leaked from the continent in illicit financial flows since 1975.[xv] Global Financial Integrity estimates that globally US$500-800 billion of illicit flows exit developing and transitional economies every year.[xvi] The Tax Justice Network has estimated that $11.5 trillion are held by wealthy individuals offshore in secrecy jurisdictions.[xvii] Furthermore, Christian Aid estimates that developing countries lose around $160bn each year in tax revenue as a result of secrecy jurisdictions[xviii]—more than 30 % higher than the amount of aid given by northern donors in 2008.

While the G20 has begun to address this issue, the UN Commission of Experts on the Financial and Monetary System has noted that the G20's approach through the Organization for Economic Co-operation and Development (OECD) has led to, "discriminatory targeting of small international financial centres in developing countries while a blind eye is turned to lax rules in developed economies." In fact, the Commission notes that, "the principal sources of tax evasion, tax secrecy, money laundering, and regulatory arbitrage [are] located in developed countries' on-shore banking systems…."[xix]

The current crisis has also underscored the need to re-orient the dominant "Anglo-Saxon" economic and development paradigms, which have prioritized market over state forms of regulation, financial liberalization over investment in the real economy and initiatives that create profit in the short term over initiatives to create green economies that provide decent work for all.[xx] As a result, liberalization, deregulation and self-regulation have become the norm. Instead the state must re-establish its discretionary role in the market, with adequate and appropriate regulation and policy that re-embeds the speculative "casino" economy in a productive economy that creates sustainable development from the perspective of both workers and the environment.[xxi]

Over the past two years, as concerns about rising fuel prices and the impacts of climate change have mounted, alongside estimated mitigation and adaptation costs for addressing these impacts, organizations around the world have begun to see the current crisis as an opportunity to reorient the world's economies along a low-carbon path. Inspired by Franklin Roosevelt's investment in the United States during the Great Depression, groups are calling for a "Green New Deal". This includes the following: a massive investment in renewable energy, energy conservation and efficiency initiatives and green transportation; a transition to "green collar" jobs, founded on decent work and fair pay for all through investment in environmentally-friendly, public infrastructure; re-regulating and restricting the role of finance so that it serves production, not vice-versa; and clamping down on tax havens and corporate financial reporting.[xxii] Given the rising levels of inequality sown by globalization, at a national and international level, priority should also be given to strengthening social protection systems, in particular by supporting the public provision of essential services, including universal health care and education.[xxiii]

Recommendations:
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[xxiv]; 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.

3) Rethinking Governance of the Global Economy

As the world's economies become more integrated, there is a commensurate need for multilateral institutions to help govern the global economy, and to assess and anticipate problems before they happen. Since the mid 1970s, the Group of Seven (G-7) has played an active role in steering the global economy. More recently, in response to the global dimensions of the current crisis and the growing importance of a number of emerging economies, the G-7 has been transformed into a G-20, now meeting at the level of Heads of State.

The move towards a G-20 is a small step forward. Compared to the G-7, it has a greater number and diversity of members, representing 65 per cent of the world's population and 85 per cent of global gross national product. But it is still a self-selected body of countries. As a result, like its predecessor, its membership is more inclined to prioritize national self-interest ahead of the interests of others. In this context, the responses of the G-20 to the crisis have been heavily criticized for failing to address the needs of those countries excluded from the table—namely low-income countries.[xxv]

The G-20 is not inclusive, nor representative, of the needs or interests of the world's poorest countries. [xxvi] Indeed, the vast majority of the world's economies, which are disproportionately suffering from the impacts of the crisis, are not even at the table. 173 countries with seats at the UN have no voice at the G-20. There is not a single low-income or least developed country in the pack or a single fragile state. Sub-Saharan Africa (SSA) is "represented" by one country—South Africa. Yet South Africa cannot be expected to represent the interests of the entire region, as well as their own national interests, nor to speak effectively to the political and economic realities of SSA's diverse range of countries. And while the European Union (EU) is the twentieth member of the G-20, no other regional body—such as the African Union (AU), the Association of South East Asian Nations (ASEAN) or the Union of South American Nations (UNASUR)—is at the table. As a result, the issues being addressed and the solutions being proposed coincide with the national interests of the new set of players sitting at the table, but not the interests of the broader global community. This could be addressed in the short term by including representatives at the G-20 from other regional entities such as the AU, ASEAN and UNASUR.

However, in the longer term, democratizing the G-20 must clearly be done within the broader context of strengthening multilateralism more generally and strengthening the role of the UN in this system. The UN itself needs urgent reform; but its role must be strengthened, not undermined, by any new global governing body. In past years, various entities have underscored the need for a Global Council to help govern the global economy, including, most recently, the calls by the UN Commission of Experts on the International Monetary and Financial System[xxvii] for a Global Economic Coordinating Council within the UN. Such a Council could meet annually at the Heads of State level to assess developments and provide leadership in economic, social and ecological issues, and would help secure consistency and coherence in the policy goals of all the major international organizations. In the longer term, such a forum could replace the *ad hoc* measures proposed (mentioned above) for greater regional representation, with a more permanent council of 20 to 30 informal constituencies designed to ensure that all continents and all major economies are properly represented. The spokesperson for each constituency could be nominated by the members of regional multilateral bodies, with the position rotating on a periodic basis.

In addition to the G-20's lack of proper representation, the group lacks any mechanisms to ensure transparency and accountability. Ironically, just as the G-8 began to modestly tackle transparency and accountability for decisions taken (through the 2008 G-8 Accountability Framework),[xxviii] the locus of power has shifted to an institution that is even less transparent and accountable. Civil society organizations, who since 2004 have been able to engage with the G-8 through an (albeit imperfect) civil G-8 process, now have no opportunity for input into the G-20. In the absence of any comparable frameworks for transparency, accountability and civil society engagement, the G-20 risks sacrificing the small steps the G-8 has made on these issues. In the short term, the G-20 must put in place measures to address these deficiencies. In the longer term, a leaders' forum established within the framework of the UN (as noted above) will help ensure the transparency and accountability of this new global governing body to the broader UN membership, as well as ensure the engagement of civil society organizations in the process.

In the aftermath of the crisis, and during the future years of recovery, there is a clear need for a forum that can steer the global economy and respond to the interests of the global community. Such a forum needs to be flexible and manageable in terms of its size and membership, while also ensuring that its political leadership can be brought to bear on global challenges. A representative and inclusive group of 20 to 30 countries is not a bad idea. But for such a group to be effective in this role, it must avoid becoming an elite club of members focused only on promoting their self-interest—as is the case with the current formulation. If it is to be responsible for the management of the global economy, it must be more inclusive and more representative of, and accountable to, the needs, interests and views of a diverse range of countries, but also pursue policies that put the broader public interests of people and the planet ahead of an obsession with the market. Accordingly, reforms to global governance structures and those of the international financial institutions (IFI—see below) must go hand in hand with the pursuit of policies that promote a more stable, sustainable and equitable economic paradigm. Without such changes to both form and function, the current G-20 formula rapidly risks losing credibility and legitimacy just as there is renewed need for the existence of such an international forum to steer the global economy.

Recommendations:
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[xxix] 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.

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

In recent years, both the World Bank and IMF have been preoccupied with reforming their governance structures. To some extent, this process has been driven internally—as illustrated by the IMF Managing Director's 2005 medium-term strategy and the World Bank's 2007 long-term strategy.[xxx] But to a greater extent, it is a reaction to dynamic changes in the global economy and a series of external factors, including the following: the emerging economic importance of a number of middle-income countries and their demands for a commensurate level of "say" within the institutions; disgruntlement with the slow pace of reforms within the institutions and the austere policies they continued to dictate, which led to new institutional alternatives in the form of the Bank of the South in Latin America and the Chiang Mai Initiative in Asia; the availability of new sources of development finance from India, China and Brazil, which acted to undermine the IFIs near monopoly of the market; and a major global public backlash against the European and American "right" to select the heads of the Fund and the Bank. Both institutions clearly needed to evolve rapidly if they were to remain legitimate, credible and relevant. And governance reform was, to a large extent, seen as the solution.

To date, the Bank and the Fund have introduced a number of changes—albeit at a glacial pace and with a narrow focus. Both institutions have introduced measures to realign the percentage of voting power allocated to their members, making the voices of emerging countries more reflective of the size of their economic weight, while also securing slight increases to the degree of representation of developing and transition economies. In September 2009, the G-20 announced a timetable for further modest changes at both the Bank and IMF that favoured underrepresented countries and protected the share of the poorest countries. The Bank also added one new Executive Director for Africa in 2008, and is leaning, in theory, towards "equitable voting power" between developing and developed economies.[xxxi] Both institutions have released guidelines of processes for selecting their respective heads. Both institutions also initiated reviews of their disclosure policies in 2008, with mildly positive reviews for the changes to the Bank's new policy.

However, the G-20's proposals fall short of ensuring adequate representation by those countries whose populations are being disproportionately affected by the crisis. Reforms predominantly benefit middle-income and emerging market economies, whose vote will rise by 5 per cent at the IMF and by 3 per cent at the World Bank, with negligible impact on low-income country (LIC) voting, especially in Sub-Saharan Africa.[xxxii] And while Bank reforms are crawling towards the notion of equitable voting, IMF reforms remain stuck in formulas that prioritize traditional measures of Gross Domestic Product over other formulas and reject more progressive decision-making models, such as double majority voting.[xxxiii] The latter would significantly raise the voting share of both emerging market economies and LICs and allocate more seats to developing countries on the Board of Governors and Executive Boards at the IFIs.[xxxiv] Furthermore, while Africa will soon have three seats at the Bank and an additional alternate Executive Director (ED) at the Fund, Europe still has eight EDs. Meanwhile, the US and Europe still remain locked in a game of "chicken," with neither surrendering their prerogative to select the next head of the Bank and Fund. Finally, while enhanced institutional transparency is positive, "transparency without full accountability is non-democratic and therefore empty."[xxxv]

Issues related to the broader accountability of the institutions have been more concretely addressed by a number of recent evaluations and studies produced internally by the Independent Evaluation Office (IEO) of the IMF, and externally by two Commissions mandated by the IFIs and by an IMF commissioned civil society report.[xxxvi] Of the two mandated reports, the Bank's Zedillo Commission, however, went further, challenging the “exclusive” decision-making process at the Bank and its accountability to only a handful of shareholders. The Commission recommends a comprehensive package of reforms including parity of votes between developed and developing countries, ending appointed chairs and reducing the number of European EDs on the Board from eight to four. It also proposes reducing the majority needed to amend the Bank’s Articles of Agreement, effectively putting an end to the US veto over major changes at the Bank. The Commission also called for more independent evaluations of the Bank. In contrast, the IMF’s Manuel Commission ignored issues of transparency and accountability, focusing predominantly on reorganizing the Fund’s structure and recommending a more strategic role for the current board and the establishment of a Council of Ministers. The civil society evaluation of IMF governance echoed many of the more progressive notions in the Zedillo Commission and the structural elements of the Manuel Commission Report. But it also raised the importance of double majority voting, identified the need to rethink the size and composition of current constituencies and how members are consulted and constituency positions developed and the need for more diverse thinking among IMF staff. The latter, it suggested, could be complemented by establishing an external advisory council of experts to ensure systematic input from diverse perspectives, backgrounds and regional expertise.

But shifts in governance can only go so far. They will never restore the efficiency, credibility or the legitimacy of the institutions unless they ensure that the opinions of the members whose voices have been amplified are actually heard; unless the institutions themselves are truly held accountable for failed policies and projects; and unless the Bank and Fund respond meaningfully to both the internal and external criticism focused on the institutions’ failed policies and practice.

Recommendations:
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.

5) Rethinking Emergency Financing

Despite having had little role in causing the global financial crisis, developing countries have been deeply affected by it, through worsening terms of trade, decades of liberalization policies that have increased the vulnerability of their economies to exogenous shocks and already fragile social protection systems. It is clear that additional emergency funding is needed urgently to address the massive funding shortfalls of developing countries. As of March 2009, the IMF estimated that in a worst case scenario between 22 and 48 countries would need between US$25 and US$138 billion to cover balance of payments shortfalls in 2009.[xxxvii] The World Bank estimates that external financing needs (in the form of private capital flows) of 59 countries will not be met in 2009, leaving a gap of US$352 billion.[xxxviii] At the same time, the economic crisis is threatening to undo the progress that has been made towards achieving the Millennium Development Goals (MDGs). For example, the 50% drop in average GDP growth in developing countries, relative to the pre-crisis rate, is expected to lead to an additional 1.4 to 2.8 million infant deaths in developing countries between 2009 and 2015 than would have otherwise been the case.[xxxix]

At the G-20 summit in London in April 2009 world leaders committed an additional US$1.1 trillion in emergency financing—with US$750 billion to be channelled through the IMF. Some US$250 billion has already been issued to all IMF member countries in the form of SDRs, [xl] the IMF's reserve asset. For the remainder, industrialized and reserve-rich governments are lending the IMF up to $500 billion for loans at market interest rates to countries in need. Of the $1.1 trillion committed, only US$240 billion is expected to go to developing countries and $50 billion to low income countries.[xli] This is a paltry amount relative to what G-20 countries have dedicated to boost their own economies, and woefully inadequate given the shortfalls in financing that both the IMF and World Bank anticipate. Clearly, it is imperative that the international community continue to mobilize additional resources to allow countries to both pursue counter-cyclical policies and prioritize the achievement of the MDGs.

As noted above, the April 2009 G-20 meeting announced a general allocation of special drawing rights to all countries. Such allocations are made relative to a country's IMF quota. Consequently, the largest share of the $250 billion allocation went to the US ($42.6 billion), with developing countries expected to get around $90 billion. LICs will get $18 billion and sub-Saharan Africa will get only $10 billion. Alternatively, regular special, targeted allocations of SDRs provided to developing countries not relative to economic size but economic need would have a much more beneficial impact. SDRs also have the advantage of being condition free and of immediately increasing the foreign exchange reserves of central banks by freeing up dollars, yen or euros for spending. But while the SDRs are interest free, if they remain part of a country's reserves, once converted into cash, countries must then pay market interest rates for borrowing that hard currency (be it yen, dollars, euros or pounds) until the currency is converted back into SDRs. Currently market interest rates are low but should they increase this cash conversion could become a burden to countries. The use of SDRs by developing countries should consequently be subsidized, such that the conversion of SDRs into hard currency should be at zero rather than market interest rates. Finally, countries should also have the sovereign right to convert their SDRs into hard currency that can be used to fund development initiatives, not simply for building up hard currency reserves.[xlii]

Secondly, despite commitments made by donors to maintain aid flows to developing countries, Greece, Italy and Ireland, among others, have all cut previously announced aid levels. In addition, since aid flows are linked to gross national income in most donor countries, declining national revenues will mean declining net aid flows from these countries regardless of whether countries make explicit cuts.[xliii] This does not bode well. However, in September 2009 at the Pittsburgh Summit, G-20 leaders mandated the IMF to review "the range of options countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system."[xliv] By many countries, this declaration is seen as *de facto* support for establishing a financial transaction tax—a small tax of 0.05 per cent on all financial transactions (for example, stock, bonds, derivatives and currency exchange) that would both help stem speculative trading and also generate significant revenue.

Austrian Economist Stephan Schulmeister has shown empirically that the cumulative effect of increasingly short term trading of assets (for example, by speculative day traders) is destabilizing in the long run, and leads to long term swings in the "fundamental equilibrium" (most efficient allocation of resources) of asset prices.[xlv] A uniform tax per transaction makes short-term speculation more expensive and would have a stabilizing effect on (both short and long term) asset prices, improving overall macroeconomic performance. From a revenue side, a rate 0.05% on all financial transactions could raise as much as US$690 billion dollars annually, a sum which is six times greater than current global aid levels.[xlvi] Of the moneys generated, at least 50% should be used for developing countries to achieve the MDGs and for climate change mitigation and adaptation. This should not be an excuse, however, for donors to cut their aid budgets. Parallel to this, all donors need to commit to—and deliver on—increases to official development assistance flows on an accelerated timetable towards 2015 (and beyond) to meet the international commitment of 0.7% of gross national income, in Canada's case, by 2020.

> **Recommendation**:
> 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.

6) Rethinking "Policy Space" and Conditionality

Beyond identifying new and reliable sources of emergency finance, the manner in which such finance is provided also needs rethinking.

In response to the crisis, the IMF has made a number of changes. It has eliminated structural conditions[xlvii] in many programs and has created a new Flexible Credit Line (FCL), which provides liquidity for building up foreign reserves without attaching "any conditions". It is also allowing countries to incur slightly higher deficits compared to historic IMF positions.

But despite these changes, structural benchmarks, which are not legally binding but which still force policy change in countries that accept IMF finance, will continue to be used, as well as traditional quantitative targets.[xlviii] As it stands, only "countries meeting pre-set qualification criteria" of "very strong fundamentals, policies, and track records of policy implementation" are eligible for the FCL.[xlix] Consequently, only three countries—Mexico, Poland and Colombia—have benefitted so far. Such "fiscal loosening" is also only a temporary measure[l] and the emphasis on social protection still sits firmly within a context of shrinking government budgets.[li] Finally, research on the conditions attached to new crisis loans for Eastern Europe and many middle-income countries clearly underscores the IMF's ongoing obsession with "tightening monetary and fiscal policy".[lii] In other words, the conditions may have changed, but they are still alive and well.

The crisis has clearly demonstrated the double standard between the counter-cyclical (expansionary) policies of the North in response to the crisis and the pro-cyclical (contraction-inducing) policies being dictated to governments in the South and in Eastern Europe. These force governments to cut expenditures on key essential public services, such as health care, education, public transit, water, sanitation and access to fuel and electricity, to privatize many of these services, to cut subsidies and introduce user fees.[liii] Unnecessarily restrictive deficit-reduction and inflation-reduction targets prevent developing countries from growing their economies through expanding public spending. This, in turn, has disproportionately disadvantaged the poor and vulnerable groups in developing countries and has undermined the ability of country governments to meet their own human rights obligations.

Countries also need greater space to implement more equitable taxation systems so as to increase public sector revenue and break their dependence on external finance. In addition, policy making space for setting fiscal policy, and technical assistance in both tax administration and tax policy monitoring by civil society are essential to ensure that developing countries can mobilise domestic revenue effectively, particularly through direct taxation.

Recommendations:
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.

7) Rethinking the Next Steps on Debt – Now and For the Future

While important progress has been made in debt cancellation since the introduction of the Heavily Indebted Poor Country Initiative (HIPC) in 1999 and the Multilateral Debt Relief Initiative (MDRI) in 2005, there is a danger that the extension of new loans to developing countries, especially if disbursed at commercial rates, will lead to a new debt crisis in the South. The World Bank has already increased its lending activities by 54 per cent over the previous year, reaching an unprecedented US$58 billion in fiscal year 2009, while the IMF has committed an additional US$170 billion since the crisis broke out.[liv] This expansion in lending has the potential to create significant debt problems in the near future, evidenced by the fact that the debt-to-GDP ratio of 28 countries is already above what the IMF considers a sustainable threshold at more than 60 per cent.[lv] Similarly, in its 2009 Least Developed Country (LDC) Report, UNCTAD points to serious concerns over the unsustainably high debt burden of 49 LDCs.[lvi] Therefore, it is important that appropriate measures are taken to mitigate the negative effects of the crisis on the indebtedness of developing countries and to ensure that sovereign lending follows responsible and sustainable practices as currently under discussion at UNCTAD.[lvii]

Given its central role in previous debt relief initiatives, especially through its substantial financial support to the HIPC trust (Cdn $247 million since 1998) and its strong leadership in promoting the HIPC initiative globally,[lviii] Canada is well-positioned to once again take a leadership role in addressing the problem of rapidly growing debt. There are a number of ideas currently under discussion internationally that could help to avoid a new debt crisis. A two-year moratorium on all external debt service payments of developing countries would free up additional resources in the amount of US$30.5 billion annually for 64 of the world's most indebted countries and would represent an effective way to release extra funds for critical social investment, while ensuring that no additional debt would be incurred.[lix] At the same time, there is growing recognition internationally that all debt extended knowingly to corrupt governments for political reasons should immediately be cancelled. Much of the debt burden of developing countries has arisen through irresponsible lending practices and there is an urgent need to assess and cancel these odious debts.

A renewed debt cancellation initiative should also include the establishment of a fair and transparent mechanism for the arbitration of sovereign debt. The international system currently has two mechanisms for addressing developing country debt: the Paris Club for official debt created in the 1950s and the London Club for bank debt originating from the 1970s. However, both bodies favour the interests of creditor nations, making the system both inequitable and inefficient. Hence what is required is a more neutral international board of arbitration that facilitates the orderly, predictable and rapid restructuring of unsustainable sovereign debt, balancing the interests of creditor and debtor nations. The need for such an arbitration mechanism was recognized at the 2002 UN Conference on Financing for Development in Monterrey, and the follow-up review conference in Doha in 2008. A fair restructuring process would also imply that repayment conditions are linked to economic, social and cultural rights, as well as environmental conditions. Such an arbitration court must also have the power to enforce agreements reached between majority creditors and the debtor on all debt. This reform will eliminate the growing problem of vulture funds that buy up unserviceable debt obligations. There are a number of models that have recently been discussed that would serve this end.

Recommendations:
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.

8) Rethinking Trade

The fallout from the global financial crisis has not only been felt in the area of finance but has also led to a sharp fall in trade flows, linked to the precipitous decline in demand for goods imported by industrialized countries, especially the United States. It is estimated that world trade decreased by as much as 10 per cent in 2009[lx]. Africa's exports are estimated to have fallen by an astounding $US 250 billion in 2009 alone.[lxi] The decline in trade has punched huge holes into the current accounts of African countries where some countries are experiencing record shortfalls. Losses of trade tax revenue also make it harder for developing countries to close their financing gaps. The crisis has also translated into job losses in export sectors in most developing countries. In the Democratic Republic of Congo, for example, 300,000 mining jobs have been lost since the crisis first hit, while Zambia lost 50,000 jobs in the Copperbelt.[lxii] Other food importing countries faced severe shortages as food prices skyrocketed and food exporting countries clamped down to protect domestic supplies. The crisis has clearly exposed the dangers of over-reliance on external markets and trade vs. too little focus on domestic production and consumption.

This scenario suggests that it is necessary to review policies currently advocated by the World Trade Organization (WTO), which lock countries into fairly strict open and outward oriented development strategies, limiting policy space to respond adequately to the current crisis. For example, the framework for financial market liberalization under the Financial Services Agreement of the General Agreement on Trade and Services (GATS) within the WTO may restrict the ability of governments to change their own regulatory structure in ways which would foster financial stability and economic growth. Other problematic provisions in current trade rules include intellectual property and investment rights that restrict the ability of developing countries to design appropriate regulatory regimes. For example, these measures limit the extent to which developing countries can steer domestic investments (into greener technology and more sustainable production patterns) or protect local 'infant industries' until they become internationally competitive. Further, these types of agreements mean that developing countries today cannot take advantage of many of the policies that have been used by industrialized countries in their own development processes for the past 100 years.[lxiii]

Many developing countries have also entered into bilateral free trade agreements (FTAs) and bilateral investment treaties (BITs). Such bilateral treaties create a "spaghetti bowl" of trade preferences around the world, undermining multilateral approaches. Bilateral treaties also tend to be the most asymmetric in benefits as the stronger (often Northern) country is able to wrest more advantages from the weaker (often Southern) negotiating partner. In this context, trade measures in bilateral treaties often go beyond what is required at the WTO, further limiting developing countries' ability to regulate financial institutions and instruments, manage capital flows or protect themselves from the effects of the financial crisis.

Canada, for its part, has been a fierce promoter of such bilateral FTAs, recently signing a number of deals including with Colombia, Jordan and Peru. Canada is also currently in negotiations for FTAs with Ukraine, South Korea, Singapore, Panama, the Dominican Republic and the Central American Four.[lxiv]

There is also a danger that the current crisis will lead to trade protectionism against developing countries. It is a matter of concern that although G-20 leaders promised not to engage in protectionist policies in November 2008, by March 2009, nearly all of them had put in place some protectionist measures, most notably the 'Buy America' component to the US stimulus bill. Protectionism through subsidies and guarantees are particularly disturbing, since developing countries cannot match the subsidies and guarantees given by developed countries.

This discussion also highlights the importance of only completing the Doha Development Round if the intent is to ensure that the needs and interests of developing countries are better reflected in international trade treaties. The current Doha negotiations are too narrowly focused on 'market access,' reflective of a 'one size fits all' approach that does not acknowledge the different economic circumstances of developing countries. In fact, serious studies suggest that the conclusion of the round is unlikely to make much difference for low-income countries and particularly for least-developed countries.[lxv] Hence, what is needed is a renewal of commitment by all countries to the original spirit of Doha, to complete a true 'development round.'

Recommendations:
Canada should guard against unilateral protectionist measures that harm recover prospects in developing countries.

Canada should end it 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

Predictably, those who are most vulnerable to but least responsible for the crisis have been the hardest hit. But there is regrettably no 'quick fix' solution. What is required are sustained and far-reaching changes that will not only ensure a speedy and comprehensive recovery for all, sensitive to the needs of the most vulnerable peoples and to the planet, but also the introduction of measures that will protect against any such future crisis and ensure a more robust, inclusive, equitable and sustainable economy for all for the future. Now is not a time for complacency.

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.

Footnotes

[i] This policy paper draws on papers and presentations made at the conference *What's Missing in the Response to the Global Financial Crisis*. Audio podcasts of all presentations are available on the website of the Halifax Initiative at http://www.halifaxinitiative.org.

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[ii] Interestingly, between the late 1940s and the early 1970s, there was a striking period of calm, atypical of either the 50 years that preceded it or the thirty years that followed. Reinhart and Rogoff attribute this to booming world growth, repression of domestic financial markets, heavy-handed use of capital controls and the existence of the Bretton Woods system of fixed exchange rates. See Reinhart and Rogoff, "Banking Crises: an Equal Opportunity Menace," pp. 7-8, American Economic Association, December 2008. On-line: http://www.aeaweb.org/annual_mtg_papers/2009/retrieve.php?pdfid=245

[iii] Triffin proposed instead basing the system on a truly international reserve asset held with the IMF – special drawing rights – and not on the dollar or any other single national or reserve currency. Cited in "Why should we have listened better to Robert Triffin?" Speech by Jan Joost Teunissen at conference, "The economic and financial crisis of 2008-09," Louvain-la-Neuve, 7-8 May 2009. On-line: http://www.uclouvain.be/cps/ucl/doc/gehec/documents/web_Why_should_we_have_listened_better_to_Robert_Triffin.pdf

[iv] G-20 Communiqué, "Global plan for recovery and reform: the Communiqué from the London Summit," April 2, 2009. On-line: http://www.londonsummit.gov.uk/en/summit-aims/summit-communique/

[v] See Halifax Initiative, "Issue Brief: The Chiang Mai Initiative – One step closer to an Asian Monetary Fund? - April 2009." On-line: http://halifaxinitiative.org/content/issue-brief-chiang-mai-initiative

[vi] Noble prize laureate Joseph Stiglitz has forcefully demonstrated that there have been countless financial crises since the beginning of financial deregulation in the early 1980s, mostly in developing countries, and that financial deregulation has made the global financial system much more unstable and imbalanced. See Stiglitz, J.E. (2002). "Capital Market Liberalization, Economic Growth, and Instability," World Development, vol.28, no.6 (June 2000), pp. 1075-1086.

[vii] Academic and economist Robert Triffin in 1985 (and earlier) anticipated that a non-system anchored in a single reserve currency, the US dollar, would have three negative consequences: produce "inflationary proclivities, leading to [massive] world reserves," create global imbalances rendering "the poorer and less capitalized countries of the Third World the main reserve lenders, and the richer and more capitalized industrial countries the main reserve borrowers of the system" and make the world's economies more crisis prone. Cited in "Why should we have listened better to Robert Triffin?" Speech by Jan Joost Teunissen at conference, "The economic and financial crisis of 2008-09," Louvain-la-Neuve, 7-8 May 2009. On-line: http://www.uclouvain.be/cps/ucl/doc/gehec/documents/web_Why_should_we_have_listened_better_to_Robert_Triffin.pdf

[viii] The Report of the UN Commission of Experts on Reforms of the International Monetary and Financial System notes that the current system also has costs for the United States and argues that there would also be advantages for the US if it were to accept a new global reserve system: "The United States also incurs costs associated with its role as supplying global reserves. The demand for global reserves has led to increasing current account deficits in the United States that have had adverse effects on U.S. domestic demand; when dollars are held to meet increased demands for liquidity in surplus countries, they fail to produce any countervailing adjustment in foreign demand. In addition, periodic needs to correct these deficits require contractionary monetary or fiscal policies that have adverse domestic effects on the U.S. economy. … Maintaining autonomy to U.S. policy, as it would be required to respond the current crisis, would be the basic advantage for the U.S. to move to a global reserve system, beyond the benefits it would receive from a more stable global financial and economic system." Paras 22-23, page 95. On-line: http://www.un.org/ga/president/63/PDFs/reportofexpters.pdf

[ix] See Jomo K. Sundaram, "Impacts of the Crisis and Expanding the Agenda for Change," on-line: http://www.halifaxinitiative.org/content/whats-missing-global-financial-crisis-presentations-and-speeches.

[x] McKinsey Global Institute, "Global Capital Markets: Entering A new Era," September 2009. On-line: http://www.mckinsey.com/mgi/reports/pdfs/gcm_sixth_annual_report/gcm_sixth_annual_report_full_report.pdf.

[xi] CIA, *The World Factbook*, online at https://www.cia.gov/library/publications/the-world-factbook/geos/xx.html.

[xii] See Robert H. Wade, "Is Globalization Reducing Poverty and Inequality?" *World Development*, vol.32, no.4, pp.567-89; and Robert H. Wade, "The Rising Inequality of World Income Distribution," *Finance and Development*, vol.38, no.4. Even the IMF has admitted this. In a chapter in the IMF's semi-annual *World Economic Outlook*, 2007, the report acknowledges that while globalization (trade liberalization and higher export-to GDP ratios) has increased wealth overall, greater openness to investment has widened the gap between the rich and poor. On-line: http://www.imf.org/external/pubs/ft/weo/2007/02/pdf/c4.pdf.

[xiii] South Centre, "Capital Flows from South to North: A New Dynamic in Global Economic Relations," p.3. On-line: http://www.southcentre.org/index.php?option=com_content&task=view&id=831. See also UNCTAD, *Trade and Development Report 2008*. On-line: http://www.unctad.org/en/docs/tdr2008_en.pdf.

[xiv] A 2008 comprehensive assessment of the progress on the MDGs notes that "most countries in all regions are off-track on most MDGs (or data is missing to assess progress)," and that the severe economic downturn in the aftermath of the financial crisis makes it unlikely that the MDGs will be achieved, unless additional action is taken.

See the report "Millennium Development Goals at Midpoint: Where do We Stand?" On-line: http://ec.europa.eu/development/icenter/repository/2008%2008%2019%20MDG_Where%20do%20we%20stand_first_draft.pdf.

[xv] L. Ndikumana and J.K. Boyce, "New estimates of capital flight from Sub Saharan African countries: Linkages with External Borrowing and Policy Options," Working Paper Series, No. 166, Political Economy Research Institute, University of Massachusetts.

[xvi] See R.W. Baker, *Capitalism's Achilles' Heel: Dirty Money and How to Renew the Free-Market System,* New Jersey: Wiley, 2005.

[xvii] Tax Justice Network, *Tax us if you can,* 2005.

[xviii] A. Hogg et al, *Death and Taxes: the true toll of tax dodging,* Christian Aid. 2008.

[xix] United Nations, Report of the UN Commission of Experts on Reforms of the International Monetary and Financial System, Chapter 3, Paras 110, 112, and 115. Pages 64-65.

[xx] In the absence of a truly global system, UNCTAD identifies two approaches that countries have pursued in the context of this "non-system": an "Anglo-Saxon" system of "unrestricted capital flows and unlimited freedom to exploit any opportunity to realize short-term profits," which led to three decades of short-termism "growth" (through consumption) but also to the current global economic and financial crisis and a "Euro-Japanese" system, which sought to tighten expenditures, focus on export growth and build up current account surpluses. Both systems looked to use "temporary exchange rate depreciations fuelled by speculative capital flows triggered by interest rate differentials" to maintain competitiveness between one another. See United Nations Conference on Trade and Development, "The Global Economic Crisis: Systemic Failures and Multilateral Remedies," Report by the UNCTAD Secretariat Task Force on Systemic Issues and Economic Cooperation, 2009, pp 4-5. On-line: http://www.unctad.org/en/docs/gds20091_en.pdf

[xxi] Today international financial markets resemble a global casino where traders gamble on minute market fluctuations that have no grounding in real economic activities. The advent of floating exchange rate systems (and the collapse of the fixed exchange rate system under Bretton Woods), has given rise to a whole speculation game on foreign currency exchange. For example, in 1980, the daily average of foreign exchange trading was $80 billion. In 2007, according to the Bank for International Settlements, average daily turnover in global foreign exchange markets was estimated at $3.98 trillion. Trading in the world's main financial markets accounted for $3.21 trillion of this. This means that 4/5 of exchange rate trading is purely speculative. [See Bank for International Settlements, Triennial Central Bank Survey, December 2007. On-line: http://www.bis.org/publ/rpfxf07t.pdf. Today, nine-tenths of capital flows are speculative, rather than productive in nature.

[xxii] For further details on the full set of recommendations, see New Economics Foundation, "A Green New Deal – Joined-up policies to solve the triple crunch of the credit crisis, climate change and high oil prices," The First Report of the New Green Deal Group, July 2008. On-line: http://www.neweconomics.org/sites/neweconomics.org/files/A_Green_New_Deal_1.pdf

[xxiii] These latter recommendations are drawn in part from Put People First Coalition, "Put People First - Ensuring a response to the economic crisis that delivers democratic governance of the economy for: Jobs: decent jobs and public services for all; Justice: End global poverty and inequality; Climate: Build a green economy," April 2009. On-line: http://www.putpeoplefirst.org.uk/about-us/policy-platform/

[xxiv] The European Union Savings Tax Directive, currently in force, has provisions for automatic exchange of information on interest income from personal savings. This is due to be reviewed and may provide for exchange of information on trusts and other financial vehicles.

[xxv] See for example, Eurodad, "From London to Pittsburgh: Assessing the G-20's Development Pledges," 16 September 2009. On-line: http://www.eurodad.org/uploadedFiles/Whats_New/News/Assessing_G20_Development_Pledges_Eurodad_Sept09.pdf?

[xxvi] The elements of this proposal are drawn from a 2004 paper drafted by the Canadian Council for International Co-operation, entitled "Jumpstarting Multilateralism: Ensuring a Leaders G-20 promotes Global Equity and Democratic Global Governance."

[xxvii] The Stiglitz Commission report is on-line at www.un.org/ga/president/63/commission/financial_commission.shtml.

[xxviii] In L'Aquila, Italy, in July 2009, the G-8 released a "Preliminary Accountability Report," outlining individual financial commitments and disbursements on food security, water, health and education. The G-8 also established "a senior level working group on accountability to share best practices for accountability and develop, in cooperation with relevant international organizations, a comprehensive and consistent methodological approach for a G-8 Accountability Framework, with a particular attention to results." This report will be delivered in June 2010 at the G-8 Summit in Huntsville, Canada. On-line: http://www.g8italia2009.it/static/G8_Allegato/G8_Preliminary_Accountability_Report_8.7.09,0.pdf

[xxix] For details, see the Progress Reports on a range of actions taken on-line at http://www.g20.org/pub_communiques.aspx

[xxx] IMF, "The Managing Director's Report on the Fund's Medium-Term Strategy," September 15, 2005. On-line: http://www.imf.org/external/np/omd/2005/eng/091505.pdf; World Bank, "Catalyzing the Future: An Inclusive & Sustainable Globalization," Annual Meetings 2007. On-line: http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21520625~pagePK:34370~piPK:42770~theSitePK:4607,00.html

[xxxi] G-20, "Leaders' Statement – The Pittsburgh Summit," September 24-25, 2009. On-line: http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf

[xxxii] G-20 Working Group on IMF Reform, Final Report, 4 March 2009. On-line: http://www.g20.org/Documents/g20_wg3_010409.pdf.

[xxxiii] The latter would require two votes on key decisions – one through the simple (or qualified) majority of members and the other through the simple (or qualified) majority of weighted voting. See Peter Chowla, Jeffrey Oatham and Claire Wren, "Bridging the democratic deficit Double majority decision making and the IMF," Bretton Woods Project, February 2, 2007. On-line: http://www.brettonwoodsproject.org/art-549743

[xxxiv] For a detailed description of this idea, see the Brooking Institute's report on "IMF Governance Reform and Civil Society." On-line: http://www.brookings.edu/speeches/2009/0908_imf_governance_lombardi.aspx?e=1

[xxxv] Christopher Rude and Sara Burke, "Towards a Socially Responsible and Democratic Global Economic System: Transparency, Accountability and Governance," Friederich Ebert Stiftung, Briefing Paper 15, November 2009, p. 2. On-line: http://library.fes.de/pdf-files/bueros/usa/06778-20091105.pdf

[xxxvi] See Independent Evaluation Office, "Governance of the IMF: An Evaluation," 2008. On-line: http://www.ieo-imf.org/eval/complete/pdf/05212008/CG_main.pdf.; Moser Working Group, "Report of the Executive Board Working Group on IMF Corporate Governance," Executive Directors' Working Group, September 2008. On-line: http://www.imf.org/external/np/pp/eng/2008/073108.pdf; Manuel Committee, "Report of the Committee on IMF Governance Reform," March 24, 2009. On-line: http://www.imf.org/external/np/omd/2009/govref/032409.pdf; New Rules for Global Finance Coalition, "The Fourth Pillar: IMF Consultation with Civil Society Organizations on Governance Reform," Compiled and Summarized by Domenico Lombardi, September 1, 2009. On-line: http://www.new-rules.org/docs/4thpillar/finalcsopaperinenglish.pdf; and Zedillo Commission, "Repowering the World Bank for the 21st Century," Report of the High-Level Commission on Modernization of World Bank Group Governance, October 2009, p. ix. On-line: http://www.ycsg.yale.edu/center/forms/WorldBank.pdf;

[xxxvii] IMF, "The Implications of the Global Financial Crisis for Low-Income Countries," March 2009, p. 35. On-line: http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf

[xxxviii] World Bank, "Global Development Finance: Charting a Global Recovery – Review, Analysis, and Outlook," 2009, p.82. On-line: http://siteresources.worldbank.org/INTGDF2009/Resources/gdf_combined_web.pdf

[xxxix] World Bank, "The Impact of the Finance Crisis on Progress Towards the Millennium Development Goals in Human Development," Development Economics Vice-Presidency and Human Development Network, February 2009, p. 2. On-line: http://siteresources.worldbank.org/INTPOVERTY/Resources/335642-1251230679308/Crisis_and_MDGs.pdf

[xl] SDRs, an international reserve asset and the IMF's "currency," automatically increase central banks' foreign exchange reserves, but also come without any of the conditions typically associated with the IMF. Allocated relative to a country's IMF quota, the largest share of the US$250 billion will go to the US (US$42.6 billion), with developing countries expected to get around US$90 billion. Low-income countries will get US$18 billion and sub-Saharan Africa will get US$10 billion.

[xli] Eurodad, "From London to Pittsburgh: Assessing the G-20's Development Pledges," 16 September 2009. On-line: http://www.eurodad.org/uploadedFiles/Whats_New/News/Assessing_G20_Development_Pledges_Eurodad_Sept09.pdf?

[xlii] For further details on these proposals, see Action Aid International, "Special Drawing Rights and the Global Reserve System," Factsheet, 2009, http://www.actionaid.org/assets/pdf%5CActionAid%20Factsheet-%20Special%20Drawing%20Rights%20%20the%20Global%20Reserve%20System.pdf

[xliii] The Organization for Economic Cooperation and Development (OECD) suggest that "due to the crisis, the fall of GNI and reduced growth prospects will negatively affect the real value of targeted commitments". OECD, 2009 DAC Report on Aid Predictability: Survey on Donors' Forward Spending Plans 2009-2011. 2009.On-line: http://www.oecd.org/dataoecd/46/19/43161677.pdf

[xliv] G-20, "Leaders' Statement – The Pittsburgh Summit," September 24-25, 2009. On-line: http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf

[xlv] Stephan Schulmeister, "A General Financial Transaction Tax: A Short Cut of the Pros, the Cons and a Proposal," WIFO Working Papers No. 344, October 2009. On-line: http://www.wifo.ac.at/wwa/servlet/wwa.upload.DownloadServlet/bdoc/WP_2009_344$.pdf.

[xlvi] Stephan Schulmeister, op. cit.

[xlvii] Structural conditions, to be implemented during the course of a loan, seek to change the structures of institutions and incentives in borrowing countries. They require trade and financial liberalization, tax reforms, banking sector overhauls and privatization of state enterprises.

[xlviii] The Fund attaches two different types of policy conditions to their loans in poor countries: quantitative conditions and structural conditions. Quantitative conditions impose a set of macroeconomic targets on poor country governments determining, for example, the level of fiscal deficit a government is allowed to go into or the level of domestic credit allowed. Structural conditions, on the other hand, push for institutional and legislative policy reforms within countries. They include trade reform, price liberalization and privatization. This report focuses exclusively on the structural conditions.

[xlix] IMF, "IMF Overhauls Lending Framework," Press Release No. 09/85, March 24, 2009. On-line: http://www.imf.org/external/np/sec/pr/2009/pr0985.htm.

[l] Eurodad, "Bail out or blow out: IMF policy advice and conditions for low-income countries at a time of crisis," June 2009. On-line: http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Bail-out%20or%20blow-out.pdf.

[li] Eurodad, Global Network and Solidarity: "Doing a decent job? IMF policies and decent work in times of crisis," October 2009. On-line: http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Doing%20a%20decent%20job.pdf

[lii] Eurodad, "IMF Emergency Loans," 21 April 2009. On-line: http://www.eurodad.org/aid/article.aspx?id=124&item=3600; Third World Network, "The IMF: Resurgent but unchanged," March 2009. On-line: http://www.twnside.org.sg/title2/resurgence/2009/225/cover1.doc; Third World Network, "The IMF's Financial Crisis Loans: No change in conditionalities," March 11, 2009, submission to the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System. On-line: http://www.twnside.org.sg/title2/par/IMF.Crisis.Loans-Overview.TWN.March.2009.doc

[liii] Ibid

[liv] See Eurodad, "From London to Pittsburgh: Assessing G20 Action for Developing Countries," 16 September 2009, On-line: http://www.eurodad.org/debt/article.aspx?id=2190&item=3820.

[lv] Eurodad, "Debt in the Downturn," October 2009, p.2. On-line: http://www.eurodad.org/whatsnew/reports.aspx?id=3844.

[lvi] UNCTAD, Least Developed Countries (LDC) Report 2009. On-line: http://www.unctad.org/Templates/webflyer.asp?docid=11721&intItemID=2068&lang=1.

[lvii] UNCTAD recently launched a project on responsible sovereign lending and borrowing. For details, see http://www.uctad.org./Templates/Page.asp?intItemID=4778&lang=1.

[lviii] Department of Finance, "Helping the Poorest: An Update on Canada's Debt Relief Efforts."

[lix] See Eurodad, "Debt in the Downturn."p.5.

[lx] World Trade Organization, *World Trade Report 2009: Trade Policy Commitments and Contingency Measures*, http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report09_e.pdf

[lxi] This figure was provided by Tina Nanyangwe, "Africa's Trade during the Crisis and the Conclusion of the Doha Round," on-line: http://halifaxinitiative.org/content/whats-missing-global-financial-crisis-presentations-and-speeches.

[lxii] Ibid.

[lxiii] This point has recently been acknowledged by the ILO Commission on the Social Dimensions of Globalization. See also Ha-Joon Chang (2003). *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press.

[lxiv] Foreign Affairs and International Trade (DFAIT), Negotiations and Agreements, http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/index.aspx?lang=en#free

[lxv] Report of the Commission of Experts of the President of the United Nations General Assembly on reforms of the International Monetary and Financial System, New York: United Nations, p.103.

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More details on the original conference, including audio files, and the paper are available on-line at http://www.halifaxinitiative.org/content/conference-whats-missing-response-global-financial-crisis