

The Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System

Introductory Remarks by the Chairman
Joseph Stiglitz
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This unprecedented global financial and economic crisis requires an unprecedented global response. It requires a response not just from the G-7, G-8, G-10, or G-20, but from the entire international community, the G-192. This gives especial importance to this initiative of the President of the General Assembly, which has received so much support from around the world. I am particularly pleased at the quality and diversity of the group of experts that he has been able to assemble. This will help ensure that the interests, concerns, and perspectives not only of the richest countries and the rapidly growing emerging markets and those in the financial markets are heard, but also those of the poorest countries and those from all sectors of the economy. In our work, we hope to draw upon the expertise of the best scholars and practitioners from all over the world.

The current financial crisis, which began in the U.S., then spread to Europe, has now become global. Even emerging markets and less developed countries that managed their economy well, resisted the bad lending practices, held high levels of foreign exchange reserves, did not purchase toxic mortgages, and did not allow their banks to engage in excessive risk taking through derivatives are likely to become embroiled and to suffer as a result. *Any global solution—short term measures to stabilize the current situation and long term measures to make another recurrence less likely—must pay due attention to impacts on these countries.* Without doing so, global economic stability cannot be restored and economic growth, as well as poverty reduction worldwide will be threatened.

The current economic crisis should provide an opportunity to reassess global economic arrangements and prevalent economic doctrines. Large changes have occurred in the global economy in recent years, e.g. in the sources of global savings, reserves and GDP, and these are not fully reflected in our global economic institutions and arrangements. As we address the short run crisis, we should seize the opportunity for making deeper reforms that enable the world to enter into the twenty first century with a more equitable and a more stable global financial system, which could usher in an era of enhanced prosperity for all countries.

In the past, the global financial system often worked to the disadvantage of developing countries. Banks in developed countries, for instance, were encouraged to lend short term to developing countries; while this provided greater liquidity to the former, it led to greater instability in the latter. Pro-cyclical monetary and fiscal policies were often

foisted on developing countries, while developed countries followed countercyclical policies. *The international community must commit itself to developing the institutions and instruments for increasing the stability and equity of the global financial system.*

This expert group is devoted to helping the U.N. fulfill its historic mission. The Commission will seek to identify the broad principles underlying needed institutional reforms required to ensure sustained global economic progress and stability which will be of benefit to all countries, developed and less developed. The Commission will suggest a range of credible and feasible proposals for reforming the international monetary and financial system in the best interest of the international community, identify the merits and limitations of alternatives, and will evaluate in particular those that are at the center of current global discussions.

This will, of course, be one of several similar efforts going around the world, a global conversation on a topic of immense complexity. This Commission is, however, the only one with its breadth of vision and representation. We will, of course, try to learn what we can from these other efforts. But we have a special responsibility to focus our attention on those areas that might otherwise receive inadequate attention—the impacts on developing countries or the distribution of income and wealth within countries.

As an expert group, we have a distinct advantage: we can think “outside the box.” We are not constrained to operating within the conventional wisdom. We can ask politically uncomfortable questions. Each of you is here in your personal capacity, chosen for your expertise—though we have made some effort to ensure that there is diversity of perspectives.

I hope, as we proceed in our deliberations, that we do ask some hard questions, though we at least raise the possibility of deeper reforms. We know the usual recitation of prescriptions: the need for more transparency, for avoiding protectionism, for improving governance, for promoting the private sector. Yet, we would be derelict in our responsibilities if we did not note the magnitude of the profound changes that have occurred. Governments have intervened in markets in an almost unprecedented way—and even as some governments call for more transparency, we have to recognize that much of what has been done has been highly non-transparent. With expenditures of this scale, and a lack of transparency of this scope, vast opportunities for corruption and untoward redistributions are opened up. We have been moving in uncharted territory. The distortions created in the market economy will be long lasting. There can be no level playing field, with governments in some developing countries offering multi-billion dollar subsidies to their enterprises, that poor countries simply cannot match. There can be no level playing field in financial markets, with firms in some developed countries receiving hundreds of billions of dollars of assistance, well beyond the GDP of poorer countries. Even the knowledge that failure can be met with a bail-out changes the willingness and ability to undertake risk. The global economic landscape has changed unalterably. We cannot go back to the world before September 15. We have been responding to a crisis. Part of what we will be doing is to discuss how the international community can best respond to this crisis, in ways that are attentive to the concerns of all

countries. But part of the task of the Commission is to help the international community think through the changes that will have to be made as we go about the more difficult task of creating a new international economic order.

Many of the flaws in the economic system have been well noted before. For more than forty years, one of the central concerns of modern economics is the development of the theory of market failures that has identified the circumstances in which markets fail to produce Pareto efficient outcomes. Seventy five years ago Keynes explained why markets are not self-correcting, at least in the relevant time frame. Even when markets were Pareto efficient, of course, there was no assurance that what resulted conformed to any principles of social justice—either in terms of outcomes or opportunities. More recently, theories of behavioral economics have uncovered patterns of human behavior in which individuals and groups exhibit systematic irrationalities. Yet, while there was mounting theoretical and empirical evidence concerning the appropriate domains for government intervention, some pushed an agenda downplaying the role of government, including deregulation. The success of this agenda suggests that some of the problems the world faces today can be viewed as much a problem of governance and politics as a failure of economics.

These failures of governance can be seen at many levels. One, which the Commission will need to address, is the design of regulatory systems. Identifying market failures and designing regulations that ameliorate those market failures will do little good if the regulations are not implemented and enforced. In many cases, regulators were appointed who did not believe in regulation, with almost predictable outcomes. Our Commission must address the question of designing robust regulatory systems, resilient against the failure of individual regulators to fulfill their responsibility, sensitive to the obligations of democratic accountability, and aware of the powers that modern technologies may bring, in disseminating information and allowing broader democratic participation in monitoring and enforcement.

But the regulations and regulatory structures adopted in any democratic society are a reflection of political pressures. Though we may all believe in the credo of one person one vote, we all know that some are more influential than others, and that political outcomes have been shaped by campaign contributions. The contributions of those in the financial market have been large, and have helped shaped the current failed regulatory regime.

We may stand at a particularly dangerous point in economic history. Aware of the need for government intervention in certain times such as these, but subscribing at other times to dogmas of market fundamentalism, we create particularly perverse incentives. We pretend that we are in nineteenth century capitalism, though the separation of ownership and control leads to managerial behavior that may not even be in the interests of shareholders. We allow firms to grow too big to fail, which by itself would induce excessively risk taking behavior, but combined with failures in corporate governance, which too lead to excessive risk taking, creates an explosive mixture. There are large

divergences between private rewards and social returns, and given this, it is not surprising that we have seen results that do not serve our societies well.

Countries around the world have been encouraged to adopt similar economic frameworks. The huge gap between the rich countries and the poor means, however, that poor countries are even more exposed to the risks of market failure, but do not have the huge resources required to come to rescue their economies. These and other asymmetries serve to further disadvantage the poor—which we see clearly as capital flees the developing world to the United States, the country from which the current problems originated.

The economic and political failures lead, in turn, to social consequences, and as we address the work of the Commission, we must be especially mindful of these. Much has been written of America's foreclosure problem, but the millions of Americans who are losing their home are not just a problem for the banking system. It is a human tragedy: many of these are among the poorer Americans who are losing, with their homes, their life savings and their dreams of a better future for themselves and their children. But these consequences pale in comparison to what will be happening in the developing world. If history is our guide, educations will be interrupted, those who lose their jobs will have no safety net to fall back upon, malnutrition will increase, governments faced with tighter budgetary constraints will be forced to cut back on health expenditures. There will be lifelong scars.

It is too late to prevent this downturn. But it is not too late to try to mitigate some of these adverse effects. And it is imperative that we take steps to prevent a recurrence of this tragedy.

We cannot, in the work of this Commission, address some of the broader issues that it raises: How do we make our political processes less influenced by special interest groups, and more reflective of broader societal values of global social justice? But there is, today, an awareness that our economic system has failed us. This provides a rare opportunity for reform. Most of the attention of the Commission will be on repairing the economic system, and much of our attention will be on one aspect of that economic system—the financial system. But as we do that, it will be important to see these attempts within this broader context.

Let me again thank you for your willingness to serve on the Commission, and the commitment in time and energy that you have already made. I look forward to our discussions over the ensuing weeks.