New Monetary System Needed, Says UNCTAD

by Hartmut Cramer

The United Nations Conference on Trade and Development (UNCTAD) dedicated an entire day (Oct. 2) during its yearly board meeting in Geneva, Switzerland, to discuss the need to reform the "international financial architecture." This particular discussion will not stop the ongoing systemic global financial crisis, let alone bring about the much-needed New Bretton Woods system. But within the framework of the UN, it is highly significant nevertheless, coming right at the time when the world's leading governments, especially those in Washington and London, don't want to face the financial crisis, and would rather focus on "the war."

Sensing the immense danger which the preoccupation with this sort of "solution" poses, UNCTAD Secretary General Rubens Ricupero, who had served his country, Brazil, during recent decades in several high-level government positions, passionately declared during the deliberations on Oct. 2: "If we don't give a clear message, and issue a call for a new international financial architecture *now,* the danger is very high, that the priority of this crucial issue *decreases*" in the wake of the recent terrorist attacks on New York and Washington. "Instead, the priority of this issue has now to *increase,*" Ricupero told the delegates of UNCTAD's 191 member-states.

Making clear that it didn't buy the lie of the "bin Laden recession," the UNCTAD Secretariat on Oct. 1 published *Global Economic Trends and Prospects,* which stressed what UNCTAD had already stated, in its *Trade And Development Report, 2001* issued last April, that "the world economy experienced a sharp downturn over the last quarter of 2000 and into the new year." Arguing that this downturn in the world economy was mainly caused by a "slowdown in the United States," it had also warned that "rather than a rapid rebound, the United States economy could experience a prolonged period of sluggish growth, which even quick conventional policy actions might be unable to remedy." To quote an UNCTAD press release, issued on Oct. 2: "The report warned, that 'business as usual' was the wrong mantra for policymakers anywhere; it would be dangerously so now."

It therefore came as no surprise, that the update from the UNCTAD Secretariat stressed: "Already on the eve of events of Sept. 11, global economic conditions had been deteriorating over a year. The decline in the pace of demand in the first half of 2001 had been sharper than expected, and for the first time since the late 1970s, much of the world economy was simultaneously experiencing slower growth." Though UNCTAD's call for "debt write-offs and deferral of payments on official debt of affected developing countries" is useful, the steps which UNCTAD proposes in this report are insufficient, to say the least, to overcome the global crisis—a crisis which is *systemic* in its nature, not cyclical, as UNCTAD suggests. UNCTAD's strong support for Federal Reserve Board Chairman Alan Greenspan's interest-rate cuts, and its explicit call that this "monetary expansionism" should be carried out "everywhere, and not just in the United States," could not be more wrong.

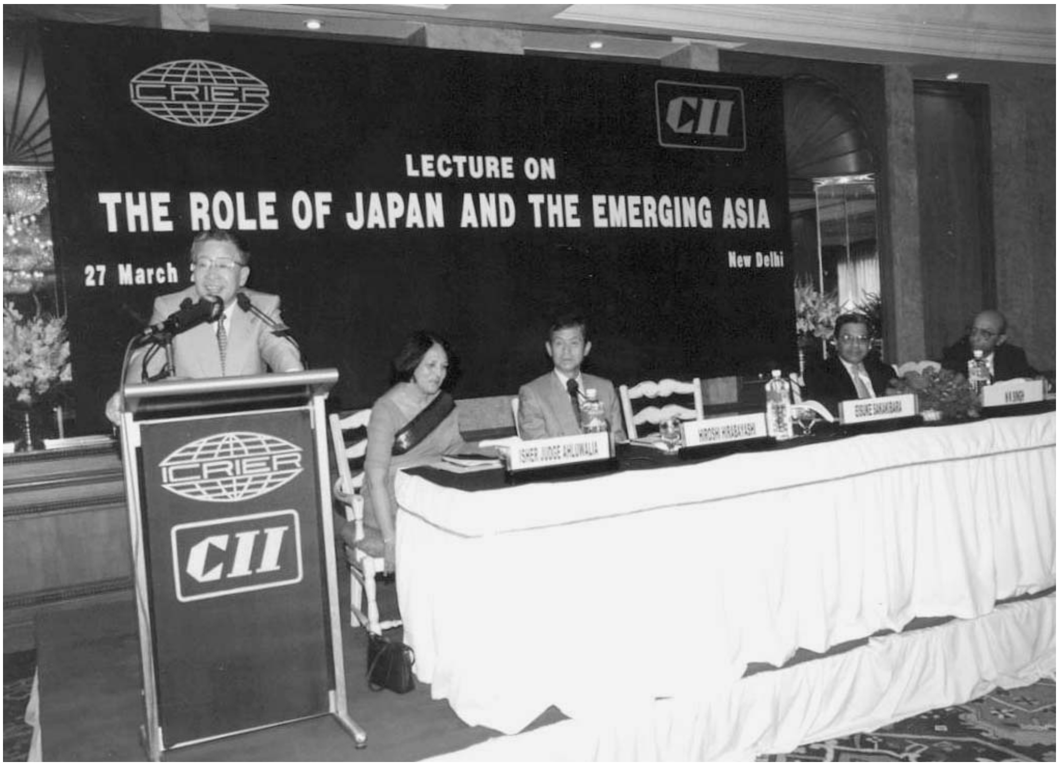
Sakakibara: 'We Are In A Global Recession!'

The Oct. 2 discussions on "Financial Stability: Reform Of The International Financial Architecture And The Role Of Regional Cooperation," were open to the press, and were enriched by international experts, who, as they stressed, are not currently holding government positions, and therefore could speak "more freely." The most prominent, and outspoken, among them was Eisuke Sakakibara, Japan's former Vice Minister for Finance and International Affairs.

Sakakibara, known as "Mr. Yen," described the global situation in dramatic words: "We are in the gravest crisis since World War II. . . . This is a real turning point, a paradigm shift, which occurs only once or twice in a century." Calling the financial-economic crisis "worse than that of 1998"—at which time a "global financial meltdown" was imminent, as months later even International Monetary Fund (IMF) officials admitted—Sakakibara said that a reform of the global system is necessary. What he then outlined, followed more or less the views of his other colleagues: That "we are in a global recession," which was already clear *before* Sept. 11, and that the terror attacks "only exacerbated it." Sakakibara said, "The best solution to this global crisis would be a new international financial architecture, but since this is not possible, we have to go to the second-best solution, regional cooperation."

Since this emerged as the "consensus" among the experts, the debate, rather than focussing on the *real* question of what "new international financial architecture"—presently the only "politically correct" expression for a New Bretton Woods, turned to the limited question of regional cooperation, and other rather defensive measures, including "market regulation" and "dirty floating" (i.e., floating according to rates set by governments, as opposed to "free," or "pure" floating), with the "extreme Malaysian example" of capital controls only mentioned once.

Despite these shortcomings, the discussion showed that certain lessons on the economy have been learned—the hard way. China's Yu Yongding, in his speech on Asian Monetary Cooperation, stated that "Asian countries' desire for establishing a regional financial architecture is a natural response



Dr. Eisuke Sakakibara (at podium), Japan's former Vice Minister for Finance and International Affairs, at a conference in March 2000.

to the disappointing performance of the IMF before, during, and after the Asian financial crisis."

Similarly, a Brazilian delegate—whose father, during the 1970s, had been on top of the German-Brazilian nuclear energy deal—told the government delegates, "One thing I *can* tell you; what you should *not* do, under no circumstances: Don't go the way of Argentina," in respect to monetarist so-called stabilization programs such as the currency board in Argentina, or outright dollarization, as in Ecuador. The de facto bankruptcy of neighboring Argentina has made people in the Brazilian elite sleepless. One can only hope, that the so-called elite in the industrialized nations will as swiftly respond to the "hard lessons" being taught them right now, and change the global monetary system *in time*.

Ricupero: 'New Financial Architecture Is Needed Now!'

This direction of the way out of the crisis was forcefully pointed to by UNCTAD Secretary General Ricupero. He strongly called on the delegates, i.e., their governments, to "issue a call for a new international financial architecture now," in order not to lose the momentum. Pointing to the UN conference on "Financing For Development," scheduled for next March in Mexico, Ricupero said that, without changing the monetary system, "there is nothing we have to discuss." Since all usual means such as "trade, FDI [foreign direct investment], and ODA [official development assistance] have been tried, and were not successful," the only chance left to finance development, according to Ricupero, "is a new international financial architecture."

Maybe this strong intervention, which clearly had an impact on the delegates, also made an impression on "Mr. Yen," since Sakakibara at his press conference the next day, after *EIR* raised the question of the urgent need for a New Bretton Woods in this grave time of crisis, said: "I agree, that now might be the time to issue a call for a new financial architecture." But he added: "As to the specifics of such a measure, I do not have any fixed idea at this time."

The final words of the UNCTAD statement of Oct. 1, are exemplary for the debate in Geneva: "Finally, it is perhaps worth recalling, that the design of a more stable financial and trading system after the Second World War was preceded by a lengthy process of discussion, albeit among a limited number of parties. The growing realization since the events of Sept. 11, that unregulated financial markets can operate against a wider public interest by channelling resources in support of terror, carries a wider message. Developed and developing countries have common cause in finding constructive measures to better manage financial markets in the interest of all countries. In this light, the upcoming United Nations Conference on Financing for Development provides a multilateral setting where progress toward a more balanced and stable pattern of integration can begin to take shape."

But this progress will only "take shape," if the discussion is focussed on the concept of a New Bretton Woods as specified by Lyndon LaRouche.