Brazil-China Innovation Dialogue 2024: Technology and Development

G20 BRASIL 2024

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Let's rethink the world

Brazil-China Innovation Dialogue 2024: Technology and Development

Thursday – **April 11** – 9:00 – 12:45 AM

Conclusions. **G20's Future Panel**

Challenges, Constraints, and Possibilities for G20 Futures. Reforming the International Governance Architecture.

Jan Kregel

G 20 and Reform of International Financial Architecture

- Born of US Domestic and International Financial Crisis (1997-9)
  - Long-Term Capital Management -- Russian crisis-- Asian crisis
  - Clinton support IFA reform leads to
  - UN Financing for Development Conference in Monterrey in 2002
- 2007/8 US/EU Global Financial Crisis (GFC)
  - Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System (9/2009)

UNITED NATIONS NATIONS UNIES

NEW YORK

Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System

September 21, 2009

Report Proposed a Global Economic Coordination Council and an International Panel of Experts

- **Global Economic Coordination Council** should be established **at a level equivalent with the UN General Assembly and the Security Council.** Its mandate would be to assess developments and provide leadership in addressing economic issues that require global action while taking into account social and ecological factors. Based on this mandate it would promote development, seek consistency of policy goals and policies of major international organizations, and support consensus building among governments on efficient and effective solutions for global economic, social, and environmental issues. Its work would go beyond simply the coordination of existing institutions.
- As an immediate step, an **International Panel of Experts** tasked with the assessment and monitoring of both short-term and long-term systemic risks in the global economy should be established. The panel could serve as an internationally recognized source of expertise in support of better coherence and effectiveness in the global governance system, fostering dialogue between policy makers, the academic world, international organizations, and recognized social movements. The panel should analyze systemic risks in relation to the global economy, their root-causes, and their implications for human development. It should establish criteria for the identification of systemic risks and issue recommendations as to preventive measures and sound economic policymaking. The panel could thereby also play an important "early-warning function,"

Post-1971: International Non-System

Greenspan: Capital account crises replace current account crises

- Change in the “external constraint”
- Private Financial Flows now cover External Deficits without conditionality or IMF programme
- Private capital flows fund external deficit
  - Private Capital inflows enabled by (Washington Consensus)
    - Privatization of State Enterprises
    - Elimination of Domestic Market protection: global supply chains
    - Liberalization of Domestic Financial Markets
    - Exchange rate overshooting driven by Interest rate differentials – carry trade
    - Use of Exchange rate anchor against inflation – leads to capital reversals
    - External debt crises, banking crises, exchange rate crises
- Produced the financial crises that led to creation of G20
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The non-System = Goldman Sachs System

- The problem is the free global flow of private finance
- Global Private Financial Institutions replace the pre 1970s IMF International Financial Architecture
- IMF (Art IV surveillance) has no agency or sanction -- FSAPs
  - Refusal to use Article 6
  - Failure to produce Sovereign Debt Resolution Mechanism
    - IMF is the major creditor
  - Multiple Agencies BIS, FSB
- New International Governance Architecture requires International Financial Architecture Reform

Increasing Nationalism (populism) in an increasingly global world

- Finance is Global but subject to national regulation
- Corporations are Global but subject to national regulation
- Information is Global but not subject to regulation
- Basic Policy problems are Global but not subject to regulation
    - Climate change does not respect national frontiers
    - Climate change is non-linear – it is not reversible
        - Even if measures are taken to stabilize global temperature!
    - The ice will not refreeze, the storms will not stop, droughts will not be reversed, beaches will not be recovered, human settlements will not become habitable
- Global human migration/redistribution of production is now the main problem --- Its more than just carbon abatement
- How to provide transitional/relocation support

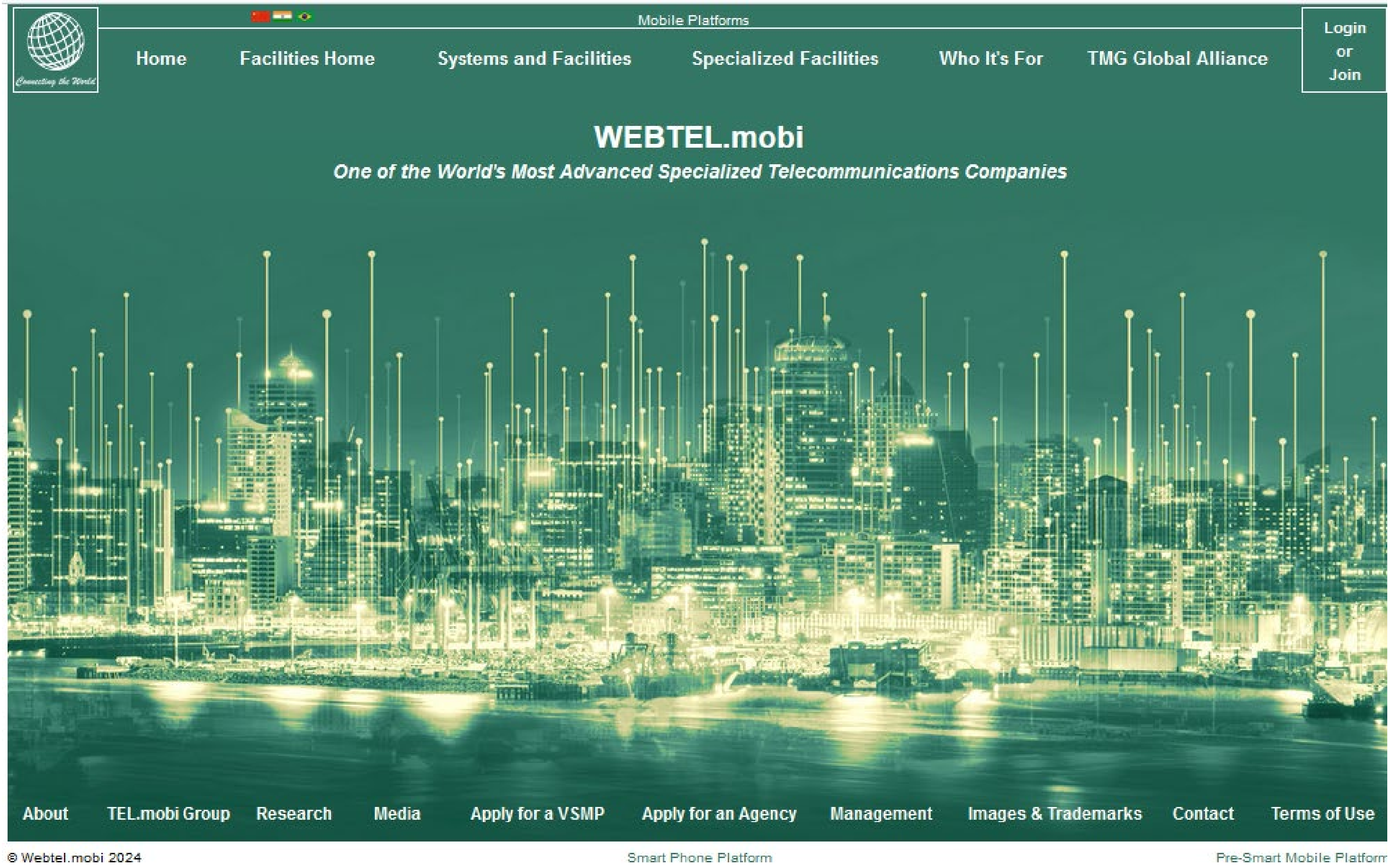
Remedy the Global MalDistribution of “Fiscal Space”

- While climate damage is random across borders, the fiscal space to respond and offset the internal costs is not.
- **<u>For Developed countries</u>**
- Traditional “Keynesian” expenditure policies can be used to respond to climate change.
    - As Lerner pointed out long ago, as long as debt is held internally the major impact is one of domestic redistribution of income:. “The proper analogy to the incurrence of internally held national debt is not an individual borrowing from another individual but an individual borrowing money from one of his pockets to put it into another. ”
- ***<u>For Developing Countries</u>***
    - who have limited fiscal space and rely on foreign borrowing:
    - “Increasing debt to other countries or to the citizens of other countries does indicate impoverishment of the borrowing country and enrichment of the lending country. … The country cannot by monetary manipulations consume more than it can produce.”
    - “repayment {of foreign currency debt} will constitute a real burden on the country just as the borrowing provided a real benefit quite different from any benefit that can accrue from internal borrowing. When the time comes to make the repayment there may be great inconvenience which could lead to default. But none of these considerations is at all applicable to internally held national debt which from the point of view of the nation cancels out.”
- **This means that there is a differential burden on developing countries responding to the crisis in terms of the real costs of servicing the external debt.**
- **While debt ratios have been further aggravated in all countries by the increasing interest rates led by developed countries’ central banks to offset the impact of these events on inflation rates,**
- **this further increasing the differential burden placed on developing related to developed countries.**

Multilateral International Financial Architecture

- Original Proposal by Keynes, Schumacher, Kalecki, Balogh
- Multilateral Clearing of national financial balances
  - Augmented with International Investment Board
    - Possible dedicated/directed finance to Sustainability measures
    - Relocation of displaced populations
  - Commod control
    - For special primary inputs to Sustainability investments
    - Relocation of Food production
- Schumacher proposals allows retention of national currencies
  - Does not require a global currency
    - (the problem is not the US$ but US financial institutions that dominate financial flows denominated in US$)

A Private sector clearing system patterned on Keynes's Clearing proposal already exists



- Let’s Think About Clearing Unions Again
- Thank you

- Read more about Clearing on jankregel.org