UNITED NATIONS E

ESCWA

Distr.
LIMITED
E/ESCWA/SDD/2009/
December 2009
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia (ESCWA)

Expert Group Meeting on the Global Financial & Economic Crisis:
The Social Impact and Response in ESCWA Countries
Beirut, 8 December 2009

THE SOCIAL IMPACT OF THE FINANCIAL AND ECONOMIC CRISIS: OBSERVATIONS AND PROPOSALS FROM A CIVIL SOCIETY PERSPECTIVE

Notes for the Keynote Speech delivered at the Expert Group Meeting on
The Global Financial and Economic Crisis:
The Social Impact and Response in ESCWA Countries
Beirut, 8 December 2009

By Roberto Bissio[1]

DRAFT – DO NOT QUOTE WITHOUT PERMISSION

[1] Roberto Bissio is Executive Director of the Third World Institute, of Montevideo, Uruguay, and coordinator of the Social Watch international network of civil society organizations. This paper draws its data and examples from the Social Watch report 2009, titled: People First: Making Finances Work". The report is available at: www.socialwatch.org

I. INTRODUCTION

It is too early to know if the debt standstill of Dubai World is the regional equivalent of the bankruptcy of the Lehman Brothers investment bank in September 2008. We don't know yet if the Dubai World case is an isolated episode or the tipping point in a series of collapses in the banking system spreading like prairie fire through the financial markets and stock exchanges of the Arab World. But in either case, this conference could not be better timed.

After one year of being a mere spectator of the world economic and financial crisis, the Arab region has now been caught by the waves generated by the collapse of Wall Street. But while we hear many stories about luxury cars left with their keys in the parking lots of the Dubai airport by expatriates running back home to escape debt prison, nobody seems to ask what is happening with the maids, nannies, cooks and gardeners they also leave behind.

When ESCWA asks about the "social impact" of the crisis, it is asking about those "invisible victims", the "innocent bystanders".

The Social Watch international network has been doing precisely that since the crisis erupted a year ago and its 2009 report, entitled "Peoples First" includes 61 country reports by civil society organizations from around the world on the social impact of the crisis. This is the first global bottom-up report on the social impact of the crisis.

UN agencies and other institutions have reported estimates of the millions of jobs that will be lost worldwide, the millions more people who will be thrown into poverty and the additional number of children likely to die as a result of the inability of the markets to solve the problems they created (contrary to what was the prevailing credo until last year). Valuable as these are, they are calculated from global aggregates, not the results of direct observation from the ground. The accumulation of findings from rich and poor countries of all continents show remarkable similarities and also a diversity of situations that enriches the picture available so far, makes it even more dramatic and challenges decision-makers with the urgency of implementing policies that put people first. It is not just a matter of social justice, but also of sound economic policy.

A first conclusion emerging from the observations by Social Watch is that not just finances have been globalized in the last two decades: poverty and inequities have been globalized also. Social Watch organized a "Peoples' voices" event in New York last June, on the eve of the High Level UN Conference on the Financial and Economic Crisis. We brought together civil society activists and researchers from the South and the East to meet with grassroots organizations in the host city, where the financial crisis erupted and we learned, for example, that there is a "food crisis" in New York City with about a million people that are never able to eat fresh vegetables or fruit, as they are either not affordable or not available. "Misdevelopment" happens across the North-South divide.

II. INNOCENT BYSTANDERS

Both the climate crisis and the financial-economic crisis are human made. And both affect the most precisely those that had no responsibility in creating them: the people living in poverty, the vulnerable, women and children.

In capitalist finances, like in a casino, the riskier the bets the higher the earnings. But risky bets also means frequent losses. In that logic, the scandal is not the bankruptcy of Lehman Brothers, but the decision by US president George W. Bush and his Treasury Secretary Hank Paulson to

spend hundreds of billions of dollars of taxpayers' money to rescue failed banks, such as Goldman Sachs, of which Paulson was Chief Executive Officer before joining the Government, and insurance groups, such as A.I.G. When President Yayi Boni of Benin, elected owing to his solid reputation as a banker, learned of this decision, he wondered publicly where the trillions of dollars of rescue funds would come from and concluded that the poor would end up paying for the crisis.

The Belgian report for Social Watch agrees: when the shares of banks and the principal enterprises in the country collapsed, the Belgian Government went to the rescue of the banks and provided deposit guarantees. The crisis is still causing unemployment to rise, while the cost of the bank rescue is making itself felt in the drastic increase of public debt, with serious repercussions in the provision of social security.

In Benin itself, the local Social Watch coalition has discovered that in its efforts to stimulate the economy the State is competing with the poor for scarce construction materials and grassroots organizations are mobilizing against the rising cost of living.

Many of the national Social Watch reports show how women tend to suffer the impact of the crisis disproportionately. In the words of the Polish coalition, “the decrease in family incomes due to the economic crisis might cause pauperization of whole social groups, particularly among the lower and middle classes. It is very likely that this will in turn have a more significant impact on women, since they traditionally are the main responsible for family well-being (this is particularly true among the lower income groups). According to some analysts, crises amplify the grey (informal) sector in the Polish economy as many, especially small entrepreneurs try to minimize labour costs and avoid taxation and other costs associated with formal employment. It seems very likely that the growth of the grey economy will affect women more than men, as they are more often engaged in low paid jobs, especially in the private service sector (e.g. in retail).”

In France the global crisis has had a direct impact on the people, as it has in all the developed countries where it began. The most obvious effects have been rising unemployment and increased social exclusion, and “sectors that not long ago were in a comfortable situation are even suffering food shortages” according to the French Social Watch report. Similarly, the German Government’s crisis management strategy does not include social or indeed ecological goals. Its stimulus packages and tax cuts are socially inequitable; layoffs and the rise in part-time workers are revealing the ugly face of deregulation. Poverty is becoming “massive” in both Eastern and Western extremes of Europe, report the Social Watch coalitions from Portugal and Moldova.

In the Czech Republic, “the global economic crisis (...) is lowering the standard of living” mainly because of increased unemployment. The Czech Social Watch coalition challenges the official unemployment figure, arguing that 178,000 people who were considered to be not actively seeking employment were left out and that adding this group would have pushed the unemployment rate 50% higher. Foreign workers, particularly those from Asia, are found to be those suffering the most in the Czech Republic, but also the Social Watch coalitions in Malta, Slovakia and Cyprus report on rising difficulties for foreigners and even cases of xenophobia.

At the other end, economic difficulties derived from diminishing remittances by exported workers are reported from the Philippines, Morocco, Mexico, Nicaragua and many other places. In the case of Egypt “the drop in remittances and the return of émigrés has put pressure on a labour market badly prepared to absorb more unemployed workers.” In El Salvador, “more than 300,000 families - 26.7% of the population - receive money from abroad, which helps defray the cost of food, clothing and basic services.” Flows of remittances almost stopped growing in 2008 and it is estimated that they will start falling in 2009.

In a dramatic extreme case of "collateral damage" of the crisis, in México the occurrence of "reverse remittances" is being detected, where poor families make enormous efforts to transfer some meager incomes to their relatives in the US, affected by unemployment. The construction of a wall along the US-Mexican border and increased penalties on illegal migration has made it unaffordable for migrants to return home to wait for a recovery of the economy. The investment in crossing the border is now so costly that it makes economic sense for the poor families to invest a bit more in keeping their relatives abroad instead of losing it all. The social impact and development consequences are devastating.

The speed at which countries get affected by the tsunami is not related to its physical distance to Wall Street, of course, but with how its economy is linked to those at the epicenter. In Mozambique, for example, which is one of the poorest countries in the world, the privately own Mozambique International Bank (Millennium Bim) has published a report forecasting that the nation's economy will shrink because of negative growth in donor countries that finance more than half the national budget, and those that make foreign direct investments. Social Watch-Mozambique reports that prices for aluminum, tobacco, sugar, tea, chestnuts and prawns have fallen. Export revenues will be affected and this in turn will weaken activities that foster economic growth and hamper efforts to promote tourism. With 42% of its budget funded by aid, Tanzania is in a similar situation. The French Social Watch report shows that, because of the crisis and the country's inability to create new resources for Official Development Assistance (ODA), this aid has been cut back sharply and France will not fulfill its commitments in this area. The new German government has announced it will keep its ODA commitments for 2015, but not necessarily those of 2010. By contrast, Spain has reaffirmed its commitment to channel 0.7% of its national income into ODA by 2012. But even if all donor countries were to honour their commitments, those goals are expressed in percentages of the economy, and therefore the budgets for ODA are bound to decrease in times of recession.

Among developing countries, the greater the linkage with the globalized economy, the bigger and faster has been the impact. México and Chile, two Latin American countries tied to the US economy by free trade and investment agreements, were immediately affected. The price of copper, Chile's main export, peaked at over USD 4 per pound in mid 2008, only to fall to USD 1.4 at the end of the year. Yet, the most noticeable impact of the crisis is, according to the Chilean Social Watch report, the fall in pension fund holdings, which are invested in local and foreign financial assets. The value of retirement savings suffered a loss of USD 27 billion, more than 26% of the total funds, by the end of 2008. This is the reason why household wealth in Chile suffered the greatest losses in Latin America, yet despite repeated protests from the people affected, they were not as lucky as the shareholders of some of the big global banks and nobody came to their rescue or did anything to compensate them.

Falling commodity prices have caused the crisis to spread to many countries. In Uganda the local Social Watch coalition estimates that this might reverse recent social progress and make it impossible to achieve the Millennium Development Goals. Zambia suffers even more than Chile from the drop in copper prices, on which the country is highly dependent. The Zambian contribution to Social Watch rightly notes that: "Unlike the United States and other countries that have responded to the economic meltdown by providing financing to failing banks and major industries to try to keep them afloat, Zambian President Rupiah Banda does not have any resources to give out."

The report from Ghana comments on the same problem: "The question that citizens are trying to come to grips with is whether the country should focus on aid from the international community to cope with the economic fallout, or resort to harsh fiscal and monetary initiatives."

As Brazilian financial expert Fernando Cardim writes in his analysis for the local Social Watch report: "increasing income and tax revenues (…) is precisely what President Obama is trying to accomplish in the United States. It is also what the Managing Director of the International Monetary Fund (IMF), Dominique Strauss-Kahn, has defended repeatedly since 2007." Yet, "the Fund itself has resisted adopting this view, as demonstrated by the conditionalities imposed on the Central European countries that were bailed out by the IMF."

In the case of Romania, the national Social Watch report notes that "the IMF loan seems to have been contracted under external pressures, mainly to save foreign companies' interests in Romania. It will not serve to repay the country's foreign debt but will cover the debts of local subsidiaries of foreign banks. Public funds will thus be used to repair the damage done by private capital." Instead of reacting to local needs, the IMF went to Romania as a result of "desperate calls from the Austrian Government for EU and IMF intervention to rescue its banks in Eastern Europe." Austrian banks had lent the region an amount equivalent to 70% of Austria's GDP. Now, "the repayment of a loan that represents 40% of Romania's annual budget will only be possible over the next years through decreasing the population's standard of living."

In Hungary, an IMF bailout was needed to avoid total collapse of the economy, but it led to devaluation, tax increases, procyclical measures such as spending cuts and other unpopular measures. Prime Minister Ferenc Gyucsany was forced to resign in March 2009. The new Government plans to cut pensions, public sector bonuses and maternity support; to mortgage energy and transport subsidies; and to raise the age for retirement.

Similarly in Serbia, pressure by the IMF to decrease the state deficit led the Government to announce in March 2009 the introduction of a temporary "solidarity" salary and a pension tax of 6% for those who earned above USD 170. This created discontent among workers and pensioners while trade unions announced protests. They argued that the "solidarity" tax would hit the poorest, cause a reduction in salaries and increase unemployment and work in the informal sector, while the rich would remain untouched. Overnight, the whole savings plan was revoked. According to the Serbian Social Watch coalition, the Government "was caught between fear of social turbulence on one side and pressure from the IMF on the other, and the following weeks were marked by discordant voices from policy makers, who announced new packages of saving measures in the evening that were revoked the following morning." The menu of new ideas included reducing the number of ministries, increasing property taxes, taxing mobile phone bills and new car purchases, introducing a luxury car tax, banning new employment in the public sector, limiting business trips abroad and reducing working hours. Yet, the Serbian "watchers" note that if "the newly adopted Law on Confiscation of Property Gained by Crime, the State could collect USD 2.64 billion in one year, a sum equaling the one Serbia is asking for from the IMF."

In Bulgaria NGOs and trade unions also do not agree that reducing social expenditures is acceptable in times of crisis. "Any further reduction could shatter the country's social peace", warns the local Social Watch. Although NGO experts support the increase in the share of investment going to transport infrastructure, they are sharply critical of the Government's failure to use EU structural funds allocated to Bulgaria during its first two years of full membership. "Only 0.6% of the EUR 2.2 billion had been spent by the end of 2008. Lack of financial capacity, excessive bureaucracy and scarcely transparent procedures have all prevented the funds from reaching their intended beneficiaries."

III. SLOWING DOWN CAN BE DRAMATIC

When the financial crisis started, some economists put forward the "decoupling" hypothesis, according to which emerging economies would be relatively untouched by the global financial crisis owing to their substantial foreign exchange reserves, robust corporate balance sheets and relatively healthy banking sectors. Yet they felt the impact anyhow. As Social Watch-India observes, "the Government's initial prediction that the country would emerge unscathed, was shortsighted" and economic growth dropped from a healthy 9.3% in 2007 to 7.3% in 2008. For 2009, the IMF forecasts a growth of 4.5%. Similar drops from two digits growth figures to 5% occurred in Vietnam, Peru and Cambodia.

Five per cent growth can make finance ministers in OECD countries envious, since most of them are trying to emerge from *negative* growth (i.e., recession), but the departure point should not be ignored. Five per cent growth per year in low-income countries means an increase of less than a dime a day for the average person. But a few cents make enormous difference when you are poor. As Social Watch Cambodia points out for example, the reduction of the growth rate by one half means that "people living around Tonle Sap, the country's major lake, are especially vulnerable, since they had already gone into debt to make ends meet. Last year they had to sell productive assets and pull their children out of school to go to work."

IV. PERMANENT CRISIS

The term "crisis" refers to a turning point, a decisive moment, an unstable time, yet for many of the reporting Social Watch coalitions, the crisis they are suffering is a matter of decades and did not start with the collapse of the financial markets. In the Central African Republic, poverty is seen as increasing and not diminishing since 1990, with political instability and violence damaging an already weak economy.

Eritrea is reported as having "a deep economic, social and political mess of its own making" before being hit by the global crisis, while in Nigeria most people "have been living for a long time in a situation of economic meltdown. Corruption is widespread, the country lacks electricity, education and health are in a deplorable condition, and the armed fight for the control of oil resources continues to be intense." In Yemen, the local Social Watch team sees lack of rights as being at the origin of crisis after crisis since 1990, with 42% of the population living below the poverty line and an even worse situation for women. In Burma there is a crisis in every area, whether the economy, politics, food or environment, with the Government showing itself to be unable to support its own citizens in the aftermath of a devastating cyclone and yet spending nearly half of its budget on the military.

In Nepal the crisis is expected to hit soon, adding its effects to "other crises, related to the environment, food, energy, finance and politics [that] have been buffeting the society for a long time." In Bangladesh, cyclone Sidr on top of two consecutive floods has shown the extreme vulnerability of millions of people threatened by climate change. A complete lack of governmental authority is at the root of problems in Somalia, while foreign occupation is the major concern in Palestine. Also contributing from a critical conflict situation, the Iraqi Social Watch decided this year to focus its report on the situation of women. Their findings have, however, universal value: "a culture of equality of access and opportunity is needed in addition to legislation."

V. POLARIZATION

In March 2009, at the height of the crisis and the political debate on how to cut expenses in Serbia, an automobile fair was held in Belgrade. All the most expensive models were sold on opening day for a total of more than USD 2.6 million!

Polarization is being exacerbated everywhere by the crisis. The Social Watch report from Bahrain describes "increasing numbers of millionaires, and a shrinking middle class and impoverished lower class." The sense of unfairness, more than absolute poverty, has led to "repeated confrontations and tension between impoverished communities and security forces, especially in the villages, which is why the World Bank now ranks Bahrain low in political stability."

In Vietnam, frequently quoted as an example of a development model that lifted millions of people out of poverty, consumption by the richest 20% of the population accounts for 43.3% of total expenditure in the country, while the remaining 80% spends very modestly. Similar polarization is described by the Social Watch report for Honduras, where the confrontation between rich and poor is clearly at the root of the coup d'etat that deposed President Manuel Zelaya in June 2009, reviving a "regime change" practice that Latin America had seemed to have abandoned in favour of democratic methods two decades ago.

In neighbouring Costa Rica, a traditional haven of peace and constitutional stability in Central America, the local watchers warn that "if the challenges [of the crisis] are not dealt with on the basis of social dialogue and by means of a firm change of course, the persistence of traditional solutions (one-time cash handouts and cuts in public spending, as well as the reduction of rights) will doubtless lead to greater inequality and poverty and to the risk we have already pointed out of turning conjunctural poverty due to the loss of income, into structural poverty, and increasing violence against women, children and the elderly."

VI. THE GAME OF OSTRICH

"In Kenya the Government is in denial", – write the local watchers – "playing the game of the ostrich, burying its head in the sand. The governing elite argues that the crisis is circumstantial and that the national economy is sheltered enough by its weak ties with international capital."

Similar denials are reported from many countries. In the case of Moldova, Social Watch found out that before the elections in April 2009, the Government vehemently denied the crisis would affect the country and tried to artificially maintain the economic situation. The World Bank was not so optimistic, and included Moldova among the developing countries with the highest level of vulnerability. After the elections, however, President Voronin declared in a meeting with businesspersons, members of the acting Government, congresspersons and politicians that "'the crisis is a fire, a catastrophe.' Government officials explained that the downplaying of the crisis before the elections has been aimed at not 'creating panic.'"

In other situations, not only did incumbent politicians downplay the importance of the crisis, but leaders of social organizations have adopted the same approach, afraid that the fear of a catastrophe might lead decision-makers to accept opportunistic demands by the already privileged. Social Watch Bolivia reports that "Bolivian entrepreneurs are part of this trend, responding to the severe global downturn through unequal negotiations that shift the burden of the crisis onto the shoulders of their workers through layoffs and reductions in benefits and wages."

In Slovenia, the local watchers also detected employers abusing the fear of the crisis to restructure workers' rights. In Guatemala, the Government measures aimed at confronting the food crisis, such as zero tariff import quotas, result in benefits for one group but not to the consumers.

From Paraguay, the local Social Watch coalition reports that the first sectors to demand additional support "were those that had benefited from the prior Government's neoliberal policies and market integration: agro-exporters, industrialists, importers and advertising executives. (…) The soy producers, for example, insisted that the Government not only to cover their losses, but also provide enough funding to maintain their level of production and profit through public subsidies. They earned extraordinary profits in the previous cycle, thanks in part to speculation in the futures market for agricultural commodities that accompanied the promotion of biofuels in many countries."

In Poland "the public believes that banks are manipulating the exchange rates at the clients' cost. At present the difference between the purchase and the selling rate can reach as much as 12%, while even the Office of Competition and Consumer Protection is unable to impose exchange rate restrictions. Consumer groups are therefore forming through the Internet in order to purchase foreign currencies in wholesale quantities, hoping to negotiate the amount of spread and sometimes even renegotiate terms and conditions of credit agreements."

After having attended a seminar organized by Third World Network on Asian responses to the crisis, Social Watch advocacy coordinator Natalia Cardona wrote that there seems to be "an atmosphere of defensiveness among governments in the region. Rather than a proactive and new approach to changing the international financial system they are relying on old policy to try to deal with new and worsening economic problems."

Social Watch Argentina finds the Government to be similarly unprepared for the magnitude of the challenges posed by the crisis, while the Brazilian coalition believes its leaders are "confusing the inability to act with financial and fiscal prudence." In times of recession, "tax revenues go down while social security spending rises. Fiscal deficits then rise precisely because governments were not bold enough to act against the contraction of the economy. Paradoxically, the attempt to look prudent puts a country in an even worse fiscal position than would be the case if its government had acted decisively to support demand."

VII. SUPPORTING THE ALREADY PRIVILEGED

Further, not all attempts to stimulate the economy are successful, or even fair. The Canadian watchers believe that their Government's "short-sighted economic stimulus plan that does not meet the needs of the thousands of citizens feeling the brunt of the crisis. Jobs being created by Government investments are in male-dominated industries, while women are over-represented in part-time and precarious work and are often the first to be laid off."

Those are almost the same words used by the Thai Social Watch report: "One of the most controversial measures was the one-time THB 2,000 (USD 57) cash handouts to government and private-sector employees earning less than THB 14,000 (USD 397) per month. Even those eligible for the fund criticized the policy as blatant populism as opposed to a meaningful stimulus. For example, by far the most workers in this category are working in the informal sector, and are thus ineligible; this also raises the issue of gender discrimination, since the vast majority of women are working in the informal economy."

While Western economies inject massive new bailout funds into their financial institutions, and in some cases re-nationalize their banks, the parliament in Kenya, according to the local Social Watch coalition, is legislating the privatization of the few remaining strategic public assets in order to provide a one-time government revenue injection. Among the organizations set for privatization are the Kenya Electricity Generation Company; the Kenya Pipeline Company; the state-owned sugar industries, hotels, banks and others.

In Lebanon, both the Prime Minister and Minister of Finance have acknowledged the negative impacts expected from the global crisis and the need to protect the national economy. However, the analysis by the local Social Watch concludes that measures they are implementing speed up the procedures needed for the country to join the World Trade Organization, which will mean liberalizing services and productive sectors of the economy.

Similarly, in Thailand “to complement its stimulus plan, the Government is also working on a major overhaul of the regulatory structure for financial markets. However, contrary to many other countries that are establishing greater safeguards to protect consumers and their economies, Thailand is moving towards wholesale deregulation and liberalization to increase the role of the capital market in developing the economy.” The Thai watchers fear that “this initiative, led by many of the same people involved in the 1997 financial crisis looking exclusively for short term gains, will pave the way for a new crisis as soon as the country is again on its feet.”

In Malaysia, which relies heavily on exports for economic growth and imports most of its food, socialwatchers report that the country “will have to brace for years of economic difficulties. There is a sharp fall in industrial production, the unemployment rate is soaring and analysts warn that the coming recession could be worse than that of 1997. The Government has been criticized for acting too late and for focusing on bailing out companies. Civil society organizations are holding protests and public fora to raise public awareness of the negative impacts of these crises, especially on the vulnerable groups in society.”

This is quite the opposite of the policies being implemented in Venezuela, where poverty reduction is explicitly sought through massive government spending, even when the policies are not always as transparent as the local “watchers” would like.

Algeria, on the other hand, seems to have learned some lessons from the crisis. In September 2008 Sid Saïd, a leader of the General Union of Algerian Workers, announced that the Government had abandoned its “everything can be privatized” policy. The local Social Watch report estimates that “220 public enterprises awaiting privatization as soon as new regulatory measures were implemented were cut from the list of companies to be sold. In addition, the Government’s inter-ministerial council applied in January 2008 on bank credit and financial clean-up of public economic institutions by erasing the debts owed them by viable companies. The Government has given responsibility for supervising these clean-up measures to an inter-ministerial working group for the finance industry and investment promotion among small and medium enterprises.”

VIII. INVEST IN PEOPLE

Many citizens from around the world can share the conclusion of the Peruvian watchers: “When times are good, workers are typically asked to wait patiently for the benefits of growth; in times of crisis, they are expected to tighten their belts.” But this is not fair and, economists now realize, does not even work. Stimulus packages that have relied on cutting taxes to the rich and subsidizing big banks and corporations have not produced the desired results. Anticipating a

prolonged recession, the rich and the middle classes tend to save any additional money, instead of spending it, while banks have used stimulus money to rebuild their assets instead of lending it.

But when funds are channeled to the poor it is spent immediately. Not because they have a better understanding of their role in contributing to the recovery of global economy, but just because they do not have a choice. The ethical option of supporting the vulnerable in times of crisis is thus also the choice that makes economic sense.

IX. THE INTERNATIONAL RESPONSE

There is little democracy in international decision-making either for civil society or for governments. Civil society organizations cannot attend, even as observers, many of the key decision-making fora and in many cases this is also true for governments of developing countries, especially the least developed countries. The World Bank and the International Monetary Fund, the two main pillars of global financial governance, are controlled by seven countries and the United States has veto power in both institutions (as does the EU, if its member countries take a common position). Thus, the convening at the heads of state level of the "G-20", an informal grouping of 22 economies from the North and the South considered to be of "systemic importance" is a welcome step towards recognizing the new realities in the world economy. The G-20 met at Summit level in Washington (November 2008), London (April 2009) and Pittsburgh (September 2009). It has self-proclaimed itself as the substitute of the G-8 as the main forum for building consensus around the global economy. Yet, it suffers from a democratic deficit, as it leaves 170 countries out. This leaves out not only some key countries in the global finances, like Switzerland and Singapore, but also the entirety of the least developed countries. The Arab region, with all its diversity, is "represented" only by Saudi Arabia, as a major creditor. Further, the G-20 has no institutional weight, no legal status, no accountability, no secretariat in charge of following up on its resolutions and unknown rules for reaching a decision in case the closed-door negotiations fail to reach an agreement.

Yet, it is argued that the advantage of the G-20 is that a reduced number of leaders meeting at the highest level is able to produce significant results, while a large meeting conducted in a transparent way could only produce inflamed speeches for political consumption but no significant agreements. What happened over the last 12 months, instead, was that the General Assembly of the United Nations, meeting in Doha in December 2008 and in New York in June 2009, managed to come out with a consensus of the "G-192" (the total number of members of the UN) that goes deeper in its analysis of the global crisis than has any other internationally agreed document.

The report of the Stiglitz Commission to the General Assembly and the GA resolutions itself, of which this meeting is a follow-up, provide a platform for change and an agenda for the international debate. Out of that ambitious agenda, two major issues have been agreed upon by the G-20: the reform of the Bretton Woods institution, giving more voice and vote to developing countries and the adoption, in Pittsburgh, of the principle of having the financial sector contribute to clean up the mess they created. The first one is moving ahead, yet it will not change the current veto power of the US and the EU (if the members countries act together). The second one could include the adoption of some form of Currency Transactions Tax of Financial Transactions Tax on a global level, an idea that was given an enormous boost by its public endorsement by UK Prime Minister Gordon Brown.

Developing countries are actively demanding as urgent matters to be discussed the creation of a new framework for sovereign debt arbitration, the further emission of SDRs (Special Drawing Rights) for developing and least developed countries and the legitimation of capital control

measures, not just to prevent massive capital flights in times of crisis, but also to allow the limitation of volatile capital inflows in order to avoid currency appreciation and the creation of new "bubbles".

Other issues brought to the agenda on a global scale, but not likely to have short term decisions around them, include the creation of an international reserve currency, the eradication of fiscal havens and secrecy banking jurisdictions and the redefinition of well being indicators. In this regard, the report by the commission of experts headed by Amartya Sen and Joseph Stiglitz to French president Nicolas Sarkozy provides an excellent opportunity to renew an old debate that is particularly relevant to the Arab region.