

# Global economic governance

2011/2011(INI) - 25/10/2011 - Text adopted by Parliament, single reading

The European Parliament adopted by 476 votes to 105, with 72 abstentions, a resolution on Global Economic Governance.

Parliament recognises the need for policy-makers around the world to continue working on solutions to **reform global economic governance to help rebalance the world economy and avoid another slump**. It stresses that the **reform of global governance should ensure that markets are embedded in a comprehensive institutional framework** for them to function properly. One of the priority objectives of worldwide economic governance must be the creation of a favourable environment for long-term investment.

Members support the work and commitments of G20 States to implement properly phased growth-friendly fiscal consolidation plans in the medium term while supporting domestic demand at a pace determined by each country's circumstances, pursuing appropriate monetary policies, enhancing exchange rate flexibility to better reflect underlying economic fundamentals, and undertaking structural reforms to foster job creation and contribute to global rebalancing. They note, however, that, otherwise, prospects at G20 level of correcting global imbalances so far seem limited.

**(1) Recommendations:** the resolution:

- notes that imbalances stemming from structural misalignments and a lack of competitiveness in the domestic economy should be addressed by both surplus and deficit countries, as these could also be a source of fundamental problems;
- stresses that the financial and economic crisis demonstrated that the inflow of capital as a result of global imbalances should be accompanied by responsible monetary policy and strong financial regulation and supervision;
- stresses the importance of responsible monetary policies; urges central banks of major economies to consider potential negative externalities, such as asset bubbles, carry-trade dynamics and financial destabilisation in other countries, when implementing conventional or non-conventional measures;
- states that the **exchange rates** should reflect underlying market fundamentals in order to enhance openness and flexibility and to facilitate economic adjustment, and therefore should not be managed or manipulated by national monetary authorities;
- urges reconsideration of the **use of 'Special Drawing Rights' (SDRs) as a possible replacement for the dollar** as the world's reserve currency, which could help stabilise the global financial system; asks the IMF to explore further allocation as well as a broader use of Special Drawing Rights (SDR) in particular for the purpose of enhancing the multilateral exchange rate system.

The resolution notes that many of the current fora, like the **G20**, are only for **informal discussion, without legal basis** or the attributes of international organisations in their decision-making processes or in the implementation and supervision of their decisions, and will as such remain weak as governing structures. It notes that the consensus method of decision-making which characterises many of the global cooperation bodies does not encourage bold decisions to be taken and often leads to **vague non-binding agreements**. Members urge the global forum to emulate the EU's move away from exclusive reliance on unanimity.

**(2) Reform of the international monetary and financial system and its institutions:** Parliament stresses that the European Union must play a leading role in global economic reform to make international institutions more legitimate, transparent and accountable. It believes that the EU should be able to speak

with **one voice** and call for an **EU seat in the IMF and the World Bank**. It calls for a **more democratic IMF**, including an open and merit-based election of its managing director, and a substantial increase in voting rights for developing and transitional nations.

The resolution underlines the need for a global understanding and a **common approach** regarding monetary policy, international trade, sustainable public finances and flexible currencies based on economic fundamentals. It considers that the global economy should be characterised by open markets for the mutual benefit of all participants. Members also underline that **high social and environmental standards** are vital and must be developed in all regards. They stress that the IMF and WTO should be the core of such a process.

Parliament believes that, in order to allow developing countries to obtain more benefits from trade and to ensure decent working conditions and decent wages for all workers, the EU has a strong interest in strengthening the ILO and in encouraging its participation in the work of the WTO and the monitoring of sustainability chapters linked to the GSP.

The Commission is called upon to refine the EU trade and investment strategy to **include the BRIC** countries (Brazil, Russia, India and China) as future major trading partners with their own interest in a common global network of interlocked interests of socially and ecologically sustainable development. Parliament calls on the G20 leaders to without further ado conclude the discussions on the minimum common elements of a global financial transaction tax.

Parliament also calls for the **establishment of an international board of central banks** – comprised in the first place of the central banks of the EU, Japan, UK and US – with a mandate to coordinate monetary policy, to oversee financial supervision, and to extend and promote the SDRs as a global reserve currency.

**(3) Global financial sector governance:** Parliament calls in this regard for the Union's supervisory authorities to take the lead in building international cooperation and establishing best practices in financial regulation. It also underlines that convergence towards a common financial regulatory framework between the US and the EU would be beneficial.

The resolution insists on the need for:

- the global implementation of reforms that improve the transparency and accountability of financial institutions;
- further reforms of rules and practices in the banking and shadow banking system are warranted;
- the European financial supervisory bodies to have a clear mandate to work in close cooperation with their non-EU or international counterparts, as the European Systemic Risk Board (ESRB) does with the Financial Stability Board (FSB);
- a greater degree of integration between the mechanisms put in place in different sectors;
- the development adequate criteria for identifying systemically important financial institutions, with the aim of avoiding 'too big or too interconnected to fail' institutions, and therefore to reduce systemic risk through the use of additional reserve and capital requirements as well as antitrust laws.

Members call on the **Basel Committee on Banking Supervision** to propose measures to ring-fence the retail banking activities of systemically important institutions and require them to be capitalised on a standalone basis. The resolution recommends the development of a suitable **international infrastructure** under the aegis of the IMF offering authorities and industry alike a unique source for standardised basic financial data as a technical enabler for international prudential tasks and safer and more efficient industry processes alike.

**(4) Reconfiguration of the international monetary system:** Members stress the positive effects of a stronger economic governance framework in the EU and the euro area for global cooperation and

coordination. They note the great importance of strengthening and **deepening the European Single Market** not only as an internal objective but also as a leading example for other trading blocs around the world.

The resolution stresses:

- the need for EU policies both in the **agricultural and financial fields** that help to avoid global shocks in the food supply and prices;
- that the production of global public goods such as **climate protection and the fulfilment of the Millennium Development Goals** could be favoured by an EU qualified market access framework;
- that the G20 or WTO should explore the possibility of a global agreement for a **carbon tax** on imported products and services;
- that the EU should always promote fair trade, democracy, human rights, decent working conditions and sustainable development in its trade policies.

The Commission is called upon to submit a **proposal on how to improve the EU's internal decision-making procedure** to improve its coherence as regards external representation in the area of economic and financial affairs to ensure that the EU's representation is democratically accountable to the European Parliament, Member States and national parliaments.