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UN panel touts new global currency reserve system

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A UN panel of expert economists pressed Thursday for a new global currency reserve scheme to replace the volatile, dollar-based system and for coordinated steps by rich countries to stimulate their economies.

"A new Global Reserve System -- what may be viewed as a greatly expanded SDR (Special Drawing Rights), with regular or cyclically adjusted emissions calibrated to the size of reserve accumulations, could contribute to global stability, economic strength and global equity," the panel said.

As part of several recommendations to tackle the global financial crisis, the panel also noted recovery would require all developed countries, in the short term, to take "strong, coordinated and effective actions to stimulate their economies."

And it stressed the need to "lay the basis for the long-run reforms that will be necessary if we are to have a more stable and more prosperous global economy and avoid future global crises."

The commission, led by US economist Joseph Stiglitz, a frequent critic of globalization and unbridled free markets, is primarily aimed at finding solutions for developing countries.

On the monetary front, Stiglitz, the 2001 Nobel economics laureate, told a press conference here there was "a growing consensus that there are problems with the dollar reserve system.

He noted that such a system was "relatively volatile, deflationary, unstable and (had) inequity associated with it."

"Developing countries are lending the United States trillions dollars at almost zero interest rates when they have huge needs themselves," Stiglitz noted. "It's indicative of the nature of the problem. It's a net transfer, in a sense, to the United States, a form of foreign aid."

This week, China's central bank chief Zhou Xiaochuan suggested the dollar could be replaced as a reserve currency by an International Monetary Fund (IMF) basket comprising dollars, euros, sterling and yen, saying it would not be easily influenced by individual countries.

But the UN panel warned that a two (or three) country reserve system "may be equally unstable."

It said a new Global Reserve "is feasible, non-inflationary and could be easily implemented, including in ways which mitigate the difficulties caused by asymmetric adjustment between surplus and deficit countries."

Stiglitz said his panel's experts were currently trying "to lay out the conceptual framework of how this might be done."

The issue of the world currency reserve is expected to be raised at the April 2 summit of the G20 club of developed and emerging economies.

On Wednesday IMF managing director Dominique Strauss-Kahn said that talks on a new global reserve currency to replace the US dollar were "legitimate" and could take place "in the coming months."

But US Treasury Secretary Timothy Geithner earlier defended the dollar as a key global reserve currency.

"I think the dollar remains the world's standard reserve currency, I think that's likely to continue for a long period of time," he said.

Among other recommendations, the Stiglitz panel proposed western aid to help developing nations out of the crisis, better market regulation, a reform of central bank practices and of international financial institutions, as well as the creation of a new structure such as a United Nations economic council.

It specifically called for immediate, additional funding for developing countries "just to offset the imbalances and inequities created by the massive stimulus and bail-out measures introduced by advanced industrialized countries."

It said the funds could come through the issuance of SDRs approved by the IMF board in 1997.

SDRs are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries and support the Bretton Woods fixed exchange rate system.

They are allocated to member countries in proportion to their IMF quotas.