

Paul Volcker-February 11 & 12, 2008

“Global Economics and UN Reform”

Former Federal Reserve Chairman Paul Volcker addressed a capacity audience at the World Affairs Council’s Global Business Luncheon on February 11, and received a standing ovation for his clear and insightful presentation on the financial and economic difficulties facing the U.S. within the context of the global economy. Volcker attributed the current financial crisis to a broad array of factors, not least the introduction of convoluted instruments that disguised sub-prime mortgages as AAA-rated debt, the failure of rating agencies to recognize this, and compensation packages for corporate leaders that encourage extreme risk-taking.

Chairman Volcker also addressed problems related to the broader economy, pointing to the continuing imbalance of trade, the excessive portion of our economy represented by consumption (now 75%, up from 68%), and the unusually high portion of corporate profits represented by the financial sector (now 30-40% vs. the norm of 5-10%) as constraints to economic recovery. These imbalances, said Volcker, must be addressed over the next 12 to 18 months to establish the foundations for sustained economic growth. On the positive side, he noted that the global economy is strong, that U.S. exports are improving and that the necessary housing adjustment is underway, but he cautioned that inflation remains a critical concern. If we lose confidence in price stability, he said, we will lose confidence in America.

On February 12, Chairman Volcker spoke to approximately 700 persons at UNF. Addressing the need for UN reorganization, Volcker noted that most UN institutions were created to promote a rational path to global prosperity, but some are not as relevant today as when they were established. The World Bank, for example, was established when an international banking system was virtually non-existent, while today countries can borrow on the open market ten times the amount available through the World Bank. On the other hand, institutions such as the World Trade Organization have had remarkable success as global trade has increased at a rate much greater than that of national GNP’s. Likewise, the World Health Organization and the International Atomic Energy Agency have taken on increased relevance under current conditions.

Within this context, Volcker addressed the need for United Nations reform, using the Oil for Food Program (OFP) to illustrate how narrow national interests, lack of oversight and petty corruption combined to undermine the intent of the program. The OFP was set up to reduce the deleterious effects of the UN sanctions regime on the health and well-being of Iraqi civilians, but was manipulated by Saddam Hussein to enrich himself, his cronies and thousands of complicit companies around the world. Volcker identified six factors facilitating this corruption.

Dissension on the Security Council between the U.S. and the U.K., on the one hand, and Russia, China and France—all important Iraq trading partners—on the other, contributed significantly to the failure of the OFP. Then, said Volcker, three of the four members of the OFP Oversight Commission left for personal reasons--leaving only the Russian member--and the Security Council was never able to agree on their replacements. Also, only one auditor was ever assigned to monitor the program, and the UN officer responsible for the administration of the program accepted bribes of at least \$150,000. Volcker also said Butros Butros-Gali, UN Secretary General at the start of the program, was not minding the store and missed numerous opportunities to exercise oversight, while the Deputy Secretary General took absolutely no responsibility for the program. Finally, from the very start of the program Iraq exported oil outside the OFP to Jordan, a U.S. ally, and no objections were raised. Immediately thereafter Iraq did the same with Turkey, another U.S. ally, without eliciting an outcry, and so was emboldened eventually to open the oil pipeline to Syria .

Following his investigation of the OFP, Volcker made a number of administrative recommendations to bolster the UN's auditing, accounting and inspection procedures, which are largely underway. In addition, he made two key recommendations—establishment of an *outside* (i.e., non-UN) oversight board for such programs, and the appointment by the Security Council of a single individual who *would have real authority and be held accountable* for the conduct of any such program. Kofi Annan, UN Secretary General at the time of Volcker's investigation, accepted the former recommendation, but rejected the latter, perhaps fearing an infringement on his own authority. Nevertheless, Volcker concluded, the UN and its various institutions are increasingly important to American interests since issues that are critical to our security and prosperity—climate change, trade, terrorism, weapons of mass destruction, etc.—require collective solutions that can not be achieved through any other mechanism.

-Tom Brennan

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