

The Modena Declaration

We, statesmen, parliamentarians, deputies, entrepreneurs, scientists, experts in different fields of economics and finance, public figures of Russia and Italy in the course of the first session on strategic scenario-making "World Finances: New Initiatives" held in Modena, having discussed in detail and exchanged views on the current situation in the world economy and international financial system and having realized the full extent of expanding world financial crisis, declare the following view, upon which we have come to an agreement.

The crisis which has been deepening during the last 10-15 years arose as a result of the decision made on the 15th of August 1971 to make the US dollar independent from the fixed gold equivalent for carrying out international settlements and international trading. After that date, gold no longer served as a determinant of the actual value both of the US dollar itself and of other currencies. It caused swift growth of fictitious capital, establishment of the system of floating exchange rates and gradual separation of the financial system and primarily its speculative part from the real economy.

The financial and currency systems, by becoming increasingly unregulated and uncontrolled, undermined all forms of manageability and led to the appearance of a whole number of financial bubbles and therefore deprived industry, agriculture and commerce of any support.

The most dangerous financial speculative bubble is formed by the so called derivatives (derived financial instruments). According to the evaluation by the Bank for International Settlements (BIS) in Basel, the par value of OTC derivatives (over-the-counter transactions outside of the official markets not recorded in official balance sheets of banks and other financial institutions) is 600 trillion US dollars, with an average annual growth index of approximately 25%. It is enough to compare this speculative bubble, which did not exist 20 years ago, with the world GDP rate, which at the current prices is now 55 trillion US dollars.

In order to overcome this crisis we offer certain priority measures.

1. Reform of the international currency system which includes but is not limited to the reintroduction of the following:

- a) a system of fixed exchange rates, which may be changed only by agreements executed by the parties and are dependent on the development dynamics of the real economy;
- b) their correlation to the gold reserve system or to the basket of major raw materials and/or the basket of specially selected currencies;
- c) determining a new currency or a basket of currencies (not necessarily limited to the US dollar), used in the international settlements system;
- d) monitoring currency speculations;
- e) monitoring capital flow;
- f) establishing a "double window" crediting system with low interest rates for long-term production investments and high penalty rates for purely financial transactions.

Therefore, the functions of international organizations such as the IMF and the World Bank have to be redefined, as their role has become distorted after the latest crises.

2. Reform of the international financial system which includes but is not limited to:

- a) regulating the existing derivatives instruments;
- b) introducing regulations for private OTC transactions to reduce the derivatives instruments bubble and define the rules for their future functioning;
- c) an obligation to trade derivatives instruments on the exchange;
- d) an obligation to establish standards and introduce authorization and control by a special body;
- e) abolishing offshore centers;
- f) prohibiting hedge fund speculative transactions and the so-called collateralized debt obligations (issue of securities based on other debt obligations);
- g) increasing taxes both on financial speculative transactions and on income from the foresaid transactions;
- h) supporting state and private credit and financial institutions, which is necessary for the implementation of the policy of actual production investments.

3. Reform of the international trade system aimed at, but not limited to:

- a) reviewing and amending agreements on WTO activities, which deregulated production and trade thus caused the decrease of efficiency and productivity of the economic system as a whole;
- b) promoting and supporting major infrastructure investment projects on a continental scale in such sectors as transportation, energy, communications and R&D;
- c) establishing financial institutions to credit the mentioned sectors using design obligations according to the ideas of the Jacques Delors plan (Chairman of the European Commission, 1985-1995) etc;
- d) implementing tax reforms to encourage investment and effective reinvestment of income into production;
- e) setting customs regulations, defining social security measures and the scope of environmental protection guarantees within the world trade union.

In our opinion, the proposed measures constitute grounds for convening the New Breton Woods World Financial Conference. It may be timed to coincide with the G8 meeting in Italy in 2009. To coordinate our efforts, we aim to create an international working group to monitor the world financial crisis and improve the priority measures system for solving the most pressing issues.

The implementation of the new relations system and the new block of the international financial system is possible if a fundamentally new style of leadership in the world economy and global development is introduced. We are convinced that new relations in the international financial system can only be based on new industrialization, fair resources exchange and development results. The main task is to approve and implement measures ensuring comprehensive financial and economic security based on the unconditional safety of savings and funds belonging both to states and individuals.

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