

THE NEED FOR AN INTERNATIONAL COORDINATED RESPONSE

8. The current crisis is global and originates in the developed world. Governments around the world are taking unprecedented action to avert the collapse of the financial system. Much of the focus to date has been on stabilizing financial markets, restoring credit liquidity and reactivating the economy. In a number of developed and emerging economies, financial rescue measures have been complemented with the announcement of aggressive fiscal measures in the form of lower taxes and higher government spending. The amount of the fiscal packages is often without precedent.

9. Nevertheless, while it is commendable that countries have reacted so quickly, the impact of the measures has been limited to date. Lack of international coordination obviously diminishes the overall effect of the stimulus measures. But it also makes individual countries reluctant to move faster than their trading partners, given the international linkages. As a result, practical implementation of the stimulus packages may not achieve the intended results in the short-term.

10. Developed countries are able to afford rescue and stimulus packages, either from their own fiscal space or by tapping the financial market. Economies of developing countries, while being hit through the combined effects of lower international trade, dramatic cuts in foreign direct investment, and rapidly falling migrant remittances, are seldom in a position to afford such measures on their own. Some do not have fiscal space but can access financial markets. Others have to resort to IMF or other international funding. LDCs can only rely on international aid, at a time where ODA may become even scarcer.

11. Still, no measures have been deployed with a view to ensuring that the gap between countries does not increase even further as a result of the varying capacities to respond to the crisis. If these structural issues are not addressed, global imbalances and inequalities will intensify and a reversion to the “status quo” would be only a matter of time before another major systemic crisis hits.

12. The responses to the crisis need, first, to be coordinated internationally. And second, they need to address the fundamental imbalances in the global economy, including market failures as well as the development, food, education, health, employment, shelter, social and environmental gaps that preceded the crisis. In short, the challenge is to respond to the crisis while paving the way for a more sustainable economy.

13. Deep structural imbalances intensified during the latest phase of globalization. Social progress as measured by MDGs, widespread aspirations for social and economic betterment, employment and decent work, access to quality services and human wellbeing were frustrated by slow progress. Major economic and financial imbalances in savings, investment and consumption prevailed. In spite of major wealth creation through global exchanges in goods and services, social progress and human welfare in broad terms was lagging. Inequalities persisted and grew.

14. Before the financial crisis becomes a human crisis, it is imperative to address the needs of people most at risk and to mobilize and make quickly available additional concessional financing for the poorest countries, to avoid a forced pro-cyclical adjustment and to preserve the hard-won gains in growth, poverty reduction, and macroeconomic stability in the face of the global downturn.

15. Building a fair and inclusive globalization allowing for sustainable economic, social and environmental development benefiting all is a challenge still ahead of us. Human rights, democracy, social justice and peace need to be preserved and stimulated at all costs. At the same time, the capacity of governments to design, afford and implement the right policies, while coordinating them with international partners, is crucial.

16. The multilateral system has a unique contribution to make in this regard and the crisis should be seen as an opportunity to pool together and deploy its best capacity to assist the world in confronting the crisis, accelerating recovery and pave the way for a better future. Policy coordination and coherence are of the essence: coordination of responses in time; coherence across measures; commonality of views on moving out of the crisis. This is the time for inclusive multilateralism. Strengthening the links between the Bretton Woods Institutions and the UN system is key to an effective and coherent response to the crisis.