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The challenges for global economic governance to stabilize the global economic system

Questions to be asked by moderator: What are the principal threats to the global economic system? Are they differentiated regionally?

What is clear is that the crisis is not over yet. The outlook has even deteriorated in the last few months. We now project a hesitant and uneven recovery in the OECD area, due to household deleveraging, fiscal consolidation and low confidence. The euro area will remain in or near recession well into 2013, while growth should pick up, but only gradually, in the US and Japan. Of course a quicker recovery is expected in the emerging markets, but a weaker one than projected just a few months ago. We are not yet out of the woods, far from it. The short term outlook is indeed weak, to say the least. It is also fragile, as downside risks dominate.

The main short term threats are obviously the lingering crisis in the Euro zone and the fiscal cliff in the US, now imminent. This could tip the US economy into recession and thus hurt global growth. As for the euro area, any bad news could further undermine confidence and endanger it again.

And these are only the short term, immediate threats. They are already formidable challenges in terms of governance, one at a national level, the other at both national and regional level.

Another critical and permanent threat is the rise of protectionism. It would carry a substantial economic cost for consumers and the labour market. We thus need to fight this relentlessly.

In the longer term, we do face huge challenges on the environmental front and on the social front.

On the environmental front, we are on a collision road with nature. Our environmental Outlook paints a grim picture of our future if we do not change our policies and behavior. By 2050, 40% of the world's population will live in severely water-stressed areas, the number of premature deaths from air pollution could triple to 3.6 million per year globally, and biodiversity would decrease by an additional 10%. Meanwhile, climate change related events are already becoming recurrent, acute and costly. This environmental course is a major threat to our global economic system, and one that already materializes in many regions, affecting the most the poorest countries and the most vulnerable in our developed world.

On the social front, we are also on an unsustainable path, with a steady rise in inequalities, now at their highest level since the last 30 years. In OECD countries today, the average income of the richest 10% of the population is about nine times that of the poorest 10%. This ratio of 9 to 1 reaches around 14 to 1 in Israel, Turkey, and the United States; and 27 to 1 in Mexico and Chile. The proverbial "rising tide" has not lifted all boats. Moreover, current consolidation plans are creating additional serious social pressures in some countries. With the job crisis, social tensions and hopelessness are growing in many countries, putting social cohesion at risk worldwide.

Last but not least, food security remains a major threat plaguing the least developed world. 870 million people still suffer from hunger and undernourishment, and 2.6 million children die of malnutrition every year. The world produces enough food to feed everyone, but still more than one person in seven goes hungry.



Of course all these threats are differentiated nationally and regionally, but most of the solutions are global, or at least need to be coordinated at least at a regional level. The world needs good, effective governance to meet these complex global economic challenges.

What urgent steps need to be taken by international institutions to stabilize and strengthen the global economic system?

Stabilizing and strengthening the global economic system would require, in the short run, and through collective action, restoring growth, repairing the banking system and fixing the sovereign debt crisis in the euro area.

Repairing the banking system requires collective and coordinated action in terms of capitalization and regulation.

On the euro area front, solving the sovereign debt crisis requires first and foremost activating promptly the mechanisms created to manage the crisis. This includes letting the ECB operate in support of countries facing market duress, and implementing fully the important steps recently announced to further alleviate Greece's sovereign debt burden, including through private debt buybacks. Of course, this must be accompanied at the national level by a broad range of structural reforms to boost competitiveness and thus growth.

It is also necessary to advance, after the fiscal union, in the creation of a fully-fledged banking union to complete the architecture of the euro area, another formidable governance challenge at the regional level. This implies introducing common supervision and cross-border resolution mechanisms, common deposit insurance and euro area fiscal backstops to avoid another financial storm.

As far as restoring growth is concerned, the G20 has been successful in the first years of the crisis to limit its impact, by coordinating a swift response. The international institutions must now support and help governments to develop and implement comprehensive structural reforms programs. This is the only avenue to restore growth now that the monetary and fiscal rooms for manoeuvre have been exhausted.

International Institutions should also help countries to explore new sources of growth. The OECD has been very active in the areas of green growth and knowledge-based capital, and is supporting countries in adopting these new growth models.

As far as strengthening the global economic system, international coordination is once again key. For this to happen, the support of international institutions is critical. We have been encouraged to work together to support the G20 mandates. We have done so, successfully, and this has created synergies and maximized the benefits from our individual expertise. The OECD has indeed been actively involved in most of the G20 "chantiers", collaborating actively with the FAO, the ILO, the World Bank, the IMF, etc. This spirit of cooperation and coherence is in itself a contribution to more effective global governance.

Let us not forget that together we could have a formidable voice. This voice is needed to identify challenges and risks as they emerge and best advice countries to avoid future crisis.

Looking ahead, we also need to work together to promote effective implementation of policies and collective accountability. This applies to G20 commitments, to national reform programmes, to collective action at the regional level, when needed.

To conclude, allow me to mention that the OECD has developed, over the years, a method to do so. This is our "peer review" mechanism, whereby countries' commitments are collectively discussed and agreed, and thereafter examined and reviewed by peers on a non-adversarial basis. This could help building the global governance of tomorrow.