



OECD Economic Outlook

Wednesday 24 June

Moderator: Soumitra Dutta, Dean of External Relations, INSEAD, France

Speakers: Angel Gurría, Secretary-General, OECD

Jorgen Elmeskov, Acting Chief Economist, OECD

Ron Blackwell, Chief Economist, American Federation of Labor-Congress of Industrial Organizations

Hur Kyung Wook, Vice Minister, Ministry of Strategy and Finance, Korea

Jacob Lew, Deputy Secretary of State, US Department of State, United States

The world economy has hit a wall over the past twelve to eighteen months, the moderator, **Soumitra Dutta** said in opening this panel to discuss the OECD's latest economic forecasts ([OECD Economic Outlook](#) No 85 June 2009) launched moments earlier. Governments have been obliged to examine the policy options available to them. This has involved re-examining history, to see if previous crises offer any lessons, but in many ways the contours of the world economy have changed. There is therefore a need to align policy with future needs, to balance short-term cyclical considerations against longer term needs and to seek a more sustainable growth path.

Jacob Lew noted that the modest improvement in growth prospects evident in the latest OECD Economic Outlook stems in large part from the aggressive and well-coordinated action by national governments and multilateral bodies around the world. Having recognized the need for such cooperation to deal with the crisis, governments should not lose sight of the need to continue their coordination efforts going forward. The US stimulus package, which amounts 5.6% of US GDP, has been complemented by stimulus measures averaging 4% of GDP across all OECD countries. While this policy stimulus needs to be maintained in order to ensure a strong recovery, in the longer term governments need to chart a path back to fiscal discipline in the future.

But in the meantime there are a number of areas where further international policy coordination would pay dividends. These include dealing with reforms to financial regulation, health care systems (particularly in the US), policies towards bribery and corruption, climate change, and improving food security in developing countries. All of these challenges demand international cooperation if they are to be tackled successfully. Cooperation also needs to be broadened to include discussions not just between governments but also with the private sector and the public.

Mr Dutta asked what lessons can be learned from Asia's experience of this and earlier crises. In response **Hur Kyung Wook** noted that one lesson from Japan's experience is that restoring the health of the banking system is a key requirement if the recovery is to prove sustainable. Structural reforms will also be necessary to prevent similar problems

from recurring. Fiscal stimulus has added considerably to costs and has been necessary to spur recovery, but in the longer term re-establishing fiscal soundness is key. Asian experience also suggests that exports can provide a powerful boost to growth and help to pull economies out of crisis, making efforts to spur trade an important part of the recovery process.

Mr Hur went on to note that, unlike the earlier Asian economic crisis, which was a home-grown problem, the current downturn started in the US and Europe. Although Asian financial firms had limited exposure to the initial sub-prime crisis, global financial links meant that Asia was also hit hard. Closer economic integration has provided benefits but has also raised the risks for Asia. In order to mitigate these risks, the international community needs to work together to ensure the availability of liquidity. One approach might be a system to pool reserves between countries to provide a degree of insurance. Bilateral swap arrangements have also proved important in calming market nerves and boosting confidence.

In response, **Angel Gurría** agreed that swap lines are important, as they can reduce the costs of dealing with crises of confidence. Although such arrangements have so far been used only sparingly, their existence is important.

Ron Blackwell noted that, although the standard analysis is that the financial crisis spilled over into an economic crisis, there were real macroeconomic imbalances even before the recession began. Asia's experience proves the need for insurance against adverse capital flows, which is part of the reason that many Asian economies have built up surpluses to protect themselves against such risks. The need to fix the global financial sector is clear, but there is also a need to deal with global economic imbalances. It will be difficult for China and the US to achieve this bilaterally, so a broader, cooperative approach is required.

Asked by Mr Dutta how US workers are reacting to the crisis, Mr Blackwell noted that they are very fearful, particularly over employment prospects. But workers are also angry about the fact that they appear to have borne the brunt of the cost, both in terms of the higher taxes needed to bail out bankers and the costs in terms of job losses, which have totalled around 6 million since the crisis began. Mr Blackwell also noted that the US needs to deal with its fiscal problems in the longer term, but that the short term imperative is to create employment.

In questions from the floor, one delegate asked what was being done to increase transparency and to fight corruption. In response, Mr Gurría predicted that public anger will force governments and regulatory authorities to be more much transparent in future. Anti-bribery measures have been stepped up, and progress in the areas of tax havens and anti-corruption measures has increased significantly, partly because tolerance on this issue has dropped to zero.

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