OECD ACTION PLAN ON THE FINANCIAL AND ECONOMIC CRISIS. AN OVERVIEW

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I. Introduction

1. While leaders around the world appropriately focus on the immediate policy responses to the global financial crisis, a new, probably more prolonged, phase is now unfolding. It is expected to be shaped by recessionary forces and the extension of the crisis fallout to policy areas and countries that have so far been at the margin of the crisis.

2. The debate is now beginning to shift towards long-term issues related to the design of a new international financial architecture and global economic governance. Discussion on the features of this new architecture will be at centre stage for some time to come.

3. There is widespread consensus that the global dimension of the crisis requires a global response, both in short-term emergency actions and in the redesign of the global governance architecture. This requires, among other things, a better coordination and greater coherence among the major international organisations, as already mandated in the 2008 Hokkaido G8 final communiqué.

4. To contribute to addressing the daunting challenges posed by the crisis the OECD will develop a comprehensive response that will become more articulated and detailed as work progresses.

II. The OECD contribution in the post-crisis debate

5. The OECD is the organisation that for more than forty years has been advising member countries on policies to foster growth and development, in open markets. Its recognised comparative advantages suggest two priority areas of involvement (pillars): the design of a new international financial architecture and the analysis of the implications of the crisis, as well as the policy responses to it, to regain long-term growth and resilience. To a large extent, these areas are complementary and policy synergies will likely emerge in several domains. It will be essential to delve into these interrelationships, so that policy recommendations are internally coherent and mutually reinforcing.
The financial architecture pillar

6. A reconstruction of the global financial architecture would be ineffective (or even conducive to new crises) if it were to be developed on a piecemeal basis. There appears to be broad agreement that, instead, a more comprehensive approach is needed to take into account systemic dimensions and the relevant interdependencies in different policy areas. Concern about a rise of trade and investment protectionism is increasing.

7. Three policy areas will receive specific attention: i) the role of government, in recognition of the need for consistency among regulatory, competition and tax policies, as well as corporate governance; ii) the design of incentives for prudent behaviour within the financial system, which would need to be realigned to avoid excessive risk-taking; and iii) consumer protection and financial education, which would need to be enhanced to ensure that consumers of financial services have greater responsibility for doing their own due diligence and to restore confidence and prevent a worsening of anti-market sentiment, which has been exacerbated by the crisis. In addition, a new project on tax issues related to financial markets and cross-border investment (including SWFs) would seem pertinent.

The long-term growth pillar

8. The ongoing global financial turmoil has considerably worsened the short-run economic outlook. But the implications of the crisis for long-term growth are uncertain, especially if it turns out to be more protracted and deeper than envisaged. The OECD is well placed to carry out such an analysis, by focusing on a better understanding of the origins of the crisis and of its impact and policy responses on long-term economic growth and resilience. Other international organisations and members of the academic community will be working on the issue. Efforts will be made to avoid duplications and seek synergies.

9. Work on the growth pillar will be closely related to ongoing macroeconomic monitoring and peer review. Several vehicles will be used to shape and disseminate the OECD’s contribution in this area. In particular, work on financial markets in Economic Surveys has taken, and will continue to take, an increased significance in country surveillance. The topic has been dealt with in recent Surveys (Ireland, United States and Euro area). Full chapters on financial markets are planned for the Surveys of Iceland, Italy and the United Kingdom next year. At the same time, an analysis of financial market regulation will be reported in the next edition of the OECD flagship publication Going for Growth. The work will focus on regulations related to competition and investor/creditor protection that have long-term impacts on output. A new project (April 2009 through 2010) on strengthening the counter-cyclical stance of macro (fiscal and monetary) and micro-prudential financial policies has been taken up.
10. At the same time, there are proposals to work on a number of possible new areas. These include housing markets (a new project may be taken up in the Spring of 2009), financial markets and economic performance, and the determinants of economic resilience. Building on work carried out on tax and growth could add important insights. Further areas of work linking the Going for Growth framework to sector specific issues will be developed.

11. The OECD’s recognised ability to bring together different policy communities will be exploited to give the discussions of these issues a “human face”. To this end, policy areas, such as employment, social affairs, migration and development, represent unique assets that can contribute to long term growth sustainability. It will be important to keep reform efforts alive as we move into a recessionary environment. Also in this perspective the role of social policies to soften the impact of the crisis on vulnerable social groups will be brought to the fore in the policy debate. The management of the financial emergency will put strong pressures on public finance. It will be important to identify priorities in ways that do not result in long term costs. For example, the need to safeguard budget provisions for health, education, and innovation will be important in view of the well-established link between human capital, innovation and long-run growth.

12. Challenges such as climate change can turn into significant opportunities to boost long term growth through innovation-driven productivity. Efforts to keep markets open as a precondition for sustained growth will have to be reinforced in the face of rising protectionist pressures. Funding for foreign assistance should also be safeguarded, despite crisis-related pressures on the public finances of donor countries. This could also offer the opportunity to reconsider our approach to assessing development effectiveness.

III. Exploiting the OECD working method

13. The OECD is particularly well placed to propose comprehensive reform options on the basis of i) its recognised leadership in several policy domains, especially those directly related to international financial arrangements and governance, such as competition, tax, corporate governance and insurance/pensions and those related to long term growth and structural reforms; ii) an existing corpus of legal instruments, soft rules, guidelines and conventions under the Organisation’s aegis that could be reviewed/strengthened; and iii) existing monitoring and peer review mechanisms that could be enhanced and tailored to the post-crisis policy debate.

14. Accession and Enhanced Engagement countries will be actively involved. Effort in this direction would allow for a broader, richer array of policy challenges to be taken on board in the post-crisis debate and for building on the experience of several non-members that are observers in the relevant OECD Committees. Having member and non-member countries working together will also contribute to building trust and confidence in international trade and investment and possibly to countering protectionist pressures that are likely to arise from the crisis fallout.
15. The OECD will develop its activities seeking active collaboration with other International Organisations and forums, including their presidencies, so as to maximize synergies according to comparative advantage and to contribute to respond to the challenge of stronger and more effective global governance.