



ICC key messages on the global economic crisis

1. The global economic crisis does not stem from a failure of the market economy system, nor does it call into question the system's successful record in creating wealth and raising global living standards

- The economic crisis has its roots in the near-collapse of the financial system last autumn after a decade of cheap money, high leveraging, easy credit, and associated real estate bubbles proved – yet again in history – an explosive mixture.
- Key actors in the financial sector in many countries – retail banks, investment banks, central banks, bank regulators/supervisors and credit rating agencies – must each accept a share of the blame. Nor can governments, legislators and consumers be exonerated: so many encouraged and enjoyed the illusion that the bubble was creating real wealth.
- What has been astonishing is the speed at which the crisis has spread around the world and the severity of the impact on the real economy beyond the financial sector.
- ICC has always stressed that a market economy can only work well within a framework of rules. Clearly, the rules governing financial markets were either inadequate, unsuitable, or simply not enforced. Public authorities seemed oblivious to the colossal risks that financial institutions were taking. The consequences of the financial sector's mistakes are now devastating other sectors of business where the market economy was functioning normally to allocate scarce resources productively and to create real wealth.
- The mistakes and failures in the financial sector will doubtless lead to greater regulation and supervision. However, governments should bear in mind that the biggest failures appear to have been in the quality of regulation in that sector rather than in the quantity. Furthermore, care should be taken not to allow a mood of regulatory enthusiasm to spill over into other sectors of business where the market, or current light regulation, and or self-regulation, is working well.

2. The immediate priority is to boost demand and credit

- Now that government intervention – at enormous cost to the taxpayer – seems to have prevented the wholesale collapse of the financial sector, the most immediate priorities are to halt the nosedive in economic demand and restore credit and confidence to more normal levels. Getting the banks to start lending again is especially vital for small- and medium-sized companies
- Of particular concern to ICC is the urgent need to boost trade finance on which international trade – forecast to fall this year for the first time since 1982 – so heavily depends. ICC continues to urge official development banks and export credit guarantee agencies to sharply expand their trade finance facilities in these exceptional times.



- Government stimulus packages should seek to target fiscal measures on projects which have a rapid impact on demand and jobs and which are not inconsistent with longer-term national economic objectives. Measures which unavoidably distort competition and international trade should be kept to a minimum and should be clearly stated to be temporary.
- The violent fall in economic demand is not someone else's problem: it is a threat to everybody. Governments everywhere must contribute to reversing it by boosting domestic demand. Countries with large trade surpluses and relatively low levels of public indebtedness clearly have the biggest room for manoeuvre, including through exchange rate policy. Governments of major countries should consult each other on their plans for significant stimulus measures in order to ensure a degree of coordination and sharing of experiences.
- The global crisis must not be used as an excuse for further delaying internationally-agreed and effective action to combat climate change. Indeed, the more rapid and successful attainment of environmental objectives should be a priority in government stimulus plans.

3. Economic nationalism must be avoided

- Governments must avoid the temptation to seek isolation from the global crisis through protectionist measures to restrict imports and foreign investment. With the world as economically integrated as it has become over recent decades, any lurch into economic nationalism would dislocate commercial activity even further and risk turning the global crisis into a depression. The negative impacts would spread rapidly through global supply chains and hurt small producers as well as large ones.
- Governments have at hand a means to send a strong signal to traders, investors and consumers that they intend to resist protectionist pressures. They must finally summon the will to complete the long-stalled Doha Round of multilateral trade negotiations. The Round was launched in response to a crisis – that of 9/11 – and it should be concluded with the same motivation.
- As part of the fight against protectionist pressures, governments should be cooperating closely to find more effective ways to reduce the big imbalances in the external current accounts of some major trading nations.
- Efforts to put globalization into reverse must be opposed. Globalization has raised some worrying issues that remain to be adequately addressed, and today's economic crisis is raising others. However, globalization has a creditable record of pulling millions of people out of extreme poverty in recent years. Its role as a worldwide transmission belt for goods, services, capital, technology, management know-how and ideas must be preserved with care even if, during occasional economic downturns, it also transmits negative impulses.

4. Need for better governance of the global economy

- Governments must develop more effective ways of governing an interdependent world with an integrated global economy. Better international cooperation is vital to tackle major challenges which transcend national boundaries and which governments are increasingly unable to resolve on their own. Today's global economic crisis is clearly in that category. And so are several other very big issues: climate change, water scarcity, food security, poverty alleviation.
- ICC welcomes the new role being given to the G20 forum in the current crisis since we believe that countries with large emerging markets must be brought more actively into the international decision-making process if problems of global proportions are to be effectively addressed. Governments must look to modernize the institutional structures created to help manage international economic relations after World War II. What today's world requires are new arrangements to facilitate the development of more global rules and better governance.
