

DECLARATION
Club of Madrid, Annual Conference
‘The Political Dimensions of the World Economic Crisis’¹
November 13, 2009

We, Members of Club de Madrid, met in Madrid on November 12-13, 2009, to discuss ‘The political dimensions of the world economic crisis’ and agreed on the following:

The financial and economic crisis experienced over the past two years has made manifest a much deeper and complex systemic crisis and a realignment of world forces that requires democratic leadership to move beyond the outdated and simplistic, but still present, dichotomies of East/West, Developed/Developing, Old World/New World to find new solutions.

The crisis has highlighted the need for a more effective balance between the state and the market. Unregulated markets can generate large costs for citizens. The state must be more effective, more efficient, fiscally responsible, capable of empowering its citizens and promoting prosperous economies and policies that foster democratic societies. Better states, accountable to democratic institutions, engender better markets.

We welcome the incipient recovery in most parts of the world but there should be no complacency. We cannot go back to business as usual. Unemployment has risen and the quality of employment deteriorated. Protracted weakness in the job market may generate increasing social and ethnic tensions and protectionist trends, all of which may place democratic systems under stress.

Addressing the social impact of the crisis should be front and center of economic recovery and macroeconomic policies. Democratic polities must strengthen social protection systems where they exist, and gradually create them where they do not. Democratic dialogue, participation and representation helps to manage the social demands created or exacerbated by the crisis and to strengthen inclusive democratic institutions.

All countries must be part of the solution. Emerging economies have effectively facilitated a budding recovery. There is a persisting need, however, to maintain or increase levels of official development assistance to help low income countries to overcome the crisis and more readily develop the capacity to construct democracies that deliver.

Addressing the crisis requires public accountability, effective financial regulatory frameworks and democratic checks-and-balances. We support initiatives to promote effective and comprehensive financial regulations, within and across borders, covering institutions and financial instruments previously un- or under-regulated, and also counter-cyclical policies to generate cushions of capital, provisions, and liquidity during booms to increase the capacity of financial institutions to withstand subsequent crises. Central banks and regulators must meet the highest technical standards and operate under rules designed to avoid their co-option by financial interests. As public entities, they must be accountable to the democratic institutions responsible for setting their objectives and scope of action.

The time has come for in-depth reform of the global financial architecture. The institutions entrusted with the regulation of the global economy have proved fragile and unable to adopt the measures needed to prevent financial speculation from contaminating all forms of financing. Their reform requires urgent attention.

The enhancement of democratic values requires strengthened multilateralism and the participation of all countries in decision making processes. This will require broader representation of developing countries in the international governance system. The G20 is addressing important current issues but should be seen as a transition to a more representative and legitimate architecture. Existing international organizations should not be seen as mere service providers of the G20. The new multilateralism also requires strong and well functioning regional institutions.

Democracies must deliver: Improve the well being of peoples, empower the capacities of everyone to participate in reconstructing the present and developing the future, avoid the nightmare of another global financial collapse, and recognize that democracy is an instrument to address the crisis as well as a key objective of its successful resolution.

¹ To see the Reports and documents produced as part of our initiative on ‘The Political Dimensions of the World Economic Crisis’ please visit our webpage www.clubmadrid.org