



‘The Political Dimensions of the World Economic Crisis: A European Perspective’

Barcelona, March 26, 2009

FINAL DECLARATION

We, Members of Club de Madrid, met in Barcelona on March 26 to discuss the political dimensions of the world economic crisis from the European perspective. We agreed on the following diagnosis and recommended actions:

1. We recognize *that the mega-crisis that the world is experiencing is global and systemic in character*. It is the most devastating financial crisis since the Great Depression, generating the worst recession since the Second World War; a veritable collapse of international trade, and; serious social consequences, as seen in the rise of unemployment and poverty. These economic and social implications are producing important political impacts, putting democratic systems under stress in many parts of the world
2. In these circumstances, *public sector response must be strong and timely*. Underestimating the severity of the crisis could lead to the worst possible scenario, another “lost decade” in world development, with significant social and political effects. We therefore welcome the expansionary monetary policies being adopted by various industrialized countries but are concerned with the small stimulus packages being implemented by members of the European Union; the delay of the European Central Bank in adopting more aggressive policies, and; the inadequacy which financial sector bailouts have demonstrated so far. The upcoming meeting of the G20 in London should not miss the opportunity to agree on strong and coordinated macroeconomic stimulus in industrialized countries.
3. *Facing the social costs of the crisis should be at the centre of all macroeconomic policy packages*. Social protection systems must be strengthened in those countries where they exist, and gradually created in those where they are not in place. Managing high levels of unemployment and underemployment will be their most challenging task. Social dialogue can be extremely useful in managing the social demands created by the crisis, simultaneously helping to strengthen our democracies.
4. *It is essential to correct the regulatory deficit*, the principal, individual cause of the current financial crisis. We hope the G20 will agree to promote comprehensive financial regulations, covering institutions (such as hedge funds) and activities (derivates) previously unregulated; to include counter-cyclical provisions in these regulations; to enact stronger supervision of systemically important institutions, including the use of colleges of supervisors to oversee financial institutions operating worldwide; and to foster strong consumer defense, reflected in the financial safety of assets and loans made available to unsophisticated agents. Financial bailouts are costly and have

significant distributive effects. Transparency and accountability should therefore be rigorously applied.

5. *Emerging and developing countries must be part of the solution.* The sharp interruption of capital flows to developing countries is a major source of concern. Economies that were healthy just a year ago have come under severe strain. The G20 should therefore also agree on increased capitalization of the IMF and the major multilateral development banks. Developing countries are reluctant to use IMF resources due to the intrusive conditionalities of the past. A major review of these conditionalities is essential and positive steps are being taken in this direction.
6. *The decrease of international trade since the third quarter of 2008 is a major source of concern.* Nationalism is being reflected in strengthened protectionism, often introduced in indirect ways. For example, rescue packages for the financial sector or some productive activities are creating subsidies that affect the competitive position of developing countries unable to match the financial support that industrial countries can provide. We therefore propose a total freeze on these protectionist trends and a special meeting of the WTO to create effective mechanisms to ensure this.
7. *A strengthened global architecture requires a special effort in institution building.* While G20 meetings have been a step forward, global governance cannot rely on informal mechanisms lacking representation from most countries of the world. The institutionalization of the G20 through the creation of a representative Global Economic Council, under the UN but with the support of the global financial institutions could be a solution. The latter, particularly the Bretton Woods institutions and existing regulatory bodies, should also be strengthened. This process could help address the issue of voice and representation of developing countries in international economic decision making. And, as the European history reflects, stronger regional institutions are an essential complement to world institutions in building a better global order.
8. *Beyond the need for an urgent response, we recognize that this is an institutional crisis of the global order.* The world cannot postpone creating an international financial architecture consistent with the deep interdependency of our globalized economy. The agenda should be broadened to include: the creation a truly global reserve currency, which could be based on the Special Drawing Rights of the IMF; the creation of institutional and effective mechanisms for macroeconomic policy coordination; the role of capital account regulations in the emerging system of financial regulation; the creation of a special court to mediate and eventually arbitrate disputes associated with over indebtedness at the international level; and enhanced international tax cooperation.