

The world needs to rewrite the rules of finance and global business

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The pain and anguish of the current global economic crisis were caused by a series of massive failures in the heart of the world's most developed countries. We are in our current fix because of an excess of financial innovation, driven by ever-increasing thirst for short-term profit.

Against a background of government support for the expansion of financial markets, many people turned a blind eye to basic issues of business ethics and regulation. We now need to rewrite the rules of finance and global business. To restore the trust that is fundamental to functioning markets, we need better regulation, better supervision, better corporate governance and better coordination. All of these, in turn, call for improved cooperation at a multilateral level.

In such an environment, governments must not be lured into riding to the rescue of every ailing national firm or interest. We will only make the crisis worse if we succumb to the lure of protectionism and petty nationalism.

In the short term, governments have little choice but to continue their efforts to stimulate economic activity. 2009 will be tough. Unemployment is rising, consumers are hesitant and investors are standing on the sidelines. The first and most urgent task for policy makers is to stabilize financial systems while persevering with tax cuts and infrastructure spending to bolster economies by encouraging demand and creating jobs.

But beyond short-term expediency, politicians must also figure out how to set a long-term course for the global economy. Along with more effective regulation, we need fairer social policies and an end to the bottlenecks that block competition and innovation and hamper sustainable growth. We must also find ways for governments to exit from their massive emergency interventions once the world economy is back on a growth path.

That means finding ways to balance the roles of government and markets. As President Barack Obama said in his inauguration speech, the question is not whether government is too big or too small, but whether it works. Equally, the power of markets to expand prosperity is unmatched, providing they are subject to effective oversight to curb excesses. Multilateral institutions such as the OECD, the IMF, the ILO, the World Bank and the WTO are on call to help governments assume their responsibilities. But co-operation must involve other players too, including global business and finance.

Over the next few days, we will address these issues at the World Economic Forum in Davos. Together, we must develop a road map for closer cooperation to rebuild today's economy and build the economy of tomorrow.

How can we move from recession to recovery? The OECD is focusing on a strategic response to the crisis involving specific policy recommendations. These include strengthening corporate governance and doing more to combat the dark sides of globalisation, such as corruption and tax evasion. Italy's Finance Minister, Giulio Tremonti, has gone as far as calling for a global Legal Standard that would draw from work already carried out by international organisations, including the OECD's Principles of Corporate Governance and our Anti-Bribery Convention.

We also need new thinking in other areas, from competition, investment and pensions policies to tackling climate change, social exclusion and poverty. We need to raise productivity while keeping trade and investment frontiers open. We must find ways to spread opportunity and the fruits of future growth more evenly and encourage the low-carbon innovation needed for a "green" recovery.

Promoting economic co-operation is core to the OECD's mission. For nearly half a century, we have worked with governments and with business, labour and civil society to help markets grow, societies advance and countries emerge from poverty. By involving such key world players as Brazil, China, India, Indonesia, Russia and South Africa in this work, together, we are pursuing a collective long-term goal to build a stronger, cleaner and fairer global economy, free of the corruption, tax evasion, fraud, greedy exploitation and resource destruction that have discredited globalization and obstructed the benefits it can bring.

The financial crisis has knocked both us and others off balance. But it has not knocked us off course. There is no time to lose in responding, and we count on business leaders to help us in our efforts. If at Davos we can take steps together towards such a better future, 2009 could brighten up after all.