Governmental Responses

**Summary:** Worldwide, the economic crisis is worsening, and countries tend to be responding to it with *Keynesian policies: tax reductions and increased spending*. They have almost universally lowered *interest rates*, and many have attempted to *prop up their currency*. It is unknown what *the effect of the worldwide deficit* spending will be; whether the increase in *availability of government bonds* will further *encourage investors* to *stay out of the markets* or what the effects would be if *several countries default* at once.

**International Organizations**

The *G-7* issued a *Plan of Action* in October calling for “*urgent and exceptional action*” to deal with the financial crisis. Though lacking specifics, the statement called for the use of *macroeconomic policy*, including making *government money* available to struggling *lenders* and providing *increased liquidity*.

At a special meeting in November, the *G-20* issued a *statement* calling for increased *funding of international organizations* (e.g. the International Monetary Fund (IMF)), *increased liquidity*, and the use of *fiscal policy to stimulate* the economy. In the longer term, the G-20 advised *increased regulation* of the international financial transactions *by international organizations* and *increased regulation* of the domestic financial sector by governments.

**Regional Impacts**

**The Developed World**

In Canada the *Christian Science Monitor* reports that, due in part to the *absence of a stimulus package* from the Conservative Party’s economic policy platform, the Liberal Party and the New Democratic Party have now joined together in an *attempt to remove the Conservatives* from power.

The United Kingdom now plans to *borrow 118 billion pounds* next year to fund *stimulus packages*, forbes.com reports. The stimulus includes *decreasing the Value Added Tax* (VAT) to the European Union (EU) minimum, just in time to increase Christmas shopping, and various *spending programs*. It will be financed by *future increases in income and payroll taxes*. 
**Featured Economy: The United States**

Here in the United States, the White House reports that the Federal Reserve is increasing the money supply, while the federal government is now providing increased insurance for bank accounts, mutual funds, and corporate paper.

State governments have become the latest group to request a congressional bailout. The Associated Press (AP) reports that the governors of New Jersey, Vermont, and Wisconsin have gone to Congress arguing that without federal aid, decreased tax revenues will force them to cut back on various programs, exacerbating the recession.

**Featured Economy: The European Union**

The Economic and Monetary Affairs Committee of the EU parliament recently approved a proposal to guarantee savings accounts in European banks and to increase the speed with which such payouts are made.

Additionally, the European Central Bank (ECB) recently cut interest rates by three-quarters of a percent, but the President of the ECB projected that inflation would be stable for 2009. European interest rates are still higher than those of the UK or US.

**Eastern Europe**

Russia has budgeted over $220 billion worth of spending and tax cuts to boost its economy, Reuters reports. Additionally, the Russian Central Bank has spent almost $60 billion in an effort to keep the rouble from being devalued.

The Telegraph reports that nations across Eastern Europe are suffering from poor credit and an unavailability of foreign funds to finance their deficits. Belarus, Hungary, and Ukraine have sought emergency loans from the IMF, while Romania has drastically raised its overnight interest rate (an emergency measure to keep investors from leaving). Meanwhile Russia now has the highest default risk in the world due to falling oil and metal prices.

**East Asia**

Japan has budgeted over $100 billion in emergency funds to support its economy and plans to spend more, the Telegraph reports. Japan’s response to the crisis was fairly early, with the plan being announced back in August.

The BBC reports that South Korea has announced an $11 billion stimulus package. The government has also guaranteed $100 billion of foreign loans and promised $30 billion in increased liquidity, while the central bank has also reduced interest rates by three-quarters of a point.

**Featured Economy: China**

The Financial Times reports that China has budgeted nearly $600 billion worth of social welfare spending over the next two years as part of a “massive infrastructure spending program.” China has further proposed a reforming the VAT tax.
The Financial Times further argues that attempts by China to implement Keynesian macroeconomic policy have not yet been effective in increasing consumption. Rather, household spending has fallen to a third of GDP, while public and private saving has reached three-fifths of GDP.

**Southeast Asia & Polynesia**

The United States is giving Indonesia a $1 billion loan, ABC reports. Indonesia will also receive $5 billion in emergency loans from Australia.

Forbes.com reports that Singapore has relaxed its strict exchange rate pegs for the first time in five years as its exports sector, which comprises over two-thirds of the economy, has steadily fallen over the past several months.

**South Asia**

The Indian government has issued an $8 billion stimulus package, BusinessWeek reports, including aid to small businesses and homeowners. India cannot spend more due to deficits and concerns about its credit rating.

The AP reports that the IMF has agreed to loan Pakistan $7.6 billion to help it deal with its budget deficits and pay back outstanding bonds set to expire next year. A default on those bonds could destabilize the Pakistani government, which already faces internal unrest.

**Central Asia**

The Economist reports that Kazakhstan is spending $15 billion, or about 15% of GDP fighting the economic crisis, including a $5 billion bank bailout, though questions have been raised about possible corruption. Kazakhstan’s GDP growth has fallen from 10% to 5% this year, due in part to falling oil prices.

**Middle East**

The BBC reports that Saudi Arabia has cut interest rates by and plans to offer $2.7 billion in interest-free loans to low-income citizens during the crisis.

Forbes.com reports that Israel has passed a stimulus package of over $5 billion. Almost half of the plan consists of infrastructure spending to begin in 2010. The plan also includes tax cuts and lines of credit for businesses, but has been criticized for not dealing directly with the financial markets or adequately guaranteeing pension funds.

**Africa**

Reuters reports that the economic crisis is endangering Africa’s ability to raise funds to maintain clean water supplies. Africa’s water supplies require about $2.5 billion a year in first-world donations to maintain.
Meanwhile, the New York Times reports that Zimbabwe’s hyperinflation and economic collapse could add to the economic instability throughout the region. Zimbabwe has now reached the fifth-worst inflation in history. Zimbabwe’s economic hardships are largely attributed to corrupt government policies that transferred the country’s farmland to unskilled supporters of President Robert Mugabe.

**Latin America & the Caribbean**

China has granted Cuba permission to delay payment on millions of dollars worth of debt for several years, Reuters reports. China has also given Cuba $80 million dollars to modernize its hospitals.

The World Bank has announced that it and the Inter-American Development Bank (IDB) will offer Mexico a $5.5 billion loan to help it through the financial crisis, with another $1 billion possible from the IDB, the AP reports. The BBC reports that the Mexican government has proposed over $8 billion in spending, including almost $4 billion in loan guarantees, and the central bank has sold large amounts of foreign currency in order to keep the peso from falling.

The BBC reports that Brazil has authorized its central bank to purchase stock in private banks. Meanwhile, the President of Argentina has announced that the Argentine government will take over private pension funds worth $30 billion.

**Projections for the World Economy**

The Council on Foreign Relations predicts that this crisis will increase poverty in China and India, and this could destabilize their respective governments. Specifically, China has already experienced several isolated workers’ protests, which could greatly worsen if the economy tanks, owing largely to China’s dependence on economic improvements to rebut calls for political change. Meanwhile, the crisis could increase discontent among India’s numerous ethnic and religious groups.

Shanta Devarajan, the World Bank’s Chief Economist for the Africa region, predicts that the crisis could reach Africa in several ways. It could harm African banks though foreign-owned parent banks, decrease private investment, decrease commodity prices, and possibly decrease public and private aid (as first-world individuals and governments worry about their own finances). Conversely, many African nations already have serious macroeconomic problems of their own, and the financial crisis may force them to undertake needed reforms.

Robert Mabro, the former director of the Oxford Institute for Energy Studies, predicts that falling oil prices could damage the Middle East. The Gulf States will no longer experience budget surpluses, and could run into deficits if oil falls below $60/barrel. Iran is especially at risk: it will likely have to decrease its spending and may also face increased political instability.

The World Bank’s latest projection, released Dec. 9, predicts that we might see a collapse of the banking system in certain developing countries (such as Russia) and warns that overreaction to the downturn might cause countries to damage their fundamentals or induce long-term inflation. However, the World Bank acknowledges that, any prediction is quite uncertain, except for the prediction of uncertainty itself.