

The Crisis at Home and Abroad

The New York Times
Editorial
March 5, 2009

The economic news is so frighteningly bad here, it has all but squeezed out reports of the turmoil wrecking the developing world. The news there, if possible, is even more frightening. And in a globalized economy there is no insulation for anyone.

The emergency spreading through Eastern Europe has sent currencies plunging in financially stretched nations like Hungary and solid economies like Poland. The crisis threatens political stability along the European Union's eastern border. The government in Latvia fell last week following protests. Ukraine is on the brink.

Over the weekend, the European Union's wealthy members rejected calls for a bailout of its poorer members. Collapsing economies in Eastern Europe — including inside the European Union — could bring down the banks in the West that lent to the East.

Such turmoil should serve as a warning about the perils of ignoring the disasters unfolding across the developing world — and the need for a global response.

Poor countries remain the world's only hope for economic growth this year, but that's dimming as they are walloped by collapsing exports and the shutdown of foreign finance. Currencies are plunging from Mexico to Malaysia as lenders and investors pull money out to park it in United States Treasury bonds. Pakistan, Iceland, Turkey and El Salvador, along with several Eastern European countries, have already asked the International Monetary Fund for help to pay foreign creditors.

Starved of new credit, companies and consumers across the developing world are struggling desperately to pay loans coming due. And cash-strapped governments in many poorer countries have been unable to implement fiscal stimulus packages or even reduce interest rates for fear of their currencies taking a further hit.

The International Monetary Fund estimates that the crisis will cost developing countries \$1 trillion in lost growth. The World Bank warned that it would add more than 50 million people to those living on less than \$2 a day across the globe.

As they prepare for the summit of the group of the world's 20 biggest economies in London on April 2, leaders of industrial nations must quickly work on a plan to provide large-scale financial assistance to avert an economic catastrophe in the developing world.

The International Monetary Fund needs a lot more money. The call by its chief, Dominique Strauss-Kahn, to double its financial war chest to \$500 billion is a first step.

We welcome Japan's offer of \$100 billion and urge other donors — namely the United States and the European Union — to step up to the plate. More must be done.

The World Bank's president, Robert Zoellick, has called on developed countries to deposit 0.7 percent of their fiscal stimulus money into a fund to aid the world's neediest populations. The World Bank and other multinational development banks could use new capital to increase lending to public and private-sector entities in the developing world, which have been shut out of capital markets.

Helping the developing world is within reach, but it will require capital and concessions from rich countries. The United States and Europe should drop their resistance to a vast new issue of special drawing rights — which like newly printed dollars by the Federal Reserve act as the International Monetary Fund's own currency.

The United States and Europe also must give more voting power to up-and-coming players. China, in particular, has the financial firepower to become an important contributor to the global effort, yet it will expect more say in the fund's business.

As the credit crunch spreads, the whole world stands in need of economic stimulus. Poor countries, however, have the resources neither to pay for their own fiscal pump-priming nor to recapitalize foundering banks and reignite the lending to their private sectors. They need outside help. For their own sake, developed countries should provide it. Quickly.