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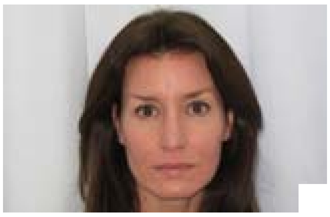
WEF Global Risks 2009: The Crisis of Governance

Governments were powerless when financial markets dragged the world economy down in 2008. But the economic crisis provides an opportunity to reform markets and tackle climate change and resource shortages, says Sheana Tambourgi, head of the World Economic Forum's Global Risk Network.



Sheana Tambourgi, Director of the World Economic Forum's Global Risk Network

"We see huge risks that massive injections of cash into infrastructure projects to drive growth and job creation will go to the wrong kinds of projects."

The World Economic Forum's Global Risks 2007 and 2008 reports correctly warned of falls in asset prices and systemic financial risk. Will things get better or worse in 2009?

Things are going to get worse before they get better. The shock to confidence has been as great as the shock to financial markets, whether in industry or in private households. There is a silver lining for countries less integrated into the wider global economy. In Africa they may come out a little better because they are not heavily trade or export dependent. However, to develop countries need an industrial base and export markets.

The upside of the economic crisis is that it has started discussion about how to reform the global financial architecture: we need to restore trust in markets. Now is an opportunity to address the issue of lack of governance in the financial world, in resource management, and elsewhere.

You introduced "failure of global governance" as a new risk in the 2009 Global Risks report. Why?

We see a tempering of the approach that markets can resolve everything. We are hearing that now is the time for rebalancing between regulation and deregulation. We introduced this risk with a view to looking beyond the IMF and Bretton Woods financial institutions towards global governance. We also think that if the governance discussion is successful we could have new thinking on global climate change.

There is also a risk that government regulation could go too far in the other direction and hinder growth. There is now a risk of rising protectionism and retrenchment from globalization. When food prices rocketed, governments in poor countries introduced food export bans and price subsidies. In the West, countries protected major employers such as carmakers. There is a risk that this populist tendency will ultimately come back to bite governments.

Could the United Nations Security Council provide the global governance needed? You say it should be reformed.

The effectiveness of the Security Council is clearly hindered by its structure and its historic role. Over the years we have been tracking the same conflicts and tensions again and again: look at Russia and Ukraine, or the crisis in Gaza, both recurrent problems. Inaction has had high costs over the years.

These geopolitical tensions have international implications. All risks interlink with one another. A new solidarity created by the economic crisis may spread to long-term threats and we see an opportunity to spread the G20 discussions to issues beyond economics. Geopolitical power has shifted, and not just on the economic front. Furthermore, a new administration in the U.S. is also an opportunity for some reform of the UN structure.

Picture Gallery (click on the picture to start)

See the global risks that the World Economic Forum identified in 2008 (Photo: Reuters)

What does the economic crisis mean for international negotiations on climate change?

There is a serious risk of inaction as more immediate needs sidetrack politicians. This crisis could divert attention at all levels but we push the message that if the long-term risks are ignored we may pay a higher price in the future. On the other hand, when the G20 met last year to discuss the global financial architecture they did mention this climate change risk.

By reflecting on how financial markets are not working there is an opportunity to assess carbon markets and climate change in the same way. We believe there is a blend to be had between market incentives and government action to control carbon and manage emissions. Understanding the value of carbon or water, by whatever mechanism, makes people realize the value of resources.

Should we really trust markets with key resources? Isn't there a risk that poor countries will export food and water to rich countries while their people go hungry?

Absolutely. Even if local people are farming the land, the products are leaving the country. So is the water in the food, which is a hidden good. This is happening, perfectly legally, and many people will be surprised to hear that.

We could imagine a world where water is completely privately controlled. The implications of this in the absence of good governance, transparency, and understanding of the longer-term implications could be very important.

How will food and other commodity prices evolve in 2009?

We expect that in 2009 the food and commodity price volatility will continue, and the consequences of that will be increasingly severe if there is a drop in incomes because of the economic crisis. If prices are fluctuating it is much more difficult for governments to work around that.

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The fiscal burden is increasing, and the risk comes back to taxpayers. Clearly there is moral hazard in this situation. But if governments don't do anything they bear the weight of things getting worse.

But many governments already had high budget deficits due to aging populations and increasing pension and health costs for the elderly. Health spending is now as much as 15 percent of GDP in the United States. Pressure will come to decrease those levels of health spending. The question is what that means for social stability, unemployment, and social services.

Governments have pledged billions for infrastructure development to stimulate their economies. Will we finally see a wave of green energy, water, and transport projects?

We see huge risks that massive injections of cash into infrastructure projects to drive growth and job creation will go to the wrong kinds of projects.

In India the number of people living below the poverty line is shocking. The government therefore says it must develop electricity infrastructure quickly and it can only use the technology currently available. Likewise China's fossil fuel dependency remains high and this is not something they can turn around overnight.

This is an opportunity to make the right choices. The ideal thing would be to invest in infrastructure that is sustainable in the long term, but ultimately individual governments will make the choices.

editor: James Tulloch

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