

## **Global Crisis and the challenges of local governments**

**Arben Malaj**

**Former Finance Minister of Albania**

I would like to open with special thanks to the organizers of this conference,

Today we find ourselves in a problematic economic situation, the crisis in the banking sector turned into a financial one, which accelerated and deepened the economical crisis; another worry remains the economic recession's chances of turning into an economic depression.

A crisis touching to start mainly the American economy, now undoubtedly results in a global crisis risking even the countries in our region.

According to IMF this crisis is breaching even the developing countries, the BRICK countries (Brazil, Russia, India and China) which have increased their weight and Influence in the global economy. Even the measures taken as shock absorbers are being damaged from the global shock waves, thus we risk to endure the effects of this crisis for a much longer time.

Politicians, interest groups, and academia, are trying to unify their stance toward the factors and perhaps even the intervention strategies.

The first problem in the present point of view is how to stop the deepening and widening of this crisis, and a more long term point of view would be how to perfect the crisis warning systems and especially ameliorate the quality of regulating and overseeing systems in the financial sector.

The slow down of economic growth always means a slow down in new job openings. The crisis brings a psychological impact, a rising unemployment and poverty, uncertainty for the future, a fall in consumption; the economy goes into a downward spiral where governmental intervention becomes a necessity.

The chain effect of the economic crisis endangers a domino effect in various economic sectors. The latest example is that of the American car industry, where while the employees in these companies come to 250 thousand people, the job spots negatively affected from their crisis was calculated to about 4 million or 16 people for one spot.

As it was stated in Financial Times some time ago, even the good news is bad news, while analyzing the fall of the prices which comes as a result of low demand, which in turn indicates economic growth

Independently from the different forms of political organisation in our countries, Parliamentary Republic, Presidential Republic, Federation or Confederation, from the point of view of the work and living places as well as base services that cater to them like Education, Health, environment, Culture, Sports etc, people will always be closer related to the environment and authorities where

they work and live, their local governments, therefore the decentralisation process in its core is a deepening of democracy.

Positive or negative results of integrating and globalizing processes will be felt directly and indirectly in your mayoral districts and communes...

While the challenges and risks become global you (the local governments) have less instruments, concrete funds and political power than the central governments to intervene in this cycle of economic slow down.

Governments and International institutions have concluded that they need to use various harmonised instruments of fiscal and monetary politics to reduce the size of crisis and her endurance.

In the G20 and IMF declaration are given some recipes but it's emphasized that every country has its own specifics to craft intervening packets and economic rebuilding strategies.

In their core these politics aim to increase demand in the economy; consumption stimulation and investing in the economy reduces the fall of production, unemployment growth, and eases social challenges.

Monetary politics especially in the country where the interests of money cost have been lowered in their minimal levels like Albania seems to have limited the ability to influence.

The aim here is a bigger impact of fiscal policies. The debate continues with its pro and con arguments to give more priority to tax breaks or to increase expenditures, always in the function of increasing demand.

Another possibility is increasing the direct aid for the needy; these funds be used immediately for the consumption of everyday life products.

Independently from this momentarily gloomy tableau, where you see little real power in the hands of local governments, undoubtedly there's more room for your influence during this hard economic period.

The concrete instruments and politics greatly change depending from the economic profile of your mayoral districts and communes, from the degree of decentralization in your area, country, from the structure of your budgetary income, from financial sources of your budgets.

If today different governments prepare intervention packets in the economy to liven their country's economies, by stimulating the increase of the demand, this needs to be realized through you.

The increase in public investments as an anti-crisis policy shouldn't be aimed only at big public works, but its recommended for public works with a direct effect in easing and stimulating business, or investments that while in the short term aspect they aim to reduce the rise of

unemployment and poverty, the mid and long term point of view should have a positive impact in ameliorating the quality of public investments in its core services toward the community such as education, health care, culture, environment, services that happen today through the mayoral districts and communes.

The element of tax breaks perhaps should be seen carefully- perhaps more focused should be reducing the cost and the service time for business even in the local level. Different places may have different tax levels; there may be an opening to follow a falling trend, but we shouldn't forget that any later increase is even harder.

A moderate tax level may be a better long term strategy. A considerable decrease of simple taxes because of the crisis may create difficulties in the future. Decreasing taxes considerably is not considered as a free or cheap lunch – conclude the researchers.

Rescheduling of unpaid dues, freezing cash penalties, qualified assistance for their difficulties may have productive results.

Widening of tax base between service tariffs in some countries has eased the covering of tax increases

In the short term point of view you need help packets from central governments to assist the poor through economic assistance programs as well as to encourage employment, while in the mid and long term point of view the focus should be good governance - an indicator that today is carefully scrutinised and emphasised as a very important factor.

World Bank's Comparative studies for the ease of doing business according to the cities may serve as a good starting point to identify the weak points that require priority focus.

The last but not the least important is the fact that in crisis times governments are pushed to look at all the income sources but especially the structure and the spending costs, while the spending as a whole in times of crisis is recommended to increase, non productive spending or policies that tend to burden your budgets should be reduced, even by allocating these funds in a more productive manner.

The Partnership with the private sector should be an economic policy that should be widened and with an increasing productivity. Your association is a strong and professional voice even for increasing opportunities that should come from Brussels. EU has created anti crisis funds, which should include you as well.

I'm not only talking about the inter border cooperation funds, but especially for policies and funds under the philosophy of Lisbon Agenda.

Independently that some of our countries are not part of EU, qualification and workers retraining policies and programs in order to win the job spots flexibility in the cyclic crisis conditions or that of continual and rising global competition should be priorities toward everyday problem managing of mayoral districts and communes.

Policies, programs, instruments and global funds become necessary for global challenges as they do for global crisis and for global challenges, their efficacy and implementation is always in the hands of local government

Association helps you not only to know the best experiences but to cooperate for joint programs that raise the probability and cut the time of being part of these possibilities.