Global action on a global crisis

It is tempting to dismiss Saturday's summit of 20 of the world's leading economies. President George W. Bush is discredited and on his way out. President-elect Barack Obama has no legal authority and has decided, rightly, to stay away.

There is a pressing need for leaders to agree on basic steps to jump-start the sagging world economy, including fiscal stimulus and financial help for developing countries, which are being pummeled as multinational banks and investors cut credit lines and dump assets.

While it is too soon to negotiate any new international financial regulations, the leaders can use the meeting to begin a serious discussion about the roots of the crisis and set the stage for future meetings to discuss substantive reforms.

The patchwork of entities that oversee global finance needs to be re-examined.

The global economic picture is bleak and getting bleaker. The International Monetary Fund has lowered its estimate for world growth next year to 2.2 percent. Advanced economies will shrink. On Thursday, Germany discovered that its economy was already in a recession. Unless leaders work together, protectionist pressures will mount, deepening everyone's problems.

Governments need to pump a lot more money into their economies to promote growth, especially in countries that have large trade surpluses, like Germany, China and Japan. China took the first step, announcing a fiscal stimulus package worth nearly $600 billion.

European countries must overcome their doubts.

In the United States, Democrats are calling for a small fiscal boost right now. The incoming administration should follow with much more. Some economists are calling for a stimulus package of up to $500 billion next year.

Rich countries have to do more to deal with the mortgage-backed messes on their banks' balance sheets. Governments should reopen the option of purchasing some of the banks' troubled assets to help unblock trading of trillions of dollars of mortgage-backed securities, encourage write-downs and free capital for lending.

Developing countries are going to need help salvaging their banks and boosting their economies. The World Bank plans to increase lending to $100 billion over three years. The Federal Reserve pledged $30 billion to help Mexico, Brazil, Singapore and South Korea fight runs on their currencies. Developed countries should consider extending guarantees on bank lending to cover all cross-border loans to avoid sucking more money out of poorer nations. And they should make more capital available.

The IMF has less than $250 billion at its disposal, while it may need three times that much to avert a meltdown in emerging economies like South Korea or Brazil. Global leaders should direct it to amass more capital.

At this weekend's summit, governments could begin to identify some important areas in need of reform. It is clear that banks and other financial institutions should be required to hold back a larger percentage of their capital as a reserve if investments go sour. There needs to be a lot more transparency and oversight in the market for complicated financial products. New rules are needed to regulate credit-rating agencies, whose bad calls enabled the boom of noxious debt.

The world needs to re-examine the patchwork of entities that oversee global finance, from the Group of Seven industrialized nations to the IMF — long dominated by a handful of rich Western countries.

Big new players like China and India must be given more of a voice and take more responsibility for the global economy.

None of these questions will be settled quickly. Bush should not make any commitments on Saturday. But the conversation needs to begin, and Obama can pick it up as soon as he is inaugurated.