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G20 Readout

Will the London G-20 summit be remembered as a turning point for the world economy, as merely having stemmed the bleeding, or as having failed to deliver what is needed in the face of the worst economic downturn since the Great Depression? What are some of the specific benefits to flow from the London meeting, and what were its principal shortcomings?

-- *Bruce Stokes, NationalJournal.com*

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An assessment of the London Summit must be based not only on what the most pressing issues of the moment are, but also on what the G20 can and cannot achieve given what it is. There are important issues on which the G20 is structurally unable to deliver, because it is too large, too diverse, or simply because such issues cannot be dealt with multilaterally at the level of heads of state and government. The London Summit was a success, not because it solved all the problems – it didn't – but because it went nearly as far as it could on all the issues on which it did have leverage.

Fiscal stimulus was never one of these. It is understandable that many observers had high expectations on this front, but it was also clear from early on that such expectations were unrealistic. The summit could not be expected to deliver a coordinated fiscal stimulus: no leader in any proud democracy is willing to be seen by his or her taxpayers as committing zillions of their money to please other countries' heads. In other words, even when coordinated stimulus makes sense from an economic viewpoint, as is arguably the case now, and when individual leaders are convinced that they will need to deliver such stimulus in the near future, as may be the case even of refuzniks-in-chief Angela Merkel and Nicolas Sarkozy, the decision cannot be made and announced at a multilateral summit. Europeans know this from recent experience. In the fall of 2008 the European Commission tried and failed to convince Germany to adhere to a coordinated fiscal stimulus within the EU. But only four weeks later, Germany announced a stimulus of its own, and a quite large one at that time even though it now looks insufficient to many. Barack Obama has been wise to recognize this inescapable political reality, even as it creates frustration in the US.

Likewise, there was little the London Summit could do in terms of fixing banking systems. Strictly speaking, this is not a global issue. Banks are ailing mainly in Europe and in the US. In the US, it is essentially a domestic problem. It has not yet been convincingly tackled mainly because of the humongous amounts at stake, growing public resentment against financiers, and fierce partisan divisions. In Europe, the high degree of cross-border financial integration makes it unlikely that the problem can be fixed separately by individual countries, and therefore there is a pressing need for policy initiatives at EU level, with due recognition of special situations both inside and outside the 27-country Union such as Iceland, Switzerland, or the United Kingdom. The European banking problem has not yet been convincingly tackled, mainly because of the humongous amounts at stake, growing public resentment against financiers, and fierce national divisions. No comparable problems exist in most other G20 nations. In that context, the G20 could not be the format to address the banking industry's continuing sickness.

If the G20 had no meaningful leverage on either fiscal stimulus or fixing the banks, what value did it have at all? Plenty. What the G20 is really about is global economic and financial institutions. These have a huge role to play, even if that role does not encompass the stimulus and banking discussions. Existing such institutions include the IMF, WTO, IASB, Basel Committee, IOSCO, World Bank, etc. Others certainly need being created, such as a smaller format to discuss global currencies: perhaps a G4 with the US, China, Japan and the Eurozone, as some have proposed. The G20 cannot and should not micro-manage any of these specialized institutions' tasks: when it tries, it fails. But as it represents around two-thirds of the world's population and nine-tenths of its economic activity, the G20 has unique legitimacy to shape them, by defining and updating their mandate, governance and funding. That is the G20's true core business. No other body can do it – the UN could in theory, but is hopelessly dysfunctional in practice. In other terms, the G20's craft is global architecture, perhaps even global urban design: shaping the framework in which others can then build or restructure relevant institutions, which in turn will do the actual footwork.

In this vision, the London Summit succeeded unambiguously, even if much remains to be done. It initiated reform and greatly strengthened the resources of the IMF, a crucial move at a moment when many emerging countries are on (or in some cases, past) the verge of macroeconomic instability. It recognized the Financial Stability Forum's good work since the start of the crisis by upgrading it to Financial Stability Board (couldn't they think of another acronym, though?) and thus establishing an embryo of global systemic or "macro-prudential" supervision, whatever that means, and perhaps more meaningfully, taking initial steps towards ensuring that global standards are implemented and enforced in a globally consistent manner. It signaled commitment to eliminating banking secrecy with the endorsement ("taking note") of the OECD's lists of tax havens. Even if you discount all the rest of the declaration, those are no insignificant achievements. Overall, the sense of purpose and focus is still insufficient, but vastly improved compared with the previous meeting in November 2008.

Of course the London Summit has not been a turning point in the world economy. No diplomatic summit could. But it has done as much as could be realistically hoped for. With

this success, the shift of G7/G8 to G20 probably becomes irreversible. The divisions and pointless grandstanding of the Europeans, which are massively overrepresented in the G7, make this shift all the more welcome. True, the G20 is a somewhat arbitrary grouping and it is not even exactly a G20, as is attested by the presence of leaders from Ethiopia, the Netherlands, Spain and Thailand on the London photographs. But in spite of all the ambiguities, the format has gained credence by displaying an ability to get things done. Compared with the situation only one year ago, the world now looks slightly better equipped to tackle rapidly mounting global challenges.