A What Comes after the G20?

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The article presents the assessment of the efficiency and results of the G20 Seul summit 2010. The author eveluates the decisions fixed in the documents and the real actions of G20 countries, perticullarly the USA role in the change of global economy in XX century and its role in global finance system today.

As groups go, the G20, bringing together the top financial officials of most of the world's largest economies, has been a relative success in addressing some technical issues of common interest since 1999. That said, the test for effectiveness of any multilateral grouping based upon voluntarism is understandably low. However, elevating it to the summit level has exposed just how divergent are the interests of its various members. Even though only two years old, one can begin to wonder – after the non-event in Seoul in November 2010 – whether it has already seen its best days. If the G20 is a step in the transition from the old power structures of the Euro-centric world of the 20th century, it is no doubt premature to prescribe the destination.

The G20 Summit, launched in Washington in November 2008, may come to be viewed as the high point for this non-homogeneous grouping which has neither a formal structure nor any specific powers. At that time, with the panic on the financial markets at a climax, the gathering of the leaders of these 20 large economies seemed to calm the hysteria with the meeting itself as the catalyst. There is nothing like a real crisis to motivate politicians to move quickly and decisively. There was a sense of relief, at least in financial markets, that governments were seemingly determined to put a floor under collapsing asset prices.

However, fast-forwarding to Seoul, the best that can be said is that there was no public spat. In view of the stakes, such an outcome was woefully inadequate. Global economic growth is still teetering at what Nouriel Roubin has called a “stall speed” but there is no longer a panic to galvanize a consensus. Instead a form of complacency predominates. No doubt there will be plenty of elements that the G20 Research Group at the University of Toronto can certify as positive in its next regular compliance report. Unfortunately the really important ones will hardly get a mention because the commitments made were minimal or so vague as to defy meaningful monitoring.

The G20 retained boiler-plate language on exchange rates, calling on countries to refrain from “competitive devaluation” which the US denies doing through its reliance on quantitative easing; and urging nations to move “towards more market-determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamentals”, which the Chinese claim they are already doing; and allow tools “to overcome sudden reversals of international capital flows” – which refers to capital controls increasingly imposed in many emerging economies faced with unwanted speculative inflows of foreign capital. In other words, each country will continue whatever it was already doing.

The assembled leaders promised to assess global imbalances by developing some nebulous-sounding future “indicative guidelines”. There is unlikely to be anything particularly new in the IMF's toolkit to square such a circle. All the G20 countries in Seoul could in the end sign on to this anodyne communique as each of them insisted existing policies and exchange rate regimes already meet these commitments.

In order to justify the time and expense of their visit to South Korea, the G20 rubber-stamped a pre-hatched agreements to give emerging economies more voice in the running of the IMF and on the Basel III standards on bank capital and liquidity. They once again described the coming year as a “window of opportunity” to complete the Doha round of trade negotiations and directed negotiators in Geneva to engage in negotiations “to complete the endgame”. On development, the G20 adopted the “Seoul consensus for shared growth”, intended to replace the free-market Washington consensus with a growth-related focus and a heavy emphasis on mobilizing domestic savings to build infrastructure. The G20 failed, however, to offer the poorest countries duty free and quota free access to their markets, something that had been in the draft document but could not be agreed.

No one should be surprised by this low-grade outcome. Expectations had been downplayed from an early stage. This does not, of course, mean that the world economy will not be rebalanced just because the G20 did not ordain a solution in Seoul. Unsustainable imbalances will eventually be adjusted by economic forces. In refraining from collective action, the world's leaders have chosen to let the world rebalance itself, without political steering, or to address the process at the national level only, with the inevitable result of making things harder for each other. This is not collective leadership but joint abdication of power.

To prove its usefulness, the G20 must do more than help old and emerging economic powers agree to disagree. But in the absence of necessity, it just doesn't seem to be able to move the world toward a new order of international monetary arrangements, whether formal -- like the gold standard that prevailed before the first world war or the Bretton Woods system of fixed exchange rates that functioned from 1944 to 1971 – or informal – like the more recent so-called Bretton Woods 2 system: a system where many emerging markets pegged (or managed) their exchange rates at levels relative to the dollar that implied large current account surpluses and the resulting reserve growth which financed large external deficits in the US and to a lesser degree in Europe.

It could be that the G20 is just too diverse to do the job. Perhaps it will fall to the new global creditors to impose their conditions on the debtors of the world, similar to the pattern of earlier international monetary arrangements. Although the prolonged economic malaise since 2007 has created global tensions and perhaps a willingness to contemplate significant reform, it is unlikely to support reforms as radical as those reached in 1944 at Bretton Woods, New Hampshire. In addition, after World War II, the United States was the only major economic hegemon and could dictate global economy rules. That system ended when this was no longer the case, and Europe and Japan pursued different interests.

Even now, what the Europeans mean when they talk about changes in the international monetary system is at least in part to expand arrangements to tap the vast financial resources of these new creditors in support of the traditional policies applied through the International Monetary Fund which they still control, even after some symbolic concessions made in Seoul. However, they and the Americans would no doubt be reluctant to cede much real power over the use of the financial resources and other key decisions affecting global finance.

It will be up to the new creditors to push to fashion a deal that brings China, Korea, Russia and the other creditors into the heart of the multilateral system. Here there may be an echo of the first Bretton Woods, for underneath the camouflage of a multilateral process there was a bargain to be reached. In 1944, Britain, the proud but indebted imperial power, needed American savings to underpin monetary stability in the postwar era; the *quid pro quo* was that the US had the final say on the IMF's design and structure. Today the US must play Britain's role, and China, Russia, and other creditors must play the American one. Without greater recognition of a much more dominant role within the IMF for the new creditors, they could hold back in efforts to help re-capitalize Western finance.

Of course, the new creditors do not yet share a common view of a new global financial order and, even if united, they would face considerable opposition from the highly indebted but politically dominant Western countries. And maybe it is premature and the time is not yet right. But, so long as financial and economic power continues to migrate to the East and South, a time will come when the new creditors will see it as in their individual interests to make common cause either to reform existing institutions or to create new ones free of the dominance of the debtor countries. A new grouping of major creditors may be just a question of time.

In any case, with so many players in a multi-polar world, it is unlikely that a consensus will emerge for a formal, centrally-managed international monetary system. Even earlier, after the original Bretton Woods system broke down when President Nixon suspended the gold convertibility of the dollar in 1971, there was a lot of *ad hoc* evolution. No one in 1970 could have really predicted what the global financial system would look like 40 years later, and right now we are sailing into the unknown.

History does not necessarily repeat itself, yet current circumstances in a dysfunctional global economy are a disturbing reminder of an earlier futile attempt by the major world powers to avert exchange rate and trade wars, which then proved to be the precursor for a different, much more destructive war. Like November's G20 summit in Seoul, the London Economic Conference in July 1933 raised expectations of a global currency deal to resolve tensions between creditor and debtor countries. But any possibility of currency stabilization was debunked by US President Franklin Roosevelt, who insisted on US reflation and took the United States off the gold standard.

We can only hope that the successor to the G20 arrives in time to avert a repetition.