

# The G20 will not solve the world economic crisis

*By admin*

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***Ilene Grabel from [Triple Crisis](#) says, despite some initial hopes, rather than solving the world economic crisis, the G20 is fast marching towards irrelevance.***



Remember the WTO — the institution that we loved to hate? We haven't been hearing much from or about the institution since its 2003 meeting in Cancun, Mexico. That meeting marked the emergence of open conflict between wealthy and developing nations on a number of issues (such as agricultural protection). The conflict left the institution frozen and irrelevant. It now stands on the sidelines as policymakers crisscross the globe signing bi- and multi-lateral agreements.

The G20 seems to be outpacing the WTO in the march toward irrelevance. When it was organized in the early days of the financial meltdown, many progressives (including me)

viewed the G20 as an embryo from which new and at least somewhat more inclusive discussions of global economic policy could emerge. In its early days, the shock of the global crisis seemed to have engendered a genuine “Keynesian moment”. G20 leaders collectively declared the death of the [Washington Consensus](#), indicted the financial sector for its misdeeds, acknowledged the economic firepower of the rapidly growing developing countries that became new lenders to the IMF, and took tentative steps toward amplification of the voice of developing countries at the IMF and World Bank.

But those heady moments passed quickly. Key players in the G20 soon got hold of themselves and repudiated their brief flirtation with Keynes by calling for “fiscal consolidation” around the world. At the same time, serious efforts to deal with global financial reform stalled. Lost was the opportunity to deal effectively with the shadow banking system, derivatives, and commodity market speculation.

***(For a thorough account of the G20's accomplishments, failures and missed opportunities, see [Eric Helleiner's excellent op-ed on the subject.](#))***

Today, the G20 is approaching irrelevance. It is beset with conflict among members on key issues. And much like its parent body, the G8, it is quickly becoming known for the platitudes in its communiqués and its timidity and sluggishness in the face of crisis. The G20 Finance Ministers concluded their meeting in Paris on Saturday, and the G20 Leaders'

Summit is to take place in Cannes on 3-4 November. It is wise, of course, not to expect too much from any particular meeting. But it is nevertheless notable that as the world economy slides further into crisis, the body appears to have less and less to say. The new cleavages amongst its members have stopped the G20 from taking meaningful stands on problems that threaten the possibility for global recovery.

Here are some of the fissures that are playing out within the G20 right now:

## Europe

Germany's Chancellor Merkel and France's President Sarkozy have developed a plan to stabilize the Eurozone by [recapitalizing the region's banks](#), offering further debt relief for Greece via larger lender haircuts, and buttressing the resources of the newly-created European Financial Stability Fund (EFSF). However, in a curious game of "we're not telling" Merkel and Sarkozy will not be announcing details of that plan until either a European Summit meeting on October 23 [Ed: [no plan was delivered there](#), see video below] or at the G20 Leaders' Summit next month. Policymakers in G20 countries (especially the USA and the UK) have pressed quite publicly and with unusual directness for specifics to be unveiled at next week's EU Summit. In the words of the Japanese Finance Minister, "[Europe needs to get its act together](#)".

At the same time, the EU and the IMF continue their efforts to squeeze blood out of the stone that is Greece. Tensions over the situation in Greece are taking place against the backdrop of worries that countries like Italy and Spain could overwhelm the EFSF's resources. Globally, there is no consensus regarding whether further austerity is an appropriate response to crisis. The close call in Slovakia last week and the continued mania to cut deficits in the US represent one pole in

this debate; the growing protests against austerity in Greece and the globalization of the Occupy Wall Street movement represent the other pole.

Another fissure on Europe within the G20 concerns the question of which body should save the region from itself. Many European governments have pushed for a new infusion of funds to the IMF so that it can play a larger role in regional rescues. China and Brazil endorse this position as well, though only in return for more representation at the IMF and World Bank. (Brazil's position on the matter is an interesting one: the country's policymakers have quite publicly urged the other rapidly growing countries in the G20 to find ways to support the Eurozone. However, this position has largely been ignored.) But Germany and the US have rejected calls for the IMF to play a larger role in Europe. In particular, US and German officials have argued that the IMF already has sufficient funds, and that in any case, resolutions must be made in and paid for by an expanded EFSF. And in a curious case of the pot calling the kettle black, US Treasury Secretary Geithner continues to chastise European leaders for moving too slowly and thereby threatening the health of the world economy.

## China: A currency war makes for strange bedfellows

The recent move by the US Senate to take steps against China's currency manipulation has obviously done nothing to improve the already chilly relations between the two countries. But it is bringing the US and Brazil closer together at least on this one issue. Brazil is pursuing the idea of pressing China on currency manipulation through the WTO. Indeed, the country's policymakers have suggested that they will retaliate against imports priced in weak currencies in the same manner as it could against goods that are

unfairly dumped on its markets. Brazil has also requested that the WTO conduct a study of the interaction of trade and currencies as a weapon of trade. The request has at least given the WTO's Chief Pascal Lamy something to do. [He has been able to use this issue](#) to press the case that the G20's failure to take on global macroeconomic and currency tensions risks igniting a global trade war.

G20 critics of China's currency policy did score one rhetorical victory at this weekend's meeting of Finance Ministers. Their communiqué reaffirms "[support for more market-determined exchange rates](#)." In response, China's representative was firm in his refusal to cede to pressure on its currency. President Wen Jiabao made clear at an exporters' fair in Gaungzhou on Saturday that the [government will not be pressed](#) into liberalizing its currency. The [government did agree](#) to deploy expansionary fiscal policy to fuel domestic demand.

## Controlling capital controls through the IMF

The [French continue to raise the issue of developing a code of conduct that will govern the use of capital controls](#) by national governments. There is a vague sentence to this effect in the G20 Finance Ministers' communiqué. But there is little momentum behind this issue in the face of more pressing matters. Advocates of policy space can continue to hope that the fissures among the G20 that have already emerged on this front will continue to be asserted if the issue receives more energetic attention in Cannes or far more likely in 2012 when Mexico takes over leadership of the G20.

## Taxing the financial sector

The G20 continues to discuss the possibility of introducing a tax on financial transactions. (See [Edward Barbier's](#) treatment of this

issue.) The [EU Commission has put forth a proposal](#) to place an EU-wide tax of 0.1 per cent on trades of bonds and stocks and a tax of 0.01 per cent on derivatives beginning in 2014. The French and German governments are pushing this initiative as a way to recoup some of the revenues that have and will be spent bailing out the financial sector. (This proposal will resonate for advocates of a currency transactions tax, also known as a Tobin tax. Earlier campaigns around a currency transaction tax aimed to use the revenues collected from this tax to provide assistance to developing countries.) But it is unlikely that the measure will be endorsed at the G20 Leaders' Summit next month insofar as Britain, the US and China have gone on record opposing it. Britain has taken the familiar line used by opponents of any tax scheme — namely, that such taxes will be evaded, and will place any nation(s) imposing it at a competitive disadvantage since a global agreement on the measure is not on the table.

These are but some of the fissures that have emerged within the G20. They are unlikely to be resolved in a few meetings of Finance Ministers or national leaders. Indeed, the challenges that threaten our globally integrated, highly liberalized, volatile and increasingly broken global economy are deep, enduring and structural. It may be that G20 paralysis reflects the fact that there are no easy fixes; that the adjustment to a new, non-neoliberal regime is going to be slow, uneven, politically fraught and potentially dangerous as countries continue to look for ways to offload their economic difficulties onto their neighbors. What is missing at the G20 so far is any sense of a common purpose in pursuit of more just, stable and sustainable international economic policy regimes. And that's something to worry about.

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