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ECONOMIC VIEWPOINT

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Another Missed Opportunity for the G-20*

The G-20's 2014 policy agenda for growth and resilience highlights the unfortunate disconnect between what is expected of this group and what can reasonably be delivered. The G-20 leaders meeting in Brisbane in November produced verbiage on its 10 priorities, but little else. The truth is that the G-20 served a useful purpose at the onset of the global crisis in 2008-2009; however, it has been rudderless since then, unable to restore global confidence and unable to deal with the concrete economic challenges facing the international community.

The issues placed on the agenda of the G-20 in past years have included exchange rate volatility, inadequacy of global investment, lack of confidence, the future of the WTO and a terrible record on economic growth. There have been vague commitments to boost aggregate demand, yet many of the countries needing fiscal stimulus also face unpleasant debt dynamics or parliamentary indecision. So this is a non-deliverable. In fact, with global economic activity well below potential, perhaps $2 trillion of world GDP is being lost annually, and still there is no concerted action. Each of the major economies follows its own national priorities, while paying lip service to cooperation. This is characteristic of a dysfunctional club.

Such dynamics should not be surprising since China and the U.S. are strong competitors for global influence, Europe is caught in a low-growth trap, and Japan has acted unilaterally on its money supply and exchange rate to boost growth. Russia is being sanctioned economically for actions on Ukraine. Argentina follows a path that is divergent from best practice in many areas. It is therefore not surprising that common ground is elusive. This outcome reflects the political trilemma that Professor Dani Rodrik described so accurately in "The Globalization Paradox." Nations cannot afford to act globally when constrained by domestic politics and real economic difficulties. Ironically, however, the inability to act in concert will leave many of them worse off.

The unfortunate reality is that while the G7 declined in economic importance, it had a common set of interests and values and was therefore able to balance economic and political objectives; the group also had a natural leader in the U.S. at a time when its global role was stronger. By contrast, the G-20 has no such common metric and no core leadership. As epitomized by the conversations around the establishment of a BRICS bank, a sub-group feels that the current configuration of global institutions doesn't sufficiently represent their interests and wants to go it alone. This includes two regional powers, Russia and China, who see the extension of their political influence as part and parcel of their economic strategies and whose commitment to G-20 success can legitimately be questioned.

This state of the G-20 post-Brisbane is particularly worrisome because one of the global public goods in shortest supply these days is restoration of confidence. Pronouncements on the need for action on systemic problems like corruption or national challenges like jobs aren't going to change global sentiment. A stronger common commitment to cross-border financial regulation could be a useful element to restore confidence. But even more important would be concrete steps to boost infrastructure spending, as the IMF has proposed. The group cannot wait for a BRICS bank; it must use existing institutions to promote high-quality investment. The languishing World Bank needs to stop its internal hemorrhaging and become a global player again, perhaps in partnership with SWFs whose resources dwarf those of others. G-20 leaders need to focus on practical deliverables that can benefit all members of the group. To do so, however, would require a greater sense of urgency, purpose and cohesion than we have seen to date.

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