Leaders seek to retool economy

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Playing politics: protesters mimic world leaders as they stage a rally against global poverty in Pittsburgh before the G20 summit

Eve-of-summit spats over global economic imbalances and International Monetary Fund reform on Thursday highlighted the difficulty of sustaining international policy co-ordination as the financial crisis fades.

Nonetheless, leaders said they saw Pittsburgh as cementing the emergence of a new architecture for the global economy – with the Group of 20 at the centre agreeing priorities and setting the agenda for organisations such as the IMF and the Financial Stability Board.

Tim Geithner, US Treasury secretary, said on Thursday the communiqué from the summit would provide agenda-setting language on global macroeconomic policy and financial regulation – with timetables for specific regulatory reforms.

Economic stimulus

World leaders are likely to maintain almost exactly the same language on economic stimulus used by finance ministers at the London summit earlier this month, pledging to develop exit plans but not to start pulling back support "until recovery is secured".

That is a striking area of consensus, given the arguments about stimulus that raged ahead of the previous G20 heads of government meeting in London in April.

Balanced growth

Leaders will sign up to a framework for balanced global growth pushed by the US and – under a different title, a compact – the UK.

Mr Geithner said the idea was to shape the form of the next economic upswing at the beginning, to avoid the re-emergence of economic imbalances and bubbles that threatened global stability.

World leaders will agree to review progress at regular G20 summits, with the IMF given a supporting role preparing technical analysis, but there will be no process to sanction countries that do not deliver.

Gordon Brown, the prime minister, said on Thursday the move promised a fundamental shift in how the world economy was governed. "This is perhaps the biggest decision the world has made on economic policy for many years.," he said.

However, how substantive the framework will be in practice remains unknown. Angela Merkel, German chancellor, spoke on Thursday against making economic imbalances the focus of the meeting. The so-called Bric countries – Brazil, Russia, India and China – are prepared to sign up to a balanced growth approach, but are wary of how it will be applied.

"The Brics remain concerned that a strengthened IMF surveillance procedure could once again be used by the US to advance its own international economic policy agenda," said Eswar Prasad, a professor at Cornell University.

IMF reform

World leaders will commit themselves to further reform of voting shares in the IMF to give dynamic emerging economies more say in these institutions.

Some delegations have floated the idea of moving towards a 50 per cent overall shareholding for developing nations – but the summit will not provide any concrete numbers.

While the US is pushing to shake up the system of board directorships as well as transfer 5 per cent of the voting shares from advanced economies to emerging countries, the UK and France want reform to be implemented in such a way that does not threaten their own seats at the table.

The issue could flare up again at the IMF's annual meeting next month.

Financial regulation

World leaders will set out broad principles on financial regulatory reform, including increased bank capital, and the need to tackle the "too-big-to-fail" problem by creating special insolvency regimes for financial institutions. They will also commit themselves to bringing lightly regulated investment vehicles and markets into a basic framework of oversight and disclosure.

The G20 will not provide specifics for any leverage or liquidity ratios, which are being discussed in other forums. But they will set ambitious timelines for agreement on financial regulatory reforms – including a new bank capital accord – in an effort to maintain reform momentum.

Bankers' pay

Tough language on bonuses will be evident, with a commitment to reform compensation practices to ensure they do not encourage excessive risk-taking. The FSB will provide guidelines on limits to the bonus pool within banks, bonus deferral and greater disclosure of bonus policies and level of risk – and will monitor countries implementation of agreed principles.

The US endorses the view that a majority of top bankers pay should be in the form of equity that is subject to clawbacks in the event of subsequent bad performance.