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For G-20 Summit, Old Issues Give Way to New

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Having moved with unprecedented speed and coordination five months ago to head off what many feared might be another Great Depression, the leaders of the world's 20 largest economies are set to gather Thursday in Pittsburgh to discuss whether it is time to wind down stimulus efforts and talk about what can be done to prevent a repeat of the crisis.

The summit is taking place amid signs the global recession is fading. Since the last meeting of Group of 20 leaders in April, countries have begun to see results from their efforts to cut key interest rates and pump hundreds of billions of dollars into their economies to jump-start growth. China is experiencing a strong rebound, while there are early signs of a slow recovery in the United States and in Europe.

However, the success of the coordinated policy action has spawned a new set of problems. Stimulus spending meant to counter the drop in demand has sent deficits soaring. Loose monetary policy designed to unthaw frozen credit markets has stoked fears of inflation. Dealing with those concerns is tricky, economists said. Pulling back too soon could squash a recovery, while waiting too long could lead to a run-up in prices.

There's also concern about nations acting unilaterally, failing to coordinate their actions in a way that could threaten a global recovery.

A Tricky Balance

For now, the G-20 leaders have chosen to walk a fine line between trying to keep inflation fears in check and avoiding having to raise rates or cut off stimulus until a broad recovery takes hold. In Pittsburgh, the G-20 leaders are expected to echo their finance ministers and central bank governors who said earlier this month that while it was important to start discussing exit strategies, it was too early to begin carrying them out.

The United States plans to push an agreement aimed at avoiding global trade imbalances. The Obama administration contends that such an agreement is necessary because spending by U.S. consumers is likely to remain depressed and export-dependent countries such as China need to rely more on domestic consumption to drive global growth.

"We're doing something that hasn't been done before," Treasury Secretary Timothy F. Geithner said. "At the earliest stage of a recovery, we are working to get the world to embrace a framework to help prevent the next damaging bubble."

Officials representing the G-20 members have also said it's unlikely the nations' leaders will make additional financial commitments on the scale of those made in April, when the G-20 leaders agreed to triple the resources of the International Monetary Fund, which acts as the world's lender of last resort.

Many nations have already pledged to take new steps to strengthen regulation of the global financial system. However, the continental Europeans and the United States have stressed different elements of reform. The European Union is pushing for restrictions on bankers' pay in order to eliminate what they see as perverse incentives that encouraged irresponsible risk-taking. The United States has put more emphasis on forcing banks to raise the quality and quantity of capital they have on hand to cover potential losses in an effort to better protect taxpayers from having to pay for banks' mistakes.

The G-20 members are working on a more detailed framework for regulatory reform along with firm deadlines. Ultimately, though, it is up to national legislatures to follow through. Congress is working on a proposal to overhaul financial regulation.

Even if the Pittsburgh summit produces more words than action, the success of the G-20's earlier coordinated policy actions have elevated the group's status as the leading international agenda-setting body, supplanting to some extent the Western dominated Group of Eight whose makeup didn't reflect the rising economic power of China and other emerging market nations.

Emerging Economies

At the summit, leaders from those emerging economies are likely to bring up their desire to have a larger say in other multilateral institutions, namely the IMF and the World Bank. That effort has the support of the United States but not smaller European nations who would likely have to give up seats under any restructuring. Promoting greater clout for emerging countries could put the United States in a better position when asking emerging economies to do more to help prevent a repeat of the financial crisis, analysts said.

Chinese officials have voiced support for the general principle of balanced and sustainable growth and the need to rely more on domestic consumption, but they have been less enthusiastic about anything that suggests China played a role in causing the financial crisis.

"There is definitely a rift developing over how important the issue of global imbalances should play in this meeting," said Eswar Prasad, a trade expert with Cornell University. "The Chinese are aggressively pushing for the U.S. to come up with a sensible medium term plan for reducing its deficit and would prefer to talk about that alone. On the other hand, the U.S. wants to make this a broader discussion by assigning responsibility to all parties and the subtext . . . is the U.S. is trying to do its part and everybody else should pull their weight as well."

Zhou Wenzhong, China's ambassador to the United States, said at briefing for reporters earlier this week that "balance is relative" and any efforts to try to tightly regulate trade balances would not be realistic.