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The G20 in London

G-force

Apr 2nd 2009
From Economist.com

The G20 outcome is better than nothing, but can the IMF save the world?

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WHEN an infamous summit of world powers in London ended in 1933, such was the mood of protectionist acrimony that many argued it would have been better if the meeting had not been held at all. At times in the run up to the G20 gathering of world leaders in London on Thursday April 2nd it looked as if history might be repeated. But the leaders have shown some grit, and some ingenuity in finding money when little is about. Many holes can be picked in their pledges to reflate the world economy and re-regulate global finance. But, at the very least, it was better that they met than not.

The centerpiece of the leaders' plan is, conveniently, the IMF, which they believe can add an extra $1 trillion in funding to the world economy without the risk of ballooning national budgets, or obstruction from national politicians. That financial conjuring trick gets the G20 out of a bind. Gordon Brown, the British prime minister, has made much of $5 trillion in public spending that governments around the world have promised to help shunt their economies out of recession in 2009-10. But big spenders such as America and Britain are up against their limits and fiscal hawks such as Germany are stubbornly convinced they have done enough.

That leaves the IMF as pump-primer of last resort, although not all of the funding promises made on Thursday were new. Japan and the European Union had already agreed to put $100 billion each into the IMF's kitty. Rich countries such as America will provide a $500 billion credit line, known as New Arrangements to Borrow. This was trailed several weeks ago. Significantly, the IMF will print $250 billion of its own currency, known as special drawing rights, allocating sums to its members according to their quotas. It is not clear whether this can be redirected from rich countries to poor ones.

This flood of extra resources, plus an enhanced oversight role the G20 has given to the fund, will be a huge turnaround for an institution whose relevance had slumped in the boom years. Now the new money must be directed to developing countries, especially in eastern Europe. Many such countries have been loth to tap the fund because of the stigma involved. A pledge by the G20 to reform the fund's governance soon may convince them that the leopard has changed its spots. This week Mexico secured a $47 billion credit line with the fund, with no strings attached, which may set a trend. Eswar Prasad of the Brookings Institution believes the commitment to reform is credible. His evidence is that China has agreed to chip in $40 billion, prior to any changes to its voting power in the IMF (it has the same heft as Belgium). Others, however, remain sceptical. "This is still supply chasing demand," says Arvind Subramanian of the Centre for Global Development.

The importance of offering new sources of funds to the developing world should not be underestimated, however.

By some estimates poor countries have $1.4 trillion of debts to roll over this year alone and Western creditors are hoarding their cash. These countries have far less fiscal room for manoeuvre than rich economies. They are also areas of the world where growth could rebound quite quickly, because households are not weighed down by the crushing debts typical in America and Europe. In a further fillip to many of them, the G20 agreed to ensure $250 billion in trade finance to help reboot global trade—though it was not clear how much of this was new money.

As for efforts to drag the developed world out of the mire, the G20 went perhaps further than had been expected, though undoubtedly not far enough. It emphasised the problem of scrubbing toxic assets off banks' balance-sheets, but gave little guidance on how banks should be forced to mark down their assets to saleable prices. (Undermining that effort, on Thursday American accounting standard-setters watered down a mark-to-market provision that would have forced banks to value their assets at market prices. The short-sighted reprieve led to a huge rally in the shares of stricken banks such as Citigroup.)

It also, in a nod to strongly held German and French sentiments, called for regulation of hedge funds and other parts of the shadow banking system, a crack down on tax havens and banking secrecy, and more oversight of credit-rating agencies. There was little to suggest that one of the main causes of the crisis, incentives for banks to grow too big to fail, was being tackled.

Financial markets rallied after the G20 news, though this was as much because of sprigs of good economic news emerging as the harmony that was displayed. This was despite disappointment that the European Central Bank had cut its main interest rate on Thursday, by just a quarter of a percentage point, to 1.25%. American unemployment figures on Friday, which could be shocking, may puncture some of that optimism, and should temper any temptation among G20 leaders to claim success. Their efforts to reflate the world economy may have avoided a 1930s-style depression so far. But rising joblessness and years of pain may lie ahead as banks, businesses and households in the West continue to struggle to pay down their debts.