The Christian Science Monitor

rebuilding the economy

G-20 roundup: US and Europe agree to disagree

The meeting's great success is $1.1 trillion in economic aid for the developing world, but other proposed solutions to the recession were vague.

By Peter Grier | Staff writer/ April 3, 2009 edition

WASHINGTON

The world's largest economies can find unity when it comes to protecting the world's poorest, but they remain split about how best to fight the the recession in the wealthier countries where it began.

This may be the substantive bottom line from the highly anticipated Group of 20 economic summit in London earlier this week. While the meeting wasn't a booming success, neither was it a disaster of disunity, like the Depression-era London economic summit of 1933. "I think we did OK," said President Obama at a press conference following the summit's close.

The biggest surprise of the meeting was the G-20's agreement on a package of $1.1 trillion in loans and guarantees to provide various forms of economic aid to developing nations.

The bulk of the cash – more than $750 million – would go to the International Monetary Fund (IMF), more than tripling the available resources of the first responder of global finance. The rest targets increased financial support for international trade.

This money "will go a long way to supporting financial stability in the developing world," concluded an analysis from IHS Global Insight.

Plus, the move may be timely. It represents something of an attempt to jump in front of the rolling recession and slow it before it shatters even more economies.

Last year's first wave of the crisis hit the US, Europe, and other rich nations with large financial sectors. That was followed by a second wave that crashed over booming, but smaller economies, such as Poland's.

Now the new IMF funds "will definitely help to stave off the third wave of the crisis, which is looming over low-income countries," says Eswar Prasad, a Brookings Institution senior fellow in global economics and development.

The US share of the IMF's new cushion would amount to $100 billion, which must be approved by Congress. The European Union and Japan pledged $100 billion apiece. China pledged $40 billion – yet another sign of Beijing's emergence as an important player in financial geopolitics.

In the past, China and other fast-growing nations such as Brazil have agitated for more say in how the

IMF is governed. Given the acute nature of the current crisis, that issue appears to have been set aside, at least for the moment.

The London conference of 1933 was judged a disaster, in part because it failed to head off a wave of beggar-thy-neighbor protectionism. High tariff walls choked world trade, helping make the Great Depression even worse.

This time, rich nations said they'd learned from that experience, and they pledged that such protectionism would not recur.

This pledge was important, but it was also a generally vague recitation of standard sentiments. "No details were given" about how protectionism might actually be headed off, noted the IHS Global Insight analysis.

Europeans wanted the summit to produce new regulations aimed at preventing future financial crises. Leaders did agree to new regulations on hedge funds, as well as the establishment of a Financial Stability Board, which would assess weaknesses in the global economic system.

But the pledges of new regulations were also somewhat vague, and the new stability board won't have any actual powers.
"Ultimately, the intentions are very good, but with a lack of specifics a key issue is going to be how much follow-up there is," says Mr. Prasad of Brookings.

US officials had hoped the meeting would prod Europe – particularly Germany – to spend more on domestic stimulus packages. But it has been clear for weeks that many European governments think they've spent enough.

Europe remains wary of taking on additional debt, particularly in light of the fact that their demographics generally reflect societies that will have fewer young taxpaying workers in the future.

Thus, there were no new agreements on domestic stimulus spending. Nor was there any consensus about how to clean up the so-called "toxic assets" of mortgage-based securities now dragging down bank balance sheets.

There was only agreement that such a cleanup must occur. Somehow.

"Without fixing the banks, a sustainable economic recovery is not possible," judges IHS. "These matters, whilst recognized, have been left for individual countries to manage, but with no clear convincing road map yet formulated to restore a healthy banking system."