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G-20 summit surprises with a show of unity

World leaders meeting in London pledge $1.1 trillion in loans to help poor nations weather the crisis.
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Reporting from Washington and London — Choosing compromise over division, leaders of the world's most important economies pledged Thursday to offer $1.1 trillion in loans and guarantees to countries most badly damaged by the global downturn, encouraging hopes that their concerted action could nudge the stalled world economy toward recovery.

The measures announced at the Group of 20 summit in London may not constitute the "new global deal" called for by President Obama and the host, British Prime Minister Gordon Brown. But the outcome still surprised many observers with its unusually substantive achievements: a commitment to prop up tottering economies of developing nations through the International Monetary Fund, and pledges of a heavier regulation of international finance.

The one-day conference ended with smiles and back thumps among the leaders, projecting an image of unity where a messy breakdown of purpose had been feared.

"The whole world has been touched by this devastating downturn, and today, the world's leaders have responded with an unprecedented set of comprehensive and coordinated actions," declared Obama, who described the raft of measures unveiled Thursday as "a turning point in our pursuit of global economic recovery."

The collective plan capped weeks of haggling -- some of it behind the scenes, some of it awkwardly public -- that at times put the summit's outcome in doubt. But a threatened French walkout over a U.S. push for more stimulus spending did not materialize.

And though French and German calls for greater regulation of financial markets were answered with pledges to crack down on tax havens and implement controls on executive pay, French President Nicolas Sarkozy's quest for a global financial regulator was reduced to a vaguer promise of a "more globally consistent, supervisory and regulatory framework."

Sarkozy acknowledged clear differences of opinion between various leaders, but said Thursday that he had simply "defended what I believed and also what [German] Chancellor [Angela] Merkel believed" about the need for greater financial regulation.

"This is not the victory of one camp over another, one way of looking at things over another. It's an awareness by all that the world needs to change," Sarkozy said after the communique was issued.

"Of course there were tensions; of course there were wrestling matches. . . . But even our

Anglo-Saxon friends are totally convinced that, yes, we need rules."

The promise of $1.1 trillion to help poor countries exceeded even the most optimistic of outside expectations. The money will help keep small nations from tumbling into deep crisis, essentially serving as a firewall to keep the recession from deepening, analysts said.

The International Monetary Fund is expected to use the infusion of credit to issue loans and grants to developing nations and, in so doing, spur slumping global trade. That, in turn, would benefit industrialized nations such as the U.S. and Germany, the world's largest exporter, which desperately need a boost in demand for their goods.

"This is one genuine element of surprise: the fact the G-20 could come together and agree to such a substantial increase in the IMF resources," said Eswar Prasad, a senior fellow at the Brookings Institution and a former IMF official. "It will prevent any further crises in the emerging markets or small developing countries."

Last month, U.S. Treasury Secretary Timothy F. Geithner had proposed doubling the IMF fund to $500 billion. The new plan triples the original amount, to $750 billion, with $100 billion of that coming from the U.S. and an equal amount from both Japan and the European Union.

Additional money will be made available as loans to exporters, which have been hit hard by the global freeze on bank lending.

In some ways, the IMF package serves as a kind of fiscal stimulus, compensating somewhat for the Obama administration's failure to get European nations to take additional domestic stimulus steps. For weeks, the U.S. had argued that boosting fiscal spending worldwide, up to about 2% of global GDP, was necessary to kick-start the international economy.

But the communique included no new commitments of domestic government spending, noting only that $5 trillion had already been earmarked around the world through the end of next year, "the most comprehensive support program for the financial sector in modern times."

The American argument was adamantly resisted by countries such as France and Germany, which are leery of boosting public debt and want more time for their initial stimulus packages to take effect. Contributing to the perception of a deep transatlantic divide, Paris and Berlin insisted that what was needed was reform of the financial sector, including closer inspection of hedge funds and the elimination of tax havens.

The G-20 moved firmly in that direction Thursday with a pledge to "extend regulation and oversight to all systemically important financial institutions, instruments and markets," to establish tough guidelines on executive salaries and to use sanctions if necessary against countries serving as tax havens, which allow international financial institutions to operate outside the reach of regulators.

"The era of banking secrecy is over," the summit communique declared.

Most of the new regulatory changes that the G-20 called for will have to be enacted by individual countries. But the new framework provided enough political cover to satisfy Sarkozy and Merkel, whose joint news conference Wednesday, warning of nonnegotiable "red lines" in their common position, deepened worry that the summit might end in division or disarray.

"That did make it appear that there could be quite a split, or a communique that not everyone would sign," said DeAnne Julius, an economist at the Royal Institute of International Affairs in London. "I think there was quite a danger of that."

Obama sought to play down the disagreements, after days of efforts by him and his aides to reduce expectations of new domestic stimulus packages once it became clear that he would not achieve them.

"Some commentators confused honest and open debate with irreconcilable differ ences," he told reporters after the meeting.

"There's no doubt that . . . each country has its own quirks and own particular issues that a leader may decide is really, really important, something that is nonnegotiable for them. And what we tried to do as much as possible was to accommodate those issues in a way that didn't hamper the effectiveness of the overall document."

In fact, the new international regulatory guidelines promoted by Germany and France and set out by the G-20 are broadly similar to proposals made last month by the Obama administration to dramatically tighten financial oversight within the United States. Those proposals include requiring hedge funds, private equity firms and other private investment funds to register with regulators, and giving the Treasury Department the power to seize and dismantle companies whose failure would pose a threat to the economy.

The summit leaders did commit themselves to beefing up an international monitor, the Financial Stability Forum, which was created after the Asian financial crisis in the 1990s to monitor the world economy for signs of trouble. The forum, which is made up of senior finance officials from the United States, Europe and Asia, along with international institutions such as the IMF, failed to prevent the current crisis.

The G-20 leaders also agreed to meet again by year's end to check on the progress and effectiveness of the measures they announced Thursday.

The sense of united purpose in the face of the world's most serious economic disaster since the Depression was itself one of the summit's biggest achievements, analysts said.

"The most positive message about it is that it was a unified statement," Julius said. "It's not very helpful to look at it as whether the Americans won more or whether the continental Europeans did, because key in this was trying to reconcile the views of all the different countries to have a unified view by the G-20 on what comes next."

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