

# The G-20 between future promises and immediate needs to reform the global economic system

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## Executive Summary

*The essential role played by the G-20 in solving economic and financial crises is turning to be at risk due to the critical global economic situation and the consequential people's lack of confidence in the world market. The paper focuses on the outcomes of the G-20 summit held in Washington, highlighting the potential threats resulting from the crisis, such as the risk of recession (or, even worse, depression) and the possible Member States' decision to return to protectionism. Nevertheless, the principles and the agenda set in the Washington Declaration show the States' concurrence of wishes to support the global economy and the stabilization of the financial international market through an indispensable reform of the financial markets. But, as the author underlines, the real challenge will consist in putting the theoretical principals into precise plans.*

## Issues

The last G-20 summit has come to an end and the moment has come to draw conclusions, considering the current critical global economic situation and the momentous nature of the recent international summit. The final Declaration of the meeting held in Washington demonstrates that the 20 leaders of the global economy have agreed on a plan to restore global growth and reform the world financial systems. However, the key issue of the summit's agenda were the immediate actions that needed to be taken to restore faith in world markets. This lack of confidence is at the root of the financial crisis and, it is worth remembering, is just the tip of the iceberg of a more general faith which has at this point infected the real economy as well. Every leader of every part of the world has recognized that the biggest threat does not come from the risk of inflation, but from the risk of recession or, even worse, depression. These risks have evidently become clear during the many debates of this most recent summit.

The main objectives of last Saturdays' meeting are to support the global economy and stabilize financial international markets. For some of those who participated the summit represents a historical moment - a sort of Bretton Woods II – whereas others economists and experts were strongly disappointed with the conclusions, which they considered to be a list of common principles, but not an effective action plan; success in terms of principles, in other words, but not in terms of substance. The leaders have decided to meet again before the 30th of April to evaluate the first achievements of the listed principles.

## Keywords

Market, recession, global economy, transparency, integrity in markets, regulation, reform, international cooperation

## Quotables

- This lack of confidence is at the root of the financial crisis and, it is worth remembering, is just the tip of the iceberg of a more general faith which has at this point infected the real economy as well.
- Others economists and experts were strongly disappointed with the conclusions, which they considered to be a list of common principles, but not an effective action plan
- "did we expect to fix a financial crisis caused by an entire generation in one afternoon?"
- A rocky issue that could emerge between the two Atlantic shores is the return of protectionism.
- The real challenge now is to go from theoretical principles to [...] precise plans that have already been discussed domestically and have to be approved during the future summit.

## Abstract

G-20 and its role have been brought into question, causing a spread lack of confidence in the world market. The outcome of G-20 summit held in Washington have been analyzed, shedding a light on the crisis potential threats, such as recession (or, even worse, depression) and the possible Member States' decision to return to protectionism.



This represents a delay, just as the crisis is in full swing.

Unfortunately we couldn't expect things to go differently, considering that the most important country of the economic system – and the one most responsible for the crisis – came to the summit with a transition president. Even though Obama got his message through – in part via youtube – regarding domestic issues and even though he was in synch with the summit's conclusions, he will be fully in power only as of January 20. On the other hand, as The Observer commented “did we expect to fix a financial crisis caused by an entire generation in one afternoon?”

In summary, the reforms regarding financial markets listed in the summit's declaration are based on five common principles: first of all, strengthening transparency by providing more information about those complex financial products that are at the root of the market instability and the disclosure by financial institutions of their real financial condition; the enhancement of regulation, including strong supervision of rating agencies, which have often been identified as one of the parties responsible for the turbulence; the promotion of integrity in markets, including the prevention of manipulations and fraud; the reinforcement of international cooperation among national authorities and those responsible for oversight of various market sectors; the reform of international financial institutions, such as the IMF and World Bank, including by increasing the weight of emerging countries and ensuring enough resources to help emerging countries hurt by the crisis.

The Washington Declaration reaffirms the guidelines of the Financial Stability Forum (FSF) undertaken in April. The FSF brings together representatives of national financial authorities and international regulatory and supervisory institutions. Its aim is to include emerging economies. It is obvious to everyone that the fragile process of restructuring of the financial system started recently needs further interventions – stronger and coordinated ones – as was hoped for, at least in theory, by the G20 summit. As Mario Draghi, Governor of the Bank of Italy, who chairs the FSF, said: “our future financial system will have to be based on more capital, less debt, more transparency and more rules.”

In practical terms, no global regulatory authority has been evoked and the final document reiterates the goal of ending Doha Round negotiations by the end of the year. These are all important issues for the U.S. administration. A rocky issue that could emerge between the two Atlantic shores is the return of protectionism. The declaration rejects protectionism and confirms new trust in the free trade as a common principle. But the idea of drawing up a rescue plan for the big US auto companies -- which was approved by Congress last September with a package of 24 billion dollars and asked for with conviction by President-elect Obama – has actually been labeled by Gordon Brown as a form of protectionism that will be the “road to ruin.” Brown has also claimed that EU will act against the US in front of the WTO if the European Commission were to consider these aids illegal.

Regarding the E.U., the Declaration confirms many of the principles listed by Europeans as a way to reform the financial system, including, for example, that all financial markets, all products and all those who participate in markets will have to be subject to oversight and appropriate regulation. For once, as Barroso would say, Europe hasn't followed the US, but the US has taken into

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## Biographical note

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European ideas. Undeniably, the absence of the US president-elect with full powers took its toll.

The real challenge now is to go from theoretical principles to the preparation of the next G-20 summit and to create precise plans that have already been discussed domestically and have to be approved during the future summit. The G-20 was created as a response both to the financial crises of the late 1990s and to a growing recognition of key emerging-market countries. The G-20 members are the 19 major industrialized countries, first among which are the members of the G-8, plus the EU. This represents two thirds of the global commerce and global population, totaling about 80% of the world's GDP. In the recent meetings Spain and Netherlands have been invited to participate as informal guests (the meetings reaching, in this way, 22 members). The G-20 plays an important role in typically economic issues aiming to resolve financial crises and medium-term problems. On the contrary, the G-8 is a smaller, more uniform group, that has a more political mission with long-term objectives including changing certain structures that regulate finance and the economy.

One of the most important roles played by the G-20 is the great attention given to emerging-market countries. Brazil and China have especially shown their weight and their voice, giving legitimacy to the G-20's goal of governing the global economy. Still, with the exception of South Africa, Africa is absent from the discussion. Jean Ping, president of the Commission for the African Union, has requested a position for Africa in the G-20. They want their voice to be heard when Europe and the US take decisions on international finance.

Without a doubt, the most important outcome of Washington's summit is that this group until a few weeks ago considered a technical institution – at the level of ministers and vice-ministers and under the supervision of the IMF – has become the point of reference for the governance of economic globalisation and of political solutions to the challenges of the 21st century. This is true in financial terms, but also demographic, social and technological ones.

Finally, one curious point. Whilst the G-20 members were debating the reforms of the international financial system, created in 1944 at Bretton Woods, in those same hours, only a few buildings away, the IMF celebrated the last survivor of that conference. The Dutch economist Jacques Polak, 90 years old, had been part of his country's delegation at the meetings in New Hampshire which created the IMF and then he was the IMF's head of research between 1958 and 1979. Polak, that has been the brain behind the monetary model of the IMF -which is in fact known as the "Polak model"-, is an authentic historical memory of both Bretton Woods and the IMF. We hope this is a good sign, especially as the world's major economic powers have finally recognized that cooperation among nations is unavoidable and that they have started, at least in theory, to agree to the set of values they should share.

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