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G8 leaders seek a delicate balance at summit

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Hearing world leaders sounding hopeful they could find common ground denotes a marked shift after weeks of trans-Atlantic sniping over how to achieve stability

The leaders of the world's largest economies, gathering amid signs of faltering economic growth and fears of a double-dip global recession, come to Toronto seeking a delicate balance between supporting the recovery with government largesse and reining in spending.

In Huntsville, Ont., on Friday, leaders of the G8 put an optimistic face on the daunting challenges, sounding hopeful they could find common ground. That's a marked shift after weeks of trans-Atlantic sniping between the United States, which favours more spending, and the debt-addled European nations that are already swinging the budget axe.

But while the rhetoric has softened, the fundamental question remains: For how much longer should governments keep borrowing to fuel stimulus spending?

After months of trying to convert each other to their cause, the countries are signalling there is faint hope for a single cure for sustained global recovery: some will spend, some will cut.

"I have made it clear that we need sustainable growth and that growth and intelligent austerity measures don't have to be contradictions," Ms. Merkel said Friday. "The discussion was not controversial, there was a lot of mutual understanding."

"It's going to differ across countries," U.S. Treasury Secretary Timothy Geithner, conceded in a pre-G20 interview with the BBC. "We're [U.S.] not in a position to figure out what the best mix of policies are, given what their politics are, that's a choice they have to make," he said of Europe.

At stake is the G20's goal of ensuring "balanced and sustainable" growth for the world economy, which after a big post-recession pop has shown signs of fading. The latest in a series of troubling signs was a report Friday that revealed the growth rate in the United States, still home to the world's largest economy for all its problems, was less than previously estimated at 2.7 per cent.

The American position is that the United States cannot be the only one of the big developed economies supporting world growth with government largesse, and that budget cuts should come later.

But Europe disagrees. Countries such as Germany and Britain are already cutting back spending and raising taxes to pare deficits and mollify bond markets that have threatened to push overextended nations such as Greece to the brink of bankruptcy.

"The greatest risk, if there is a risk out there, is the sovereign debt risk," British Chancellor of the Exchequer George Osborne told The Globe and Mail in an interview. "And that's clearly the case in Europe. So therefore the best way of addressing that, and heading it off, is those countries which have very high debts to take action to reassure markets and their own populations that they have the situation in hand."

The U.S. position is that there is "broad consensus" and a "convergence of views" that there needs to be a balance between stimulus and restraint. However, there is still disagreement on timing. The U.S. leadership thinks cutting deficits should be a "medium-term" goal, a senior official told reporters in Huntsville.

Canada, which has taken the position that countries must produce credible plans to trim deficits, is of the view that the differences are more "nuanced" than they have been portrayed, because all countries facing deficits recognize that cutbacks must be done in a way that doesn't undermine the economic rebound, Len Edwards, Mr. Harper's "sherpa" or personal representative in international talks, told reporters in Huntsville.

He said the main thing is to remain "focused on this challenge of growth and confidence because growth and confidence are paramount."

Mr. Harper held a bilateral meeting with British Prime Minister David Cameron, whose government this week introduced a budget that includes the most drastic belt-tightening the country has seen in five decades.

"I'm delighted to have you here just off a budget where you highlighted the very fiscal consolidation that we're trying to steer the G20 toward," Mr. Harper told Mr. Cameron on the way into their meeting. "I appreciate your responsible and difficult decisions in that regard." In response, Mr. Cameron said, "It's good to be here to talk about how those countries with the biggest deficits, as a world, we will address the imbalances that we have." Canadian Finance Minister Jim Flaherty sought guidance on the best path from business leaders, who he addressed Friday night as part of the so-called B20 summit.

"I hope that you can give us advice about how we quite frankly achieve that balance between those countries that must consolidate on an urgent basis, those that can do so over a longer period of time, and the emerging economies that are growing certainly relatively well," Mr. Flaherty said to the gathering of CEOs from the G20 nations. "These are challenging issues that require some sophistication and some analysis."

Countries remain far apart on the idea of a bank tax, which Ms. Merkel vowed yet again to push for in the face of opposition from host Canada.

"We will promote this issue at the summit once again," Ms. Merkel said.

Britain, which unveiled its own bank tax in its budget, is not seeking to force the idea on the rest of the world, Mr. Osborne said.

"I'm not seeking to force the Canadian government, or anyone else, to impose a bank levy if they don't want to," he said.

Canada still has strong allies in the tax fight, as Mr. Flaherty has stressed.

So-called emerging economies such as India and China are of similar minds that the global financial crisis is largely a mess that richer countries should clean up themselves.

Sources familiar with India's mindset heading into Sunday's G20 Summit say the country's delegation has little interest in being subjected to financial reforms imposed by advanced economies struggling with the crisis. There is said to be a similar sentiment among the Chinese delegation ahead of the talks as well.

"Their approach to many of the issues has been that it is an advanced country problem - that they should solve it, and the emerging markets prefer to stay out of the mess altogether," said Eswar Prasad, senior fellow at the Brookings Institution and professor of trade policy at Cornell University.

With reports from Tara Perkins, Jeremy Torobin, Grant Robertson and Bill Curry