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G-20 Grabs Bigger Role In Global Economy

Nations to Collaborate To Ward Off Future Crises

By Annys Shin and Juliet Eilperin
Washington Post Staff Writers
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PITTSBURGH, Sept. 25 -- The leaders of the 20 largest economies officially anointed themselves the steering committee of the global financial system and reached a series of agreements Friday aimed at navigating the world out of recession and onto the path of recovery

President Obama, hosting his first Group of 20 summit, managed to achieve most but not all of his top objectives. They included getting member nations to agree to review one another's economic policies to ensure they do not provoke a repeat of the worst financial crisis since the Depression.

"Because our global economy is now fundamentally interconnected, we need to act together to make sure the recovery creates new jobs and industries while preventing the kind of imbalances and abuses that led us into this crisis," Obama said at a news conference at the close of the two-day meeting.

The summit was the third gathering of G-20 leaders since the collapse of Lehman Brothers last year triggered a global economic free fall. Lately, signs of recovery have emerged around the world, prompting questions among the G-20 nations about whether it is time to tighten interest rates and withdraw hundreds of billions of dollars in stimulus spending. But the leaders arrived in Pittsburgh already in agreement that the global economy is still too fragile to warrant a pullback.

"A sense of normalcy should not lead to complacency," the leaders said in a joint statement. "The process of recovery and repair remains incomplete."

The global economy has become stable enough, however, for the leaders to turn their attention to preventing future crises. The United States and European nations were able to settle differences over how best to stem irresponsible risk-taking by financial companies.

The United States had emphasized the need to raise the quality and quantity of capital that banks must hold to cover potential losses. The Europeans had stressed restrictions on bankers' pay, including hard limits on compensation. In the end, the leaders agreed to those principles -- minus the hard limits -- along with provisions that better align executive compensation with long-term performance and promote more transparency for trading in complex securities known as derivatives.

Obama also got Europe and China to commit to avoid economic policies that could fuel the huge global imbalances blamed by economists for helping spark the current crisis. Under the agreement, countries with large deficits such as the United States would promise to borrow less and major exporters such as China and Germany would pledge to stimulate domestic consumption. The members agreed to use the International Monetary Fund to help review their economic policies to make sure they do not generate harmful imbalances.

Although other G-20 members signed off on the U.S. proposal, many remained doubtful of its effectiveness and its purpose.

"There remains considerable skepticism among many G-20 leaders from emerging markets that this may simply be a ruse by the U.S. to deflect attention from its massive budget deficit," by casting the problem as a global one, said Eswar Prasad, a trade policy expert and professor at Cornell University.

What made the agreement so easy to sign was that countries that do not abide by its principles face no penalties. Critics noted that similar arrangements have been tried, with little impact on national decisions.

But Edwin Truman, a fellow with the Peterson Institute for International Economics and a former Treasury Department official, said this latest attempt at rebalancing global growth is promising because it puts leaders on the record and potentially raises the political stakes for them if they do not comply.

The G-20 also agreed to make itself the main forum for global economic issues, eclipsing the older, West-dominated G-8 and further institutionalizing the new economic order. The Obama administration sees increasing the clout of emerging economies in international institutions as essential to getting developing nations to play a bigger role on other issues, such as climate change.

To better reflect the growing role of China, Brazil and other emerging nations, the G-20 leaders approved a reform of the governance structure of the IMF and World Bank. The move increases developing nations' quota of representation shares by 5 percent at the IMF and 3 percent at the World Bank.

Reforming the structure of those institutions is key to helping prevent future crisis, said Simon Johnson, a former IMF chief economist and Peterson Institute fellow who writes a weekly online column for The Washington Post. Countries such as China, South Korea and

Japan began building huge reserves in the wake of the Asian financial crisis in the 1990s and their bad experiences with the IMF. "They have to believe in the IMF so they don't build huge reserves," Johnson said.

The support of emerging economies turned out to be key in securing an unexpected victory for the Obama administration on a climate-change agreement. The G-20 leaders called for phasing out subsidies provided by the United States and many other nations for the consumption and production of fossil fuels.

The agreement sets no timetable for phasing out the subsidies and makes clear that poorer citizens may still receive help in paying energy bills. But it sent a clear signal that the world's most influential nations are taking an initial step away from the fossil fuels that power their economies and are blamed for contributing to climate change.

Jake Schmidt, international climate policy director at the Natural Resources Defense Council, said that although the statement is "not the firmest commitment" toward creating a low-carbon economy, "it's an important down payment" on such a policy.

U.S. oil and gas industry representatives, however, said the agreement would impose a new burden on Americans. Jack Gerard, president of the American Petroleum Institute, said the administration and Congress "now face many difficult choices if they choose to comply with the G-20 commitment to phase out fossil fuel subsidies."

"Does the president really think it wise to eliminate tax provisions that encourage investment in technology and exploration and development and would likely constrict future energy supplies, raise energy costs and kill jobs?" he said in a statement.

The deal calls for G-20 energy and finance ministers to devise "strategies and timeframes" for eliminating the subsidies and to report back at the next meeting. The leaders were vague in describing how much money industrialized countries must provide to help vulnerable and major developing nations cut their emissions and respond to climate change impacts.

Several thousand demonstrators marched through downtown Pittsburgh on Friday to call attention to a variety of social causes. The protests were peaceful compared with demonstrations Thursday that led to property damage and dozens of arrests.

Eilperin reported from Washington. Staff writer Zachary Goldfarb contributed to this report.