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Style and Substance for the G20 Summit

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Style and Substance for the G20 Summit

While a set of complex and contentious issues animate the agenda of the Group of 20 leaders' summit in Washington, just as important has been the sorting out of who should be around the table. Unlike other regional shocks before it, the 2008 financial crisis has swept across boundaries, over the North and South, big and small states, and the established economic giants and the emerging powers.

With the announcement of the G20 summit, leaders of the world's wealthiest nations have acknowledged that the G8 alone can no longer solve global problems. Recent developments have demonstrated a pronounced shift in the political response to the reverberating financial crisis. The immediate reaction was at the national level, with an emphasis on crisis management. Panic measures to unilaterally and urgently prop up national banks and financial assets trumped any sense of collected action with an eye to find systemic solutions.

Drawing away from this 'beggar-thy-neighbour' psychology, however, key leaders of the G8 have begun to search for big reforms to prevent such a crisis from happening again. French President Nicolas Sarkozy and British Prime Minister Gordon Brown have called for the negotiation of a new global financial order, the likes of a reconsidered Bretton Woods. This is to say, a transformation of the established international architecture to accommodate "an agenda of reform to meet the challenges of the 21st century".

The speed and intensity of the response deserves kudos, yet two huge dilemmas remain. The first relates to its style. In terms of function, success of the political response will not come through populist recipes. The appeal of a new mode of 'regulated capitalism' must take on some tangible qualities that go beyond a scramble to reassure traumatized investors and taxpayers in North America and Europe. The new set of rules must constitute a compact of equal value to all quadrants of the globe.

A leaders' level G20 summit could prove a legitimate and efficient site for transformative global economic governance. Representing two-thirds of the world's population and accounting for nearly 90 percent of the global economy, G20 membership bridges many constituencies. The November summit may signal a shift towards equal status for China, India, Brazil and others at the high diplomatic table; an initiative long advocated as the 'L20' by Paul Martin, former Canadian Prime Minister and inaugural G20 chair. Certainly it catapults relevance of the G8's technically-oriented Heiligendamm Process of outreach dialogue to the forefront of global governance reform.

The second dilemma relates to the agenda. Already, there is a cacophony of voices putting various pet issues forward. A core agenda will need to be developed that clearly links lessons learned from the crisis to concrete reforms.

At the top of this agenda must be the goal of preventing the kind of regulatory arbitrage that contributed to the crisis. International prudential regulation must cover the whole balance sheet of all highly leveraged institutions beyond a certain size and extend geographically to their activities everywhere, including offshore financial havens.

International financial regulatory reform must also go beyond the usual calls to simply improve transparency and risk management. Future crises will not be prevented unless the pro-cyclicality of existing regulatory frameworks is addressed.

The problem of global economic imbalances must also be addressed, given the role they have played a role in generating the crisis. The Bretton Woods principle that both surplus and deficit countries should share in the responsibility of addressing such imbalances needs to be re-iterated and reinforced.

There is also a pressing need to minimize the moral hazard problems unleashed by recent bailouts and to address public outrage at the socialization of private losses. On this issue, decision-makers need to be creative and perhaps consider proposals that might require too-big-too-fail financial institutions to pay premiums to some kind of fund against the risk of them being bailed out.

None of these and other reform initiatives will be successful on an international scale unless Southern countries' voice within the key international financial institutions is boosted. This moment provides a unique opportunity to pursue this agenda. The focus should not be just on reform of the International Monetary Fund. Just as important is the need to boost Southern representation in bodies which play more significant roles in international regulatory debates such as the Financial Stability Forum and the Basel Committee.

The gambit by the advocates of a new financial order is that by thinking big, world leaders can create a solution that is both legitimate and efficient. As the events on the ground this past week clearly showed, making 21st century multilateralism work will not be easy. The temptation towards patchwork solutions is hard to resist. But, the danger of these temptations makes the imperative of what Brown terms "large and radical" reform more salient.

Equally, however, the concerted call for a big response should not be mistaken for bold action. For the summit process to succeed, a new mentality must take root. The emerging economic powers need to be given not only equal representation but equal ownership in financial institutions and solutions. What exists is a sketched outline – filling in the requite details to make this initiative fly beyond the confines of ad hoc summitry will be an intricate but necessary task still to come.


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The views expressed are those of the authors, and do not necessarily reflect the views of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE).