

Prospects for the Pittsburgh G20 Summit

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On September 24-25, 2009, the leaders of the Group of 20 (G20) systemically significant countries will assemble in Pittsburgh, Pennsylvania, for their third summit, following the first in Washington DC on November 14-15, 2008, and the second in London, England, on April 1-2, 2009. With the G20 summit moving from Britain back to America, this will be the first opportunity that U.S. president Barack Obama will have as host to make history on the wide world stage.

The Pittsburgh Summit will address the broad agenda first set at Washington and amplified at London. It will build on the ambitious achievements of Gordon Brown's successful London Summit, and go well beyond in innovative ways.

At London, G20 leaders creatively assembled an unprecedented stimulus and support package of \$1.1 trillion, to be delivered to developing countries largely through \$500 billion in loans to the International Monetary Fund (IMF), \$250 billion in IMF special drawing rights (SDRs) and more money for trade finance. Leaders also wisely agreed that domestic financial regulation and supervision needed to be set at a high standard and internationally coordinated among key states. A strengthened and expanded Financial Stability Board (FSB) and the newly resource-rich and re-mandated IMF were given the lead role.

At their summit at L'Aquila, Italy, on July 8-10, leaders of the Group of Eight (G8) major market democracies and India, China, Brazil, Mexico and South Africa made at least 15 direct references to the G20 in their communiqués. They pledged to swiftly implement the London decisions and use the Pittsburgh Summit to help get the Doha trade negotiations done and approve the "Lecce Framework" of a global rule of law for firms. They clearly signalled that, given the still struggling global economy, they should stay focused on stimulus for "as long as needed," leaving sustainability and exit strategies as a medium-term concern. They promised that reforms of financial regulations would be implemented swiftly, to ensure a level playing field. To repair the financial system, they declared "it is crucial to deal decisively with distressed assets and to recapitalize viable financial institutions," using "common principles" and an "objective and transparent valuation." They also promised to avoid competitive currency devaluation, and addressed global reserve currencies and reform of the international financial institutions. They signalled that Pittsburgh would have an expanded agenda, dealing more with climate change and perhaps even political-security concerns.

The Pittsburgh Summit is due to feature many of the same debates that underlay the G20 London Summit and the G8 L'Aquila one. On the first issue of stimulus versus regulation as the proper focus, the stimulus side will be backed by summit host Obama, whose existing stimulus is slow to take effect, as American unemployment soars beyond what his budget forecasts saw. He will be supported by still struggling Britain and Japan, whose unpopular prime minister Taro Aso faces an election imminently, and who knows that his previous stimulus package gave him a brief boost in the public opinion polls. Leading the regulation side will again be Germany, whose popular chancellor Angela Merkel has recently and unusually criticized the European Central Bank, the Bank of England and the U.S. Federal Reserve (Fed) for their unprecedented and innovative monetary stimulus, and who must face her thrifty deficit- and tax-wary voters in a general election on September 27, two days after the summit ends.

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On the second issue of selecting strong, state-led, even supranational regulation or more market-sensitive supervision as a solution, banks will again be the central battlefield, in a global replay of the current struggle between Britain and its continental colleagues within the European Union. The lead supervision protagonist remains America. Even as a single state governed by a Democratic president and Congress, its administration still refrained in its recent reform package from breaking up its rapidly consolidating banks that are increasingly too big to fail, or potentially for government to finance. It also maintained its multiplicity of government regulators, by closing one, creating another, giving the Fed responsibility for systemic risk management and creating a committee of regulators with little power of its own. Fresh from its publicly reported stress tests, the U.S., backed by Canada, will again ask Europe to move in the same way. All will confront the broader issues of the speed, standard and international coordination and consistency of the new national and regional regulatory regimes coming on stream in Europe, America and elsewhere, as well as the dangers of regulatory arbitrage and the specific aspects of the financial system that need action first.

Perhaps the greatest challenge for the G20 at Pittsburgh is showing that it deserves a permanent and perhaps pre-eminent place in a world now crowded with such plurilateral summits and where the ever expanding G8, after a long absence, has just proven at L'Aquila that it can effectively govern economic and financial affairs once again. But to do so the G8 must work ever more closely with the G20. After the Asian-turned-financial crisis of 1997-99 led the G7 and G8 to create the G20 finance forum in 1999, the latter has proven it can forge consensus on desired new directions among its many diverse members, which collectively account for the great majority of the population, economy and other resources in the world. In its first two leaders-level gatherings over the past nine months, the G20 has shown it can take many clear, ambitious collective decisions — 95 in Washington and 91 in London. But its greatest test comes in reaching down into its members' domestic banking and financial regimes — long jealously guarded, core components of sovereign states — to produce the smart, high standard internationally coordinated regime for today's complex, densely connected world. There is a good chance the Pittsburgh Summit will pass this test. But it will do so only if Britain once again bridges the great gaps and brokers the right solutions between Obama's America and continental Europe, and between the established G8 powers and the rapidly rising emerging ones elsewhere in the G20 and the world.

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