The Brisbane summit needs to deliver a G20 coordinated growth strategy

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At the Pittsburgh G20 summit, leaders said: ‘Today we agreed to launch a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced growth. We need a durable recovery that creates the good jobs our people need’. The world is still waiting for the durable recovery.

Five years after the crisis, the IMF commenced its October 2013 World Economic Outlook by stating ‘Global growth is still weak, its underlying dynamics are changing, and the risks to the forecasts remain to the downside. As a result, new policy challenges are arising and policy spillovers may pose greater concern.’

Global growth remains below potential. It averaged only 2½ per cent during the first half of 2013 – about the same pace as the second half of 2012. In the years prior to the crisis, world growth averaged 4 per cent per year. Unemployment is high, particularly among the young, public debt is at worrying levels, financial fragmentation is growing, monetary policy is in uncharted waters and capital flows are volatile. There is also reason to be concerned about the sustainability of current growth rates, given the slowdown in emerging economies and the vulnerabilities confronting many economies. In addition, inequality is growing within most countries.

Notwithstanding the action plans released at each successive summit, the G20 has failed to deliver on its basic commitment to restore strong and sustainable balanced growth.

Moreover, the G20 has struggled to deliver a clear, consistent and coordinated message as to how members are cooperating to restore growth and create jobs. It has not lived up to the high ideals of the Framework. The focus has been more on areas of disagreement than on those of agreement, as illustrated by the debate over ‘growth versus austerity’, or the concerns many members have regarding the use of quantitative easing by some major developed economies, with resulting concerns over ‘currency wars’. As Pierre Siklos has observed, ‘the G20 has given the appearance of not being able to convincingly sing from the same song sheet.’
The leaders’ declaration and action plan released at the St Petersburg summit acknowledged the risks to the global economy. Leaders said that ‘despite our actions, the recovery is too weak, and risks remain tilted to the downside.’ They went on to state: ‘To address these challenges and to place the global economy on a stronger, more sustainable and balanced growth path, we have built on our previous actions with new measures set out in the St Petersburg Action Plan.’ But the ‘action’ consisted largely of a listing of policies already announced, or already being implemented by members. There was little mention of the need to cooperate, and little evidence that G20 countries have a coherent strategy and are actually cooperating in their policy settings, recognising that by acting together they can achieve outcomes that exceed those they can achieve by acting alone.

G20 members have to get back on the same page and demonstrate that the G20 truly is an effective forum for dealing with international economic issues and fostering cooperation. In particular, the G20 must develop a clearer, more consistent narrative about how members are cooperating to strengthen global economic growth and create jobs. But it also needs to acknowledge more clearly the challenges confronting policy-makers. Olivier Blanchard has emphasised that the crisis has required a rethinking of macroeconomic policy. This is perhaps no more evident than in the use of unconventional monetary policy by a number of advanced economies. The world is in the midst of an economic experiment at a time when, in the words of the IMF Managing Director, it is ‘hyperconnected’. All countries are impacted and cooperation is vital. The G20 has to go beyond rhetoric. It must demonstrate that it is backing its words about cooperation with deeds.

In the St. Petersburg declaration, leaders requested their finance ministers to ‘develop further comprehensive growth strategies for presentation to the Brisbane summit’. This should be a top priority for the G20 in 2014, with the addition that the focus should be on developing ‘coordinated’ growth strategies. It is an opportunity to place the Framework for Strong, Sustainable and Balanced Growth at the centre of the G20 activities and demonstrate that all of the G20’s work is part of the growth strategy. The G20’s activities cannot be considered in silos. Steps should be taken to revitalise both the Mutual Assessment Process and the action plans that are released after each summit. As noted, these plans have hitherto been a list of already announced commitments by countries, and receive little attention. The question has to be asked whether these action plans are influencing the policies of G20 members. The concept of countries listing specific policy measures in their action plans and the idea of some form of peer review was well-intentioned, but is it working? Is the approach too detailed, even taking into account the latest request for members to identify their top three
structural reform measures? Should countries be focusing more on their overall growth strategy, including in particular identification of spillovers? It is important that the action plans reflect how countries are cooperating.

The development of a G20 coordinated growth strategy for the Brisbane summit should not be left to officials. It should not be just another attachment to a voluminous set of supporting documentation released at the Brisbane summit. Finance ministers and central bank governors must be directly involved, and it should be a key component of the leaders’ summit in November 2014.

The preparation of a G20 coordinated growth strategy is an opportunity to refocus the meetings of finance ministers and central bank governors. These meetings should not be excessively procedural or burdened with a fixed agenda. Finance ministers and governors must be responsive to the challenges that can quickly arise in a volatile global economy, but they must also be focused on the longer-term policy measures needed to restore growth. The challenge confronting ministers and governors in 2014 will continue to be dealing with weak global demand at a time when the limits of accommodative fiscal and monetary policies have largely been reached. Ministers and governors will have to prepare and communicate in 2014 an economic policy mix that provides for the orderly consolidation of fiscal positions, the gradual exit from the various extraordinary monetary policy settings and the capacity to deal with potentially very volatile capital flows, along with measures to boost private demand.

Critical to boosting private demand will be an accelerated program of structural reforms. While the importance of more decisive action on structural reforms was recognised at St Petersburg, one of the constraints of the current G20 arrangements is that most finance ministers do not have responsibility in their jurisdictions for the required structural measures. Attempts to deal with this have included one-off joint G20 meetings, such as the meeting of G20 finance ministers and labour ministers in 2013, or separate one-off meetings of G20 ministers of labour or trade, for example. An initiative that should be introduced in 2014 is to open up the finance ministers’ process so that other ministers directly responsible for the structural reforms being considered can attend on an ‘as needed’ basis. Which ministers should go to a meeting would depend on the topics being discussed and the domestic division of responsibilities. Each country would have two seats at the table at each meeting, but who occupied the seats would depend on the topic being discussed.

With respect to the finance stream in 2014, there should be a focus on improving the oversight of international efforts to strengthen financial regulation. This is meant to be a core priority of the forum, but the G20 has largely become a rubber stamp for the technical work
of the Financial Stability Board. The issue of financial regulation requires more dedicated ministerial oversight than it is currently receiving, as the finance sector will be the source of future crises, just as it has been in the past. The G20 should not be caught up in the details of financial regulation, but should focus on the bigger picture, such as assessing overall progress on achieving a stable and efficient financial sector that meets the needs of the real economy. One way that this could be achieved would be for the G20 finance ministers’ meetings that take place at the time of the spring meetings of the IMF to focus on financial regulation. This would help remove the current duplication associated with back-to-back meetings of G20 finance ministers and the IMF’s International Monetary and Finance Committee (IMFC). These meetings currently have similar agendas and there is an overlap of members.

Notes

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