

We need to talk about Europe

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Many onlookers, and probably a few participants, will no doubt be frustrated that the Europeans are once again hogging the G20 summit, this time at Los Cabos, Mexico, this week.

Just as all the ambitious plans of the French presidency ended up being overshadowed last year at Cannes by the euro zone's problems, so will it go at Los Cabos where discussion will once again end up being dominated by the ongoing euro zone crisis.

Certainly, the G20 Mexican presidency's long wish list of topics for the summit this week – including creating jobs, strengthening the international financial architecture, greening growth, improving food security and extending financial services to the world's poor – is likely to be overshadowed.

Still, any talk of the euro zone hijacking the G20 is misplaced.

After all, given that leaders back at the Pittsburgh Summit decided to designate the G20 as the "premier forum for our international economic co-operation", it would be rather strange if that same premier forum were to neglect the single biggest near-term risk to the world economic outlook. Indeed, if the G20 doesn't spend much of its time this week talking about the euro zone, it could be criticised for ignoring the big picture.

Right now, that picture is an exceedingly ugly one. G20 leaders have repeatedly and publicly committed to delivering "strong, sustainable and balanced growth" for the world. Yet it's painfully obvious that we are dangerously far from this target.

It's also obvious that repeated policy failures by some of those same leaders or their successors have contributed to this perilous state of affairs. The continued inability to stem the euro zone crisis is the most glaring of these, but other policy disasters, including the United Kingdom's failed experiment with austerity, the US debt ceiling debacle last year and the uncertainty created by the looming US fiscal cliff reveal plenty of blame to go around.

Meanwhile, the big G20 emerging markets are struggling with severe policy difficulties of their own, ranging from the challenge of rebalancing the chronically unbalanced Chinese economy to the stalling of economic reform in India.

Given that G20 leaders have received stark and repeated warnings about the dangers inherent in our current economic conjuncture, there's little doubt that failure to respond effectively risks inflicting substantial damage on the G20's credibility, if and when those same dangers materialise. All of which makes the stakes at Los Cabos perhaps the highest since the G20's London summit in April 2009.

True, it appears that voters in the Greek elections at the weekend have decided to avoid the scenario of Apocalypse Now, or Acropolis Now.

Unfortunately, this in no way rules out Apocalypse A Bit Later, and the spectre of euro zone collapse looks set to keep haunting the world economy, and hence the international economic summitry, for some time yet.

At the London summit, faced with the prospect of hanging together or hanging separately, the world's leaders managed to do enough to convince markets that the global economy would not be allowed to collapse on their watch. That success marked the arrival of the G20 as an important part of a new global economic architecture.

Leaders now have to pull off a similar trick, and do so while handicapped by the dogged reluctance of the euro zone to deliver the structural and institutional changes required to secure the future of the single currency.

That probably means falling back on some combination of exerting peer pressure on the Europeans to do the right thing while pushing through the preliminary deal on enhanced resources for the International Monetary Fund, as well as building on plans for the world's central banks to stand ready to stabilise international financial markets in the event of a major shock.

Unfortunately, measuring the success of Los Cabos against the benchmark of dealing with the euro zone crisis is largely guaranteed to make the G20 look bad.

The ultimate solution lies in the none-too-safe hands of Europe's leaders and, as we learned at Cannes, the G20 has little ability to force common sense on Berlin, Athens and the rest.

We should remember that the G20 is our first attempt at constructing a peak body for the new global economic order. As such, it will take time to develop fully.

Many of the challenges the G20 faces are politically intractable and technically difficult. And it's not as if there is a superior alternative waiting in the wings.

We must be realistic about the contribution the G20 is likely to make at Los Cabos, even as we wish it could do better.

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