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Subir Gokarn: The Pittsburgh principles

Subir Gokarn | New Delhi October 05, 2009 Last Updated at 00:37 IST

The Leaders' Statement of the G-20 meeting provides good guidance on key global issues, but not without potential conflict, says *Subir Gokarn*

In my last column, I wrote about the three "global public goods" on which the Pittsburgh G-20 summit would attempt to find some common ground. These were cross-border financial regulation, climate change and free trade. The most one could have realistically expected from a summit was a broad statement of commitment to goals and the principles on which the pursuit of these goals would be based. The actual process of hammering out agreements on strategy would obviously be left to existing or new mechanisms that had the capacity to deal with detail. Did the Pittsburgh event meet some minimum criteria for the success of a summit? In several respects, I believe it did. Here are a few, somewhat random, assessments on what I consider to be significant outcomes of the event.

The Leaders' Statement that was published at the end of the summit lays out in some detail the areas of agreement between the 20 heads of government on these issues. It is a relatively long statement, which is written in a collective and inclusive tone. There is no sense in the document of any difference of opinion or dissent. To the extent that it truly reflects a confluence of thinking on global public goods, the statement should provide some firm guidelines and boundaries for the nitty-gritty negotiations that are going on or will be initiated on these issues.

The three issues are all addressed quite substantially at the level of principle. What is important, however, is the attempt to integrate them into a "Framework for Strong, Sustainable and Balanced Global Growth". By viewing the three issues through a common lens, which will presumably accommodate other matters of global concern as well, the statement highlights the principle that progress on any one issue, even if it is substantial, is not enough to achieve that objective. It may be neutralised by the lack of progress on others.

The goals laid down by the framework indicate an ambitious acceleration of an adjustment process that would otherwise probably be a slow crawl. It identifies six dimensions on which economic policies around the world need to be aligned. These are: (1) fiscal moderation, with a willingness to counter cyclical downturns; (2) stronger financial regulation, with explicit macroprudential components; (3) narrowing current account disparities with greater openness; (4) monetary policies focussed on price stability; (5) structural reforms to accelerate growth and; (6) measures to alleviate poverty and inequality.

This is quite a mix of the universally acceptable (6 and perhaps 1), differences of opinion and current practice (3 and 4) and the uncharted (2). As far as both (5) and (6) are concerned, the statement recognises that differences in individual circumstances will lead to a variety of appropriate policy responses — one size will simply not fit all. Individual countries, therefore, will have the autonomy to decide what suits them best, as long as there is some general acceptance of the strategy within the group.

This is certainly a welcome accommodation of potentially conflicting positions, particularly in the context of both climate change and free trade. Whether it is too accommodating to enable effective agreements on both issues remains to be seen, but for the moment, the leaders' position on sovereign autonomy should send a clear signal to the negotiators on those issues.

The acceptance of (4) is also of significance, since the role of trade imbalances, particularly between the US and China, in transmitting the financial crisis globally is a matter of intense debate. This imbalance would in any case moderate as increasing affluence in China shifted its demand pattern from exports to domestic consumers. But the speed of adjustment would hardly have eliminated the perceived vulnerability overnight.

The inclusion of this issue in the Leaders' statement indicates that China, along with other economies, many of which are in Asia, have agreed to a structural transformation in their trade and foreign exchange regimes — regimes that, from a growth perspective, have served them extremely well for a long time. This commitment is emphasised in another section of the statement, which is a pledge by countries with sustained current account surpluses to act quickly to change the situation.

This raises two specific questions, which the post-summit discussion needs to address. First, were the imbalances, in and of themselves, critical to the spread of the crisis globally? Second, how long would a meaningful transition in both trade and exchange rate regimes take and what milestones would the group use to gauge whether progress is being made?

The comprehensiveness of the growth framework allows the statement to address an issue that will touch a chord with many countries in the group — inclusiveness. Three dimensions of inclusiveness find explicit mention in the statement, along with thoughts on the institutional arrangements that can be set up to achieve goals. The first is food security that, by covering both availability and distribution, impinges on trade as well as fiscal domains.

The second is energy security that, when viewed from the perspective of poor households, touches on issues of subsidies for fossil fuels and the availability of environmentally friendlier alternatives. The statement indicates an agreement to phase out "inefficient" fossil fuel subsidies and enhance resources to programmes that provide access to green technologies. The third is financial inclusion, with the statement calling for a co-ordinated effort to increase access to finance by small and medium enterprises as well as households and proposing to set up a Financial Inclusion Expert Group.

These are all very reassuring statements, indicating the priority that the group puts on welfare, particularly of the most deprived households across the globe. However, it is clear that the inclusiveness agenda will carry with it both fiscal burdens and financial risks. This provokes potential conflicts with both the fiscal objectives and the pursuit of a globally consistent and co-ordinated financial regulatory framework. When it comes to a trade-off, which takes precedence, poverty alleviation or safety?

There are many other components of the statement that open up similar lines of enquiry as to their internal consistency and prioritisation. But these are, ultimately, questions to be resolved by work done in between summit meetings, of which two will be held next year. As a roadmap to a process that will have to constantly and minutely balance between autonomy and collective responsibility and between joint goals and individual capabilities, it seems like a pretty good beginning.