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G20 and a new political economy of globalisation

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 By *Alok Sheel*

Macroeconomic policy cooperation within the group of 20, or G20, has evolved through at least five distinct stages since the first summit in Washington DC held over three years ago

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The first two summits at Washington DC and London marked the first stage of policy cooperation, culminating in the trillion-dollar London Summit. G20 leaders resolved to do whatever was necessary to stall the slide in the global economy through an aggressive, coordinated macroeconomic response to the financial crisis.

It is pertinent, however, that no country-specific commitments were asked for, and none were given. The policy response was also fairly undifferentiated across countries.

The G20 deliberations fed into domestic policy, with each country doing what it considered appropriate. Though there were no country-specific commitments, this policy coordination was nevertheless, a spectacular success, even though questions are now being asked whether the recipe itself was fully appropriate. A second Great Depression and deflation have been avoided but growth remains below trend.

At the third G20 Summit at Pittsburgh, it seemed that the coordinated response had pulled the globally economy back from the brink of a second Great Depression. The G20 now turned its attention to what it felt were long-term structural problems impeding a return to strong, sustainable and balanced growth, going forward. The G20 Framework, or Mutual Assessment Process (MAP), was conceived at Pittsburgh while preparing to exit from the aggressive and coordinated stimulus.

The second stage of policy cooperation at the fourth summit at Toronto (2010) was differentiated across countries because of market reactions, a two-speed recovery and the need to rebalance global demand for strong, sustainable and balanced growth. Consequently, unlike the first stage, the G20 arrived at different policy prescriptions for different groups of countries: advanced deficit, advanced surplus, developing surplus, developing deficit and resource-rich economies.

Perhaps because it was quite clear to what group each G20 country belonged, once again there were no country-specific commitments, apart from some general fiscal commitments given by advanced economies to reassure financial markets, since the G20 seemed mindful of the potential divisiveness of 'naming and shaming'.

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The third stage was at the fifth summit at Seoul, where there was a realisation that there was little forward movement in the desired direction. The possibility of country-specific commitments was seriously considered for the first time. A consensus was, therefore, arrived at to develop indicators on the basis of which country-specific commitments could be worked out and, therefore, made more acceptable.

The fourth stage of policy cooperation was at the last G20 summit at Cannes, in the form of the Cannes Action Plan, which contains country-specific commitments. However, problems regarding measurement and timelines persist and are still unresolved, especially since these commitments were made at a time when a cloud was hanging over the global recovery, and this cloud appears even darker now.

An attempt was, therefore, made to distinguish between short-term and long-term policy commitments. Also, commitments were 'country-led' in the best G20 tradition, and mostly what the countries had committed as part of their own domestic policies in the public domain. The G20 debate is, nevertheless, clearly weighing on the trajectory of domestic policies.

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These four stages indicate that the movement has been clearly forward, and within a fairly short period of time. Therefore, as the G20 moves towards its fifth stage of macroeconomic policy coordination at the seventh summit in Los Cabos, Mexico, in June 2012, of assessing country commitments and holding them accountable, caution is warranted in placing unrealistic expectations on the budding G20 process going forward.

First, domestic policies respond to changing circumstances. If the compulsions of short-term and long-term policies point in different directions, how can these be harmonised, especially since the long-term is a stringing together of the short-terms. For instance, prospects for the global economy have deteriorated considerably since commitments for fiscal consolidation were given at Toronto. How can commitments and assessments accommodate the need for such dynamic policy shifts?

In the deliberations leading up to the Toronto Summit, there were differences of opinion over whether fiscal commitments should be date-specific or benchmarked to the pace of recovery. This issue remains as relevant as ever.

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