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We Need a G20 Reality Check

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When I was a trade official in the Clinton administration, I discovered that the British government was unusually talented at writing summaries after difficult negotiations. Their communiqués were not just eloquent, but managed to brilliantly paper over major differences among the participants. It is a skill that will be vital on April 2 when the heads of state of the G20 meet in London to coordinate policies for the worldwide economic crisis.

Whatever happens at this summit, it will be light-years away from the expectations that have been building. British Prime Minister Gordon Brown has been calling for a global New Deal. French President Nicholas Sarkozy and German Chancellor Angela Merkel have talked about "remaking capitalism." IBM CEO Sam Palmisano has called for the summit to unleash a new wave of long-term investments, and Fred Bergsten, a prominent economic commentator, says the meeting is the best and last hope for significant policy coordination.

Yet in today's highly fragile global economy, any disparity between the hype and the reality is bound to upset financial markets, investors and consumers. It could exacerbate the already dangerous rise of economic nationalism. It could also damage essential collaboration among key governments that will be necessary long after the one-day summit. That is why officials in London, New York and Brussels in particular should work this week to lower—rather than raise—expectations of what the G20 will accomplish.

In ordinary times, deep cross-border collaboration is problematic. Today it is even more so, with political leaders facing excruciating domestic pressures of plummeting growth, shrinking credit, contracting trade, soaring unemployment and rising political demonstrations. Conducting international diplomacy was difficult enough when the G7 was the central institution, but it is far more complex with the addition of China, Saudi Arabia, Argentina, Turkey, South Africa, etc., all with their divergent interests and political processes.

Beyond that, decision making is made tougher by massive economic and political uncertainties. No one knows how long and deep the downturn will be. No one knows the true state of the banking system. No one knows whether the stimulus measures that have been implemented are adequate.

Most important are the deep-seated differences among the major G20 participants. The U.S. doesn't want its gigantic stimulus package to become a free ride for Europeans, so it is pushing for the EU to further gun its fiscal engines. The EU wants Washington to take a tougher and more comprehensive line on global financial regulation. Both the U.S. and EU are concerned that Beijing will expand its export subsidies. Brazil is focused on reopening global trade negotiations, something President Obama has all but ruled out. And so it goes.

The best the G20 can do on April 2 is announce a few feasible and concrete goals that fall far short of any claim of revamping the global financial system à la Bretton Woods. To help developing countries, they should announce a major increase in funds for the IMF, including a precise dollar amount and a very short timetable for producing the money. To offset the evaporation of trade credit, they should create a new trade finance fund, attached to the World Bank. To combat protectionism, they should direct the WTO to name and shame anyone taking antitrade measures, starting the following week.

They should ask a working group of ministers to make proposals within three months for a stronger regulatory regime, indicating guiding principles such as the need to subject every category of financial institution, including hedge funds and sovereign wealth funds, to greater supervision. And they should agree to meet in July and every quarter thereafter to show that coordination isn't an occasional photo op.

The key challenge is to give the markets and the public a sense of hope that some important actions will be taken balanced by a sense of reality that the summit can accomplish only a very limited number of objectives. The good news is that this meeting will not be anything like the disaster of the London Economic Conference of 1933, which collapsed amid nationalist pressures and U.S. neglect. This time around, no government is unaware of the dangers and futility of go-it-alone policies. But the fact is also that governments are a long way from the kind of collaboration necessary to remake the global financial system. In terms of new institutions, they are, for example, simply unprepared to accept the need for a global monetary authority with regulatory powers. In terms of mindset, the major nations are still not ready to make fundamental changes in their domestic policies to accommodate international needs.

The truth is that our public officials are doing the best they can amid massive domestic constraints imposed by the crisis, but they are not capable of the major breakthroughs in global coordination that the times really demand.

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