guardian.co.uk

The G20 fantasy

Making the G20 into a permanent fixture doesn't tip the balance of global economic power away from the US

Mark Weisbrot
guardian.co.uk, Sunday 27 September 2009 11.00 BST

A larger | smaller

Police outside a protest in Pittsburgh during the G20 summit. Photograph: Matt Rourke/AP

"The old system of international economic cooperation is over," announced Gordon Brown at the G20 summit in Pittsburgh. "The new system, as of today, has begun."

The first part of that statement is partly true. The second is a fantasy.

The G20 is not a system of international economic co-operation, or a board of directors, or a governing council for the global economy, to pick some of the terms that have appeared in the media. It is a forum where the heads of state of 20 economies discuss some important economic issues. It has very little ability to directly implement its decisions.

The institutions that do have economic enforcement capability are the International Monetary Fund (IMF), the World Bank, and World Trade Organization (WTO). These first two are directly controlled by the rich countries, mostly by the US Treasury. The third organisation that actually makes decisions that affect hundreds of millions (or billions) of people, the WTO, is not so completely controlled by a few rich countries as the others are, since it was formed half a century later. Developing countries have a formal veto power in decision-making. However, it is still dominated by the rich countries, and most importantly, its rules are heavily stacked against developing countries and in favour of the rich – and especially corporations from hose rich countries. For example, the WTO's Trips (Trade related aspects of intellectual property rights) is unequivocally designed to help corporate patent holders such as the big

Group of Eight (G8) to the G20 is mostly symbolic. Since the rich countries control the institutions with actual power – in addition to their own enormous international economic, military, and diplomatic influence – the G20 is still mainly the G7 with the other 13 countries sitting in. (I am counting the G8 member Russia with the other middle-income countries. The rich countries have still not allowed Russia to join the WTO.)

Furthermore, the G7 is not even as much of a decision-making body as it was a quarter of a century ago. For example, in 1985 five of the G7 countries (the US, France, UK, Germany, and Japan) agreed on the "Plaza accord" to bring down the value of the dollar. This was accomplished through coordinated intervention by central banks. The dollar lost more than a third of its value within the next two years. Today, the dollar is even more overvalued and as a result we have the large global imbalances that the G20, in its final statement yesterday, pledged to rectify. However, do not expect its members to do anything about it.

The US government does not even have a logically coherent position on the dollar's exchange rate. Treasury secretary Tim Geithner says the US wants a "strong dollar." At the same time, the US government complains that China is keeping its currency undervalued. These two statements are logically contradictory, since an undervalued Chinese currency is the same thing as a "strong dollar". And without a fall in the value of the dollar – not only against China's currency but others as well – we cannot expect global trade imbalances to be corrected. (The US trade deficit has fallen by more than half since this recession started, but the effect will be reversed when the economy recovers.).

A solution to this problem would also require the G7 to accept China as an equal partner, something they do not appear willing to do. China's economy is now the third largest in the world – or second largest, depending on how its currency is converted.

The IMF is the most powerful of the institutions controlled by the US and its rich allies, and it currently has about 50 agreements with low-income and middle-income countries. In the majority of these agreements it has prescribed "pro-cyclical" policies such as budget cuts and monetary tightening that worsen the impact of the world recession. For many years developing countries have demanded a greater voting share in the organisation, but the tiny (1.8%) reallocation in 2006 [PDF] was insignificant. At this week's summit the leaders pledged to reallocate five per cent of the voting shares from over-represented to under-represented countries. It is not clear that this will actually happen. The European governments were reportedly upset at giving up some of their influence. But even if five per cent is shifted, this will not change the balance of power at the IMF. The United States, with its 16.9% share, will be able to veto important decisions that require 85% and, together with allies, will have a majority for almost anything it wants to achieve.

Most of the other issues that the G20 includes in its final communiqué are either inadequate or would have to be implemented at the level of the individual countries. This includes badly-needed financial reform – the rich countries just can't seem to say the words "too big to fail is too big" – and economic stimulus. And for the poor countries, where the recession has pushed tens of millions of people closer to the edge of survival, the G7 countries have yet to offer any significant debt relief. Loans are better than nothing, although even these will offer only a small fraction of the capital inflows that poor countries have lost due to the world recession that was caused by the rich countries. But most of the poor countries have too much debt already, and can't afford to take on more.

Reform at the top of the international economic system is still a long way off.