

# U-20: Will the Global Economy Resurface?

A Perspective on the G-20 "Solution" to the Global Financial Crisis

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The Group of 20 (G20) is making a big show of getting together to come to grips with the global economic crisis. But here's the problem with the upcoming summit in London on April 2: It's all show. What the show masks is a very deep worry and fear among the global elite that it really doesn't know the direction in which the world economy is heading and the measures needed to stabilize it.

The latest statistics are exceeding even the gloomiest projections made earlier. Establishment analysts are beginning to mention the dreaded "D" word and there is a spreading sense that a tidal wave just now gathering momentum will simply overwhelm the trillions of dollars allocated for stimulus spending. In this environment, the G20 conveys the impression that they're more commanded by than in command of developments (In addition to the seven wealthy industrial nations that belong to the G7, the G20 includes China, India, Indonesia, Mexico, Brazil, Argentina, Russia, Saudi Arabia, Australia, South Korea, Turkey, Italy, and South Africa.).

Indeed, perhaps no image is more evocative of the current state of the global economy than that of a World War II German U-Boat depth-charged in the North Atlantic by British destroyers. It's going down fast, and the crew doesn't know when it will hit rock bottom. And when it does hit the ocean floor, the big question is: Will the crew be able to make the submarine rise again by pumping compressed air into the severely damaged ballast tanks, like the sailors in Wolfgang Petersen's classic film *Das Boot*? Or will the U-Boat simply stay at the bottom, its crew doomed to contemplate a fate worse than sudden death?

The current capitalist crew manning the global economy doesn't know whether Keynesian methods can re-inflate the global economy. Meanwhile, an increasing number of people are asking whether using a clutch of Social Democratic-like reforms is enough to repair the global economy, or whether the crisis will lead to a new international economic order.

## **A New Bretton Woods?**

The G20 meeting has been trumpeted as a new "Bretton Woods." In July 1944, in Bretton Woods, New Hampshire, representatives of the state-managed capitalist economies designed the postwar multilateral order with themselves at the center.

In fact, the two meetings couldn't be further apart.

The London meeting will last one day; the Bretton Woods conference was a tough 21-day

working session.

The London meeting is exclusive, with 20 governments arrogating to themselves the power to decide for 172 other countries. The Bretton Woods meeting tried hard to be inclusive to avoid precisely the illegitimacy that dogs the G20's London tryst. Even in the midst of global war, it brought together 44 countries, including the still-dependent Commonwealth of the Philippines and the tiny, now-vanished Siberian state of Tannu Tuva.

The Bretton Woods Conference created new multilateral institutions and rules to manage the postwar world. The G20 is recycling failed institutions: the G20 itself, the Financial Stability Forum (FSF), the Bank of International Settlements and "Basel II," and the now 65-year-old International Monetary Fund (IMF). Some of these institutions were established by the elite Group of 7 after the 1997 Asian financial crisis to come up with a new financial architecture that would prevent a repetition of the debacle brought about by IMF policies of capital account liberalization. But instead of coming up with safeguards, all these institutions bought the global financial elite's strategy of "self-regulation."

Among the mantras they thus legitimized were that capital controls were bad for developing economies; short-selling, or speculating on the movement of borrowed stocks, was a legitimate market operation; and derivatives — or securities that allow betting on the movements of an underlying asset — "perfected" the market. The implicit recommendation of their inaction was that the best way to regulate the market was to leave it to market players, who had developed sophisticated but allegedly reliable models of "risk assessment."

In short, institutions that were part of the problem are now being asked to become the central part of the solution. Unwittingly, the G20 are following Marx's maxim that history first repeats itself as tragedy, then as farce.

### **Resurrecting the Fund**

The most problematic component of the G20 solution is its proposals for the International Monetary Fund (IMF). The United States and the European Union are seeking an increase in the capital of the IMF from \$250 billion to \$500 billion. The plan is for the IMF to lend these funds to developing countries to use to stimulate their economies, with U.S. Treasury Secretary Tim Geithner proposing that the Fund supervise this global exercise.

If ever there was a non-starter, this is it.

First of all, the representation question continues to exercise much of the global South. So far, only marginal changes have been made in the allocation of voting rights at the IMF. Despite the clamor for greater voting power for members from the global South, the rich countries are still overrepresented on the Fund's decision-making executive board and developing countries, especially those in Asia and Africa, are vastly underrepresented. Europe holds a third of the chairs in the executive board and claims the feudal right to have a European always occupy the role of managing director. The United States, for its part, has nearly 17% of voting power, giving it veto power.

Second, the IMF's performance during the Asian financial crisis of 1997, more than anything, torpedoed its credibility. The IMF helped bring about the crisis by pushing the Asian countries to eliminate capital controls and liberalize their financial sectors, promoting both

the massive entry of speculative capital as well as its destabilizing exit at the slightest sign of crisis. The Fund then pushed governments to cut expenditures, on the theory that inflation was the problem, when it should have been pushing for greater government spending to counteract the collapse of the private sector. This pro-cyclical measure ended up accelerating the regional collapse into recession. Finally, the billions of dollars of IMF rescue funds went not to rescuing the collapsing economies but to compensate foreign financial institutions for their losses — a development that has become a textbook example of “moral hazard” or the encouragement of irresponsible lending behavior.

Thailand paid off the IMF in 2003 and declared its “financial independence.” Brazil, Venezuela, and Argentina followed suit, and Indonesia also declared its intention to repay its debts as quickly as possible. Other countries likewise decided to stay away, preferring to build up their foreign exchange reserves to defend themselves against external developments rather than contract new IMF loans. This led to the IMF’s budget crisis, for most of its income was from debt payments made by the bigger developing countries.

Partisans of the Fund say that the IMF now sees the merit of massive deficit spending and that, like Richard Nixon, it can now say, “we are all Keynesians now.” Many critics do not agree. Eurodad, a non-governmental organization that monitors IMF loans, says that the Fund still attaches onerous conditions to loans to developing countries. Very recent IMF loans also still encourage financial and banking liberalization. And despite the current focus on fiscal stimulus — with some countries, like the United States, pushing for governments to raise their stimulus spending to at least 2% of GDP — the IMF still requires low income borrowers to keep their deficit spending to no more than 1% of GDP.

Finally, there is the question of whether or not the Fund knows what it’s doing. One of the key factors discrediting the IMF has been its almost total inability to anticipate the brewing financial crisis. In concluding the 2007 Article IV consultation with the United States, the IMF board stated that “[t]he financial system has shown impressive resilience, including to recent difficulties in the subprime mortgage market.” In short, the Fund hasn’t only failed miserably in its policy prescriptions, but despite its supposedly top-flight stable of economists, it has drastically fallen short in its surveillance responsibilities.

However large the resources the G20 provide the IMF, there will be little international buy-in to a global stimulus program managed by the Fund.

## **The Way Forward**

The North’s response to the current crisis, which is to revive fossilized institutions, is reminiscent of Keynes’ famous saying: “The difficulty lies not so much in developing new ideas as in escaping from old ones.” So, in Keynes’ spirit, let’s try to identify ways of abandoning old ways of thinking.

First of all, since legitimacy is a very scarce commodity at this point, the UN secretary general and the UN General Assembly — rather than the G20 — should convoke a special session to design the new global multilateral order. A Commission of Experts on Reforms to the International Monetary and Financial System, set up by the president of the General Assembly and headed by Nobel Prize laureate Joseph Stiglitz, has already done the preparatory policy work for such a meeting. The meeting would be an inclusive process like the Bretton Woods Conference, and like Bretton Woods, it should be a working session lasting several weeks. One of the key outcomes might be the setting up of a representative

forum such as the “Global Coordination Council” suggested by the Stiglitz Commission that would broadly coordinate global economic and financial reform.

Second, to immediately assist countries to deal with the crisis, the debts of developing countries to Northern institutions should be cancelled. Most of these debts, as the Jubilee movement reminds us, were contracted under onerous conditions and have already been paid many times over. Debt cancellation or a debt moratorium will allow developing countries access to greater resources and will have a greater stimulus effect than money channeled through the IMF.

Third, regional structures to deal with financial issues, including development finance, should be the centerpiece of the new architecture of new global governance, not another financial system where the countries of the North dominate centralized institutions like the IMF and monopolize resources and power. In East Asia, the “ASEAN Plus Three” Grouping, or “Chiang Mai Initiative,” is a promising development that needs to be expanded, although it also needs to be made more accountable to the peoples of the region. In Latin America, several promising regional initiatives are already in progress, like the Bolivarian Alternative for the Americas and the Bank of the South. Any new global order must have socially accountable regional institutions as its pillars.

These are, of course, immediate steps to be made in the context of a longer-term, more fundamental and strategic reconfiguration of a global capitalist system now on the verge of collapsing. The current crisis is a grand opportunity to craft a new system that ends not just the failed system of neoliberal global governance but the Euro-American domination of the capitalist global economy, and put in its place a more decentralized, deglobalized, democratic post-capitalist order. Unless this more fundamental restructuring takes place, the global economy might not be worth bringing back to the surface.

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