G20 is a forum for impotence over the global economy

An unhealthy battle has surfaced among policy makers this autumn, with the winner appearing to be the person who can describe the global economy in the most apocalyptic terms.

Christine Lagarde, International Monetary Fund managing director, fired the starting gun on this unofficial competition by warning last month that the world was mired in a “new mediocre”. Hot on her heels have come the OECD, the Paris based group of countries that aims to promote sustainable growth, concerned that the global economy is “stuck in low gear” and Jack Lew, the US Treasury Secretary, warning “the world cannot afford a European lost decade”.

With such a cacophony of concern, it is surprising how little world economic forecasts have been revised down – in the case of the IMF by 0.1 percentage points for 2014 and 0.2 percentage points for 2015. Global growth this year is predicted to be in line with the average of the past 30 years. In 2015, it is expected to do modestly better.

These relatively sanguine predictions from the fund and almost all other forecasting bodies have not stopped the whiff of panic in the air, much to the frustration of Australia, which will host the summit of the Group of 20 leading economies this weekend. Canberra’s combative finance minister, Joe Hockey, is frustrated by all the doom laden talk, telling global audiences that, as far as the big picture goes, “we’re in the middle of the biggest boom in the history of humanity”.

Whether Australia is able to gee up the economic rhetoric at the G20 summit this weekend is largely irrelevant given the gloomy pre-briefing. What the summit could do instead, is to address the big issues of the day in the global economy. After all, the group styles itself as the “premier forum for its members’ international economic co-operation and decision making”.

One bread and butter concern is exchange rate management. Policy makers in Japan, the eurozone and the UK are all seeking to boost exports through policies or words designed to weaken their own currencies. As the OECD says, there is a high chance of “serious instability and volatility in exchange rates”. With every important nation represented at the table, the summit is the forum to debate the issue. Yet, the meeting is almost certain to produce yet another bland statement decrying excess volatility and disorderly movements in currencies.

The G20 will also think hard about the evidence of rising protectionism which is slowing trade growth, one of the main engines of productivity gain and rising living standards. Warm words on trade and reigniting the Doha trade round have been perennial features of G20 statements and will no doubt feature again this year. But, as many times before, they are likely to be ignored when leaders return home.

Officials, who criss-cross the world organising these summits, argue that the process of meeting and talking is more important than the precise outcomes. If so, subtle gains of co-operation are worth having at a relatively small cost. On this logic, the Brisbane summit is the decorative flourish on the dull process of international economic diplomacy.

The trouble is that the summit baubles are rather tarnished. The centrepiece will be a target to boost global output 2 per cent within five years, copying the now forgotten 2010 Toronto G20 declaration. But crowing about efforts to boost output in a year that growth forecasts have been cut fails to impress.
The Australian G20 is also likely to establish an infrastructure hub to share knowledge and help countries procure capital investment more effectively. Yet, that is already the role of the OECD in the global economy.

With such underwhelming results, rich country finance ministers and central bankers often say the Group of Seven leading economies is their preferred forum, even though it is far from representative of the global economy. It leaves the G20 as something of a forum for grandstanding, bilateral meetings over geopolitics and impotence on world economic affairs.

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