The G-20: bring on the peer pressure

By Jeffrey D. Sachs

The G-20 summit that began last night in Pittsburgh marks a new phase of global economics, just as the climate summit at the United Nations earlier in the week marked a new phase of global cooperation in environmental policies.

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At the end of World War II, the United States was the only economy left standing and alone shaped the global economic agenda. With Europe rebuilt and Japan resurgent, the G-1 (the United States) became the G-7, which included Canada, Europe and Japan. Now the emerging giants, China, India, Brazil and others, have taken their seat at the table.

Americans worry that their waning influence and rising global indebtedness means sinking fortunes, but the G-20 could help to rescue the global prosperity that U.S. political gridlock threatens to squander.

The G-20 forces the U.S. political system to grapple with problems that it has dangerously sidestepped for 30 years. Why are we in a state of economic collapse? Because our policies have been driven by Wall Street lobbyists rather than sound financial regulation. Why are we building a massive debt to China? Because powerful campaign contributors and lobbyists for decades have preferred to put the federal budget into hock rather than pay a prudent level of taxes. Why are we squandering our future by wrecking the climate? Because oil and coal interests have repeatedly trumped the well-being of our children.

The G-20 is important for the United States because the rest of the world is pushing for real answers to these problems. It is the rest of the world pushing for limits on bankers' compensation, not as a populist ploy, but as a proper attempt to tame financial risk-taking and take back the economy and politics from the banking lobby. It is the rest of the world warning that the fate of the U.S. dollar depends on America getting its budget back under control. And it is the rest of the world warning the U.S. Senate that time has run out for obfuscation on climate change. It would be one thing for the United States to wreck its own climate, say the other countries, but the laws of atmospheric physics mean that the United States is wrecking everybody else's climate as well.

Of course there is nothing pleasant about being lectured from outside. Other countries have recoiled for decades when the United States has lectured them, and many Americans won't like to be on the receiving end. Nationalists will scream at any «concessions» given by President Barack Obama to the other 19 countries, even when those so-called concessions are strongly in the interest of the United States and rest of the world.

The fact is that much of what the other G-20 countries are calling for is fully in line with the reform agenda that Mr. Obama has already put forth, but which is stuck in Congress. As the president himself noted at the United Nations earlier this week, U.S. interests in this interconnected world are best served through closer cooperation and integration of policies.
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Political theater aside, there is therefore much to gain by strengthening rather than bashing the G-20 process that has gained force since the Great Financial Crash of 2008. Every one of the G-20 countries must upgrade institutions inherited from the 20th century to meet 21st-century challenges. The G-20 at this point is a motley group of imperfect political systems, none of which functions all that well. Every one of the G-20 can do with more than a little peer review. This is a case where there really could be wisdom in crowds.

The United States certainly should be taken to task for a political system that has fallen prey to short-sightedness and the excessive sway of lobbyists. Yet in Europe, too, banking lobbies have had their play with the politicians and need to be controlled.

China understandably worries about a collapse of the dollar and the losses this would entail on China’s $2 trillion of foreign-exchange reserves, but China and its neighbors also need to fix Asia’s exchange-rate system to solve long-term currency problems.

And no country or region has been a saint on energy and climate issues. While the United States has been the most negligent, all of the G-20 have tried to hide behind the inactions of others.

In sum, a healthy dose of group problem solving is long overdue.

What should be the G-20 outcome today?

The financial sector should be reined in, with banking bonuses capped and derivatives such as credit default swaps strictly regulated. The United States should signal a future path of reduced budget deficits through a judicious balance of spending limits and tax increases. Asian economic growth should be spurred at home through heavy spending on infrastructure, pollution control and clean-energy systems. The dollar should be encouraged to weaken relative to the Euro and the Asian currencies to cut the huge U.S. trade imbalances and restore jobs in the industrial heartland. And the G-20 should recognize that increased financial support and cooperation with the G-172 (the 172 mostly poorer U.N. members not in the G-20) is in the vital interest of the entire world, rich and poor alike.

We of course won’t complete this kind of sweeping readjustment today. Each of the G-20 political systems will continue to lurch under the burdens of domestic interests. The G-20 summit will pass and we in the United States will quickly be back to our divisive debates over health care, energy, taxes and the role of the military.

Yet the G-20 will have served to open a better view of global reality for an America which needs to realize it counts for only 5 percent of the world population, which is increasingly indebted to foreign nations and which has a Congress that turns dangerously inward under economic stress. We should work to strengthen the G-20. The whole world will reap vast benefits if collective global actions pierce through the stifling burdens of powerful vested interests within each of the countries.

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