A monetary regime for a multipolar world

Robert Zoellick

New agreements may be in short supply when finance ministers of the Group of 20 leading economies meet this weekend in Paris. But their efforts to address the weaknesses of the international monetary system deserve close attention. The international economy is shifting to a new multipolarity. About half of global growth is now from developing economies and this will transform power relations. The US dollar will remain the predominant reserve currency, but over time the world economy will need to manage a system of multiple major currencies. We need to modernise multilateralism to steer towards a new monetary system.

Money is power. Shifts in monetary regimes have signalled the rise of new political orders. It is not accidental that kings stamped their faces on coins. But when change is about co-ordination, not domination, sovereigns need incentives to avoid a slow degradation of the old order. A new framework can offer just such incentives to encourage old and new actors in the global economy: the Group of Seven developed economies; the leading emerging market economies; the International Monetary Fund; the World Bank; and the World Trade Organisation.

The developed economies of the G7 have an interest in establishing an important norm: to maintain flexible exchange rates, without intervention, unless the group agrees special circumstances warrant action. Over past years, with a few exceptions, this policy has been an unwritten norm. Now the G7 should issue a statement to reflect this agreement and set a standard for others.

Most big emerging markets have been moving towards flexible exchange rates and autonomous monetary policies, enabling them to operate more independently, focusing on sound domestic economic policies and eschewing "beggar thy neighbour" tactics. But a number have struggled with "hot money" flows. The G20 should support them by backing efforts of the IMF and World Bank to suggest "good practices" that enable developing countries to manage these problems while remaining open to investment. For example, Chile used transparent mechanisms in the 1990s that relied on price signals. The World Bank is also assisting in the development of domestic currency bond markets, which help emerging markets manage currency risks and capital flow volatility. Over time, most large emerging economies should move to the G7 norm; smaller economies may need to retain flexibility, but this could be accommodated, perhaps by a code of conduct.

The economies whose currencies constitute the reserve asset known

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as special drawing rights – the US, the eurozone, Japan and Britain – should meet in an SDR forum with the IMF to review monetary and currency issues. This group should offer China the incentive to join the forum and eventually the SDR after it takes steps to internationalise the renminbi and moves towards an open capital account.

China has recognised the need for this transition, and it has accepted that membership in multilateral bodies requires shared rules and obligations. This forum could stimulate an internal debate about preparations for renminbi internationalisation, just as China's accession to the WTO prompted domestic reforms.

Over time, other major internationalised currencies could be added to the SDR basket and forum. Leading powers are not going to accept the SDR as a new global reserve currency, nor the IMF as a global central bank. But the guardians of the principal reserve currencies need to co-operate to support a healthy global economy – or at least manage differences.

Within this new framework, the IMF should be a referee, able to blow the whistle on the appropriateness of external policies but not to impose penalties. The IMF should be directed to sharpen the multilateral review of "capital account" policies, as part of the G20's new mutual assessment process (MAP). This review should compare national policies with international information indicators, including commodity prices such as gold. The IMF's involvement, with its 187 shareholders, offers the G20 the incentive of greater legitimacy and the support of an institution with financial resources.

Finally, the G20 should urge the IMF and WTO to consider the implications of the WTO's GATT Article 15, which in effect suggests that economies should not use exchange rate policies to take away the benefits of lower trade barriers. Its use would require a determination by the IMF. Though this article has never been invoked and there are ambiguities about its exact use, the G20 should at least consider it as a possible incentive or disincentive.

A framework to manage a monetary system in transition may be less headline-grabbing than sudden regime change, but it is a lot more realistic. Modernising the management of international monetary affairs could prove an important contribution to future growth. The time of powerful kings is long gone. But today's leaders still have the chance to stamp their mark on the monetary framework of tomorrow.

The writer is president of the World Bank Group

Time to speak to a bigger audience

Philip Stephens

The notes and coin of western influence in the Middle East have been bribery and coercion. As the region wakes up to democracy, the west needs another currency. Autocrats can be bought and bullied. Peoples must be persuaded.

Caught unawares by the uprisings, Barack Obama's administration will be pondering how to draw the contours of the post-revolution settlement in Egypt. One immediate impulse will be an effort to load the democratic dice against the Islamist Muslim Brotherhood.

In the short term, US influence may be considerable. At this month's Munich Security Conference, the word among diplomats was that Robert Gates, US defence secretary, had been in daily contact with Mohamed Hussein Tantawi, the head of Egypt's military council. The Egyptian armed forces, reliant on US funding and equipment, seem unlikely to rebuff a generous patron.

The US president, however, should resist the temptation of those saying that now that Hosni Mubarak has gone, his country should return to realpolitik as usual. It is not for Washington, or anyone else, to map a path to an "acceptable" outcome.

One of the more obvious lessons of the toppling of Mr Mubarak's regime was that the revolution belongs to Egyptians. The experts who assured Mr Obama that the Egyptian president would weather the storm misread events because they saw the world as it used to be. Deals with generals are yesterday's story. The west now has a bigger audience.

The spread of popular unrest to Bahrain, Libya and Iran carries the same message. There are big differences between each case. While the US and Europe happily cheer those on the streets of Tehran protesting against the ayatollahs, they are less comfortable about the demonstrations of their Shia cousins in Bahrain. What unites the protests, though, is a demand for human dignity well beyond the control of outsiders.

A good starting point for Mr Obama would be recognition that the US can continue to exercise influence only in so far as it accepts it can no longer impose its will. Some of the choices made in Egypt, Tunisia and elsewhere will be unpalatable to Washington. Tough. Mr Obama should offer the pro-democratic forces help that cannot be mistaken for interference.

This means addressing directly a generation of young Arabs – and Iranians – who want to shape their own destiny. The ancient regime rested on bargains with leaders. In future, Washington's ability to make itself heard will depend on what it says to civil society in the region.

After initial hesitation, Mr Obama has seemed to understand this better than some of America's old foreign policy hands. The US has begun to sound as if it means it when it says it on the side of freedom. European leaders have been slower to respond, though Catherine Ashton, the European Union's foreign policy chief, has rightly

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emphasised the limits on western influence.

Making the transition from a world of striking deals with autocrats to the much more complex business of building relationships with Arab electorates will be a wrenching business – not least because the unavoidable space between authoritarian and democratic rule could yet be filled with chaos.

Advisers will be cautioning Mr Obama against destabilising other friendly regimes in the region – think of the future of the US Fifth Fleet in Bahrain. The president's first duty, you can hear them saying, is to restore American "leadership" in the region.

This role has rested hitherto on partnership with Israel and strong alliances with the leaders of Egypt and Saudi Arabia. The two leaders most vocal in urging Mr Obama to keep faith with Mr Mubarak were Israel's Benjamin Netanyahu and Saudi Arabia's King Abdullah.

Israel sees itself as a beacon of liberal democracy in a region of tyrannies. Yet its security strategy has long been built on deals with authoritarian neighbours.

Mr Mubarak's departure has removed an essential pillar of this arrangement. Whatever happens next, it is hard to imagine anything similar being put together again. In different ways, and for different reasons, Israel and Saudi Arabia remain vital allies of the US. But the nature of these interlocking relationships cannot but change.

For Mr Obama, winning respect among the rising generation of Arabs may not be quite as hard as it looks. One of the striking things about the uprisings is the absence of anti-Americanism. The crowds in Tahrir Square could have raged against the US for propping up Mr Mubarak. They chose not to.

The first revolutions have come in those countries that have been most open to US and European cultural influences – and those most adept at channelling western technology to the pursuit of freedom. Sure, there have been Islamists in the crowds, but efforts to draw comparisons with the 1979 Iranian revolution have failed the test of reality.

The issue that cannot be avoided in any new discourse, however, is statehood for Palestinians. It goes without saying that the west will not (and should not) dilute its security guarantees to Israel. But it can take a more even-handed approach to the terms of an eventual settlement.

Unsurprisingly, Mr Netanyahu has responded to events by saying how much harder they will make the search for peace. But he has long shown his disdain for serious negotiations by prioritising the expansion of Israeli settlements in Jerusalem and the West Bank.

This should not prevent the US and Europe from setting out more clearly at the UN the familiar parameters of a two-state solution: borders based on 1967 with agreed adjustments, unequivocal guarantees of Israel's security, a shared capital of Jerusalem and compromise over the Palestinians' right of return.

The dangerous illusion of stability in the Middle East is giving way to the messy beginnings of democracy. Only a fool would say the transition will be easy or without considerable risk. All the more reason for the west to abandon the failed foreign policy of double standards. It might then have the chance to forge a better relationship with the new Middle East than with the old.

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Private recovery is the only potion for growth

Vince Cable

Critics of the UK government calling for new growth strategies miss the point. Growth is not something concocted by the state, like a health potion at the chemist. Our job is important but modest: to create an environment for business to expand, invest and innovate; reviving what John Maynard Keynes called "animal spirits".

Some commentaries assume that achieving financial stability through fiscal discipline is a simple problem. It is not, but tackling it in an orderly way is far better than being dragged kicking and screaming by the bond markets, like some of our European neighbours. Even the critique by Richard Lambert, departing head of the Confederation of British Industry, starts with a strong statement of business support for our deficit reduction commitment (and criticism of our predecessors).

Beyond this, growth must be driven by private investment, not government or private consumption. It must also be led by traded activities, notably manufacturing. Again this is not easy, though data suggest the picture is improving, in significant part due to rebalancing through devaluation. The last government only paid lip-service to this model. An asset boom delivered seemingly endless consumption-based growth, but did not make Britain a great place for business. The strong exchange rate suited the City of London, but not manufacturers. When they turned to this issue, after the recession wrecked their model, it was too late.

We are determined to do better. Part of our growth strategy is to get out of the way of private sector recovery. Both parties in the coalition are committed to a liberal economic policy. The agenda I set out six years ago in the Orange Book, a Liberal Democrat pamphlet, still applies: deregulation; competition; free trade; and inward investment. We are putting flesh on these bones: reducing the regulatory burden caused by the industrial tribunal system; implementing "one in one out" rules; opening up public procurement; private sector disciplines for Royal Mail; and a more liberal single market.

This is not "laisser-faire"; our approach is pragmatic, not ideological. There are market failures to correct and public goods in which state investment is vital. Skills are one. Britain has a skills deficit including a shortage of engineers. We are investing in apprenticeships and an increase is taking place, with more to come. Higher education reforms will sharpen the incentives to promote marketable skills.

A second area for intervention is science and technology. Governments will not produce the next Google or Microsoft but can help promote the foundation technology. The science budget has been shielded from cuts, while we are now deciding how best to cultivate next-generation technologies through innovation centres that link theory to commercial application.

Market failures also exist in the markets for energy, telecoms, transport and waste infrastructure. They will not be closed until a clear regulatory framework draws in large-scale, long-term investors; hence our reviews of electricity markets and high-speed rail. Even then there are high risk projects – such as renewables – that the market will not undertake without support, hence our Green Investment Bank.

Growth also cannot succeed with a broken banking system. The big issues presented by this industry are being addressed by Sir John Vickers' banking commission. Lending commitments from the major banks will also counter risks of growth being undermined by costly, limited bank finance for smaller businesses.

Lastly, the market in land is dysfunctional, distorted by a slow, prescriptive planning regime and by speculative hoarding. Development, and in particular badly needed construction, is paralysed, often in parts of the UK that need it most. That is why we are bent on planning reform, examining innovative ideas such as land auctions.

The problems we have inherited are massive. There is no quick or easy way out of the mess. But in eight months we have averted disaster and created a platform for private sector recovery: a serious achievement.

The writer is the UK secretary of state for business

ft.com/comment 'This is self-inflicted and due to Budget-balancing obsessions' Samuel Brittan on alternatives to the UK's fiscal squeeze

To end the food crisis, the G20 must keep a promise

Jeffrey Sachs

Soaring commodities prices once again haunt the world economy. The global recovery has seen prices surge. Many commodities are near or above their 2008 peaks. Maize is at an astounding $290 per tonne, and oil is back above $100 a barrel. Soaring food and energy prices now pose severe economic, political, and social risks in developing countries.

Finance ministers from the Group of 20 leading economies meet in Paris today to discuss the food crisis against a backdrop of rising hunger and political instability in food-scarce countries in Africa, the Middle East and beyond. President Nicolas Sarkozy has put food security among the top objectives of France's G20 leadership, but the G20 has yet to adopt a convincing line of attack.

Global food supplies are being stretched by increased growth. China's economy is roughly 20 times larger than at the start of market reforms in 1978; India's is roughly four times larger than in 1991, when its reforms began. The world's resource demands are soaring and will soon outstrip capacity without a shift to sustainable technologies and decisive action to stabilise population. Human-induced climate change is making things worse: heatwaves in Russia and Ukraine this summer sharply cut grain production, while northern China is facing a potentially massive 2011 drought, which could severely aggravate the global grain shortfalls.

The first and easiest step to counter these problems would be to end the US Federal Reserve's policy of quantitative easing. This might seem peripheral, but the Fed is pouring oil on the commodity fire,

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ignoring commodity and asset price signals, and risking another boom-bust cycle.

More fundamentally, the G20 must promote increased food production, especially in the poor and food-deficit regions. Africa should be top of the list. Much of the continent is on the edge of extreme hunger, but it also happens to be amenable to a significant rise in food production. The yield of 1.1 tons per hectare in tropical Africa is less than a third of the yields achieved in Asia or Latin America. Part of this "yield gap" is made up by about 25m tons of cereal imports. The rest of the gap, alas, is felt in chronic hunger.

Leading agronomists have been saying for years that tropical Africa can produce vastly more food; enough to end food insecurity and import dependence. The agronomic path to doubling cereal production is also clear: modest government help to smallholders would provide improved seeds, fertiliser and small-scale water management. Farmers could double, even quadruple, food production. African governments have prepared plans to do this and won promises of support from the group of eight leading economies at the 2009 L'Aquila summit.

The real remaining barrier is financing: impoverished smallholders lack creditworthiness to get market loans. Simple government programmes, for example, vouchers to provide farmers with subsidies, could enable a boom in production. Malawi, for instance, quickly doubled its national food production using such an approach. Others are desperate to do the same, and are appealing for the promised G8 help.

At their meeting, the G20 finance ministers can still choose to strike a blow for food price stabilisation and poverty alleviation if they follow up on the L'Aquila promises. In 2009, they pledged $22bn over three years, including a special fund at the World Bank, called the Global Agriculture and Food Security Program, to administer much of the money. That fund has received a pitiful $350m.

It seems likely the G8 promise was a mirage. President Barack Obama will struggle to deliver a single dollar through the recklessly insular Republican-dominated House of Representatives. France, the G20 leader, has cut back on its own aid promises. Italy, host to the L'Aquila summit, is in a vertiginous political crisis. But there is hope. China, in particular, has reason to lead. It has nearly $3,000bn of foreign reserves, a huge current account surplus and the growing likelihood of having to increase food imports. The Middle East, too, has a vital stake in bolstering Africa's capacity to feed itself. So while Paris will host today's meeting, eyes will be looking eastward in hope of bold leadership. For the sake of the world's poorest people, let us hope they find it.

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