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INTERNATIONAL POLICY ANALYSIS

Canadian Perspectives

on Global Economic Governance and the G20

- »We designated the G20 to be the premier forum for our international economic cooperation.«

  —G20 Leaders' Communiqué, September 2009

- »Minimally regulated free markets cannot and will not create prosperity for all. Armed with this knowledge, we can and indeed have begun to challenge those who will try to merely set the global economy back on its previous course and instead call for a fundamental change—an economy where social responsibility, transparency and accountability prevail and where people, their dignity and the common good matter the most.«

  —Tony Martin, Member of Parliament, Canada

- On the occasion of the fourth Group of 20 (G20) Summit in Toronto, June 2010, this volume brings together progressive perspectives from Canadian academia, policy circles, advocacy organizations, the media and parliament. The collected essays pose timely and important questions about the G20's commitments, its legitimacy, and its future.

Dialogue on Globalization

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Preface

In the fall of 2008, under the aegis of the first G20 Summit, national governments, central banks and international financial institutions organized themselves with unprecedented speed to rescue the global financial system. What began in 2008 as an *ad hoc* Leaders' meeting for crisis management has in the meantime established itself as a firm arrangement dedicated to making decisions about the coordination of the global economy. Since its first Summit, the G20—while remaining an informal body—has become regularized a meeting for Leaders. Bi-annual Summits now scheduled for June (Toronto) and November (Seoul) in 2010 are evidence of the need for global economic governance.

In its Leaders' communiqué from September 2009[1], the G20 pledged to end a recent era of financial »irresponsibility« by moving to adopt policies necessary »for strong, sustained and balanced growth« as well as to »help people cope with the consequences of this crisis.« In advance of the June 2010 Toronto Summit, Canadian Prime Minister Stephen Harper highlighted four areas to move the G20's agenda forward: global economy, climate change, development and democratic governance. The self-appointed and non-representative G20—which, in its own September 2009 communiqué declared, »We designated the G20 to be the premier forum for our international economic cooperation«—begs the question of its accountability, and in light of Prime Minister Harper's recent, controversial prorogations of Parliament, many in opposition parties, in the press, and elsewhere in civil society question Canada's ability to lead the G20 toward greater democratic accountability.

With interlinked climate, energy and economic crises still threatening the »foundation for strong, sustained and balanced growth,« it is imperative that G20 pledges be directed not only at regulating the international financial system, but also at reforming the institutions that comprise and administer it, including the G20 itself.

I would like to thank the editor, Sara Burke, Policy Analyst in the FES New York Office, for working with this diverse group of authors from Canadian academia, policy circles, NGOs, media and elected representatives to open a window onto Canadian perspectives on global economic governance and the role of the G20.

—***Werner Puschra***, *Director*
Friedrich-Ebert-Stiftung, New York Office

1. »Leaders' Statement: The Pittsburgh Summit« http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf

On Political Will

An Introduction by M.P. Tony Martin

I remember growing up in Wawa, a small working-class town in Northern Ontario in the 1960s, when 1,200 people mined ore and shipped it to nearby Sault Ste. Marie. There, 12,000 people turned it into steel. That steel was then transported to every corner of the country, where hundreds of thousands of workers used it to manufacture ships, cars, buses and airplanes. This created jobs that were for the most part unionized and well paid with benefits and pensions.

The Canadian government, with the support of these workers, their families and neighbors, chose to bring in universal healthcare, unemployment insurance and the Canadian Pension Plan. Doing so benefitted Canadians and helped create a competitive advantage for our locally owned and controlled industries, as trade became increasingly global. Ultimately, these programs became part of our social and economic fabric, and people around the world admired us for what we were able to accomplish together. We did that then because we believed in the ability of a socially responsible government to use a very generous tax base to provide supports and services for all Canadians.

Over the decades I have seen our values and assumptions shift, not only in Canada, but in many parts of the world. A majority has come to believe almost religiously that government should play a lesser role in providing these programs to people. Instead they believe that the invisible hand of the market should determine what is best for everyone and »who gets what, if anything«. We chose to deregulate our industries and financial sector, reduced our tax base and then assumed that the country and its people would somehow be better served by this market-based distribution of social goods. We know now that this is exactly the recipe that triggered the economic crisis we experienced last year and the very difficult challenges we continue to face today with regard to the economy, the environment and governance.

The current socio-economic crisis is a wakeup call. It has produced a widespread questioning of this approach to the economy, our communities and their citizens. Minimally regulated free markets cannot and will not create prosperity for all. Armed with this knowledge, we can and indeed have begun to challenge those who will try to merely set the global economy back on its previous course and instead call for a fundamental change—an economy where social responsibility, transparency and accountability prevail and where people, their dignity and the common good matter the most.

While there is no shortage of good arguments that make this case, the difficult but worthy challenge is in creating the political will to carry the agenda forward. In Canada, as elsewhere, most politicians are not persuaded by good arguments, but rather the force behind those arguments (i.e. public backing). American activist Jim Wallis (Sojourners, The Great Awakening) has made this point poignantly by calling to mind a Martin Luther King story that recounts the three different types of politicians. The first politician will always do the right thing. The second will make similar choices as the first if presented with logical arguments. However, our problem lies in the third type, the overwhelming majority who stick a wet finger in the air and follow whichever direction the wind is blowing. We can see that the direction of the wind has shifted since I was growing up, blowing now in favour of an unregulated, free market, capitalist system where corporate interest fed by greed reigns supreme.

What we must do now is focus our energy on changing that wind, to continue to build and mobilize a broad-based movement that will recast the context in which political decisions are made. To accomplish this, we need to engage everyone, but particularly our youth, in a dialogue about the choices we can make both individually and as a collective, and how these choices can either help or hinder the creation of a more peaceful, equal and just global society.

The beginnings of this movement already exist. We are facing a window of opportunity. The wind has already begun to change, and the task is to help build solidarity among those questioning the logic of Wall Street and Bay Street and the years of neoliberal privations so that their political will can take a stronger form. I see the wind change within student and labour unions, in some faith communities and feminist circles, as they champion the causes of peace, the environment and poverty. It is essential that we build upon these budding movements and bridge connections among them.

Progressive Parliamentarians working with these movements will have to provide leadership by creating the space for people to tell their stories and make connections to the broader national and global struggle. We must help people see that their personal stories are inherently political in nature and that democracy can be an empowering tool for change. The Obama campaign inspired a broad movement for change that carried him to the Presidency. Now is the time to help deepen that broad movement internationally among those gathered for both the alternative and the G20 »summits« in Toronto this June.

This is a pivotal moment in history, a moment where we question the core assumptions and values that have driven our global economy into a crisis and in the process demand something better. Many have already changed their attitudes. It is necessary now to bolster and build upon this new outlook. We do not have to continue to be driven by an ethos of greed and fear. We can choose to focus on the common good by making sure that everybody has enough, and no one is left behind. We begin by changing the wind.

The G20 Agenda: Significant Challenges Lie Ahead[2]

by Wendy Dobson

A year ago the world economy teetered on the brink of depression. Much has been accomplished since then. The prospect of looming catastrophe focused leaders' minds bringing about unprecedented cooperation among governments of the world's largest economies. Large fiscal and monetary stimulus packages greatly improved the growth outlook for 2010. But signficant challenges still lie ahead. Clearer evidence is needed that the largest economies have returned to self-sustaining growth paths. Beyond that, the composition of global growth needs to be changed.

Every crisis opens windows of opportunity for reforms and this one was no exception. The G20 systemically sig-

2. In its original form, this paper was presented to The Canada-Korea G20 Seminar, March 17 2010, organized by the Norman Paterson School of International Affairs, Carleton University, Ottawa and the Graduate School of International Studies, Seoul National University.

nificant economies elevated cooperation to the highest political levels. Leaders focused on goals and objectives while charging the international economic institutions with implementation—and reforming them where necessary. Now that leaders' focus is shifting to sustaining growth and changing its composition a wider range of domestic policies will come under the microscope. The Mutual Assessment (MA) process, with technical support from the international institutions, will examine the global consequences of countries' domestic policies and identify opportunities for government to do things differently or do different things to contribute to a positive global outcome. The process could be seen to infringe national sovereignty—a very sensitive issue in some of the largest countries. Thus, as the Chairs of the process Canada and the Republic of Korea will face big challenges to ensure that the global public interest is reconciled with national interests.

To put this concern in context, it is useful to recall a basic principle of policy cooperation: prescribed policy changes should be ones that are both a country's best interest as well as the global interest. And there are precedents: I think particularly of trade policy where, although the record is somewhat untarnished, governments have applied the lessons of 1930s beggar-thy-neighbor policies and protectionism has been quite muted to date. Unfortunately this good performance is offset by the failure of will to complete the Doha Round and achieve a meaningful outcome at Copenhagen. Governments were unable or unwilling to reconcile the global interest with those of special interests.

Progress Under The Framework For Strong, Sustainable And Balanced Growth

There is no reason to relax as we look ahead to 2010 and 2011. Growth is being restored but on a multi-speed basis with China and India leading the world predicting 7-10 per cent growth rates, while the US rebound is more modest and Japan and Europe are lagging behind with more sluggish growth and continuing uncertainty.

National governments and central banks are turning their minds towards macroeconomic exit strategies. Before implementing these strategies they are looking for evidence that the private sector business cycle is beginning to turn as businesses restock inventories, stop firing and begin hiring; that labor market expansion is supporting household income growth and consumer spending which in turn will encourage businesses to resume investing. To reach that stage, financial institutions must be willing to resume lending. If stimulus is withdrawn before organic private sector growth has gained this momentum these economies could enter a renewed slump. Exit too late, however, and precious resources are wasted and the seeds of future inflation sown.

As long as final demand growth remains slow in the advanced economies the authorities are likely to err on the side of caution. A related concern is that many of the large countries have little room left for further fiscal stimulus because of high levels of indebtedness: the Organization for Economic Co-operation and Development (OECD) estimates, for example, that debt in the advanced economies will be well over 100 per cent of GDP in 2014. Interest rates are at historic lows in countries with large credit bubbles and central bank balance sheets are in uncharted territory. With little room to maneuver in the face of still-high unemployment, we cannot be complacent about the threat of protectionist policies or political pressures to turn back globalization.

A troublesome aspect of the recovery is the uncertainty around financial sector reforms, in part because of pushback from powerful vested interests. Support for the financial sector needs to be unwound; banks' bad assets tackled and banks restructured if necessary; incentives are needed to make support less attractive; risks of future instability must be reduced and ways found to tackle future financial crises without taxpayer support. Acquired assets also need to be sold, recovering as much as possible for the taxpayer.

Exit must be well-timed but that is no reason not to prepare medium-term strategies of fiscal consolidation and monetary exit. Both need to be signaled well in advance to condition expectations. It also needs to be stated that monetary policy should not be enlisted to reduce the real burden of public indebtedness. Coherence and coordination among countries is also required. China and India are already well advanced with their own articulated strategies while the EU Stability and Growth Pact's rules are forcing fiscal consolidation on a European schedule. The United States does not yet have a medium-term framework that restores public debt to sustainable levels, a topic to which I return.

Most advanced economies should aim to remove fiscal stimulus AND substantially improve primary balances in anticipation of long-term demographic shifts (which implies both tax reforms and changes to entitlement spending) while in China more social spending is needed.

A related principle is that governments should not just tighten fiscal policy but shift public spending in the direction of investments that foster future growth, such as education, green infrastructure, upgrading physical infrastructure and reducing distortionary taxes. This link between exit and rebalancing is crucial.

The Central Challenge In 2010: Addressing Unsustainable Global Imbalances

Central G20 goals are to restore global demand and change its composition. Countries' reliance on external and domestic demand must be rebalanced. The April 2010 International Monetary Fund (IMF) *World Economic Outlook* shows world trade volumes bouncing back at a 7 per cent rate in 2010 with emerging market economies' exports and imports rising at more than 8 per cent rates in 2010 and 2011. This could mean that too many governments are relying too heavily on exports to restore growth momentum.

The underlying issue therefore is to encourage reliance on domestic demand in current account surplus countries—and on more currency flexibility—and more reliance on exports in current account deficit countries.

Rebalancing will be both a technical challenge and the G20's biggest political challenge. Take the United States. Whatever are the US decisions on exit the US lacks a medium-term fiscal consolidation plan. It is apparent from the administration's optimistic 2011 Budget assumptions that the deficit-to-GDP ratio will near 11 per cent in 2010 (down from 13 per cent in 2009) and decline to not more than 4 per cent between 2015 and 2020 (whereas 2-3 per cent is considered to be sustainable). Private sector assumptions show the deficit remaining above 5 per cent of GDP in the next decade. These numbers are not sustainable. The gross debt/GDP in 2014 will be 108 per cent of GDP by IMF projections while the administration estimates net federal debt in public hands will be 71 per cent of GDP in 2012 and rise to close to 80 per cent by 2020.

The measures proposed by the administration in the 2011 budget amount mostly to expenditure compression. One has to conclude that Americans are asking for more government services and transfers than they are willing to pay for. Despite simmering populist anger about »big government,« a sustainable fiscal position in the long term requires revenue raising and ideally tax reform, to shift the burden of taxes away from income and property towards consumption. Since no politician will be willing in the current polarized atmosphere to advocate revenue raising measures, the bipartisan congressional commission, with all expenditure and revenue items on the table, is a logical means to break through these attitudes of denial. Or a bond market revolt will force change.

China, the main actor on the other side of external imbalances, faces a structural policy challenge. In the short term the central question is whether China's economic structure will have begun to change with its massive stimulus program shifting reliance more toward consumption and away from investment as the main growth driver. For the longer term the Chinese leadership is clear about relying more on domestic demand but related changes in institutions and incentives will take time to bring it about. To change the incentives for household saving public spending on education, health care and pensions was increased three-fold between 2002 and 2008. A number of other changes are also under discussion or in train.

Yet many outsiders focus on exchange rate appreciation as China's »silver bullet.« Allow exchange rate appreciation and China's economy will rebalance. This assertion is conceptually correct since a flexible exchange rate in a surplus country should appreciate thereby encouraging imports and discouraging exports. But China manages its exchange rate, as do some other East Asian countries. So of all the changes China recognizes it must make, perhaps exchange appreciation is the most politically difficult because of powerful entrenched interests and uncertainties about the size and distribution of job losses as expenditure switching occurs.

What we should be encouraging, and what is in China's interest as well, is a package of domestic reforms that will rebalance external and internal demand and shift growth to be less capital-intensive and less polluting and raise household incomes. These shifts are possible by both households and industry if incentives change. Household incomes can be raised by creating more labor-intensive jobs in the services sector and by shifting industrial production towards higher-productivity knowledge-based production. This means deregulating services and raising productivity by raising educational attainment in the work force. One of my colleagues who has an ongoing survey of hundreds of nonstate Chinese firms observes how many of them are looking for workers with more than the compulsory nine years of basic education. Household savers should also earn more from their savings, which means interest rates should be deregulated—but first China's banking system needs deposit insurance. In industry the shift away from capital-intensive production can be accomplished in several ways: by requiring state owned enterprises to pay larger dividends to their government owners; by raising energy, land, environmental and capital costs—each of which is either subsidized either directly or indirectly by lax enforcement of existing regulations. And it requires exchange rate appreciation.

A number of these measures are also desirable in other East Asian countries which depend on export-led growth. To reduce export reliance resources will have to be shifted to nontradables like services and infrastructure. Thus, developing a package of common measures that are desirable changes in themselves but also contribute to global rebalancing makes the most sense for the G20.

Such rebalancing is manageable as demonstrated by the study *Inclusive, Balanced, Sustained Growth in the Asia-Pacific*, sponsored by the Pacific Economic Cooperation Council in Singapore and carried out by a trans-Pacific team in which I participated.[3] We looked at pre-crisis expenditure patterns in the Asia-Pacific economies in 2007 and estimated what size and distribution of expenditure changes would be required to reduce the US current account deficit to 3 per cent of GDP. The size of the decline would be $304 billion. We then allocated this amount across those economies with current account (CA) surpluses, in proportion to the share of each in total surpluses. The implication is that China would absorb a third of the reduction, reducing its CA surplus by $102 billion (this arbitrary calculation could but does not include Japan and Middle East in the absorption).

Next, we allocated the reduction across expenditure categories within countries, assuming that they will fall on consumption in the US and China (because consumption is too high and too low, respectively, and needs to change) and on investment in Southeast Asia (where investment is considered to be too low). Thus 60 per cent of the adjustment is allocated to US and Chinese consumption, respectively; another 20 per cent is allocated to Southeast Asian investment, with the residual 20 per cent allocated to other expenditure categories.

The resulting expenditure changes are quite interesting. In China the recalculation brings consumption 5 per cent above actual 2007 levels, a credible estimate since it is about what would happen during 8 months of growth, or if Chinese consumption growth were to exceed GDP growth by slightly less than 2 per cent a year for 3 years. The demand effects in the United States would be smaller: around 2 per cent reductions in consumption, investment and government spending. In Southeast Asia and South America similar per centage changes would occur in investment and government expenditures.

We then calculated trade adjustments by allocating them 50:50 between exports and imports. Such a change would lead to a 5 per cent change in US trade (with exports rising more than imports fall) and around 2-4 per cent changes in trade (ie, with exports falling and imports rising) in other regions.

This static exercise suggests that rebalancing—even on a magnitude of $300 billion—is possible. The absolute number is much smaller when viewed in the context of the $28.8 trillion Asia-Pacific economy. Indeed, such adjustment would be less damaging than market-driven changes in recent years—even if politically difficult.

G20 Mutual Assessment And Rebalancing

Politics is where the G20 comes in. The G20 will have to find ways to encourage this rebalancing and it should be linked to countries' exit strategies. The IMF scenarios exercise planned for the lead-up to the Toronto meeting will be based on countries' own forecasts and adjustment packages. Its value lies in highlighting both the possibilities, as we have just seen, and the global consequences of inconsistencies among these policies. The other focus of the exercise should be to link exit strategies to rebalancing by shifting public spending in the direction of investments that foster future growth.

Rebalancing is manageable but that does not mean it will happen. International and domestic political considerations are quite likely to intervene and so we must

3. The full citation for this study is *Inclusive, balanced, sustained growth in the Asia-Pacific*, 2010, Petri, Peter, Ed., forthcoming from the Institute of Southeast Asian Studies (ISEAS) in Singapore

consider alternative tactical approaches to ensure forward momentum. The first alternative and the most desirable would be for the largest countries to provide leadership by example. If the United States had a credible medium-term fiscal consolidation strategy it would be the natural leader of the Mutual Assessment process. But how likely is this to happen at this stage of the US electoral cycle—unless there were a renewed crisis triggered by a bond market revolt?

A second alternative is for key trading partners or neighbors to use quiet diplomacy with both the United States and China. Pressures on China to adjust its exchange rate regime have most usefully come from other developing countries like Brazil, India and others which face rising competitive pressures from China in their export markets.

The third alternative is for a group of like-minded countries, possibly led by Canada and South Korea, to lead by example. The most credible members of the group would be other East Asian current account surplus countries which come up with their own strategies to reduce dependence on exports and which pressure each other by example. South Korea's President, Lee Myung-bak, has foreseen such a role and has expressed his government's determination to provide an example. Fiscal stimulus is front loaded and is focused on human capital investments in health care and social welfare spending and on technology and productivity, particularly a »Green Korea« strategy of investing in energy conservation, clean energy R&D and energy efficient vehicles and transportation systems. Other East Asians are looking at measures to reduce export incentives, increase competition, deregulate services and encourage green and other needed infrastructure projects.

Conclusion

The challenges of putting the G20's Mutual Assessment process on a credible track are large and imply significant risks. One risk is that governments in key countries may be unable to muster the necessary political will to adopt the medium-term strategies required for rebalancing. It is not enough simply to craft exist strategies that restore organic growth. Indeed there are risks of renewed financial market volatility in the absence of medium-term plans.

The other risk is that leaders opt for quick fixes and so declare success at the June and November summits. The United States and China are at the centre of these issues. Each faces adjustments that are unquestionably in its own long term interests but which are politically difficult to execute because of the increasingly sensitive stages of the US electoral cycle and China's 2012 leadership succession. Policy and institutional changes in China are also politically connected with US policy change in an »after-you-Alphonse« fashion. In both cases outside pressure will have little impact and could even be counter-productive if publicly applied. Consequently, it will be tempting for each to tolerate higher inflation which effectively would erode China's exchange rate undervaluation and the real value of US indebtedness. But at what long term cost?

This is why I conclude that Canada will have the easy part in June when G20 members identify desirable policy changes. It is around the November meeting in South Korea that the G20 faces its most formidable challenge of demonstrating forward momentum in actual policy changes. The fact that the meeting takes place in South Korea may turn out to be fortuitous if President Lee is able, by example, to encourage change.

Beyond that, I conclude that we need to step back and ask ourselves if the necessary leadership and vision exists to support continued multilateralism. Do we have the leaders in countries and international institutions with the necessary ambition, credibility and power to persuade others to take the tough decisions that will get the shifting world economy back on track? We cannot afford more of the deadlock and inertia of Doha and Copenhagen or the G20 will lose its credibility and effectiveness as a more inclusive world economic forum. And the burdens of this global financial crisis on future generations will only grow.

The G8 is Dead! Long Live the G20?

by Fraser Reilly-King

The world has been battered by a series of interconnected and unrelenting crises—food, fuel, finance and climate. These crises have exposed deep-rooted fragilities and imbalances in the global financial system and the current structures of multilateral decision-making.

Today, to ensure a stable and sustainable global economy in the next decade of the 21st century, many civil society organizations (CSOs) are demanding more than half-hearted incremental reforms: they are insisting on farreaching changes that deal with the manifest shortcomings of the global economic system and its institutions.

Among the shortcomings, the global financial and economic crisis has demonstrated that as the world's economies become more integrated, there is a commensurate need for multilateral institutions to help govern the global economy and to assess and anticipate problems before they happen.

Since the mid 1970s, Ministers of Finance from the Group of Seven (G7) have played an active role in steering the global economy. But in past years, various entities have underscored the need for a new multilateral leaders' forum to help govern the global economy, highlighting the failings of existing structures. Today, in response to the global dimensions of the current crisis and the growing importance of a number of emerging economies, the G7 now plays second fiddle to the G20, which now meets at the level of Heads of State as the »premier forum for international economic cooperation«[4].

But what promise does the G20 hold for meeting the challenges of the next decade of the 21st century? Is the G20's current composition apt to, like its predecessor, freeze global governance in time, paralyzing the influence of tomorrow's global leaders? How can we keep that from happening, and ensure that the G20's meetings in Toronto and Seoul this year are a force for democratic and sustainable change in the way the world is run. This article looks at five key principles to help renew multilateralism and build a truly global leaders forum.[5]

The G8 Is Dead! Long Live The G20!

Many North and South have long been pronouncing the death of the G8. However, it wasn't until 2009 that these claims captured the public's attention and even the mainstream media began to carry obituaries noting the Group's demise.

While the G8 isn't quite dead yet, the G20's self appointment as the new kid in town has clearly precipitated a moment of self-reflection among G8 leaders about the continued utility and added value of this smaller forum. While Canadian Prime Minister Harper insists on keeping the G8 on life-support, French President Sarkozy, who takes the Chair of both the G8 and G20 in 2011, has ruminated (and since supposedly changed his mind) that the year 2010 will be the G8's last.

But regardless of whether it stays or goes, the G8 has begun to contextualize its relative importance *vis-à-vis* the global economy and consider the value added of its continued existence. At the G7 Finance Ministers' meeting in February 2010 in Iqaluit, Canadian Finance Minister Flaherty framed the meeting as an informal »fireside chat«, and Canada released a simple Chairman's summary of the meeting, instead of the standard communiqué. Meetings of G8 foreign, development and labour ministers rolled out in March and April (with notably no environment minister's meeting), but clearly it will not be too long until the G20 begins to address a broader set of issues than international economic co-operation. Climate financing has already crept onto the agenda. Clearly, we are in a key moment of transition.

But is the G8's new embodiment in the form of the G20 any better? Is it a reform moment, or the kind of transformative moment that CSOs are calling for?

The move towards a G20 is a small step forward. Compared to the G7, it has a greater number and diversity of members, representing 65 per cent of the world's population and 85 per cent of global gross national product. But the G20 still remains a self-selected body and has no mandate other than its own regarding the global economy—or any other issue. As a result, like its predecessor, its membership is more inclined to prioritize national self-interest ahead of the interests of others.

While promising to repair the global economy and build an inclusive and sustainable recovery, G20 leaders instead injected $1.1 trillion into the same institutions, particularly the International Monetary Fund, whose economic, finance and trade policies exacerbated the speed, scale and impact of the crisis. Reforms have been superficial, and any shifts to the current economic paradigm still seem temporary, rather than long term. In this context, the responses of the G20 to the crisis have been heavily criticized for failing to address the needs of those countries

4. »Leaders' Statement: The Pittsburgh Summit« http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf

5. These principles were developed in collaboration with Gauri Sreenivasan at the Canadian Council for International Co-operation, Elvira Kanichay, at BOND-UK, Soren Ambrose at Action Aid International and Lysa John with the Global Call to Action Against Poverty. They form the basis of an international civil society statement signed by 300 organizations available at http://halifaxinitiative.org/content/towards-a-global-leaders-forum

excluded from the table—namely low-income countries.

Towards A New, Truly Global, Leaders Forum

Against this backdrop, a number of civil society organizations internationally are calling for a new leaders' forum to help govern the global economy.

For such a forum to work effectively in form, and responsibly in function, it must respect democratic principles of inclusion, representation, transparency and accountability, and must provide avenues for hearing citizens' voices—issues with which the G20 itself is grappling. Such a forum needs to be flexible and manageable in terms of its size and membership, while also ensuring that political leadership can be brought to bear on global challenges. Its policies must promote the interests of the global community in general, while reflecting the diversity of countries in particular. Ultimately, building an international leaders' forum must also be done within the context of strengthening multilateralism more generally and the role of the United Nations (UN) in particular. The following are five principles that might help transition us towards a truly global leaders' forum:

1) *Inclusive of the world's poorest countries—Starting with the African Union.* The G20 is not inclusive of the needs or interests of the world's poorest countries. Indeed, the vast majority of the world's countries, which are disproportionately suffering from the impacts of the crisis, are not even at the table. All told, 173 countries with seats at the UN have no voice at the G20. There is not a single low-income or least developed country in the pack or a single fragile state.

Only one country is from sub-Saharan Africa (SSA)—South Africa. Yet South Africa cannot be expected to represent the interests of the entire region, as well as its own national interests. Nor can it speak effectively to the political and economic realities of SSA's diverse range of countries. Recovery for these countries will require distinct strategies reflecting their specific realities, which include high debt loads, a narrow range of exports, a weak industrial base, a large rural population, heavy disease burdens, great dependence on aid, and recurrent internal conflict.

As long as these countries are not at the table, the issues and solutions being discussed will likely fall short of their needs and lack credibility. Instead, the issues being addressed and the solutions being proposed will continue to reflect the interests of players at the table, but not of the broader global community. It is encouraging that Canada invited three low-income countries (LICs)—Ethiopia, Malawi and Vietnam—to be at the G20 table in June 2010, but such ad hoc measures do not guarantee the inclusion of LICs in the longer term. As a first step for 2010, the African Union (AU) must be included in G20 meetings—as a regular participant, not a periodic observer. Over time there must be further space for low-income countries to be at the table.

2) *Representative in composition.* A global leaders' forum may need to be limited in size, but to be legitimate and credible, it must also be representative. The G20 currently is not. While the European Union (EU) is a member of the G20, no other regional body—such as the AU, the Association of South East Asian Nations (ASEAN) or the Union of South American Nations (UNASUR)—is at the table.

Different regions must be engaged through a constituency system with decision-making by consensus, similar to the practices of other international institutions—with the important difference that countries should be free to choose their own groupings. The chair of each constituency should rotate on a periodic basis.

3) *Transparent and accountable*. In addition to the G20's lack of proper representation, the group lacks any mechanisms to ensure transparency and accountability. Ironically, just as the G8 made modest attempts to tackle transparency and accountability for decisions taken (through the 2008 G8 Accountability Framework), the locus of power has shifted to an institution that is even less transparent and accountable.

In the short term, the G20 needs to put in place measures to address these deficiencies by extending an Accountability Framework to all G20 commitments. G20 decision making should be broadly informed by ›expert groups‹, empowered to solicit and receive external reports and opinions from academics, non G20 governments, CSOs and others. The G20 should operate transparently by making meeting schedules, participants and expert lists, agenda and background documents for the G20 and expert groups publicly available on websites.

4) *Open to civil society.* Non-state actors are increasingly important players in international processes. Civil society critiques and proposals have positively affected govern-

ments' understanding of the issues, policy agendas and methods of work. However, CSOs, which since 2004 have been able to engage with the G8 through an (admittedly imperfect) civil G8 process, now have no opportunity for input into the G20. In the absence of any comparable frameworks for transparency, accountability and civil society engagement, the G20 risks sacrificing the small steps the G8 has made on these issues. Institutionalizing evolving best practices of the current ›Civil G8‹ dialogue within the G20, and encouraging the ›expert groups‹ described above to solicit and receive formal civil society submissions for G20 consideration would be an important step forward. G20 governments and parliaments should also explicitly commit to effective consultations with civil society ahead of, and between, summit meetings.

5) *Strengthen the role of the UN.* Democratizing the G20 is not the end goal. Ultimately transforming global governance must strengthen multilateralism more generally and the role of the UN in this system. While its detractors will point to the urgent need for reform within the UN itself, the role and place of the UN in the international system must be strengthened, not undermined, by any new global governing body. Not surprisingly, all the member states within the UN are fully cognizant of this issue. In March 2010, an informal network of 23 countries, organized under the banner of the Global Governance Group (3G), submitted a proposal to the UN Secretary General about how to strengthen G20 engagement of non-members. The proposal suggested establishing predictable and regular consultations with the broader membership prior to G20 meetings, and updates after the fact; formalizing the participation of the UN Secretary General at the G20; and including non-G20 members in discussions on specialized issues. They also called for formalizing the inclusion of regional bodies at the G20, as noted in principle 2 above. These are good first steps and lay the groundwork for transitioning the G20. In the medium term (for example, the next five years), the G20 should transition towards a global leaders' forum within the framework of the UN.

In 2009, the UN Commission of Experts on the International Monetary and Financial System, a panel of noted economists, former central bank governors and academics from around the world, chaired by Nobel Laureat Joseph Stiglitz, called for the establishment of a Global Economic Coordinating Council within the UN. Such a Council could meet annually at the Heads of State level to assess developments and provide leadership in economic, social and ecological issues, and would help secure consistency and coherence in the policy goals of all the major international organizations. This serves as a good model.

A more permanent council of 20 to 30 formal constituencies could ensure that all continents and all economies are properly represented. The members of regional multilateral bodies could nominate the spokesperson for each constituency, with the position rotating on a periodic basis. This would replace the ad hoc measures proposed above for greater regional representation, would help ensure the transparency and accountability of this new global governing body to the broader UN membership, and would guarantee greater external input given the UN's long history of engaging with civil society.

A representative and inclusive group of 20 to 30 countries is not a bad idea. But for such a group to be effective, it must avoid becoming an elite club of members focused only on promoting their self-interest—as is the case with the current G20. If it is to manage the global economy, it must be more inclusive and more representative of, and accountable to, the needs, interests and views of a diverse range of countries.

If leaders fail to make this shift, the world will lack the effective leadership forum it requires to deal with the present crisis and avert future ones.

A New Labour Market Model

by Andrew Jackson

The immediate causes of the global economic crisis lie in the deregulation of finance and speculative excesses, but it is also rooted in the deregulated or so-called flexible labour markets created by governments in thrall to the doctrines of the neoliberal economic model. Global economic governance must promote a different labour market model if we are to have a durable recovery.

Before the crisis, the share of profits in national income rose to record levels in most advanced industrial countries, as did the incomes of the top 1per cent of the workforce, while the wages of the great majority of working families in Canada and most other advanced industrial countries stagnated and ceased to rise in line with productivity. In the context of widespread wage repression, the growth of mass consumption, especially in the US, became dangerously dependent upon unsustainable asset bubbles (the high tech boom, housing) and a rapid and ultimately unsustainable growth of household debt. Perversely, capital flowed from the poor countries to the rich countries which most strongly embraced the neoliberal model (the US, the UK) as the huge trade surpluses which arose from the relocation of new productive investment to the developing world were re-cycled into purchases of developed world financial assets to keep the expansion going. Wages in developing countries rose, but but from very low levels, and not by enough to sustain growth led by domestic consumption as opposed to exports. Developed countries with large trade surpluses (Japan, Germany) also held down wages and domestic consumption to promote export competitiveness.

Liberalization of trade and investment flows has put severe downward pressures on the bargaining power of workers and of trade unions in traded sectors throughout the global economy, as have other key components of the neoliberal growth model such as privatization and deregulation of domestic markets and the deliberate »flexibilization« of the labour market to maintain low inflation. Trade union bargaining rights, minimum wages and labour standards and unemployment benefits have all been deliberately weakened. Private sector union density is in sharp decline almost everywhere in the advanced industrial world, and stands at very low levels in most rapidly industrializing developing countries. While labour rights and bargaining power are well entrenched in a few countries, the general trend is unmistakably clear.

Canada, the US and many other countries generally pursuing neoliberal policies, have now entered a period of high unemployment with many more insecurely employed workers than in previous recessions, with a weakened labour movement, and with a significantly reduced social safety net. The prospect is for the economic crisis to lead to a rapid increase in poverty and widespread economic insecurity and for workers to be forced into more intense competition for the jobs which continue to exist, putting much more downward pressures on wages and working conditions.

There are economic and not just social dangers ahead. If and when wages start to fall, a country and the world as a whole can enter a deflationary spiral as happened in the Great Depression of the 1930s. The spiral came to a definitive end only when the labour market found a floor. The rise of mass industrial unions and a vastly strengthened social safety net set the stage for post War prosperity. Ultimately, unions helped resolve the crisis and lay the groundwork for the post War boom by helping create a virtuous circle, ensuring that wages would rise in line with productivity growth, driving consumer spending, and thus supporting new rounds of productivity enhancing business and public investment (financed, it needs to be said, by a closely regulated financial sector.)

Unions and strong labour standards promote greater economic equality and fairness at work and also make labour markets work better from the point of economic growth and efficiency. High union density and bargaining power sustain effective demand at the macro-economic level and also raise productivity at the firm level. Good labour/management relations underpin high levels of workplace co-operation which is enormously important to productivity because production is always a social process and not just a technical process.

The challenge today is to ensure that we re-create across the global economy the conditions of regulated national labour markets which underpinned prosperity in the post War era. This is enormously difficult for two reasons. First, under current conditions of excessive productive capacity and intense competition based in significant part on wage repression, it is difficult for countries to promote higher labour rights and standards in isolation from one another. Second, any cooperative international impulse to raise the floor is made enormously difficult by the fact that key labour market institutions vary enormously by country, reflecting very different national trajectories and constellations of political forces. We need a new global labour market framework, but it will have to be woven from very disparate national strands.

The starting point has to be to make much more effective on the ground the core conventions and key labour standards developed by the International Labour Organization (ILO)[6]. These comprise something greater and more coherent than a lowest common denominator of actual national practices, and have practical relevance arising from the fact that the norms have been developed by a

6. The ILO Global Jobs Pact adopted in October, 2009, specifically the section »Strengthening Respect for International Labour Standards« provides a useful starting point for identifying the relevant ILO instruments. http://www.ilo.org/global/What_we_do/Officialmeetings/ilc/ILCSessions/98thSession/texts/lang—en/docName—WCMS_115076/index.htm

tripartite process assisted by experts. International labour standards create important floors, but are also drafted and applied to recognize very divergent national economic conditions. The key problems, of course, with ILO standards and conventions is that they are not of universal application (many countries have not ratified even the core conventions); and they are not effectively enforced. A good starting point would be to make much more effective the conventions on collective bargaining rights, on tripartism, and on minimum wages and employment standards to raise the floor of the global labour market. The ILO should, like the OECD and IMF, undertake a peer review process to determine if countries are in compliance with their obligations and to encourage wider recognition of standards.

A new moment of opportunity may have arisen. The G20 may not be the most legitimate international institution, but it is effective. It brings together almost all of the major economic powers across the developed/developing country divide. Co-ordination of macro-economic policy helped stop the Great Recession from turning into another Great Depression (at least for now.) The G20 may yet build some framework for effective regulation of the global financial system, and is at least being pushed by some governments to do so. On the labour side, G20 governments (or at least President Obama) invited the ILO into the process at the Pittsburgh summit and asked their labour ministers to meet in Washington in April to provide input before the June Toronto summit, making explicit reference to the 2009 ILO Global Jobs Pact. The labour ministers engaged in a process of consultation with labour and employer representatives before and at their meeting, and issued a statement which spoke to the importance of labour market institutions and social dialogue. In laying the basis for a recovery with quality jobs and decent work. They agreed that »it is critical that we undertake efforts to ensure that we meet our obligation as ILO members and implement policies consistent with ILO fundamental principles and rights at work.« Unfortunately, proposals to institutionalize G20 labour ministers meetings and to continue a tripartite consultation process did not find their way into the final communiqué.

What could and should come out of the G20 is a collective commitment to develop and then adhere to a core set of labour rights and standards backed up by an effective system of mutual surveillance under the auspices of the ILO. This would complement tentative commitments to macro economic co-ordination to redress trade imbalances and to financial re-regulation, equally needed to maintain a very tenuous recovery. Labour and the progressive left must further develop the key elements of this policy package, and then persuade governments to adopt it. That is a daunting, but necessary, task.

Moving the G20 to the Hub of Global Governance

by Andrew Cooper

The authority of states—and state officials—has made a dramatic comeback in the wake of the global economic crisis. Moreover, as opposed to the self-help agendas of the past, there has been an extraordinary amount of collective mobilization. The ascendancy of the G20 as a leaders' summit highlights the willingness of key states to work together to act as recession busters. From the initial summit at Washington (November 2008) to the second at London (April 2009), the G20 served as an effective catalyst for generating a big set of stimulus packages, with promises of new resources for the IMF, the World Bank and other Multilateral Development Banks. By the time of the London Summit, G20 nations had raised their commitment to spending up to a combined 1.8 per cent of GDP. There, leaders also added the largest lending pledge in history, namely 1 Trillion US Dollars for the IMF and other bodies.

Having avoided the »near death experience« not only of the financial sector but for the global political/economic order, the question turns inevitably to what are the next stages of this project. One argument of course is simply more of the same, to finish the job. That is to say, implementing the stimulus measures the G20 put into place. The policy logic of such continuity is strong. After all, if an exit strategy is enacted too abruptly, there is the danger of falling back into recession. Yet, institutionally, it opens up the question about what ›finishing the job‹ entails. Is the trajectory of the G20 project exclusively about rectifying the fallout from the economic crisis? Or should it aim much bigger in its objectives?

Embracing A Wider Agenda

If the assumption is made that the agenda of the G20 should be bigger, the inevitable question is how much bigger? Beyond the shorter term objective of recession busting, regulatory issues grab attention. While the crisis was exposed after severe market failure, it was brought on by successive policy and regulatory failures. Yet, again a concentration exclusively on these issues may not solidify the G20 as the hub of global governance and raises some concerns. First, these issues (including bank bonuses, the regulation of hedge funds and exotic financial instruments) continue to be disproportionately the preserve of the Western members of the G20. And second, these issues stretch the limits of the leaders' ownership of the G20 process. During moments of crisis, leaders pick up on issues that would otherwise be under the purview of cabinet ministers and their bureaucrats. The sustainability of such an involvement is questionable. With a return to ›normalcy‹ (although that condition will be contested in itself) leaders will be attracted in turn to traditional roles. That is to say, they will want to site themselves as strategic ›steerers‹ of a small number but pivotal issues not as tactical ›doers‹ on a range of complicated technical issues.

As the immediacy of the crisis subsides, a much longer list of tasks and responsibilities has begun to emerge. While deeply important, attention taken to address private greed in global commerce—through better regulation and institutional reform—has overlooked many of the social challenges amplified by the crisis. At the top of these ensuing priorities—more by default than design—is climate change. In the post-Copenhagen context, a number of state officials have looked to the G20 as an alternative forum. While negotiation of a post-Kyoto framework should not be ›forum shopped‹ away from the UNFCCC, the composition of the G20 (the US, the UE and the BASIC group) offers an alternate venue to break the stalemate. Beyond emissions targets, the G20 can flesh out strategies for the financing of adaptation and mitigation in developing countries.

Next, arguably, is the issue of global food security. In 2008, both the G8 and the United Nations targeted this issue, but have suffered, respectively, from deficiencies of restricted membership and organizational fragmentation. Bridging the North and South, the G20 offers a credible forum to address the vacuum of leadership on food security. Action at the leaders' level creates the opportunity for synergies in alternative energy policy and agricultural management, limiting the unintended consequences of the traditional ›siloed‹ approach. Also high on the list, and often neglected, is global health. While still embedded in the sovereign system of states, health challenges cross borders indiscriminately—one of the classic »problems without passports,« as labeled by former UN Secretary-General Kofi Annan. Pandemics such as H1N1 serve as a reminder of our collective vulnerabilities and the need for international coordination. While the World Health Organization provides frontline services, it has become dwarfed in terms of funds and programs by private institutions like the Gates Foundation (significantly, Korea plans to have Bill Gates preside over the corporate social responsibility session at the G20 Business Summit to be held immediately before the leaders' G20 meeting). The G20 can provide catalytic leadership in global health governance, mobilizing efforts across agencies and sectors.

Abundant risks exist for the G20 if it does not ambitiously expand its mandate. Arguably the greatest is the emergence of another economic or social crisis, brought on by one of the multitude of global challenges lingering on the sidelines. As the economic crisis recedes, and without a reinvigoration of the agenda, an exit strategy will not only take place from the stimulus spending but an exit strategy is also likely for the leaders' involvement with the G20.

Developing Innovative Solutions

Public goods deserve a global champion. However, at present, no one institution appears able to match the intensity and complexity of the challenges posed by climate, food and health crises. The G20, however, has at its disposal a variety of policy instruments and, more importantly, some degree of political momentum to implement widespread reforms. Its informal structure and near-limitless purview provides many comparative advantages over the traditional international institutions. The window of support to tackle a wider set of global problems, however, may be short-lived amid temptations to revert to normal practices in which longer-term international commitments are subordinated to shorter-term domestic priorities.

Timely and innovative policy solutions, which signal a break from business-as-usual approaches to international development, are thus imperative. Incrementally, the G20 appears to be gravitating towards a wider set of issues and policy options. At the November 2009 finance ministers and central bank governors meeting at St. Andrews, Scotland, support was given for replenishment of international development assistance, termination of fossil fuel subsidies and exploration of climate financing options. The communiqué advanced the coordination of all »financing channels« to tackle climate change, emphasizing public-private partnerships.

In areas of mutual interest and competencies, partnerships among governments, corporations and philanthropic foundations can yield results not possible when each acts alone. Initiatives such as the Global Alliance for Vaccines and Immunization have shown that public donors can leverage significant private investment, and that cross-sector cooperation can work to fulfill foreign policy objectives. Structured partnerships also produce mutual accountability and hold the promise of efficient delivery on commitments.

Sustaining The G20'S Momentum

Moving forward towards the 2010 leaders' summits—in Canada at the end of June and South Korea in November—the G20 will face intense pressure to both resolve the core economic concerns and clarify the G20's role in the post-crisis era. Passing this diplomatic ›stress test‹ is vital. The G20 must go on the offensive and show that it has the functional capability to deal with these pressing global issues. Moreover by targeting this key set of global public goods—climate change, food security and global health—the G20 can deepen the nature of its policy networks beyond the ambit of states. As the global economy reorients itself, the G20 is in a strong position to develop innovative forms of financing and encourage transfers of knowledge, wealth and technology.

Through its dual existence, first as a forum of ministers and then as a leaders' summit, the G20 has shown itself to be capable of robust action. Rather than sticking to a set formula, when the global financial shocks hit, the G20 capably re-invented itself. The challenge that lies ahead is to not let its successful steps, especially its role as a crisis committee, temper its ability to promote an extended array of bold and original solutions. Effective mechanisms of global governance, led by the G20, need to tackle and avert the extended crises of climate, food and health.

Global Imbalances and International Cooperation

by Kurt Hübner

Much ink has been spilled on the question: What caused the ›Great Crisis‹ that started in 2008? Many observers blame the financial meltdown and consequent shrinking of economic activities on the greedy behavior of speculative financial actors operating in a wildly under-regulated economic environment. Indeed, we have sufficient evidence to make the case that a liberalization orgy that started as early as in the 1980s set many of the capitalist market economies on a growth trajectory that is being described as a *regime of financialization*. This regime is characterized by huge financial sectors that became the driving engine of accumulation and growth. It is based on a broad range of financial innovations that opened up new markets but simultaneously spurred indebtedness of public and private actors. It's short-termism and relentless run for higher yields generated a new type of financial actor and eventually pushed an already unequal distribution of income to new extremes. Even though the strongest versions of this regime were found in the US, UK, and Ireland, it should be stressed that most of the advanced capitalist economies followed this lead in some respect.

However, this regime could not have developed without a supportive global macroeconomic environment. During the 1990s we witnessed the build-up of severe global imbalances that reached their climax in 2008. The current account balances of strong export-oriented emerging market economies in Asia but also of the mature trading economies of Germany and Japan accumulated huge and increasing trade surpluses with the rest of the world. The US, the UK, and some other economies moved to the opposite pole and accumulated huge and increasing deficits in their external operations. The reasons for those developments differ from economy to economy. China and other emerging market economies in Asia drew their lesson from the 1997/98 Asian Crisis and made the exchange rate key to their growth policy. In particular China tied its currency to the US Dollar and avoided an appreciation of the *renminbi* despite the increasing surplus in its trade balance and eventually its current account. The operation was quite straightforward: Chinese state agencies invested significant shares of the current account surplus in US Treasury bonds. Buying bonds implied a strong demand for US Dollars, and accordingly a counter pressure to any depreciation of the US Dollar (and consequently appreciation of the *renmimbi*).

Germany on the other side was under price competitiveness pressure for quite some time and followed a policy of labor market reforms with a wage policy that kept wage increases below the growth rate of labor productivity. The outcome was a surge in its exports, and an increase in its current account surplus. In order to overcome its deflationary trap, Japan tried to keep the exchange rate of the Yen against the US Dollar and the Euro on a competitive level in order to achieve strong growth of the export sectors. On the deficit side, it was in particular the US that was running huge and increasing deficits of its current account. For about 15 years, those deficits contributed to a strong rate of growth of the global economy. However, this growth was not sustainable. It was based on the extraordinary privilege of the US as the issuer of the global money to run current account deficits and to finance those deficits by selling Treasury Bonds, which then would be used to cover public expenditures. At the same time, international investors saw the US as a safe (and profitable) haven for their operations and invested huge amounts of capital into the private sector of the US. The more funds were channeled into the US financial sectors, the higher the liquidity of those sectors. High liquidity in a climate of relatively low real interest rates made financial actors more and more attracted to risky investments of all kinds. In other words, the global macroeconomic imbalances were feeding the ongoing processes of financialization.

Challenges And Remedies

The crisis of 2008/2010 contributed to a shrinking of those global imbalances. Given that the underlying reasons for the build-up of those imbalances have not been touched in policy terms, it seems plausible to expect that sooner rather than later global imbalance will be back. Governments may move towards stronger regulatory policies for the financial sectors, but until today they have not been willing to move towards a project of global cooperation in order to rebalance the world economy and avoid the build-up of fragile and potentially crisis-borne imbalances. The initial aim of the G6 meetings, which go back to 1975, was to foster mutual understanding of shared problems and to develop joint policies. Those efforts resulted in international coordination at its best but never ascended to global cooperation. Joint declarations are abundant but due to the lack of enforcement mechanisms, real action is the exception.

On the contrary, until today political efforts mainly play out in bilateral policies. The US, for example, tries hard to brand China as the ultimate disturbing actor in the global economy and to condemn its currency strategy as manipulative. If China would only give up its currency peg and allow a significant appreciation of the *renminbi*, so the argument goes, the US and some other economies could easily rebalance their current accounts. This widespread argument showed up in several G8 joint declarations in combination with the political hint that deficit economies should contribute their part to resolve global imbalances. The lack of joint global action opened the door for a bilateral move on the side of the US to push responsibility on one actor, namely China. Such a political response, however, does not hide the fact that the US made long use of its privilege to finance its external deficits by printing US Dollars in the form of issuances of Treasury Bonds.

A successful rebalancing of global imbalances would require a thorough reform of global currency relations, and in particular a strategy to substitute the critical role of the USD. Nobel laureate in economics, Joseph Stiglitz, recently suggested that the US should rethink the international role of the USD and get ready to participate in a radical makeover of the current arrangement. This is easier said than done, however. Consider the following four scenarios, each pointing the way toward an internationally coordinated solution.

Scenario I: G3 Exchange Rate Management

The macroeconomic situation of the US makes a further depreciation of the US Dollar inevitable. Market actors are aware of that and slowly but steadily diversify their assets. In order to avoid an uncontrollable exit it seems best that the three main actors—US, Euro area, and China—provide a cooperative agreement where they indicate time line, procedure and a clearly defined target zone for a depreciation of the US Dollar. Such an agreement should lead to a general overhaul of the global exchange rate regime towards a target zone regime where main central banks cooperatively secure the management of the zone. Combined with proposals of levying transaction fees on short-term cross-border transactions such a target zone may become a viable approach in order to create stability in expectations on the side of market actors. Economies with high US Dollar reserves would have to formally agree not to throw their Dollar reserves suddenly onto the foreign exchange markets. Still, an internationally coordinated exchange rate management would have to entail an orderly further depreciation of the US Dollar and an orderly managed appreciation of the Renminbi against the Dollar and the Euro.

Scenario II: Substitution Accounts For Dealing With Currency Reserve Stocks

Economies with high stocks of US Dollar-denominated currency reserves experience large losses due to the depreciation of the US-currency. Those losses may be an incentive to sell off significant parts of the stocks and/or to avoid further US Dollar holdings. One way to deal with these losses is to establish an account that would allow economies to substitute US Dollar reserves for Special Drawing Rights[7] (SDRs) that are issued and managed by the International Monetary Fund (IMF).

Countries with high US Dollar reserves will have a strong incentive to substitute significant parts of their US Dollar reserves for SDRs in order to reduce the losses in their reserve holdings. In essence this implies moving the currency risk (and losses) to the member states of the IMF. Losses that occur due to the substitution of US Dollars with SDRs have to be refinanced by the members of the IMF. As the US and the main member states of the Euro area are the main contributors to the IMF they would in the end finance such an account. C. Fred Bergsten, Director of the Peterson Institute, rightly made the point that Europe may not be supportive of such a deal as it would have not only to carry a substantial burden but additionally may lose influence in the IMF if China were to increase its financial commitment. Again, a burden-sharing agreement between the three big players would need to be put in place. Mark Carney, Governor of the Bank of Canada, recently added to this debate that a substitution account would even enhance moral hazard as reserve holders in such a system would be tempted to further increase their reserve holdings.

Scenario III: Special Drawing Rights As The New Global Money

When Zhou Xiaochuan, Governor of the People's Bank of China, publically argued in March 2009 in favor of a super-sovereign reserve currency that would no longer be issued by a nation-state, his proposal generated immediate positive responses by other emerging market economies. Special Drawing Rights are an obvious candidate for such a super-sovereign reserve currency. SDRs go back to the year 1970 when member states of the IMF created 3 billion SDRs in order to overcome what was seen as a severe liquidity crisis of the global economy. Currently, 21.4 billion SDRs are in circulation. SDRs are not for private usage, though. Today, it is mainly a unit of account, and if it is used to intervene in foreign exchange markets, for example, SDRs still need to be converted in ›real‹ currency.

7. Those SDRs are a currency basket that currently consists of the USD (39.8 per cent), the Euro (38.1 per cent), the Japanese Yen (12.7 per cent), and the British Pound (9.4 per cent).

Technically speaking, it would be possible to make SDRs the new reserve currency of the global economy. As suggested by Zhou Xiaochun, a settlement system between SDRs and national currencies needs to be put in place in order to make SDRs to more widely accepted means of payment in cross-border trade. Simultaneously, SDRs could be used as units of account for commodity prices and in international bookkeeping. Minimizing the role of the US Dollar only seems to be realistic if private actors are willing to accept and make use of SDRs. This can only happens if the switch to SDRs gets the economic as well as political support of all relevant global actors. Private actors especially may be concerned about the backing of SDRs, as the IMF as the issuer of this currency is not even a nation-state. Such a lack may be overcome though, if deep and sophisticated private financial markets for SDR were to develop. In the best case, SDRs offer a stable store of value and a stable unit of account, assumed the underlying national currencies provide this kind of stability. An SDR-system would extend the ›exorbitant privilege‹ the US Dollar has enjoyed for such a long time to all countries that are part of the SDR basket.

Scenario IV: A Modified Keynesian Plan: Introducing A Supranational Bank Money

The financial and economic crisis has encouraged thinking out of the box. It is thus no surprise that modified versions of John Maynard Keynes' initial Plan for an International Monetary System play an increasingly important role in academic debates. All those proposals share the objective of freeing the global currency regime from the domination of a single, national currency and making use of a *bancor-like*[8] new money that is no longer tied to a nation-state. In this scenario, it would be necessary to create a New International Clearing Union that operates with multilateral settlements of debit and credit entries between central banks and simultaneously provides temporary credits to deficit countries. It would be up to the Clearing Union to

8. The »bancor« was a unit of currency proposed by Keynes at Bretton Woods in 1944 which was intended to be exchangeable with national currencies at fixed rates of exchange and therefore was envisioned as the unit of account between nations.

issue Supranational Bank Money (SBM) and arrange for the proper clearing of future global imbalances.

Unlike SDRs, domestic assets would back this new money. The Federal Reserve and the European Central Bank, for example, would swap parts of their monetary bases for SBM and central banks would have the right to exchange SBM for accumulated dollar-denominated assets, including international Dollar reserves. SBM would coexist with national currencies. Necessary cooperation in the framework of the Clearing Union would put restrictions on monetary sovereignty but would not eliminate policy freedom. This still may be too high a price for the relevant actors, and it also needs to be stressed that current imbalances are too big to move immediately towards such a radical concept. Establishing substitution accounts in order to solve the stock problem of already accumulated reserves is still a first requirement.

A New Development Paradigm

by Roy Culpeper

We are told that recovery from the Great Recession of 2007-9 is well under way. The continuing turmoil in Greece and the periphery of the European Union, including Eastern Europe, suggests that recovery is certainly not universal and the global financial crisis may be far from over. In any event, it is crucial that the lessons of the crisis be learned, and action taken to avoid a return to business as usual.

The fact is, most of the fundamental causes of the current crisis are still with us—banks that are too big to fail, money traders who make risky bets with other people's savings, and huge global imbalances between a deficit-ridden United States and surplus-generating China and Japan, among other countries. The more rapid the recovery, the more quickly these and other mistakes of the past will be forgotten. The road to future crises and economic instability is already being paved. This, even though the economic and financial policies prevailing in the North over the last three decades and imposed on much of the rest of the world, have been largely discredited by the crisis they helped create.

Thus, a new development model or paradigm is needed. Leaders of the G20 countries meeting in Toronto this June have an unparalleled opportunity to remedy the problems of the past and effect change for the coming generation. Indeed, some of our research at The North-South Institute indicates that doing development differently is not only possible, but necessary, to reduce poverty and promote sustainable development in the world. This new paradigm must emphasize lower inequality, greater inclusion, and less economic volatility. There must be greater policy space, particularly for smaller and poorer developing countries, to protect themselves from external shocks and enable them to shape policies that best suit their needs. To achieve these objectives, there must be less faith in markets, more regulation, and more state responsibility: unfettered globalization must be held in check and not simply trusted to bring about the greater good for all.

Why A New Paradigm Is Needed

The old paradigm had its roots in the economic liberalization and globalization policies introduced by U.S. President Ronald Reagan and U.K. Prime Minister Margaret Thatcher in the 1980s, with Canada's Brian Mulroney following closely behind. With the eruption of the debt crises in developing countries that decade, the paradigm led to structural adjustment policies and was codified in the »Washington Consensus«.

Under these policies, market forces, lower taxes and downsized state capacity led to widening inequalities and social disintegration as public services came under increasing pressure. They led to a pattern of globalization that favoured the powerful and the rich –multinational corporations and industrial countries—over the weak and the poor—developing countries, marginalized communities and women. The benefits of globalization were markedly skewed toward the former group while costs were borne by the latter.

Globalization of capital markets has had a particularly perverse impact on developing countries. Instead of flowing from rich countries where it is plentiful to poor where it is scarce, capital has flowed in the opposite direction. Much of it takes the form of illicit financial outflows, facilitated by mis-invoicing by transnational companies and by tax evasion by corporations and individuals. The scale of such outflows is stupendous. According to one source, Global Financial Integrity, annual illicit outflows amount to about 850 Billion US Dollars to one Trillion US Dollars a year, or several multiples of current levels of official development assistance to developing countries (120 Billion US Dollars a year).

As if the shortcomings of the old paradigm were not enough, the huge challenges of climate change mean that the policies of the past are pathetically inadequate. A new paradigm is needed to strengthen the resilience of poor countries and permit development to take place.

What would a new development paradigm look like? There are key elements that must be central to a new development policy framework at the national or sub-national levels; and key elements for a new global development policy framework. These include:

Greater Emphasis On Production And Employment

In the new paradigm, resources must support employment creation and sustainable livelihoods for the majority, particularly in agriculture, the rural economy, and among the urban poor, and women. These sectors have been chronically under-resourced or ignored, resulting in widening inequalities between the rural and urban poor, on one hand, and elites in high-growth urban centres, on the other.

More Fiscal Space For Ownership And Countercyclical Policy

NSI's research on official development assistance and the global financial crisis stresses the need to scale up aid and prioritize aid delivery through country budgetary systems to finance recovery measures. But it also recognizes the importance of building a world that is less aid dependent.

To that end, more priority needs to be given to aid effectiveness, meaning aid that is consistent with the receiving government's plans, strategies and systems. This focus on ›ownership‹ would go beyond simply receiving aid; it would determine how aid gets used, providing the policy space necessary for developing countries to set national policies and priorities in order to determine how aid would best be spent.

For those who need to be further convinced, it is instructive to recap how quickly the current crisis was resolved in many of the industrial and emerging market countries. Counter-cyclical economic policies, comprising interest rates that were lowered to levels of near zero, and fiscal stimulus programs were swiftly enacted. Until just prior to the crisis such counter-cyclical policies had been discredited by mainstream policymakers and media pundits. Today few would dispute that such measures helped avert economic collapse.

But most developing countries do not have the latitude to deploy counter-cyclical policies, ones that cool down the economy when it is in an upswing, and stimulate the economy when it is in a downturn. Their tax bases are narrow and domestic revenues meager; they lack domestic bond markets. They are, accordingly, much more dependent on external resources in the form of aid or private financing, such as foreign direct investment. Such external resource taps can be turned on and off at the behest of foreign donors or foreign investors. And, at times of crisis, these foreign agents are more likely to turn the taps off—rather than what counter-cyclical policy would demand—notably to turn the fiscal taps on.

Emergency Funding Of External Shocks

A number of international financial institutions have acted since the onset of the global crisis two years ago to significantly increase emergency financing for low-income countries. The International Monetary Fund (IMF), for example, has demonstrated a capacity to create facilities that help countries cope with natural and economic shocks. The strength of these has been in providing quick-disbursing finance; their weaknesses include onerous financial terms and/or questionable conditionality.

To date, IMF efforts have helped remedy balance of payments disequilibria and have promoted macroeconomic stability but, as yet, there are no IMF facilities oriented toward long-term development objectives related to poverty reduction and social and economic progress. While such an all-grant anti-shocks facility does not yet exist, our research indicates that it would provide the best possible basis for emergency assistance (as did the Marshall Plan after World War II).

The above objectives of providing more fiscal space and national ownership can be underpinned by:

Greater Domestic Resource Mobilization

Broadening the domestic tax base, increasing tax and public revenues, and deepening domestic financial markets (including bond markets), would mobilize more domestic resources for development and reduce dependence on aid flows and on foreign borrowing and investment. The latter can be unreliable, volatile, and tied to policy conditions or to the development of enclaves that do little to advance key priorities and sometimes have negative impacts—environmental, social and political. Being less dependent on external resources, an enhanced domestic tax base and deeper financial markets would provide greater ownership and permit greater scope for counter-cyclical policies.

Research by The North-South Institute in five sub-Saharan African countries (Burundi, Cameroon, Ethiopia, Tanzania, Uganda) has identified a range of policy options, both in the public and private sectors, that would enhance the mobilization of domestic resources.

Virtually untapped sources for taxation, such as property tax, should be developed. Loopholes and exemptions (including tax holidays for foreign investors), which typically cause huge tax losses for developing countries, should be reviewed and closed or, at the very least, narrowed. The international community can help build capacity for tax and revenue mobilization; through financial and tax cooperation; through more coherent trade and investment policies; and supporting financial sector development in less-industrial countries. In the private sector, there is also scope for augmenting pension and life insurance programs which would also provide new or more channels for local savings.

Until domestic resource mobilization is elevated to a substantially higher level, the sustainability of development initiatives will continue to be undermined by chronic aid dependence. The UN Millennium Development Goals (MDG) campaign is a case in point. While donors can help build momentum toward achieving the goals, for example, through front-end investments in areas such as universal primary education or maternal and child health care, sustainable advances in any sector will require recurrent investment and support. Some donors may continue to contribute past the MDG target date of 2015, but developing countries may find that they will have to take up an increasing share of the burden soon afterwards. This means their governments will have to generate the revenues, primarily via taxation, to support the necessary expenditures.

Beneath such macroeconomic policies, a number of other elements are vital if objectives such as lower inequality (including gender equality) are to be achieved. These include:

Less Faith In Markets, More Regulation, And Greater Involvement Of The State

Utilities such as water and electricity should be made available at affordable cost to the poor. If such utilities are privatized, they should operate under state regulation and, if necessary, provide subsidies to ensure services are accessible to the poor.

Likewise, financial services should be considered a public utility. Emphasis should be put on »financial inclusion«—the accessibility of financial services to all, no matter how impoverished or remote from commercial centres. State-owned development banks should provide long-term credit to small and medium enterprises that create sustainable livelihoods. Financial sectors in many developing countries have failed to perform their role of mobilizing savings and allocating resources to productive sectors. Agriculture, the rural economy and industry have virtually been abandoned as commercial banks, many of them now foreign-owned, have retreated into urban areas and capitals in order to service the borrowing needs of governments and provide financial services to elites.

The financial needs of poor households have been left to a growing microfinance sector, which deserves considerable applause for its achievements, including providing credit to women in poor households. However such institutions are generally not adept at servicing small and medium enterprises, the primary source of employment creation.

At the global level there are several possibilities for supporting the new development paradigm by complementing national and sub-national initiatives.

Addressing Climate Change

Adaptation to climate change presents the most urgent source of additional demand from developing countries for external long-term financing. The recent Copenhagen Accord, for example, calls on industrialized countries to raise $30 billion a year for mitigation and adaptation efforts between 2010 and 2012. It also calls on them to raise an additional $100 billion by 2020 to address the onerous climate change challenges that developing countries will face.

Even though this amount may fall short of what is actually required to tackle the full costs of climate change adaptation in developing countries, $100 billion is roughly of the same order of magnitude as aid flows from OECD donors. Faced by increasing deficits in fighting the recession, donor countries are likely to be hard-pressed to double aid flows over the next decade.

How are the additional external resources to be mobilized? New and innovative sources of financing will be required. The IMF has suggested that a Green Fund, financed in part from an additional allocation of its so-called Special Drawing Rights, might provide a way forward.

Special Drawing Rights And The Green Fund

Special Drawing Rights (SDRs), an international reserve asset created by the IMF 40 years ago and currently used to meet international payments obligations (they are the equivalent of money), can be made available to the poorest countries as they confront climate change. The 2009 general allocation of 250 Billion in SDRs (along with the special allocation of about 30 Billion US Dollars implemented soon thereafter) presents a strong opportunity.

Under the IMF's quota formula, more than one-half of SDRs have been allocated to richer countries (not including emerging markets or more advanced developing countries). In other words, it is still possible for 140-150 Billion US Dollars of this amount to be reallocated for development purposes, virtually immediately. Some of it can certainly contribute toward the Copenhagen Accord's goal of raising an additional 30 Billion US Dollars a year between 2010 and 2012 or toward a Green Fund which aims at mobilizing at least 100 Billion US Dollars in additional resources annually by the end of the coming decade.

Currency Transaction Tax

Another possible source of innovative funding for climate change and/or other development initiatives is one that NSI research has been examining in-depth. That is, the application of a currency transaction tax (CTT). Based on conservative estimates, our research shows that 33 Billion US Dollars per year could be raised with a tax levied at just .005per cent on all global currency transactions, this, without disrupting financial markets.

The research, coupled with the crisis, has resulted in financial sector taxes (both CTT as well as a proposed broader financial transaction tax [FTT] on domestic financial transactions) increasingly being viewed as prudential mechanisms to inhibit speculation as well as mobilize public revenue from a sector that has been seen as paying less than its share of taxes.

Indeed, a report prepared by a coalition of civil society organizations recently proposed that 376 Billion US Dollars in revenues could be generated annually from currency (33 Billion US Dollars) and financial transactions taxes on traded shares (225 Billion US Dollars) as well as other securities (118 Billion US Dollars) around the globe. While the above number-crunching is focused on raising new funds for development, countries desperate for additional sources of revenue to help pay down deficits spawned by recent stimulus measures, are also beginning to see a certain cachet in such taxes, including both Europe and the United States.

But while the possibility of a CTT or even an FTT may be talked about now more than ever, the tightening fiscal climate seems to have eroded their potential for international development purposes. If governments were to implement the CTT or FTT at all, the current economic climate dictates that they would likely use the monies raised to bring down their own deficits. Indeed, however much our research demonstrates that the CTT is technically feasible, *realpolitik* rules the day: Canada, host of this year's G8/G20 meetings, has come out strongly against financial sector taxes of any kind, in part, because of the strong performance of Canadian banks during the crisis. This, however, does not diminish the fact that the global banking system was at the centre of the crisis, and even Canada did not escape the resulting economic fallout.

Conclusions

One thing remains certain: without radical changes in policies the world can expect recurring financial crises of similar or greater intensity to the one the world is currently climbing out of, while the underlying problems of growing inequality and social disarray continue to mount. On top of all this are the multiple threats of climate change which, without adequate response, will visit recurring devastation, particularly upon the poorest and most vulnerable parts of the world's population.

As Canada and the rest of the G8/G20 prepare for their June meetings, they have a unique opportunity to articulate a new ethos for development which would constitute a final renunciation of the Washington Consensus, the »one size fits all« recipe that failed so miserably. Instead, as writers such as Dani Rodrik have argued, there are »many policy recipes« that suit different economic and historical contexts. Certainly, the emerging market members of the G20, including China, India, and Brazil, would acknowledge that even without »benefit« of the Washington Consensus, they have still managed to achieve impressive development.

And yet, the further the global financial crisis recedes into memory, the greater the strength of the forces of inertia. The G8/G20 leaders must resist this complacency, look to the evidence, and opt for doing development differently. The world is waiting.

Can Summit Host Stephen Harper Pass His Own Test?

by Madelaine Drohan[9]

To understand the particular stresses and strains facing the host of the Group of Eight (G8) and Group of 20 (G20) summits this June, you need look no farther than the protest that occurred in front of Canada's parliament buildings on May 13th. An estimated 10,000 people– a sizeable demonstration in Canadian terms—showed up to protest against abortion. While this has long been a divisive issue in Canada, it has not featured on the national agenda since 1988, when the Supreme Court of Canada declared that criminal restrictions against the practice were unconstitutional. It has come back largely because a global initiative on the health of women and children that Stephen Harper, the Canadian prime minister, plans to put forward as summit host has backfired domestically.

Whether Mr. Harper desired this result is unclear. His initial announcement at the World Economic Forum in Davos last January had few details. But when viewed through the prism of domestic politics, the cracks were obvious. Pressed to confirm whether Canada would be funding abortions abroad as part of this mix, the prime minister said it would not. While he did not say so, many of the Canadians who are strongly opposed to abortion support the prime minister's Conservative Party and as leader of an unpopular minority government he would not want to alienate his political base. Yet in choosing a policy that would please his supporters, the prime minister left himself open to charges of hypocrisy from critics who noted that he was denying women in developing countries something that was available to women in Canada, and to a tongue-lashing from US secretary of state Hilary Clinton, who bluntly stated during a visit to Canada that »you cannot have maternal health without reproductive health…and reproductive health includes contraception and family planning and access to abortion«.

The Canadian prime minister is hardly the first leader to have difficulty fitting grand global plans into the more restrictive box of domestic politics. All of the politicians attending the G8 summit in the resort town of Huntsville, Ontario on June 26th, and the larger G20 meeting in Toronto on June 27th and 28th, have at least one issue where they stand apart from an emerging global consensus. And few if any are particularly popular with their domestic constituents at the moment, giving them all the more reason to give domestic considerations priority.

Yet Mr. Harper, the host of both meetings, is at odds with the majority, or at least the most powerful among his peers, on an unusually large number of issues. They range from the very broad—whether the G8 should continue to exist and what the mandate of the G20 should be—to the more specific—whether reform of the financial system should include a tax on banks and whether maternal health includes abortion. In between are his lack of a firm position on how to deal with climate change and his government's decision to pursue a bilateral trade agenda while the multilateral round of trade talks languishes due to lack of support. In that same Davos speech, Mr. Harper said the true test of the G20 will be whether leaders could set aside narrow self interest going forward in order to achieve the greater global good. He too will be put to the test.

When the economic crisis prompted the 2008 change in the G20 to a gathering of global political leaders from what was a meeting of finance ministers and central bankers, it was widely viewed as a natural and necessary transition from the G8. The growing clout of new powers such as China, India and Brazil and the emergence of global issues that transcended the G8's power to deal with them such as climate change, terrorism, disease and migration argued for a more inclusive membership. Yet Canada, the smallest of that group in terms of economic clout, is unwilling to see the G8 disappear. Canada has always made much

9. This essay presents the personal views of Madelaine Drohan and not those of *The Economist* Magazine or any other publication.

of its membership in the exclusive group and does not savour the prospect of losing status and influence when it becomes one of 20 instead of one of eight.

Mr. Harper has tried to draw a firm line between the agenda of the G20, which he says will deal with economic matters, and the G8, which he wants to deal with most everything else. When he spoke in March to the G20 sherpas, who as representatives for their leaders shape the summit content in advance, the Canadian prime minister dealt only with economic issues such as stimulus measures, exit strategies, reform of the international financial institutions and open markets. Addressing G8 foreign ministers later in March he said that the G8 »remains the principal forum for advancing our common agenda of peace and security, as well as democracy and development.«

His argument that there is a limit to what the G20 can accomplish at its June meeting is not without merit. But it is not clear that the two agendas are that easy to separate, nor whether other leaders support this arbitrary division. French president Nicholas Sarkozy has already blurred the line Mr. Harper has drawn, by saying that he will push the G20 leaders to impose a tax on financial transactions to help developing countries fight climate change. Ban Ki-Moon, the UN secretary general, has pressed Mr. Harper to include climate change in the G20 discussions. US president Barack Obama told a press conference after the 2009 meeting of the G8 that there are too many summits and that they should be streamlined and made more effective. And it is hard to imagine that leaders taking part in the G20 discussions as full members are willing to step away from the table and cede to the G8 matters that concern them deeply.

At its inception as a leaders' summit, the G20 was necessarily focused on the world economy, which was in crisis. At the conclusion of their meeting in Pittsburgh, Pennsylvania, the leaders designated the G20 as »the premier forum for our international economic cooperation«. Yet that same statement also instructed the World Bank to support a food security initiative for low-income countries, declared support for programs to bring clean energy to the poor, agreed to phase out fossil fuel subsidies and talked of reducing the development gap. The above makes two things clear: the mandate of the G20 remains fluid; and Mr. Harper faces an uphill battle in trying to restrict it to economic matters.

Yet even on the issues that lie solidly within the lines that he has drawn, such as financial system reform, the Canadian prime minister finds himself out of step with some of his most important allies. An IMF proposal to levy a tax on financial institutions to build up a fund that would be used to pay for the cost of future failures, has support from the US and the European Union, but is strongly opposed by Canada, Australia, Switzerland and Japan. Both Mr. Harper and his finance minister, Jim Flaherty, have argued that no Canadian banks failed or required a bailout so should not be punished with a new tax. The banking sector is heavily concentrated with much of the clout wielded by six big banks. They have lobbied strenuously against the imposition of such a tax. At the time of writing it is unclear whether the IMF proposal will be part of the package discussed at the June summit or whether the countries opposing it will keep it off the agenda. Both the US and the EU seem determined to go ahead with the tax, regardless of whether they win G20 sanction.

Climate change is another major issue where Canada stands apart from many of its global peers. Under a previous Liberal government, Canada ratified the Kyoto Protocol, but made no serious attempt to reduce its greenhouse gas emissions, which continued to climb. The combination of a cold climate, large distances between urban centres, and an energy-intensive industrial sector have made Canada one of the largest energy users in the world on a per capita basis. Since the Conservatives won in 2006, the government has backed away from those commitments and has yet to put in place a comprehensive plan to meet even its less stringent targets. The current policy is to wait until the US comes up with a climate change plan and then follow its lead. Canada's lack of progress in this area has tried the patience of more progressive governments, especially those in Europe, and prompted speculation that a desire to protect oil production in the tar sands of the western province of Alberta lies behind this foot-dragging performance. The Kyoto Protocol was deeply unpopular in Alberta, Mr. Harper's political base. Those expecting the prime minister to lead on this file, such as the UN secretary general, are doomed to disappointment.

At first glance, Mr. Harper seems to be in step with the other leaders in seeking to keep markets open to trade and to achieve a new multilateral trade deal that would address the concerns of emerging economies. But while official government policy is to complete the Doha round of trade talks, something that emerging economies were promised at the conclusion of the Uruguay round in the mid-1990s, Canada is undermining progress in two ways: refusing to remove protective barriers around the dairy and poultry industry in Canada; and putting most of its effort into negotiating and signing bilateral deals rather than the multilateral round.

Most countries have sensitive sectors that they are reluctant to expose to global competition, so Canada is not alone in protecting its dairy and poultry industries. But its refusal to lower these barriers has irritated more open traders who were once trade allies, such as Australia and New Zealand. By its inaction, Canada helps preserve the inertia that has characterized the Doha round. Dairy farming in Canada is concentrated in the key political battlegrounds of Ontario and, more importantly, Quebec, which has meant that successive governments of both Liberal and Conservative stripe have been loath to propose changes that would open these sectors to competition.

Canada under the Conservatives has forged ahead on the bilateral front, negotiating free trade deals and investment protection agreements with countries such as Colombia, Peru, Jordan, and Israel. Negotiations for a Canada-EU trade agreement are currently underway. On May 14th, the trade minister signed the latest of these deals with Panama. Critics of the policy, which is also being pursued by the US and others, point out that bilateral deals favour the powerful, discriminate against those not party to the agreement, often divert rather than create trade and undermine multilateral efforts. Pascal Lamy, the director general of the World Trade Organization, under whose auspices the broader global talks are taking place, says they also »complicate the trading environment of economic operators who have to abide by a spaghetti bowl of different rules« When Peter Van Loan, the international trade minister, signed the trade deal with Panama, he spoke glowingly of the benefits it would bring to Canada. »Our government's aggressive free trade agenda is opening new markets within the Americas, creating opportunities for Canadian businesses and workers and, as we recover from the global economic downturn, securing future prosperity for Canadians and our trading partners«, he said. While all this may be true, the bilateral deals are also subverting the global trade system that Canada once struggled to create.

For a time it looked as though democracy promotion, an oft-stated goal of the G8 in their summit declarations, would be a bit of a minefield for Mr. Harper as host. In an opinion piece he wrote last year looking ahead to the G8 summit, he said that open and free markets, climate change and democratic governance would be Canada's priorities at the Huntsville meeting. But that was before the prime minister was severely criticized for being profoundly undemocratic in suspending parliament for several months beginning in late 2009. He gave as his reason the government's desire to »recalibrate« its agenda, but critics speculated that a desire to deny the opposition parties a platform from which to harass the government over a series of perceived misdeeds was the more likely reason. It is difficult to preach the gospel of democracy to non-democratic nations when the credentials of the leader doing the preaching are somewhat suspect. In his more recent statements, the prime minister has mentioned democracy promotion, but largely as an afterthought. As host he has some influence on the summit agenda. His reduced focus may well mean the issue will not be discussed in any depth.

All of the leaders attending the G8 and G20 summits will have to balance the local with the global in their talks. Finding the right balance will be especially difficult in the current climate. The economic crisis that brought them together as the G20 and that demands unified action has also eroded their domestic support as local populations struggle with the unemployment, bankruptcy, decreased trade, rising taxes and declining services that it has brought to many countries. It will take strong resolve for leaders to opt for global solutions that may be unpalatable domestically. In his Davos speech, Mr. Harper urged his fellow leaders to reject narrow self-interest in the name of sovereignty and seek areas of mutual interest or what he called enlightened self-interest. »To be succinct, the real test of the G20 going forward, is that it develops and sustains among its members a sense of shared responsibility towards the global economy«, he said. With so many areas of difference with his fellow leaders, it will be difficult for the Canadian prime minister to pass his own test.

A Time for Inspired Leadership and Action

2010 Religious Leaders' Summit

The second decade of the 21st century is upon us and 2010 will be an important year for our collective humanity. It is a year when decisions and actions on climate change and peace and security issues will be critical. In June, Canada hosts an expanded global summit in Huntsville, Ontario, where world leaders will have a unique opportunity to provide the political leadership required to address the challenges before us. As well, we will have reached the two-thirds point for the deadline to fulfill the Millennium Development Goals–eight goals that, if achieved, would bring hope to millions and be a major step toward a more sustainable global future.[1]

Through the *2010 Interfaith Partnership*,[2] people in faith communities across Canada and around the world are calling for inspired leadership and action at this critical moment in history. In our diverse faith traditions we have rich histories of addressing poverty, caring for the earth and being peace-builders. While we confess our own shortcomings and inadequacies, we commit to continuing these life-giving actions. We urge our government representatives to set aside short-term agendas and work together for a future that allows all citizens of this planet to thrive.

Power and economic dominance are the basis for inclusion in a G8 and G20 global leaders' summit.[3] In our faith traditions, power and money are instruments to be used for the good of all. At the summits in 2010, we expect leaders to put first the needs and values of the majority of the world's population, of future generations and of Earth itself. From our shared values we call on leaders to take courageous and concrete actions:

▪ to address the immediate needs of the most vulnerable while simultaneously making structural changes to close the growing gap between rich and poor;

▪ to prioritize long-term environmental sustainability and halt climate change, while addressing its impacts on the poor;

▪ to invest in peace and remove factors that feed cycles of violent conflict and costly militarism.

Address Poverty

Almost half the people on this planet live in poverty and insecurity in terms of the fundamental requirements for life with dignity. The most affected groups are women and children, Indigenous peoples and people with disabilities. A record one billion people are now chronically hungry–one in every seven does not have the food needed for basic life. All this is happening in the context of a growing gap between the rich and poor, with particular consequences for poorer regions, such as sub-Saharan Africa.

The magnitude of poverty would be overwhelming were it not for the knowledge that this global inequity can be transformed into a shared wealth. Together, we have the know-how, the human capacity and the global resources to end poverty and its impacts. In the past 18 years, a combination of health interventions and decreasing poverty levels resulted in a 28% reduction in global under-five mortality rates–from 90 deaths per 1,000 live births in 1990 to 65 deaths per 1,000 in 2008. Change is possible.

A common tenet in many faith traditions is that we should treat others as we would have them treat us. This »golden rule« is a basic human principle which cuts across cultures and faith traditions, and calls us to a collective standard of mutual care.

The most recent wave of people pushed into poverty is the result of crises not of their making; it is a result of food, energy and economic crises originating in wealthier sectors of society. Poverty is local but it is also international, and the suffering of anyone is of concern to us all.

In 2010, we expect inspired leadership and actions to address poverty!

▪ Wealthier countries must do their share: put the Millennium Development Goals on track; practice responsible public oversight of markets; reach the goal of giving 0.7 % of Gross National Income in development assistance; cancel debts of poor countries without regressive conditions; halt illicit capital flight; ensure workers earn living wages and receive decent treatment; and make poverty reduction a priority in trade and international financial negotiations.

▪ Countries in the developing world must also do their part: support the above measures; practice good governance; and put in place poverty reduction policies

1. The eight Millennium Development Goals were agreed to by 192 UN member states, to be achieved by 2015. The goals respond to the world's main development challenges.

2. The *2010 Interfaith Partnership* is a multi-faith, Canadian and global movement for action on pressing issues of our day. It involves faith communities around the world, dialogue with decision-makers and a gathering of faith leaders prior to the June 2010 Huntsville Summit. It is the sixth such gathering held in conjunction with G8 summits.

3. Not represented in these summits are 172 members of the United Nations where proposals to address structural causes of poverty and ecological devastation are currently under discussion.

that ensure everyone has access to basic rights such as nutritious food, safe water, health care, education and economic opportunity.

Care for Our Earth

Climate change has become an urgent and felt manifestation of our collective abuse of the very environment that gives us life. We see the consequences in melting ice-caps and rising sea levels, lost habitats for threatened animal and plant species, and erratic weather episodes that threaten the lives of millions of people.

As scientists discover new accelerators of climate change and note the compression of time available to avoid irreparable damage, it is clear that bold action is needed now. We need to move beyond short-term political interests and arguments over who pays. In our indivisible planet we all pay–and future generations will pay dearly–if we continue to delay decisive action now.

Our faith traditions call us to make caring for the Earth a priority. Many Aboriginal spiritualities emphasize the circular nature of life and relationships of mutual care and nurture between people and ecosystems. Faith communities see the environment through a lens of life on the planet as a unified whole, not unlike the cells of a body, infinitely differentiated in form and function yet deeply interdependent. In this framework, industrialized countries have caused a disproportionate amount of environmental damage; they now owe an ecological debt to developing countries, to all life and to the future.

In 2010, we expect inspired leadership and actions that care for our Earth!

- Wealthier countries must move beyond self-interest and take the courageous steps needed to care for our planet. In the realm of climate change, we must implement concrete plans to ensure global average temperatures do not exceed a 2° Centigrade increase from pre-industrial levels.

- In developing countries, the challenge is complex since growth, poverty reduction and environmental stewardship must journey together. This requires innovative leadership in these countries along with increased collaboration between rich and poor countries to support climate change adaptation and mitigation.

Invest in Peace

The well-being of all can only be realized in shared security. Civilians in the world's poorest countries are the primary victims of war, insurgencies, criminal activities and other forms of armed violence. At the same time, we are collectively affected and implicated in global turmoil through our common humanity and through the priorities we set.

One clear example of misplaced priorities is global military spending, estimated to be 1,464 Billion US Dollars for 2008, while support for United Nations peace-keeping operations is only nine Billion US Dollars. Another example of wrong priorities is the continuing threat of nuclear weapons and other weapons of mass destruction which represent a moral affront to human dignity and the single gravest danger to life as we understand it.

Our faith traditions are steeped in the promotion of love for one another and deep respect for all humankind. Many of our most inspiring teachings are stories of reconciliation and compassion. We confess that there are those who inappropriately use religion to justify violent acts against others, and thereby offend the true spirit of their faith and the long-standing values of their faith communities. We need to work together to create paths of peaceful and sustainable coexistence.

In 2010, we expect inspired leadership and actions that invest in peace!

- We call on governments to make new and greater investments in building peace through negotiation, mediation, and humanitarian support to peace processes, including the control and reduction of small arms that every year are the cause of over 300,000 deaths globally.

- We call on states with nuclear weapons to make immediate and substantial cuts in the number of nuclear weapons and to cease the practice of having nuclear weapons on hair-trigger alert. Let these be the initial steps in a defined process leading to the complete and permanent elimination of nuclear weapons within the next decade.

Our Deep Desire for 2010

As people of faith and as concerned global citizens, we urge our communities to do our part to reduce poverty, care for the Earth and invest in peace. We also monitor the decisions our government leaders take, including decisions made at the 2010 political leaders' summit in Canada. We expect follow-through on past promises. We expect bold new actions based on the values and recommendations outlined here. Our prayers and wishes for wisdom and compassion are with our political leaders at this critical moment in our collective history.

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Dialogue on Globalization

About »Dialogue on Globalization«

As part of the international work of the Friedrich-Ebert-Stiftung, Dialogue on Globalization contributes worldwide to the debate on globalization and global governance. It is based on the premise that—through an inclusive and responsive global policy approach—globalization can be shaped into a direction that promotes peace, democracy and social justice.

The program draws intensely on the international network of the Friedrich-Ebert-Stiftung—a German non-profit institution committed to the principles of social democracy with offices, programs and partners in more than 100 countries.

The Friedrich-Ebert-Stiftung office in New York serves as a liaison between the United Nations, FES field offices and partners in developing countries to strenghten the voice of the Global South. It contributes to UN debates on economic and social development, and on peace and security issues. Towards this end, FES New York annually organizes some 30 seminars, conferences and roundtables and publishes regularly. In addition, it contributes to a dialogue on the work of the World Bank and the International Monetary Fund in Washington D.C..

The The New York office is located in close proximity to the United Nations headquarters. The office has four permanent staff members and provides internships for students specializing in international affairs, development and economic policy.

http://www.fes-globalization.org

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