

# WebMemo



Published by The Heritage Foundation

No. 2392  
April 10, 2009

## The G-20 Summit: Mistakes and Missed Opportunities

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The G-20 Summit in London promised to bring together the heads of the world's leading nations to address the global financial crisis. Instead, the summit agreed on measures that are by turn weak, vague, and sinister.

When the summit dealt with the current crisis, it failed to move beyond platitudes or to acknowledge the failure of most of its members to live up to their past pledges. When it turned to the future, it promised to implement measures that are, at best, irrelevant to the fundamental health of the global economy. At worst, these measures constitute a serious and sinister assault on free enterprise and democratic sovereignty around the world.

The summit was a public relations success. But it was a substantive failure. By refusing to stand up for economic freedom and instead substituting a vision of centralization and supranational control, the summit has not only done nothing for the cause of global economic recovery today; it has set in motion processes that could slow economic growth in the future, making another crisis more likely. Like the other participants in the summit, the United States must back away from the precipice of ever-increasing government regulation and global bureaucracy and turn instead to renewed faith in the economic and political power of the free market.

**The Summit's Mistakes.** The summit's measures fall into two categories: (1) errors that will waste money and expand the power of national governments to interfere in markets, and (2) policies that could erode the national sovereignty of the

United States and other democratic states around the world.

- *Errors That Waste Money and Politicize Markets.* First, the summit has agreed to treble the resources of the International Monetary Fund (IMF) to \$750 billion, support \$100 billion in funding for multilateral development banks, and increase trade finance to poorer countries.

The summit claimed that these measures—including the already-passed stimulus acts—will “by the end of next year, amount to \$5 trillion, raise output by 4 per cent, and accelerate the transition to a green economy.”<sup>1</sup> These claims have no basis in reality. Apart from the poor record of both the IMF and the World Bank and the conceptual fallacies of a “green economy,” most of this new funding is in the form of loans, which raises the specter of yet another third world debt crisis.

Second, “central banks have pledged to maintain expansionary policies for as long as needed... consistent with price stability.” This amounts to an endorsement of bigger government until those responsible for making the government bigger decide it is time to stop. As such, it gives a license

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Europe/wm2392.cfm](http://www.heritage.org/Research/Europe/wm2392.cfm)

Produced by The Margaret Thatcher Center for Freedom

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

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to any government to grow the state under the guise of fulfilling its pledge to the summit.

This is politically convenient for advocates of big government but irrelevant to the current crisis. Finally, the summit's argument that expansionary policies can be consistent with price stability ignores the history of inflation after 1945 and, specifically, the stagflation of the 1970s.

Third, the summit promises to implement principles from the international Financial Stability Forum (FSF) on pay and to support "sustainable compensation schemes" and "corporate social responsibility of all firms." The FSF poses a serious potential threat to national sovereignty, one that will remain in abeyance only as long as national governments retain the power to reject the FSF's principles.

But the idea that even national governments have the wisdom to decide what compensation schemes are "sustainable" is entirely false. Even more dangerous is the idea that governments should regulate all firms to ensure they are "socially responsible." This is simply a code word for politicized interference in markets. In the 1990s, such interference helped to create the subprime mortgage debacle in the United States that sparked the current crisis.

- *Policies That Endanger National Sovereignty.* While these errors will waste money and encourage national governments to manipulate markets for political purposes, the remaining policies are potentially even more damaging in the long run. For now, the meaning of many of the measures adopted by the G-20 summit remains obscure, but there is no mistaking their supranational drift and bias against economic freedom.

First, the summit promised to create a new international Financial Stability Board (FSB), with a "strengthened mandate," as a successor to the FSF. The current FSF works on the basis of information exchange and international cooperation, which are sensible principles and

entirely consistent with American sovereignty. If the FSB departs from them, it will be making a serious error.

Second, the G-20 states have pledged to extend regulation and oversight to all systemically important financial institutions and to ensure that credit rating agencies "meet the international code of good practice." The question, again, is what "oversight" means, what "international code" nations will be asked—or required—to subscribe to, and whether they will be sanctioned for failure to do so by a supranational organization.

More broadly, by placing its faith in regulation, the summit ignored one of the basic facts about the financial crisis: It was the regulated banks that failed. If regulation and oversight were the cure-alls for the development of systemic risk the summit implies, the financial crisis would never have happened.

Third, the summit's attendees promised to "take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems." As a response to the international financial crisis, this is nonsense. Tax havens played no significant role in the birth of the crisis—which originated in the leading economies of the West—and the world economy as a whole.

The attack on tax havens is, at best, a politically motivated irrelevancy. At worst, it is the start of a broader campaign to find new sources of money to tax and stigmatize as international wrongdoers states that, as an expression of their national sovereignty, have chosen to have lower taxes. These states are using their political freedom to promote economic freedom: They are benefactors, not malefactors.

**The Summit's Missed Opportunities.** The summit did one thing right: It called on all states to "refrain from raising new barriers to investment or to trade in goods and services, imposing new export

1. For all communiqué quotations see: Press release, "G20 Communiqué from the London Summit," U.S. Department of State, April 2, 2009, at <http://www.america.gov/st/texttrans-english/2009/April/20090403091501eajfas0.1415522.html&-distid=ucs> (April 9, 2009).

restrictions, or implementing World Trade Organisation (WTO)-inconsistent measures to stimulate exports.” In a global recession, where mutually beneficial trade is collapsing alarmingly, the last thing the world needs is protectionism.

But since the last meeting of the G-20 in Washington in November 2008, which also defended free trade, virtually every G-20 nation has passed protectionist measures. The London summit failed to name and shame the violators of November’s no-protectionism pledge. Nor did it make a firm commitment to conclude the Doha Round of the WTO.

Even more importantly, the summit made no serious effort to address the fundamental problem: Many of the world’s banks have many assets on their books that are worth far less—or are thought to be worth far less—than they were a year ago. The summit’s communiqué did refer to the (supposed) fact that all the G-20 nations have “provided significant and comprehensive support to our banking systems to provide liquidity, recapitalise financial institutions, and address decisively the problem of impaired assets.” But by putting the issue in the past tense, the summit, as the *Financial Times* observed, “ducked the important question of bank rescue beyond a few meaningless and self-congratulatory statements.... [They] showed more interest in future crises than in the current one.”<sup>2</sup>

**What the Summit Should Have Done.** The first step toward solving a problem is admitting it exists. The summit’s failure to acknowledge the ongoing seriousness of the banking crisis is therefore its most fundamental error. But all told, the summit’s policies are as irrelevant to the current crisis as they are dangerous to economic freedom and political sovereignty. Because it produced an agreed communiqué, the summit was a political success. Its errors of commission and omission, however, made it a substantive failure.

The summit should instead have embraced freedom. The contributions of lower taxes, free trade, free markets, and international cooperation on the basis of democratic sovereignty to both economic growth and human liberty are well known and were the basis of the world’s recovery from the economic and political crisis of the 1970s. Now more than ever, the United States and the nations of the world urgently need to reject the failed policies of the past and acknowledge that markets, not governments, are responsible for building prosperity.

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2. Wolfgang Münchau, “The London Summit Has Not Fixed the Crisis,” *The Financial Times*, April 5, 2009, at [http://www.ft.com/cms/s/0/2fc2c2be-220d-11de-8380-00144feabdc0,dwp\\_uuid=60a3db68-b177-11dd-b97a-0000779fd18c.html?nclick\\_check=1](http://www.ft.com/cms/s/0/2fc2c2be-220d-11de-8380-00144feabdc0,dwp_uuid=60a3db68-b177-11dd-b97a-0000779fd18c.html?nclick_check=1) (April 9, 2009).