

The Globe And Mail

A historic step toward a new world balance; Co-ordination has been tried before, but accountability will now rest at the highest levels

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TORONTO -- Against significant odds, the Group of 20 is moving closer to its goal of rebalancing the global economy.

In a surprising show of faith in an institution that has met only four times, leaders from countries as disparate as Germany and Saudi Arabia agreed yesterday in Toronto to subject their domestic economic programs to peer review within the G20.

By this fall's Seoul summit, countries have promised to explain in some detail how their domestic policies are helping to achieve the G20's goal of reducing the excessive mismatches in spending and saving that exacerbated the financial crisis. Then, with the help of the IMF and its expertise in economic modelling, the other members will assess whether each partner is doing enough.

The commitment is historic.

The promise by each leader agreed to put his or her cards on the table adds a level of transparency and credibility that the process lacked until now. While economic co-ordination has been tried before, it has been with lesser officials or the International Monetary Fund as the arbiter. Now, the accountability rests at the highest levels. Where previous failures could be blamed on bureaucratic deadlock, global economic co-operation is now a political imperative in the hands of presidents and prime ministers.

The increased transparency could even encourage competition among members to implement policies that curry favour with investors.

Since the review remains a voluntary exercise without penalties, success will depend on G20 members taking the process seriously, both by submitting credible policies and showing the courage to offer tough, but fair, criticism. Given how these countries allowed the global economy to get so out of whack in the first place, there is reason to be skeptical they have what it takes to deliver, especially as the economy improves.

Still, "it's a pretty significant step," said Tim Adams, managing director at the Lindsey Group consultancy in Fairfax, Va., and a former undersecretary of international affairs at the U.S. Treasury. "It creates the potential that this will become a serious exercise."

Going into Toronto, it was unclear whether the G20 was fully committed to their September pledge at the summit in Pittsburgh to create a forum in which they

would shape their domestic policies in way that would ensure "strong, sustainable and balanced" global economic growth.

In Pittsburgh, the G20 acknowledged that self-interested policy making had created the conditions for the global recession that was sparked by the 2008 credit crisis.

U.S. consumers spent too much borrowed money, an unsustainable circumstance that the world's major exporters were all too happy to exploit.

The Framework for Strong, Balanced and Sustainable Growth was launched to correct this and other policy mismatches. Few gave it much chance for success. Noting previous failures, academics, economists and former policy makers said they doubted sovereign nations would ever tailor domestic policies for the sake of the greater good. Going into Toronto, some countries, including China, were balking at accepting country-level reviews under the framework.

Daniel Schwanen, an award-winning economist at the Centre for International Governance Innovation, earlier this month published an analysis of the framework effort that was laudatory of the concept, but skeptical that national self-interest would allow the process to work.

"It is, of course, conceivable that the framework introduced at the Pittsburgh summit will prove only a passing phase, a temporary political convenience that usefully helped leaders' intentions to coalesce at a time of global crisis," Mr. Schwanen wrote in his paper.

But in Toronto, the reluctance to embrace a transparent process faded.

That might have had something to do with convincing evidence of what co-operation could achieve. The IMF and World Bank submitted studies that showed the G20 could generate GDP of \$4-trillion, create tens of millions of jobs and lift even more out of poverty if countries actually made the changes necessary to achieve more balanced growth. "We concluded that we can do much better," the G20's final statement said.

To be sure, the G20 is far from reaching its goal of a balanced global economy.

The IMF warned recently that trade imbalances, which narrowed after the financial crisis, are starting to move back to pre-crisis levels.

Also, G20 countries must be tough critics of their fellow club members. Any boost in credibility the G20 gets from embracing country-by-country peer review will be lost if the promises the process accepts lack ambition or commitment. Because the threat from global imbalances is present, the framework process must result in national programs that are implemented over the next three to five years, Mr. Adams said from Washington.

The G20 took another step toward credibility by describing the kinds of policies that various members should strive to implement. In the statement, it said advanced economies in the group already have committed to fiscal programs that will at least halve deficits by 2013 and "stabilize or reduce" debt levels by 2016. Those countries also must take steps to boost national savings and avoid protectionism.

The G20's prescription

Leaders of the Group of 20 nations reached some broad brush agreements appeared designed to please just about everyone at the table in Toronto. Strengthening the global rebound is the key goal, they said, but challenges remain, including an uneven recovery, global imbalances, high jobless levels and swollen debts.

The United States

The problem: Americans are spending too much and not saving enough, representing a big part of the global imbalance. The U.S. is facing a budget deficit of more than \$1.3-trillion (U.S.), though unlike other countries its debt is deemed a safe bet.

The steps: The G20's final statement did not mention countries by name but said "advanced deficit countries" should act to boost savings while still maintaining open markets and boosting export competitiveness.

China

The problem: Consumers aren't spending enough and the yuan is deemed by other countries to be artificially low, though Beijing pledged last week to allow the currency to appreciate.

The steps: Again while not naming countries, the G20 said "surplus economies" must spur demand with social safety nets, corporate governance and market development "to help reduce precautionary savings and stimulate private spending." It also cited the need for greater exchange rate flexibility in some emerging markets. China has already moved to allow its currency to appreciate.

Europe

The problem: Europe is the poster child for the debt problem, and every piece of news and each credit downgrade roils markets. While each country has its

own problems, several, such as Greece, Spain and Portugal, are in dire straits and all have pledged harsh austerity measures.

The steps: While all countries but Japan plan to halve their deficits by 2013 and stabilize debt levels by 2016, those with severe troubles must adopt measures that "will be credible, clearly communicated, differentiated to national circumstances, and focused on measures to foster ... growth."

Japan

The problem: If Europe is the poster child for debt troubles, Japan is the elder statesman, and is singled out for special treatment given how difficult it would be to meet the G20's target with gross government debt above 200 per cent as a percentage of GDP.

The steps: The G20 welcomed Japan's plan to cut. Canadian Prime Minister Stephen Harper said Japan gets "greater latitude" than other countries. "Japanese debt levels, while much, much higher than the rest of us, are also entirely financed domestically," he noted.

THE UPSIDE

The managing director of the International Monetary Fund, Dominique Strauss-Kahn, said the initiative by the G20 "holds out great promise." He also released an analysis showing the impact of collective action. Such a move would:

Boost world output over the medium term, or five years, by more than \$1.5- trillion (U.S.).

Create 8 million jobs in advanced economies and more than 21 million in emerging Asia and other region.

Bring some 33 million people out of poverty.

Boost economic growth by 2.5 percentage points by 2015.

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The Globe And Mail

Looking beyond the headlines of U.S. job loss; The drop of 100,000 U.S. jobs in June looks ugly, but isn't a sign of a double-dip back into recession

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The headline won't be pretty: U.S. loses 100,000 jobs in June.

But don't despair. The world's largest economy isn't sinking back into recession, victim of a dreaded double-dip.

Once again, the massive effort to conduct the U.S. Census every 10 years is injecting unusual volatility into the employment data.

This Friday is likely to produce an ugly number - perhaps a loss of 100,000 jobs, economists say.

That would mark the first net loss of jobs this year.

But economists are urging people to look beyond the headlines.

"Just as the census hiring juiced job growth over the past few months, its absence will overstate weakness in the June employment report and throughout the summer," economist Ryan Sweet of Moody's Economy.com explained.

The government hired 411,000 people to conduct the census. About 250,000 of them were let go this month.

It's the flip-side of May when census hiring produced a net gain of 431,000 jobs, adjusted for seasonal fluctuations. The May number disappointed many analysts because there was very little hiring outside of government, and the census. The private sector added just 41,000.

In June, what looks bad could actually be a good thing.

Economist Paul Dales of Capital Economics in Toronto says May's weak private-sector hiring was really just "a pause in an improving trend." He expects to see private sector employers add as many as 150,000 jobs in June.

And that, he says, should "reassure the markets and policy makers that the U. S. labour market recovery remains on track."

However, this doesn't mean that all is good. The jobless rate, at 9.7 per cent in May, is likely to stay there or even rise in June.

And as U.S. Federal Reserve chief Ben Bernanke acknowledged last week, the recovery is still weak and vulnerable to all sorts of other problems,

including the European debt crisis, the weak housing market and shrinking credit.

Until those problems are resolved, the U.S. economy appears likely to struggle to generate much growth.

The recession destroyed roughly 8.2 million jobs. And a weak and fragile recovery means it could be years before the United States gets back to where it was earlier this decade.

Imagine how much worse it might have been without hundreds of billions of dollars worth of government stimulus, and all those good-paying census jobs.

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The Globe And Mail

For business leaders, debt reduction, not stimulus spending, is top priority

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Byline: Tara Perkins

Excessive government debt is the global business community's single biggest worry right now, exceeding any concern about insufficient fiscal stimulus.

That's the urgent message that 43 of the world's most influential chief executive officers delivered to G20 finance ministers and Prime Minister Stephen Harper this weekend. Most of the executives were hand-picked by their national governments to fly to Toronto on the eve of the summit.

Reducing deficits is important not only because of the direct sovereign risk, but also because balanced government books are key to restoring confidence, which is important for economic growth, said Gordon Nixon, CEO of Royal Bank of Canada.

"Business leaders said, 'You can't keep doing this,'" said John Manley, head of the Canadian Council of Chief Executives.

Executives told politicians that the private sector is willing to step in and pick up much of the responsibility for future economic growth, but that it requires transparency and certainty from governments in order to do so.

"Stimulus is winding down and the private sector is going to have to come in and pick up the slack," said Hartley Richardson, CEO of Winnipeg-based James Richardson & Sons Ltd. But it will be hard to do so without clear rules of the road, Mr. Richardson and other business leaders agreed.

The leaders urged G20 finance ministers to work more closely with the business community, and told them that the villainization of corporate leaders - particularly those in the financial sector - is hampering the ability to move forward. Sixteen of the G20 finance ministers met with the business leaders on Saturday.

The corporate push for certainty about the rules of the road came in response to messages that the Canadian and South Korean finance ministers delivered to executives on Friday evening.

"It is very important, as you know, that we have a handoff - if I may put it informally - from the public sector stimulus that we have been doing in the G20 to the private sector," Canadian Finance Minister Jim Flaherty told them. "The advice we get from you is invaluable in terms of our deliberations and the deliberations of our leaders."

"We should open an era of grand co-ordination by

enhancing co-operation between the government and the private sector," said South Korean Finance Minister Jeung-Hyun Yoon. "I sincerely hope the business summit can serve as a platform for public-private collaboration and the starting point of the new normal in the global economic architecture."

Executives said financial sector regulation is one of the vital areas where there's too much uncertainty.

There was widespread recognition among business delegates that enhanced rules are necessary. Banks and markets require clarity soon in areas such as the cost of capital.

But the rules must "not push the system so far so quickly that it impairs economic growth," Mr. Nixon said in an interview.

Attendees said they were surprised to learn that there was less concern than they expected about Europe's financial health, even among European business leaders. "I'm leaving this meeting more optimistic about the global economy," Mr. Richardson said.

There was, however, significant worry about the environment in the U.S.

On the contentious issue of a bank tax, many CEOs were surprisingly accepting of the British government's decision to impose such a levy (including, according to sources, HSBC Holdings PLC chairman Stephen Green). British taxpayers were forced to bail out institutions during the crisis, and the tax might be a necessary step for Prime Minister David Cameron's administration to take to ensure voter support as it imposes tough measures it recently announced to begin tackling debt, CEOs suggested.

The executives were, however, staunchly opposed to a global bank tax or the creation of a fund that governments could tap in future crises. There was "zero support" for those concepts, Mr. Manley, who is also a former finance minister and deputy prime minister, said in an interview.

The group, dubbed the B20, had not intended to come up with specific recommendations for governments. The idea was for them to provide a "reality check" from the front lines of global commerce, Mr. Manley said. But "there was a lot more consensus than I expected to see," he added.

Participants said Mr. Harper adeptly handled the animated discussion with the business leaders on Saturday afternoon, and was in his element on topics

related to the economy.

**B20 MEMBERS / A WHO'S WHO OF
INFLUENTIAL BUSINESS EXECUTIVES**

Canadian delegation:

John Manley, CEO, Canadian Council of Chief Executives

Perrin Beatty, CEO, Canadian Chamber of Commerce

Hartley Richardson, CEO, James Richardson & Sons

Bill Downe, CEO, Bank of Montreal

Rick George, CEO, Suncor Energy

Pierre Beaudoin, CEO, Bombardier

Gordon Nixon, CEO, Royal Bank of Canada

International delegation:

China: Huang Tianwen, president, Sinosteel Corp.

Germany: Jurgen Hambrecht, chairman, BASF SE

Japan: Masayuki Oku, CEO, Sumitomo Mitsui Banking, and chairman of the Japanese Bankers Association

Russia: Alexey Mordashov, CEO, OAO Severstal

Spain: Cesar Alierta, CEO, Compania Telefonica

UK: Andrew Witty, CEO, GlaxoSmithKline PLC

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