The G-20 and Development: Three Trying Triads

Pedro S. Malan
Former Minister of Finance, Brazil; Former President of the Brazilian Central Bank; Current Chairman, Board of Directors, Unibanco

The triads referred to in this note are “trying” in the dictionary sense of “severely straining the powers of endurance”; in this case, of the G-20 national governments and their regional and global set of complex interactions.

The first triad is the one stated in 2010 by the G-20 itself as the “highest priority”: (1) to safeguard and sustain the recovery, (2) to strengthen the financial system against risk and (3) to lay the foundations for strong, sustainable and balanced growth. In fact, the G-20 wording mentions the three in one single sentence, indicating rightly so that they should be seen as related.

The second triad is the slightly older one of 2008 at the height of the crisis and it is made of: (1) crisis resolution, (2) future crises prevention and (3) longer-term structural and institutional reforms. Of course, these three also should be seen as related.

The third triad expresses the fact that, although we live in a complex global economy, key political decisions are still taken nationally—even though these decisions are often critically affected by real or perceived regional and/or global constraints. Therefore, the third triad is the (1) national, (2) regional and (3) global interactions so fundamental to the possibilities of moving ahead with the objectives of the other two triads.

Let me start with the items numbered 1 in the first two triads. The pair does not express exactly the same objectives. Safeguarding and sustaining the recovery may not only lead some to believe that the panic of late 2008 and early 2009 is over—which is true—but also that the crisis has been “resolved” and the recovery is well underway in the industrialized world.

But it is increasingly clear that the consequences of the greatest crisis since the 1930s in the developed world are still very much with us in terms of their effects on present and near future economic activity, rates of unemployment and significant uncertainties about the future.

With regard to the items numbered 2 in the first two triads, they are again not exactly the same. In fact, future crises prevention goes well beyond the call for “strengthening the financial system against risk”, critically important as it is. It is true that much progress has been achieved. But there has been no final agreement yet on the basic elements of a “resolution authority” for dealing with systemically important financial institutions with several cross-border operations, which are too big and too interconnected to fail, or to be rescued, or to be controlled by one single national or regional regulator/supervisor.

And “resolution authority” responsibilities as well as a higher degree of international cooperation between regulators and supervisors are essential for both strengthening the financial system against risk and preventing future crisis. But the prevention of future crisis goes well beyond the world of financial regulation, supervision and standard-setting.

This brings us to the items numbered 3 in the first two triads—and to their relations with the third triad. To use the old rhetorical structure of the trade, progress has been achieved even though many serious risks remain. Therefore, there is no room...
whatever for complacency. In fact, the crisis left deep scars in the real and financial sectors of the developed world. And the nature of their governments’ responses to the crisis, while absolutely necessary to avoid the worst of the crisis, created huge and serious long-term fiscal problems that need to be addressed. This will take years and involve painful political decisions about reforms.

It is a fact that these medium- and longer-term structural and institutional reforms, which are such an essential part of the laying of the conditions for strong, sustained and balanced global growth, depend on the short- to medium-term resolution of items 1 and 2 in the first two triads.

But the fact remains that the items numbered 3 in these triads are the truly fundamental ones for the G-20’s development agenda, if it really wants to have one that is systematically pursued.

It remains to be seen if one wants to look beyond declarations and communiqués signed by an ever-changing composition of individuals that are temporarily occupying the positions of head of state or head of government.

Indeed, it is very important to always keep in mind that behind most if not all international bodies, institutions, organizations and arrangements, such as the G-20, we have national governments with their own diverse, domestic, regional and global interests, priorities and changing views and balancing acts between continuity and change.

“Such is life”, as I wrote in a recent contribution for a Brookings-Korea Development Institute seminar in Seoul, “but so is the fact that the effectiveness, influence and potential role of the G-20 will be, when push comes to shove, no more than what the governments behind it may agree they want it to be”.

I am convinced that most, if not all, of the G-20 members want seriously to move ahead with the first two triads mentioned in this note, especially items 1 and 2 of both. I am also convinced that most, if not all, realize in general the critical relevance of items 3 of both first triads. The G-20 could perhaps help in the truly trying task of attempting to stimulate its members to identify the specific structural and institutional reforms, which are deemed to be essential for each of them. These reforms will be inevitably context-specific. This fact of life, rather than hindrance, could perhaps help to achieve a constructive engagement of its membership.

Giving some more structure and operational content to the idea already agreed upon of a “mutual assessment program” within the G-20 may help to move the process along and represent an important contribution to strong, sustained and balanced growth in the world. It is not easy. It will never be. It is very, very trying. But the G-20, as a group, has truly no alternative if it wants to survive as a relevant, living arrangement with a post-crisis development agenda.