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Jeffrey Sachs: G-20 Accomplishments Beyond Expectation

LONDON--The G-20 came through. What I witnessed as a member of Secretary General Ban Ki-Moon's delegation was deeply heartening. The leaders were serious, consequent, and - yes - even efficient in their work. UK Prime Minister Gordon Brown ably chaired the conference, President Barack Obama brought America back to global diplomatic leadership, and a number of leaders filled the room with intelligence, commitment, and determination to cooperate. Standouts included Jose Luis Zapatero of Spain, Kevin Rudd of Australia, Felipe Calderon of Mexico, Hu Jintao of China, and Lula da Silva of Brazil.

The results were beyond what most, including myself, expected. IMF resources were raised significantly, to provide a liquidity cushion for global trade and production. The World Bank and regional development banks (such as the African Development Bank) were encouraged to boost lending, backed by commitments of the G-20 to raise the capital base of these multilateral banks. Taken together, the combination of new credit lines of all sorts - in effect, new liquidity - is on the order of $1.1 trillion. While this is much less than direct spending in its effect on aggregate demand, the contribution to increased global liquidity will certainly be helpful for many economies, especially emerging-market economies suffering from an intense credit squeeze since the Lehman bankruptcy last fall.

Serious progress was also made on a framework of tighter global financial regulations, including controls on executive compensation, crackdowns on tax havens, controls over hedge funds, and much-needed regulation of the «shadow banking» system (broadly meaning investment funds that depend on very short-term borrowing in forms that compete with bank deposits). There were also commitments to new forms of global cooperation in financial regulation, including procedures for removing toxic assets from bank balance sheets. The G-20 also agreed to do better in the fight against creeping protectionism.

The poorest countries, by and large, were not in the room. As usual, their plight came far behind the immediate concerns of the high-income and middle-income countries. Still, through the assiduous efforts of Secretary General Ban Ki-Moon and several other leaders, there was a clear re-commitment to the Millennium Development Goals, a strong reiteration of commitments on development assistance (implying an increase in development assistance from around $120 billion in 2008 to at least $160 billion by 2010), and an intention to launch new global efforts on stronger social safety nets for the poor (led by the World Bank). There was also and innovative support for smallholder farmers to raise the food production and food security of the poor, championed strongly by the Secretary General, President Obama, and Prime Minister Zapatero.

Two crucial issues remained almost wholly off the table, and will need to be brought in sooner rather than later into future G-20 deliberations. Exchange rates were hardly mentioned, despite the fact that exchange rate adjustments are surely needed to smooth the elimination of large and unsustainable global trade imbalances. Also, the increasingly fragile position of the dollar as the world's reserve currency was discreetly ignored. Monetary policy and exchange rates played a large role in the onset

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of the crisis, and we will need deep reforms of international monetary arrangements in order to secure a sustainable recovery.

With all that the G-20 really accomplished, two more points are vital to appreciate. First, the G20 actions will certainly not stop the recession in its tracks, nor even prevent unemployment from continuing to rise markedly. We remain in the grips of a very deep recession with a dynamic beyond any immediate solution. The G-20 actions will help to stop the downturn from spiraling into a yet-deeper collapse, but will not stop the recession by itself. Second, much of the policy framework adopted by the G-20 is only a sketch of policy, not the detailed regulations and implementation strategy. The very hard work remains of translating the G-20 achievements into practical action. For that, the leaders will have to recognize that they need to designate key officials for round-the-clock work. Communiques are but a start, not a finish, of the process of true global cooperation.

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> The G-20 and the Class of 2020
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> While we all want the leaders gathered in London to deliver recovery in the months and years ahead, they should also act on the enduring lesson of this economic catastrophe: prevention.