

US wins G20 backing for growth plan

IMF would police policy co-ordination

Economists are divided on merits

By Chris Giles in New York

The Group of 20 countries were falling into line yesterday behind a US draft communiqué calling for new mechanisms to generate sustainable and balanced world growth. Economists, however, remained divided on the merits of the plan.

Washington wants an agreement on a "framework for sustainable, and balanced growth", including co-ordinated economic policies to achieve faster world growth without creating asset bubbles and unsustainable financial flows of money, both of which contributed to the global crisis.

A draft of the text, leaked to Reuters news agency,

said the US wanted the rest of the G20 to sign up to a process of "mutual assessment", policed by the International Monetary Fund, to ensure "policies pursued by individual G20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy".

Although some countries, such as Germany, have said they will not agree to any document with binding commitments to alter economic policy, more G20 countries have come on board with the US ideas.

China's foreign ministry said: "We approve of countries strengthening macro-economic policy co-ordination and together pushing forward the sustainable and balanced development of the world economy."

UK officials think the framework will work as it will have the political force of the G20 behind it. Stephen Harper, Canada's prime minister, backed it, saying world growth could no longer hinge only on "over-extended" US consumers.

Brazil spoke out against. "The way it is, this proposal is obscure and we do not

agree with it," said Guido Mantega, finance minister.

Economists were divided. Fred Bergsten, of the Peterson Institute for International Economics in Washington, said the plan had a chance of succeeding where so many other initiatives had failed because US attitudes had changed. "The potential game-changer is not new sanctions for the IMF or the World Trade Organisation but rather a big change in incentives for other countries, if they believe the US is serious about not returning to its role of consumer of last resort," he said.

China has shown signs that it is uncomfortable about remaining dependent on US consumers for its growth and is keen to boost domestic demand. But its rapid growth in recent months has been based on infrastructure investment, creating future extra capacity for its export industries.

Other economists are more sceptical about the substance of the G20 discussions. Simon Johnson, of the Sloan School of Management at the Massachusetts Institute of Technology, said the framework would be "a pretty meaningless pledge with no teeth and no

way of holding anyone to it - but it sounds good".

The G20 pledges on global imbalances will add to the mixed history of international economic agreements. Some have proved successful, such as multilateral trade agreements and the currency pacts of the 1980s. Others, such as the 2006 IMF multilateral consultations on global imbalances, went nowhere.

The more successful agreements have tended to run with the national interests of participating economies and have had strong legal underpinnings. Even agreements where international law is clear and powerful, such as the EU's stability and growth pact, have failed to stop countries busting their limits on budget deficits and debt.

