20 ON THE G20

WHAT IS THE G20?

The Group of Twenty (G20) comprises 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States of America, and the European Union, which is represented by the rotating Council presidency.

The G20 is playing an increasingly prominent role in the current economic crisis, and the first summit meeting of G20 heads of state/government took place in November 2008. The second of these landmark summits will take place in London in April 2009. As well as the heads of state or government of the above countries, plus Spain and the Netherlands, the Chair of The New Partnership for Africa's Development (NEPAD), the Chair of the Association of South East Asian Nations (ASEAN) and the President of the EU Commission are invited. The Chairman of the African Union Commission will also attend.

Information taken from www.g20.org and www.londonsummit.gov.uk/en/summit-aims/faqs/general-questions/who-will-attend March 2009

FOREWORD

On 2 April 2009 leaders of the G20 countries, together with those of Spain and the Netherlands, and representatives of major multinational organisations, gather for the London Summit. They meet at a time when the global financial system is experiencing its worst crisis since the 1930s and the world economy is in the midst of the deepest global recession since World War II. In a highly unequal world, the crisis is hitting hardest those who are most vulnerable to poverty or injustice.

G20 leaders have a lot on their agenda. Expectations are high and failure is not an option as far as the millions of people worldwide who have been affected by, or are threatened by, the crisis are concerned.

To help the leaders focus on what really matters, we asked a number of leading progressive thinkers to each come up with one policy recommendation for the G20 and to explain their choice in around 200 words. The results are contained in this booklet.

Our thinkers range far and wide with their proposals.

Some focus on the immediate economic crisis. They recommend measures to counter the downturn, such as Gerry Holtham's call for a coordinated fiscal stimulus; or to alleviate the plight of those most affected by it – Diane Coyle wants specific measures to help the unemployed and those in danger of losing their homes.

Others are concerned with righting the imbalances that are perceived to have created the crisis. These include Dieter Helm's recommendation for a switch from consumption to investment and Jayati Ghosh's call for a redistribution of income to allow wage-led, rather than debt-led, growth.

John Podesta and Professor Jiahua Pan, two members of the Global Climate Network established last year by ippr, are united in their plea for fiscal stimuli to be focused on low-carbon initiatives. Both also want to see green innovation and finance flowing from rich to poorer countries.

A third group comes up with some very different suggestions for ways in which the global economic system should be reformed. Jim O'Neill wants an overhaul of the system of global governance and the creation of a new G4 group, while Robert Schiller would like the G20 to establish an international market in Gross Domestic Products of the countries of the world.

There are also calls for reform of the financial system. David Pitt-Watson calls for the G20 to agree the principles to which all regulatory regimes must conform. Costas Lapavitsas wants commercial banks to be placed under public ownership.

Lastly, the G20 are urged not to forget issues that were on the agenda before the crisis developed and that remain important today, including poverty and climate change. For example, Gobind Nankani and Nancy Birdsall want increased resources for the developing world and Rowan Williams calls for a commitment to agreement on climate change at Copenhagen later this year.

The proposals contained in this booklet could help the G20 limit the effects of the recession, restore stability to the financial system and put the global economy back on course for sustainable and balanced growth which delivers for the most vulnerable. The proposals point towards the kind of progressive policies that ippr believes are needed to build a fairer, more democratic and environmentally sustainable world.

Of course, the G20's work will not be finished after the London Summit. Once the immediate crisis is over, world leaders will have to come up with policies that ensure a more stable global economy in which fairness and environmental sustainability take centre stage. ippr, through its new Global Change Programme and initiatives like the Global Climate Network, plans to be part of the debate that helps develop these policies.

Carey Oppenheim and Lisa Harker, Co-directors, ippr

CONTENTS

RAYMOND W. BAKER

TRANSPARENCY! This is becoming the neglected area in the G20 process. Economic stimulus is receiving enormous attention. Talk about strengthening regulation of the global financial system is ongoing. But transparency – dismantling the shadow financial system that got us into financial crisis – is increasingly de-emphasised.

The G20 leaders speak of the need for regaining 'stability' in global financial operations. Does this mean returning to the pre-crisis status quo? To an extent, the structure of tax havens, secrecy jurisdictions, disguised corporations, anonymous trust accounts, fake foundations, abusive transfer pricing and money laundering techniques lies at the heart of the current chaos. Regulation within this system will not prevent future crises; dismantling the shadow financial system will.

Transparency means substantially curtailing mispricing of trade, requiring knowledge of beneficial ownership in all cross-border banking and brokerage accounts, automatic exchange of personal and company tax information between nations, and country-by-country reporting of sales and profits by multinational corporations and financial institutions. Not rocket science, but a matter of political will.

If the outcome of the G20 process is to approach the ambitions arising from the first G20 meeting in Washington DC on November 15, transparency must be returned to the top of the agenda.

Raymond W. Baker is director of Global Financial Integrity, a guest scholar at The Brookings Institution, and senior fellow at the Center for International Policy

NANCY BIRDSALL

Up to US$1 trillion of official finance will be needed by 2011 to help developing countries weather the storm unleashed by rich-world regulatory failures. Dealing with debt might absorb half that amount. $500bn would be available to fill revenue gaps and for emergency job and food programmes, providing a fiscal stimulus that these countries cannot otherwise finance in the current climate. $500bn is equal to about 3 per cent of the GDP of all developing countries, compared with US and Chinese stimulus packages of 7 and 10 per cent of GDP respectively.

$1 trillion could be made available at almost no immediate cost to the traditional donors. The IMF could make $400bn available through measures including the issuance of new special drawing rights (SDRs). The Multilateral Development Banks (MDBs) could provide $300bn by making better use of current capital; and $50bn for low-income countries through measures including front-loading disbursements from soft loan windows. If some of these funds were used in conjunction with US and European swaps to developing country central banks, and if more countries were willing to lend to the IMF, $1trillion could be found.

The G20 could make this happen by encouraging the IMF to issue SDRs, calling for a temporary suspension of restrictions on the MDBs, and calling on the MDBs to make better use of their existing capital.

Nancy Birdsall is the founding president of the Center for Global Development in Washington DC

HA-JOON CHANG

Despite the continued affirmation of their commitments to free trade, the rich countries are now increasing the protection for their key industries through subsidies and government procurement programmes. This schizophrenia is only going to encourage hidden, open-ended protectionism, which will slow down adjustments and damage the integrity of the world trading system. They should admit the value of time-bound, conditional, and transparent protectionism in times like this, and come up with an international framework to accommodate it.

More importantly, the rich countries should admit that the developing countries need even more protectionism than they do. The forced, excessive trade liberalisation of the last three decades has reduced economic growth in many developing countries by hampering their ability to protect their 'infant industries'. Indeed, the rich countries themselves – starting from eighteenth century Britain, through nineteenth century United States, to twentieth century Japan and Korea – used such protectionism when they were developing countries themselves.

The Doha Round, which is the latest in the rich countries' push for trade liberalisation in the developing countries, should immediately be stopped. A new round of trade talks should be started that will reverse many of the excessive trade liberalisation measures and create more 'policy space' for developing countries.

Ha-Joon Chang is a reader in the political economy of development, University of Cambridge

DIANE COYLE

The crisis has undermined the deal governments have been offering their citizens for the post-1989 globalisation generation: that the scope of government can be safely limited because the market will provide. For the duration of the recession – especially because nobody knows how long or how severe it will be – governments will need to provide additional economic security.

Two measures are vital. First, keep people in their homes. In the UK, this should mean a promise that over-extended borrowers can stay in their homes as part-owners, with the Government – through local authorities and social landlords – taking on ownership shares as necessary.

Second, provide a guarantee of meaningful work. There should be a pledge that anybody who wants public sector work, on pay that gives a bit more than the benefits they would otherwise receive, can have it. This work would restore some much-needed civility and funds to parts of our public life. It is important to keep as many people as possible connected to the jobs market and deriving satisfaction and social connections from their work. And taxpayers are much better financing more arts group personnel, better-tended parks, visitors for the elderly and so on, than unemployment benefits.

Diane Coyle OBE runs the consultancy Enlightenment Economics and is a visiting professor at the Institute for Political and Economic Governance at the University of Manchester

DIANE ELSON

Use the moral compass provided by the Universal Declaration of Human Rights to guide all economic policy – this is the most important step that the G20 leaders could take to protect poor people from the effects of the global economic crisis and to ensure that recovery from the crisis leads to a reduction in poverty and inequality.

Trust in financial institutions has crumbled. Social solidarity is weak and getting weaker. Reregulation and reflation are not enough. A return to growth and greed will not reduce inequality. As Adam Smith emphasised, economies do not work well if guided by self-interest alone; they need the guidance of 'moral sentiments'.

The Declaration sets out an internationally agreed set of 'moral sentiments', including not only political, civil and cultural rights but also economic and social rights, including the right to work, the right to an adequate standard of living, the right to education and the right to health.

The G20 leaders should commit to ensuring that economic and social rights are progressively realised in their own countries. They should commit to doing nothing to hinder, and as much as possible to help, other governments in carrying out the same commitment. All detailed policy proposals should be evaluated in the light of this commitment.

Diane Elson is a professor in the Department of Sociology and the Human Rights Centre, University of Essex

JAYATI GHOSH

Recently, global capitalism has grown by lurching from bubble to bubble, encouraged by state policies and fed by speculative market forces. The danger is that the G20 (which is anyway an illegitimate attempt to bypass the United Nations) will try to revive growth by doing more of the same. But that replay button will not work, because other major global imbalances have to be resolved: between finance and the real economy, with a consequent large debt overhang in major economies; between surplus and deficit economies; between economic growth and natural resource use.

Therefore, even coordinated fiscal stimuli (which are obviously necessary, if currently unlikely) and transnational regulation of finance (equally necessary but even more unlikely) will not be enough, and may just lead to another, possibly even bigger, global crisis a few years down the line.

Instead, coordinated policies should focus on wage-led growth, which requires progressive redistribution globally as well as within countries, and changed production systems that meet the requirements of more sustainable lifestyles. This requires allowing trade and capital accounts to be managed differently, and encouraging diversification of trade and investment away from existing patterns.

Jayati Ghosh is professor of economics at Jawaharlal Nehru university, New Delhi, and the executive secretary of International Development Economics Associates (IDEAS)

DIETER HELM

The current economic crisis has been caused by excess consumption supported by high levels of borrowing in developed countries. Economic stability requires a return to sustainable consumption levels. Short-term kick-starts to consumption and borrowing will simply perpetuate the imbalances, and make the transition to a sustainable consumption path more painful.

G20 leaders should instead place the overwhelming emphasis on a switch from consumption to investment. In the short to medium term, that investment should be targeted at infrastructure, and within infrastructure those components which help the transition to a low-carbon economy should be prioritised. Electricity grids and distributions system and smart metering are the most important, followed by more sustainable transport networks. The long-term investment priority from a climate change perspective is R&D, facilitating transformational technologies by the 2020s and 2030s including batteries, technologies which move transport to electricity, and large-scale solar energy systems.

A focus on investment rather than consumption will require a major exercise in leadership. Dealing with climate change is urgent and expensive – world leaders should stop telling people it is cheap and that boosting consumption now is more important than holding consumption down to provide the funds for investment.

Dieter Helm is professor of energy policy at the University of Oxford

GERRY HOLTHAM

The G20 should agree to a coordinated fiscal reflation with a schedule of specific commitments from participating countries. The current account surplus should be a key indicator with surplus countries committing to proportionately bigger packages of spending and tax cuts than deficit countries. Some may resist, but an unbalanced programme in which the deficit countries took on the major role in boosting demand would perpetuate payments imbalances in the world economy, make the programme look less sustainable and so weaken confidence.

This should be backed up by a reform programme for the IMF with an increase in quotas, particularly for key emerging economies, and a dilution of the veto power of the United States. A revamped IMF should be charged with monitoring the reflation programme and receive expanded resources through the General Agreement to Borrow so that it can lend to the poorer emerging economies that are now short of bank finance. Thus it would provide support for world trade.

These will be difficult goals and the temptation will be to focus on important but less urgent issues like aspects of financial regulation. Somehow policymakers must concentrate on the first imperative, which is to prevent a slide into global depression.

Gerry Holtham is a hedge fund manager

COSTAS LAPAVITSAS

Large commercial banks in several countries are effectively bankrupt. Public money should not be wasted on them. They should be placed under public ownership and reorganised under full democratic scrutiny.

Public banks would have social authority to reveal bad debts, assign value to asset-backed securities, and deal fairly with bank bondholders. They would provide credit to support output and employment, instead of using public funds to protect shareholders while reducing lending.

Public banks would help restructure western economies away from finance. They would finance green industries, health and education services, advanced technologies, and provide mortgages and consumer credit without imposing exploitative charges and rates. Public credit would offer choice while buttressing expanded public housing, education and health provision. Public banks would also create money and operate the payments mechanism, supplemented by the Post Office or similar.

Inefficiency and corruption could pose problems. Public banks would be addressed through full accountability and democratic control with employee participation and through managing risks in line with long-term social and environmental aims; they would outperform private banks in these respects.

There are hundreds of thousands of finance specialists that could help operate public banks. What is needed is political will and popular organisation from below.

Costas Lapavitsas is professor of economics and associate dean of research, School of Oriental and African Studies, University of London

PHILIPPE LEGRAIN

G20 leaders should commit to resisting protectionism in the labour market.

Making it harder for foreigners to come to work in a country – or worse, expelling those already working there – is as short-sighted and pernicious as protectionism in trade, which G20 leaders rejected in Washington DC last November. It would depress demand, reducing local employment. It would play havoc with public services, depriving patients of doctors and nurses, the elderly of carers, and children of teachers. It would cause further dislocation to businesses struggling with shrivelled credit and collapsing demand – and deprive economies of the skills needed to drive eventual recovery.

Unfairly excluding poor and vulnerable migrants would also exacerbate the downturn in developing countries. The money they send home is a lifeline, especially in a crisis. Remittances to developing countries exceeded US$300 billion last year, almost three times total overseas aid. They account for a large share of GDP in many countries, protect families where there is a limited social safety net, and support demand in countries that cannot afford a fiscal stimulus. Instead of trying to reserve jobs for nationals, G20 governments should act together to boost demand and employment and sustain remittances to developing countries.

Philippe Legrain is a journalist, economist and author of *Immigrants: Your country needs them*, and *Open World: The truth about globalisation*

GEOFF MULGAN

The G20 needs to combine action on the immediate challenges of the crisis, and action to solve the longer-term problems that risk being sidelined. The crisis is partly the result of the imbalances of the United States' huge over-consumption and debt, combined with Chinese over-production and under-consumption, imbalances that have no precedent in economic history.

The only plausible long-term solutions will involve a major rebalancing, with China boosting domestic demand; reducing savings rates by creating government guarantees for welfare and health security; and slowly raising its exchange rate, probably with some controls to reduce the risks of speculation. Meanwhile, the US will need to reshape its economy to curtail credit and debt, and to raise savings rates. Almost certainly these changes, which will take many years to implement, will require new global institutions and arrangements.

In parallel, the G20 nations need to commit to a concerted programme of investment in innovation instead of directing fiscal stimulus packages to failing industries: they need to fix the future, not the past. That requires intensive and systematic innovation, much of it across national borders, directed to green jobs and technologies, ageing and chronic disease, poverty and education.

Geoff Mulgan is director of the Young Foundation

GOBIND NANKANI

The response to the global crisis remains paradoxically centred on the developed countries. As its effects have moved to hurt first the emerging economies, and now the ‘bottom billion’ economies, the World Bank, IMF, regional development banks and the UK Government have sought to put the spotlight on them, so far with limited success. The paradox is partly explained by the as yet unreformed governance structure of global institutions and forums. There is little recognition that any transfer of purchasing power to the developing world will surely be spent, not saved, and will generate global demand.

The developing countries are indispensable to overcoming the global crisis. To increase resources for them and to introduce the beginnings of a new governance structure in the multilateral institutions we need to:

- Double the volume of SDRs (Special Drawing Rights), distributing them equally between the IMF and the multilateral banks
- Introduce a new voting structure that reflects the distribution of global economic activity for all decisions on the allocation of these new SDRs
- Introduce fast-track support for single issue policy changes undertaken by countries in support of fiscal, monetary or structural reforms that will build greater resilience for their economies in the current crisis.

Gobind Nankani is president of the Delhi-based Global Development Network

JIM O'NEILL

I think the G20 should use this opportunity to overhaul the system of global governance. The G7 and G8 have been, since the late 1980s, the primary focal points for international economic policymaking decisions. Since the acceleration of the importance of China at the start of this decade, to hold any meetings without them present is almost pointless, whether they relate to global imbalances, foreign exchange issues, or indeed, global resource usage or climate change.

China has recently overtaken Germany to be the third largest economy in the world. Moreover, since 1999, France, Germany and Italy have all shared a currency and the same monetary policy, so they should no longer be members of the G7 separately. In addition, it is unclear why Canada and the UK should be present. We should have a new system in which the G20 meets quarterly or bi-annually, while on globally important cyclical matters of imbalances and foreign exchange markets, a new G4, consisting of China, Japan, the Euro area, and the United States, would meet quarterly or thereabouts.

Jim O'Neill is head of global economic research at Goldman Sachs

JIAHUA PAN

Emissions of greenhouse gases have caused dangerous interference with socio-economic and ecological systems. Who benefits the most from these emissions? Those who have emitted and continue to do so – generally the wealthiest. Who suffers most from climate change impacts? Those who have emitted less and whose emissions are for basic necessities – generally the poorest.

Action has to be taken, very urgently and on a large scale. Willingness and efforts to reduce emissions are highly dependent upon the rich in both the rich and poor countries decoupling carbon emissions from growth and wellbeing. Technology is important and financing can help, but ultimately it is the richest section of consumers who drive the demand for all the emissions and who can take action.

Therefore, taking the lead is not simply a matter of demonstration by the rich of new technologies that can help increase efficiency and develop low-carbon energy supply. They must also show how low-carbon, high-quality lifestyles are possible. It is imperative that G20 leaders take this to the heart of their policymaking and lead the way with low-carbon recovery initiatives.

Jiahua Pan is executive director of the Research Centre for Sustainable Development, Chinese Academy of Social Sciences

DAVID PITT-WATSON

Whatever the G20 tries to achieve, it needs to be practical. Drafting a comprehensive set of rules that will govern global financial markets and that will work fairly and effectively in all jurisdictions is not a practical goal. But it should be possible to agree the principles to which all regulatory regimes must conform. These would be that:

- All actors in the financial system are responsible, they understand that responsibility and taken together those responsibilities create a stable, trustworthy system.
- All actors are accountable and those to whom they are accountable are legitimate, qualified and take their responsibility seriously.
- Information is provided, by independent agents, that is relevant and comprehensive.
- Financial institutions have been stress tested, both for solvency and liquidity.
- Civil society, regulatory institutions and central banking authorities have rights and powers that give meaning to the above.

Such principles have corollaries: a preference for transparency in all transactions, clear lines of authority, coordination among regulators and an end to opaque trading in derivatives. They imply new institutions and a lender of last resort for smaller countries. And they raise questions over the incentives to Credit Rating Agencies and the adoption of ‘decision useful’ accounting standards.

David Pitt-Watson is founder of Hermes Fund Managers Ltd, for whom he still works, and is co-author of *The New Capitalists*

JOHN PODESTA

The London Summit is an historic opportunity for developed and developing countries to begin to make a fundamental shift in the way they produce and use energy. This must be a priority issue. Countries around the world are making more than US$2 trillion in new investments in an effort to recover from the global recession, and this spending must move us all towards a low-carbon future. The chance to align public expenditures of this magnitude will simply not present itself again for decades.

The transformation of the United States to a low-carbon economy is necessary to meet the climate change challenge, but it is not sufficient. A truly global strategy is needed to reduce carbon emissions and to green the economies of the rapidly developing world.

As part of this effort, the G20 must also ensure that the energy needs of the poorest countries are addressed. More than two billion people lack regular access to modern energy services, and 1.6 billion do not have electricity at home. Lack of access to clean, reliable, affordable energy increases health risks and early mortality, and impedes economic development.

The world's poorest countries have a right to development in a carbon-constrained world, and, as the primary contributors to global warming pollution, the wealthiest nations have a responsibility to assist in this development.

John Podesta is president and chief executive officer of the Center for American Progress

ROBERT SHILLER

I would like to see the G20 establish an international market for Gross Domestic Products of the countries of the world.

Some countries – Japan, for instance – have been hit much harder than others by the world financial crisis. One quarter's loss alone is not serious, but the extreme uncertainty surrounding today's world economy may mean that some countries will suffer serious longer-term losses while others prosper. We do not know who will be winners and who losers. Enlightened risk management would dictate that at least some of this uncertainty should be shared among countries.

The G20 should set in motion plans to promote GDP-linked securities. Governments might now state an intention to issue long-term securities in place of traditional debt, like the 'trills' Mark Kamstra and I proposed, shares equal to a trillionth of that country's own GDP, and to accept such securities from other countries as part of sovereign wealth funds, government pension fund trusts, or central bank reserves. Doing so would mark the beginning of a new era of sharing economic risks around the world.

The increased integration of the G20 economies attendant with holdings of trills would also help to align the incentives of policymakers and enhance international cooperation in times of crises.

Robert J Shiller is Arthur M Okun professor of economics at Yale University

2020 2020 2020 2020 2020 2020

GRAHAM TURNER

A new global financial framework must tackle the enormous trade imbalances and even bigger capital flows that arose during the bubble years, requiring both surplus and deficit countries to take remedial action. The source of capital inflows needs, therefore, to be monitored on a bilateral basis.

International targets should limit current account deficits to 3 per cent of GDP. Capital inflows should be limited to this benchmark too, and should also not be allowed to exceed current account deficits.

Countries must also collectively monitor the growth in private domestic borrowing. The IMF provides consistent data on borrowing across over 180 countries. This comprehensive database should be used as a building block for an international agreement to limit excessive borrowing, particularly when driven by excessive capital inflows. Internationally-agreed targets need to be set on borrowing. Borrowing targets based on consistent data would then lead to a better understanding of the policies needed to control capital flows.

It is unconscionable that many emerging market economies experienced increases in private sector debt that have approached and even exceeded 1000 per cent since the millennium.

The power of unregulated capital to overwhelm a country's defences, sparking extreme asset inflation, remains a scourge. It needs to be tackled with clear targets for current accounts, net capital flows and domestic credit encompassing all countries within the IMF.

Graham Turner, GFC Economics, is author of *The Credit Crunch*

ROBERT WADE

The financial system needs reform to tilt the trade-off between stability and innovation more towards stability. Here are eight reform components.

1. 'Repatriate' banking so that banks' cross-border activities are more constrained by the reach of their lender of last resort.
2. Banks, not shadow banks, should create liquidity.
3. Separate 'saving' and 'investing' functions.
4. Savings organisations should be run on a 'trust' basis, as non-profits, many to look like cooperatives or mutuals.
5. Investing organisations could be both public and private, with the public ones having some democratic accountability and exercising discipline over the private ones.
6. Both private and public banks should operate with leverage ceilings much lower than the 30+ :1 debt-to-equity ratios which the big US and UK banks were operating with.
7. Both would be subject to the requirement that new financial products be approved by a third-party regulator.
8. Central banks must find a way to do counter-cyclical monetary policy, and limit bubble dynamics in asset markets.

The Millennium Equality Goal might be to cut the share of the top 1 per cent in US personal income from its present 23 per cent to 16 per cent by 2020, or half way to the 9 per cent it was in 1973.

Robert Wade is professor of political economy and development at the London School of Economics

2020 2020 2020 2020 2020 2020

KEVIN WATKINS

The G20 is uniquely well-placed to break the deadlock in negotiations for a post-2012 agreement to cut carbon emissions and avoid dangerous climate change.

Any multilateral climate agreement must include developing countries, yet the governments of those countries justifiably fear that a commitment to cut emissions could compromise economic growth, poverty reduction and employment.

There is a solution: improved energy efficiency in the short term and harnessing untapped opportunities for renewable energy sources in the longer term.

We propose a multilateral mechanism to cover the incremental costs to developing countries of accelerating the transition to a low-carbon economy. The mechanism would work by financing technology transfer, by underwriting investment risk, and – where necessary – buying out intellectual property rights.

Cleaner coal technology is an immediate priority. For developing countries dependent on coal the challenge is to get more energy – and less CO_2 – out of coal. A country like India could increase coal-based energy efficiency by half at an annualized incremental cost of around US$3-3.5 billion or a total of about $78 billion until 2032. Financed by rich countries, the mechanism proposed here would cover that cost.

By putting technology transfer at the heart of the climate change negotiations, the G20 could prepare the ground for a deal that cuts carbon without compromising poverty reduction.

This proposal was prepared jointly by Kevin Watkins and Arunabha Ghosh of the Global Economic Governance Programme, University of Oxford

ROWAN WILLIAMS

An ethical economic policy involves factoring in to our thoughts about money-making two fundamental things. The first is that we have to recognise that we exist in a world of materially limited resource – which means that environmental exhaustion or degradation has to be taken into account in any assessment of the cost of projects or transactions. The second is that we need to move away from the superstition that some kinds of transaction are practically risk-free. Both financial and environmental irresponsibility reflect the same underlying illusions. Both generate poverty and displace risk on to the shoulders of those least able to bear it.

So in considering what policy initiatives the G20 governments might be looking at, I'd want to ask: what international protocols are needed to guarantee a convergent sense of how environmental cost is to be reckoned? I suspect that getting this right would in itself introduce into the language of economics a sense that it couldn't be only about the mechanics of generating money and might keep other issues in perspective. We have to understand that, in a world of scarce resources, environmental exhaustion immediately drives the poorest further into the spiral of poverty and ultimately impoverishes us all; and no sophisticated financial products can finally offset cost on this scale. The G20 should commit to doing everything in their power to press for an agreement on climate change at the UN conference in Copenhagen later this year.

Rowan Williams has been the Archbishop of Canterbury since 2003. He is the senior bishop of the Church of England and of the worldwide Anglican Communion

MUHAMMAD YUNUS

Credit markets were originally created to serve human needs to provide business people with capital to start or expand companies. In return, bankers and other lenders earned a reasonable profit. Everyone benefited. In recent years, however, the credit markets have been distorted by a relative handful of individuals and companies with a different goal: to earn unrealistically high rates of return through clever feats of financial engineering.

Urgent redesign of the world's financial systems and a major shift to a more inclusive banking system through microcredit and social business is needed. G20 leaders must seize the opportunity of the finance crisis to come up with an alternative financial system, based on trust and selflessness.

The most important feature of the new global economic architecture will be to bring the half-built theoretical framework of capitalism to completion by including at its heart a second type of business – the social business – in the market place. While the financial world collapses all around us, the Grameen schemes – businesses with a social purpose – are thriving by extending credit and opportunity to the world's poorest, begging the question: who is really credit-worthy?

The G20 leaders must start introducing social businesses in the bail-out packages for the bottom three billion people, by creating a global social business fund to provide loans and equity for businesses like Grameen.

Muhammad Yunus, 2006 Nobel Peace Prize winner, is managing director of Bangladesh's Grameen Bank

Expectations for the G20 London summit are high.

To help the leaders focus on what really matters, ippr asked a number of leading progressive thinkers to each come up with one specific policy recommendation for the G20. The results are contained in this booklet.

Our thinkers range far and wide with their proposals.

Some focus on the immediate economic crisis. Others are concerned with righting the imbalances that are perceived to have created the crisis. A third group comes up with suggestions for ways in which the global economic system should be reformed and for fiscal stimuli to be focused on low-carbon initiatives. There are also calls for reform of the financial system. Lastly, the G20 are urged not forget issues that were on the agenda before the crisis developed and that remain important today, including poverty and climate change.

The Institute for Public Policy Research (ippr) is the UK's leading progressive think tank, producing cutting-edge research and innovative policy ideas for a just, democratic and sustainable world.

Since 1988, we have been at the forefront of progressive debate and policymaking in the UK. Through our independent research and analysis we define new agendas for change and provide practical solutions to challenges across the full range of public policy issues.

With offices in both London and Newcastle, we ensure our outlook is as broad-based as possible, while our international and migration teams and climate change programme extend our partnerships and influence beyond the UK, giving us a truly world-class reputation for high quality research.

ippr, 30-32 Southampton Street
London WC2E 7RA, UK
Tel: +44 (0)20 7470 6100 | E: info@ippr.org

www.ippr.org