Cato Scholars Comment on G-20 Summit

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Richard W. Rahn, senior fellow:

The G-20 now contains both democratic and non-democratic nations, and both financially responsible and irresponsible countries. The test the government leaders face is, will they use the opportunity to agree to a set of policies that will increase global economic growth and liberty, or will they choose to use the meeting to conspire against their own citizens and those of countries not represented, for their own narrow and selfish short-run political interests?

President Obama of the U.S. and Prime Minister Brown of the U.K. will be pressing for more so-called stimulus spending by other nations, despite the fact that the historical evidence shows that big increases in government spending are more likely to be damaging and slow down recovery than they are to promote vigorous economic expansion and job creation. The G-20 would be wise to resist such calls for more government spending. Many nations, including the U.S. , have engaged in protectionism in recent months despite the near unanimous view of economists that protectionism will result in more unemployment and lower real incomes. Some members of the G-20 are openly advocating tax protectionism as a form of economic scapegoating for their own failed policies. The attacks on the low-tax states by the high-tax states is as dangerous as any tariff on goods and services since it reduces both the quantity and proper allocation of needed investment capital to revive the world economy. If the G-20 resorts to attempting to punish low-tax states, rather than correcting their own counterproductive policies, it will be a sign of intellectual and moral failure of the meeting.

Daniel J. Ikenson, associate director, Center for Trade Policy Studies:

I'm not as concerned as some free-trade advocates that President Obama and the Democratic Congress will drag the U.S. and global economies into a protectionist quagmire—but the weeks and months following the G-20 summit will be a stern test of that faith.

Although there are many differences of opinion between G-20 governments on how best to endure and combat the global recession, there is consensus in their rhetoric about trade and protectionism. How to convert pro-trade, anti-protectionist rhetoric into strong mutual commitments by governments, however, is a more challenging matter—and will be a prominent topic of discussion in London.

Last November, G-20 leaders vowed to avoid any protectionist measures for at least one year, but a recent World Bank study found that 17 of the 20 countries have already abrogated that commitment. The invocation of protectionist policies is rather routine, unfortunately, and the measures cited by the World Bank include many that wouldn't raise alarm in a stronger economy. It is the fact of global recession that has made the world hypersensitive to any policies that might be perceived as protectionist.

Certainly it is crucial to avoid protectionist policies that clog the arteries of economic recovery and help nobody but politicians. But it is also important to keep things in perspective: the world is not on the brink of a global trade war, as some have suggested. Ministers in London should make strong commitments to trade openness without hyping the fears of protectionism unnecessarily.

Ian Vásquez, director, Center for Global Liberty and Prosperity:

At their upcoming summit, the G-20 should focus on promoting policies consistent with wealth creation, such as free trade and lower taxes. Yet the push by some countries for massive increases in spending to address the global financial crisis smacks of political and bureaucratic opportunism. A prime example is Washington's call to substantially increase the resources of the International Financial Institutions—despite the fact that official lending agencies have not found a way around a major problem central to their lending: the lack of accountability, which helps explain the poor record of international aid at promoting growth or reform. There is no reason to think that massive increases of the IFI's funds will not worsen, rather than improve, their record or the accountability of the aid agencies and borrower governments.