G20 leaders attempt to create a new world order

November 17, 2:26 PM Newark Public Policy Examiner Hana Denson

On September 24 and 25, world leaders from 20 countries met to discuss the global economy and its reformation.The overall message of the summit in Pittsburgh was the plan for a new world order. This would involve reforming the the International Monetary Fund (IMF) and the World Bank in order to give developing countries more voting power.

According to the G20 research group, "voice reform" in the IMF will establish "the G20 as the new centerer of global economic governance... [which] would finally give the central role to the emerging and established powers... It would treat established and emerging powers as equals.'

This would mean reducing IMF seat holders from 24 to 20 but leaving the US shareholding at 17%. In the World Bank, 3% of shareholding would move to developing countries. This change comes less than 2 years after the group added 12 developing countries to the original 8 (7 countries plus the EU).The core G8 countries announced on September 25 that they would not meet separately as an official group. Instead, the group of 8 will hold a separate gathering the night before any G20 event (NBC report).

All of this came a day after the UN General assembly where Security General Ban Ki-Moon called for a time of "Multilateral ism" and "Genuine Collective Action".

But who needs to act and what will the result be?in order to answer these questions we need to understand how the current system has developed.

THE OLD WORLD ORDER

In 1944, International leaders from 44 countries met in New Hampshire to construct a post-war international monetary system which came to include the creation of the IMF and the International Bank for Reconstruction and Development (IBRD), together known as the Bretton Woods System. The system established a global exchange rate based on the US dollar which was backed by the gold standard. The American dollar thereby became beneficial for any nation to own. When a developing country was able to increase its exports to the US, it could stockpile foreign (American) currency and invest in domestic production which in turn encouraged employment. The dollar became the chief American export. This constant outward flow of capital was extremely lucrative for the US after WWII.

Even though the dollar was supposedly backed by the gold standard, the US did not limit itself to spending the capital it could exchange for gold, and continued to pay for exports with its deficit. By the late 1950s the world began experiencing a "dollar glut" (saturation of US capital). Today, the global economy has come to rely on a floating exchange rate, meaning the US dollar depreciates when it is not in demand. However, when the dollar was still linked to gold it was unable to adjust its value to cover global inflation. In order to prevent a collapse of foreign confidence and of the US economy, President Richard Nixon suspended the gold standard.

AFTER GOLD: PROFITING FROM FICTITIOUS CAPITAL

The US dollar is again faced with the threat of losing global confidence. The collapse of major national banks along with the mortgage crisis has proven that the US economy has been paying for world leadership with interest--money it does not and has never possessed. Writing for Time magazine, Justin Fox summarized:

The advantage of having your country's currency as the world's reserve currency is that you don't really have to play by the rules: You can run big deficits financed by the rest of the world, you can spend more than you earn, and to a certain extent you can escape the consequences of your profligacy by devaluing your currency when you run into trouble. The obvious disadvantages are that running big deficits and spending more than you earn aren't really great long-term economic strategies

Until the recent depression, the world has relied on the US as the consumer of last resort-- the demand for other nations' supply. But now that the dollar has depreciated, the rest of the world, including the US, hopes China will supplement the drop in US consumption. A Morgan Stanley report stated "between now and 2018, Chinese consumers are likely to add more to global consumption than U.S. consumers, and that by 2018, Chinese consumers will be spending 40 percent as much as U.S. consumers, up from 16 percent in 2008."

The US seems to believe that Chinese consumption will raise the value of, and consequently demand for, the American dollar, thereby avoiding the need to re-evaluate US hegemony.

SEARCHING FOR MULTILATERALISM

Back in March, the People's Bank of China Governor Zhou Xiaochuan proposed a reform to the International monetary system that would replace the current role of the US dollar with an international currency based on the SDR or "Special Drawing Rights" already used by the IMF. The SDR is referred to as a "basket of currencies" because the exchange rate is calculated according to 5 national currencies which are chosen by the IMF every 5 years. SDRs act as a sort of artificial gold standard that other countries can purchase in order to participate in global transactions.

In his statement, Zhou stated

A super-sovereign reserve currency not only eliminates the inherent risks of credit-based sovereign currency, but also makes it possible to manage global liquidity. A super-sovereign reserve currency managed by a global institution could be used to both create and control the global liquidity. And when a country´s currency is no longer used as the yardstick for global trade and as the benchmark for other currencies, the exchange rate policy of the country would be far more effective in adjusting economic imbalances. This will significantly reduce the risks of a future crisis and enhance crisis management capability.

Seven months after this statement was made, the new world order seems to be developing through the struggles of the world's leading economies to control the flow of capital. Though the incorporation and increased potential for vocalization of developing countries into policy discussions seems to be a step in the right direction, it remains to be seen how this direction will affect the lives of global citizens.

Check back for ongoing coverage of steps being taken toward world economic reform, including President Obama's recent trip to Asia.

http://www.examiner.com/x-27777-Newark-Public-Policy-Examiner~y2009m11d17-G20-leaders-attempt-to-create-a-new-world-order