



Policy Brief

Macroeconomic Policy and Global Imbalances at the G20

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G20 Research Group

At the Toronto Summit on June 26-27, with regard to macroeconomic policy and global imbalances the G20 leaders will face the immediate challenge on of coordinating exit strategies and getting national debts under control. They will also face the challenge of persuading countries other than the United States — particularly China, Japan and Germany — to increase their spending to bolster the economic recovery. It may be an extremely difficult balance to achieve, especially for the Europeans, currently coping with a sovereign debt crisis.

In January 2010, Canadian prime minister Stephen Harper noted that “the seeds of a new era of balanced, sustainable growth were planted” at the G20 Pittsburgh Summit in September 2009. In Toronto, the leaders will have to work hard to nurture those small and struggling plants so they can thrive.

The G20’s balancing skills will be critical given the fragility of the current economic recovery. The recent situation in Greece and the massive debts in many other countries require close attention. At the beginning of June, Canadian finance minister Jim Flaherty said that finding solutions for debt and spending programs will be the “number one” issue at the Toronto Summit. The International Monetary Fund (IMF) has suggested that countries reduce their debt load to 60% of their economies by 2030, and Canada is likely to propose interim targets. The G20 leaders have already agreed that future economic growth must be balanced and sustainable. They will need to work to agree on the requisite policies.

The G20 also needs to improve and implement the Framework for Strong, Sustainable and Balanced Growth, announced at the Pittsburgh Summit, to help restore confidence. The leaders also committed at Pittsburgh to work together on a “more balanced pattern of global growth.” They agreed that “ensuring a strong recovery [would] necessitate adjustments across different parts of the global economy, while requiring macroeconomic policies that promote adequate and balanced global demand as well as decisive progress on structural reforms that foster private domestic demand, narrow the global development gap, and strengthen long-run growth potential.”

At Toronto, the G20 leaders will commit to getting their national debts under control and continuing to work on coordinated exit strategies, cognizant of the potential strain this might place on the still nascent economic recovery. Their finance ministers, along with the IMF and the Financial Stability Board (FSB), will deliver policy options to improve and implement their Pittsburgh framework. They will also commit to improve living standards in developing and emerging economies and to reduce global unemployment.

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