

## Gordon's big top

*The global ringmaster will get little applause at home as fiscal woes mount.*



*Illustration by David Simonds*

The last time a global economic summit was held against a dire backdrop of capsized banks and sinking economies, a new American president was in the White House and Labour's first prime minister at 10 Downing Street. Hope abounded that the world's leaders could agree in London on concerted action to turn things round.

But the World Economic Conference attended by delegates from 64 nations in 1933 was an abject failure. Franklin D. Roosevelt chose not to show up but sent a "bombshell" message that sabotaged the temporary stabilisation of currencies, seen as a crucial first step towards renewed international co-operation. Far from reversing the move towards economic nationalism, the summit marked a further staging-post along the way to it. For Ramsay MacDonald, the British prime minister who by then headed a cross-party government, the event brought chagrin rather than glory.

Set against that dismal precedent, the Group of 20 (G20) summit on April 2nd could hardly fail to do better. Unlike Roosevelt, President Barack Obama will attend in person and is calling for more rather than less co-ordination to counter the downturn. The meeting will not be undermined by the international tensions arising from war debts and reparations that were so poisonous in the interwar years. But it will struggle to reach some profoundly difficult decisions.

Much is at stake for Gordon Brown, who must hold a general election by the middle of next year. His display of resolve in rescuing the banks last October brought a bounce in his poll ratings. For a while he basked in the warmth of global esteem as other countries followed suit and underpinned their banks too. More recently, however, the opposition Conservatives have extended their lead over Labour in the polls as job losses have brought home the intensity of the recession. Mr Brown is hoping that the summit, which will be held in London's regenerated docklands, will breathe new life into both his political stock and the British economy.

The prime minister's programme for the event includes crowd-pleasers such as a crackdown on tax havens and limits on banking bonuses. But there are three main goals: to provide more resources for the International Monetary Fund in order to assist crisis-stricken emerging

economies; to avoid another financial meltdown through tougher regulation and more international oversight; and to ensure that countries around the world combat the recession by stimulating demand. Although the meeting involves a mix of developed and emerging economies, the main dividing line in the run-up to the summit has been the familiar one between America and continental Europe.

The IMF said earlier this year that it wanted to double its resources to \$500 billion (£339 billion). When the finance ministers of the G20 met in the middle of March in Britain, they agreed that the fund's lending capacity should be boosted "very substantially". A week later EU leaders said they would make €75 billion (\$102 billion) available. The prime minister can be pretty confident that he will score a success on his first objective for the summit.

Some progress is also being made towards the second goal of greater international financial oversight, mainly because Mr Brown has himself given ground. For years Britain has resisted calls for a common European regulator, fearing that it would introduce onerous new rules which would lessen the City's appeal to footloose financial firms. In the wake of the banking crisis, that doughy resistance has crumbled. On March 18th Lord Turner, the head of the Financial Services Authority, toughened up Britain's own approach to supervision but also backed a new body to co-ordinate regulation across the EU.

Although Mr Brown may be able to unveil some concrete advances towards the first two goals of the summit, success on the third looks more doubtful. That will be a particular disappointment to the Americans, who regard this as the most pressing task for the meeting. Their starting-point was that other countries should emulate their huge budgetary stimulus. But that got a dusty reception from European leaders such as Angela Merkel, Germany's chancellor. They concede that Europe may have done less in discretionary fiscal measures but point out that "automatic stabilisers"—the boost from higher public spending and lower taxation that happens anyway when economies weaken—are more powerful than in America, with its smaller state and social safety net.

Mr Brown's ability to broker a deal on this crucial question is weakened by the increasingly apparent fragility of Britain's public finances. Recent forecasts from the IMF showed that the budget deficit would reach 11% of GDP in 2010, the highest in the G20. On March 24th, the start of a whirlwind five-day trip to Europe and the Americas to mobilise consensus before the summit, Mr Brown's bargaining position was torpedoed at home. In an unusual public intervention before next month's budget, Mervyn King, the governor of the Bank of England, advised caution about further fiscal stimulus in Britain. In an additional blow, the Treasury was unable to sell all the government bonds it wanted to at an auction the following day—the first time this had happened since 2002.

Despite these rifts and setbacks, Mr Brown will probably be able to portray the summit as a success, unlike its unfortunate precursor in 1933. Even if it achieves rather less than is hoped, it will still mark a willingness to co-operate rather than a determination to retreat into isolation. That will allow gaps between the American and the European positions to be papered over.

And the very choreography of the event will play to Mr Brown's advantage. The images of world leaders, including Mr Obama, converging on London to try to sort out the international economy will underscore his version of the British recession: that it forms part of a global downturn for which he cannot be blamed.

Yet the summit will also highlight not just the extraordinary weakness of Britain's public finances but also the fact that the British recession will be one of the deepest. That will buttress the Conservatives' claim that Mr Brown was an imprudent chancellor who presided

over an unbridled economic boom and bust. Despite the efforts the prime minister has made as global ringmaster for the G20, the British public is unlikely to give him much credit once the travelling circus of world politicians folds its tent.

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