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Challenges before G20 Summit

The agenda for G20 Summits, comprising the largest economies of the world, traditionally focuses on major challenges to the global economy. The core objective for the Summit in Russia this month is the development of a "set of measures aimed at boosting sustainable, inclusive and balanced growth and jobs creation around the world". The eight key areas on which deliberations will focus are: Framework for strong, sustainable and balanced growth; jobs and employment; energy sustainability; development for all; international financial architecture reform; enhancing multilateral trade; strengthening financial regulation and fighting corruption.

This Summit is being held at a time when economic disparities are increasing with rising unemployment, unsustainable development, displacement and deprivation induced by development, large-scale tax evasion and unfair trade practices. The world never had so much wealth before or so many disgruntled people. The four key factors responsible for this growing disparity and unsustainable development seem to be a growth pattern paradoxically leading to greater inequality; a mindset that is increasingly treating nature as personal asset and not a common resource; the inability of the poor to access capital and, finally, the emergence of a world order mired in corruption and tax frauds.

Higher growth need not necessarily lead to greater equality as is generally presumed. India provides a classic example. Between 2007 and 2001 when India had an average GDP growth of 7.9 % its ranking on the Human Development Index (HDI) slid from 127 in 2005 to 134 in 2009 and, for the first time in history, four Indians found a place amongst the 10 richest persons in the world. But the same year, three of the 10 poorest persons in the world were also Indians.

This happens because the governments are focused on estimation of GDP and do not factor in issues of equality and human development while assessing growth, despite tools like Gini Coefficient, HDI, etc. As a result, no concurrent correctives can be operationalized when there is an increase in inequality or deterioration in the services available to people. On the other hand, natural resources are being exploited in unsustainable manner due to the overarching craving for rapid economic growth. No serious efforts are being made to develop appropriate tools to assess and guide the exploitation of natural resources sustainably. Finally, while the pattern of economic growth is enriching some sections of society, it is excluding and displacing a vast majority of people leading to social conflicts degenerating into armed violence.

Hence, to have a sustainable and equitable growth that also contributes to greater peace, it will not be sufficient to depend only on measurement of the GDP; a composite tool needs to be adopted for simultaneously measuring economic growth, income inequity, social development, conflict assessment and sustainability to determine and operationalize appropriate correctives if any of the five parameters for holistic growth lag behind. This Composite Tool could be designated as ***Growth, Equity, Conflict and Sustainability (GECS) Audit*** and can be utilised to ascertain if the volume and trajectory of growth being pursued is appropriate, sustainable and promotes equality to mitigate conflicts.

As the most powerful politico- economic formation in the world with the required expertise and resources, G 20 is eminently suited for development of an appropriate framework for a GECS Audit that could indeed give a composite measure of holistic growth. Without it, talk of inclusive or sustainable growth would be a meaningless political slogan.

Mazher Hussain

The other key challenge is international financial architecture reform to ensure financial inclusion and check tax evasion. But financial inclusion mostly seems to mean enabling the poor and micro entrepreneurs to open bank accounts and not their access to bank credit even though banks collect approximately 60% of their deposits from the middle classes, salaried sections and even the poor, with governments accounting for another 20 to 25%. The business sector that hardly contributes about 20% to bank deposits manages to get as loans 80% of the funds with banks while the poor and self-employed entrepreneurs, who together would constitute over 75 per cent of the population, get less than 10% from the loans given by banks and are exposed to the mercy of loan sharks even for their very rudimentary business needs and are unable to prosper due to the very exorbitant interest rates charged.

Further, the entire banking system seems to be structured to serve large businesses that prefer a monthly or quarterly repayment schedule. However, small businesses with small margins operate on a daily basis and for them payments of monthly instalments become difficult and could lead to defaults. Hence, new financial products based on daily recovery will have to be introduced using mobile technology.

So a genuine international financial architecture reform would require that the G-20 should take appropriate measures to restructure banks as social institutions that would mitigate inequality by making credit available to all, especially to SMEs and also to poor and developing countries at concessional rates and do not operate as purely commercial machines that exclude the poor and enhance inequality. Despite talk of global recession, economies are not failing as a whole. Indeed people and governments are going bankrupt but corporates and multinationals are amassing wealth through a variety of stratagems, including unfair business practices, corruption and creation of a global network of tax havens. Indeed, there is urgent need to revise international tax laws formulated around World War I when digital and multinational economies were virtually non-existent, and prevent multinationals from evading taxes causing great financial loss, especially to poor and developing countries. But this may be against the political interests of most present-day governments as they would find it difficult to pass laws against corporate lobbies that contribute to their election campaign finances.

Hence, restructuring of international financial architecture and reforming of global tax laws along with adoption of parameters for exploitation of natural resources and ensuring an equitable access to resources for all may also require bringing about a radical transformation in the attitude of multinationals whose focus, worldview and philosophy seem to be profits; that presently appear to depend on unbridled exploitation of natural resources, tax evasion and optimal appropriation of available wealth even if it entails irrevocable environmental damage, increasing deprivation of more and more people and bankruptcy for countries, especially the developing and the poor.

Moral: For any meaningful transformations in the world order that could ensure a "sustainable, inclusive and balanced growth" we are not to deal only with G 20 but also with the Fortune 500!

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