Research Report

Group of Twenty

Implementing policies to further boost economic growth

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Forum	Group of Twenty
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Introduction

The World Economy is currently still in recovery due to the global financial crisis that commenced in 2008. Although the situation has been improving, the problem of sluggish economic growth (and in many cases recession) is very challenging to resolve. With low economic growth, it is difficult to create job opportunities in order to decrease unemployment rates, and raise people's standards of living. In order to fully recover from the global recession, an increase in total GDP is of paramount importance.

According to the International Monetary Fund (IMF) growth trends would be currently 8% higher and there would be 62 million more people employed in 2013, if the crisis had not occurred. Furthermore, a 4.7% growth of Global Trade has been estimated for 2014 in comparison to 6% per year for the past 30 years before the crisis. Low economic growth means that the economy is not working at its full potential and is allocating its resources inefficiently. This therefore entails the prioritization of boosting economic growth for the Group of 20 members.

Definition of Key Terms

Economic Growth

Economic growth is defined as an increase in the total potential output of goods and services in an economy, compared from one period of time to another. It is usually measured by the GDP (gross domestic product) of a country. Economic growth can occur with an increase in Aggregate Demand or an increase in Aggregate Supply.

Aggregate Demand

Aggregate demand is the economy's total expenditure on different goods and services, at a given price level, in a specific period of time. Aggregate demand is determined by its four components: consumption, investment, government spending, and the net exports of the economy (balance of payments). (AD=C+I+G+[X-M])

Aggregate Supply

Aggregate supply measures the volume of goods and services produced in an economy at a given price level, within a given period of time. It is affected mostly by the productivity of different firms and businesses and can be changed by using different "supply side policies".

Economic Objectives

The four main economic objectives include: low inflation rates; low unemployment rates; a high but sustainable rate of economic growth; a satisfactory balance of payments. All these objectives are achieved by different policies (fiscal, monetary and supply side policies).

Fiscal Policy

Fiscal policy is a way to achieve the economic objectives by changing government spending and taxation. It affects aggregate demand; if taxation is decreased, more consumption and investment occurs, increasing aggregate demand and hence creating economic growth (and vice versa).

Monetary Policy

Monetary policy is another way to achieve the economic objectives by manipulating the interest rates and money supply. Monetary policy is usually handled by the Central Bank. E.G: If interest rates are lowered, it means that more individuals and businesses will borrow money from the banks and spend it on goods and services. This therefore increases aggregate demand, which again boosts economic growth.

Supply Side Policies

Supply side policies are another way to achieve economic objectives by affecting aggregate supply. Investing in education and training, increasing labor market flexibility (e.g. reducing trade union power, decreasing red tape etc.) in order to increase productivity are different ways to increase the aggregate supply and again achieve economic growth. Other ways include investing in infrastructure or giving subsidies to businesses to invest in different technology and machinery that will make them work more efficiently and productively.

General Overview

Significance of Economic Growth for G20

The Group of Twenty members have been working continuously to find means by which to increase global economic growth ever since the global financial crisis started in 2008. They have had several meetings and conferences discussing this very important issue and have made many different attempts to tackle this issue. All these past attempts have not been very successful at boosting economic growth to the point that is necessary to help the global economy get out of the financial crisis and develop into economic prosperity. Therefore, the G20 members are still trying to come up with beneficial and constructive solutions for this objective.

2014 G20 Agenda for Economic Growth

In February 2014, in Sydney, the G20 financial leaders set a new total output target of $2 trillion (£1.2 trillion) in real terms for all G20 countries for the following 5 years. Their aim was to boost economic growth by an extra 2% above target levels in order to create employment and generally meet macroeconomic objectives. The 2% rise has been carefully chosen by the IMF, OECD and World Bank in order to ensure it is ambitious but effective and realistic as well. Economic growth is currently one of the G20's top priorities.

Brisbane Action Plan

At the Brisbane Leaders Summit in November 2014, each G20 Country will need to come prepared with a set of short-term and long-term strategic plans for boosting economic growth, which will then be discussed. These plans will not need to be exactly the same for each country. The increase in economic growth in those individual countries will have a general positive impact on the global economy and hence it will be important that they cohere with the general targets set by the G20 in February 2014.

The Brisbane Action Plan involves 4 main policies:

1. Increasing employment opportunities

2. Reducing trade barriers
3. Increasing competition
4. Improving infrastructure

Major Parties Involved

G20 Members

These include: Argentina; Australia; Brazil; Canada; China; France; Germany; India; Indonesia; Italy; Japan; Republic of Korea; Mexico; Russia; Saudi Arabia; South Africa; Turkey; the United Kingdom; the United States; the European Union. All of these countries will need to come up with different ways to promote economic growth and implement them.

International Monetary Fund (IMF)

The IMF plays an important role in supporting the development of the growth strategies, and provides detailed suggestions for improvement and analysis of policies. It continuously takes part in G20 meetings including: the G-20 Finance Ministers and Central Bank Governors' Meeting in Washington D.C (April 10-11, 2014) and the G-20 Finance Ministers and Central Bank Governors in Sydney (February 22–23, 2014).

Organization for Economic Cooperation and Development (OECD)

The OECD is an organization that brings more than 30 countries together to discuss many different issues. This organization is part of the G20 Framework Working Group (FWG), which is responsible for encouraging the development of growth strategies in cooperation with the Investment and Infrastructure Working Group, and the Taskforce on Employment. The OECD has been continuously supporting the creations of the FWG for strong, sustainable and balanced economic growth.

World Bank

The World Bank has been working with many G20 members to help map out different effective measures that will affect competitiveness and trade performance in order to further boost economic growth. These measures include: improving trade-related infrastructure; streamlining border management; improving business efficiency and competitiveness.

Timeline of Events

Date	Description of event
2008	Global recession has been recognised
November 2008	1st G20 Summit in Washington D.C., where the 47-Point Action Plan was agreed upon.
April 2009	2nd G20 Summit in London, where measures were decided to avoid global depression (due to recession).
June 2010	4th G20 Summit in Toronto where the advanced G20 deficit economies agreed they would try to at least halve their fiscal deficits by 2013.
November 2010	5th G20 Summit in Seoul, where Members signed the Seoul Action Plan, under which G20 members committed to implement macroeconomic policies in order to ensure sustainable growth, and further stabilise financial markets.
June 2012	7th G20 Summit in Los Cabos where the Los Cabos Growth and Jobs Action Plan was introduced
September 2013	8th G20 Summit in St. Petersburg where members set reforms to accomplish sustainable and balanced growth, and an Accountability Assessment about the progress made on past commitments under the St. Petersburg Action Plan.
February 2014	G20 meeting in Sydney where the question of increasing economic growth target by 2% in the next 5 years was set in place.
November 2014	Brisbane G20 Summit where the Brisbane Action Plan will be discussed and reviewed.

UN involvement, Relevant Resolutions, Treaties and Events

- September 2003 – G7 Agenda for Growth. Similar initiative to the one presented in February 2014.
- 2009- G20 Framework for Strong, Sustainable and Balanced Growth (G20 Framework)
- 2010- G20 Development Working Group (DWG) with the aim of agreeing a development agenda.

- November 2010 - G20 leaders adopted the Seoul Development Consensus for Shared Growth. The 6 main points that were set out during this consensus were:
    1. Focus on economic growth
    2. Global development partnership
    3. Global or regional systemic issues
    4. Private sector participation
    5. Complementarity
    6. Outcome orientation

- November 2014 – Brisbane Action Plan

Evaluation of Previous Attempts to Resolve the Issue

Governments have attempted to boost economic growth through fiscal and monetary policies. However, because of high government debts in many countries, fiscal policy (increasing government spending and/or decreasing taxation in order to increase aggregate demand, raising total level of output and in turn increasing economic growth) could make situations even worse and put the country into more debt. Considering the fact that most countries' interest rates are already very low, a monetary policy will not have a lot of impact on the expansion of economic growth. Additionally, these types of policies only create economic growth for the short term and do not ensure sustainability and durability.

Possible Solutions

There are many methods that could be taken in an attempt to solve this issue. First of all, multilateral cooperation is essential to exponentially increasing the global growth rates. Improving trade flow across borders by reducing trade barriers and making it cheaper for businesses to trade would be one method to consider. This would enhance competition and force firms to become more efficient and hence boost productivity. This in turn would boost economic growth as firms would perhaps increase their investments, hire more workers or even lower consumer prices in order to increase sales. Another issue that has to be tackled with worldwide cooperation is the relaxation of big national debts in countries (especially LEDCs) with growth potential. Solving this is often discussed and solutions such as zeroing interest rates, lowering installments, extending repayment periods, trimming debt sizes, introducing payment moratoriums and even the extreme solution of completely wiping off the debt are considered. Big national debts, often created by an unpopular and/or dictatorial government, present a stranglehold in the economies of these countries. The G20 members must confront this problem; taking into account the impact it would have on their own economies. Without solving this debt problem, it may be impossible for some countries to move forward into economic prosperity, which could contribute to further global economic growth.

Investment is the next method to consider. Investing in the infrastructure of a country (e.g. roads tunnels, bridges, ports) in order to improve efficiency of transportation and reduce costs (of petrol, gas) could be presented as a viable solution. This, in turn, would increase business productivity and increase economic growth. Also, this will create jobs (for mechanics, engineers, builders) and again boost economic development. However, it is quite expensive for countries to invest in such projects and they are usually quite unpopular as they create problems of congestion and pollution whilst being built.

Furthermore, business competition plays a significant role concerning productivity. By promoting competitiveness, businesses are forced to become more efficient and bring prices closer to production costs. As a consequence, consumers benefit from lower prices and spend on more goods and services. This therefore increases aggregate demand, which hence increases economic growth.

The main and probably best solution would be to increase employment and encourage firms and businesses to hire more people. This could be done by making the labor market more flexible: lowering the national minimum wage; weakening trade union power; reducing unemployment benefits. This would reduce costs to businesses and in turn may motivate them to create more jobs in the workplace. This will therefore reduce unemployment and increase the total output of the economy. However, it may increase the exploitation of workers.

Finally, a possible longer-term solution would be for countries to invest in education and enhance the quality of future labor. This means that the future generation will be a more productive force of labor. Of course it is quite difficult to determine which factors of education should be changed and the impact on the economy and economic growth will not be evident until at least 10 years later.

It is important to keep in mind the benefits but also all the drawbacks of these solutions. They are not as black and white as they might seem but there is truth in all of them. Be careful when tackling this issue as the economic growth produced should remain viable and sustainable.

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Appendix

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