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# Echoes of the 1930s must focus finance ministers' minds

***We should not have to wait for the crisis to hit before our leaders take action***

By Ed Balls

It is expected these days that a G20 summit will be a disappointing damp squib. This weekend's meeting in Shanghai was no exception.

But when even the International Monetary Fund and the OECD put diplomacy aside to warn of flatlining global growth and urge fiscal spending to boost demand, it is surely time the world's finance ministers and central bank governors] got their act together.

The lesson of the global financial crisis of 2009 is that when the G20 gets going, it can act in a decisive and coordinated way. But we should not have to wait for the crisis to hit before our financial leaders take the action needed to deal with it.

Things have not yet reached crisis point — and they may not. The US economy is still growing. Falling oil prices are good for consumers. And it is a tribute to Mario Draghi, the governor of the European Central Bank, that recent market instability has not triggered another sovereign debt scare across southern Europe.

But economic confidence is clearly draining fast on both sides of the Atlantic. It is now hard to be confident that the next move in US interest rates will be up and not down. With investment and trade growth already weak, the chances of a more significant slowdown have certainly grown in recent weeks. Governments should be preparing for the worst, not hoping for the best.

One problem is focus. Back in 2009, the whole world was alive to the risk of global depression. Not so today. Europe is focused on Brexit and the refugee crisis. America is in pre-election paralysis. And Asian countries are trying to convince everyone there is no need for panic as fear grips their stock markets.

Moreover, finance ministers have become used to relying on central banks to keep the world economy growing, even though monetary policy is clearly running out of road. Difficult times demand desperate action. But a wholesale shift to negative interest rates risks making things worse not better.

There is no sign that cautious consumers or businesses are going to be encouraged to spend or invest by a further rate cut or more quantitative easing. But negative rates in Europe are biting into the margins of already cautious and troubled banks.

And as Bank of England governor Mark Carney warned at the weekend, trying to insulate domestic savers from negative rates is just competitive devaluing by any other name.

Stagnating growth, fragile investor confidence, fears of competitive devaluation spreading mistrust, isolationist politicians flourishing in the polls — the historic echoes of the 1930s should be enough to focus minds on making the case for cooperation, open markets and finding new policies to deliver more inclusive economic growth.

Which makes it all the more worrying that finance ministers instead spent the weekend falling out with each other: China blaming Japan, America blaming Europe and the Germans blaming everyone but themselves.

So here is what the G20 should have agreed last weekend, and needs to get back to as a matter of urgency.

First, they need to demonstrate a collective commitment to collaboration, not competition, on exchange rates and monetary policy. That means agreed rules of the game on negative interest rates. China does need to adjust its exchange rate. But this needs to be done as part of a concerted global effort to boost growth, not through unilateral action which feeds instability and suspicion.

Second, and related to this, the G20 needs to listen to the OECD and IMF on fiscal activism and act. Countries with room for manoeuvre should boost growth through infrastructure spending. That includes the US, Germany and, yes, Britain too. Medium- term fiscal consolidation is vital. But a slump in growth will make things worse. And the cost of funding these investments is very low.

The G20 came into being 17 years ago, with the world's main emerging market as members, because the G7 was seen as illegitimate and ineffective. It now has to prove that its existence makes coordination easier and not harder.

It came of age back in 2009 when the then UK Prime Minister, Gordon Brown, spurred the world's leading economies into action to prevent a depression. It is now time for today's statesmen and women to show that they too know how to lead. Before it is too late.

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