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"Without fear and without favour"

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The first bricks in a new world order

G20 summit charts a path towards economic recovery

Some useful progress, but still a way to go. That must be the conclusion of the Group of 20 summit in London. Gordon Brown, UK prime minister and chairman of the meeting, set out a six-point plan to save the world. This reflected some real achievements: a generous increase in funding for the International Monetary Fund, a new issuance of special drawing rights and a boost for trade finance. He sounded disappointingly thin on other key areas – notably cleaning up banks and future fiscal stimulus. More detail would have been reassuring.

Mr Brown cast the G20 meeting as part of a co-ordinated "fight back against the global recession" and said the "global crisis requires a global solution". We may doubt aspects of the solution, but the crisis is undeniable. World growth is expected to decline this year for the first time since the second world war. The World Trade Organisation expects that trade will fall by 9 per cent – a worrying prospect.

It has also become clear that this crisis will not soon burn itself out. Part of the genius of John Maynard Keynes was his explanation of how economies could be caught in low growth traps. The longer the recession, the greater the destruction of happiness. An extended downturn will also increase the risk of the crisis expanding and deepening far beyond its current spread. In new democracies, whether in Africa or central and eastern Europe, this is a moment of genuine peril. In some poorer countries, it could even lead to war and famine.

One particular risk is a potential financial crisis in emerging markets, which could spread rapidly through a region. The prospect of this is stronger the longer recovery is delayed. Countries have already sought help from the IMF recently. More could follow. It is essential that the Fund has the resources to prevent local problems becoming international. A financial crisis in eastern Europe, for example, would be miserable enough. But it would transmit losses through banks across Europe. The world does not need another subprime crisis.

The G20 pledge to increase the IMF's resources by $500bn, therefore, is extremely cheering. Some of the money had been allocated already. Nonetheless, it is an important achievement and a welcome sign that national governments see the role that such international institutions can play.

The proposed new issuance of $250bn of special drawing rights by the IMF would increase the world's pool of reserve assets, freeing the hands of emerging and developing economies. It, too, is an excellent idea which will increase global liquidity.

The plan for $250bn over the next two years for trade finance is also welcome. The proposal is larger than expected, but is mostly drawing together existing programmes. It will be delivered through export credit agencies, investment agencies and development banks.

There is little to report on fiscal policy. No one country's stimulus can rescue the world from the mire; the US is not in a position to revive world demand on its own – again. While deficit countries, such as the US and UK, must expand demand, the surplus countries must do their part and expand domestic consumption by more. The world needs to increase demand without increasing its imbalances.

The communiqué offers little credible commitment to this end. Perhaps it was unrealistic to expect much more. Arguments about stimulus generate much more heat than light; even apparently miserly Germany has committed to a large stimulus programme. The IMF has

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been invited to "assess regularly . . . the global actions required" to "accelerate the return to growth". If the IMF is robust, this might prove a useful mechanism for asserting accountability.

The weakest part of the package is the financial element. Banks are still gravely wounded. The financial crisis lit the fuse for this recession. It may also prolong the fire; the crisis will last much longer if major countries refuse to clean up their banks. Given the range of countries at the G20, a one-size-fits-all bank rescue policy was never feasible. But the absence of detail about a common approach to cleansing the banks of their toxic assets is extremely disconcerting. Stating vague commitments only serves to create fears that little substance lies behind the words.

The world is better for having held this summit. The possibility of dangerous contagion is lower and useful progress has been made across a range of issues, from greater transparency to IMF quota reform. But leaders must remember that the crisis, which started in the banking system, will not be resolved until the banking system itself is fixed. That is where they must turn their attention now.