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THE GROUP OF 20: TRIALS OF GLOBAL GOVERNANCE IN TIMES OF CRISIS*

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Highlights

- In spite of the disappointing outcome of some recent summits, notably the most recent in Cannes, the G20 is and should remain the cornerstone of the global financial architecture. Its record of performance in the last three years, reviewed in this paper, is mixed but not as unambiguously negative as critics have said. However, its effectiveness as a decision-maker has diminished over time. Enhancing the relevance and effectiveness of the G20 will require time and action on several fronts, including greater involvement and stronger commitment on the part of political leaders, better internal organisation and the development of a shared mission.

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Kant's notion of global governance – a philosophical one, yet so concrete and compelling in his view that he even produced a formal proof of its inevitability – did not consist of a world government, a single entity centralising political representation and policy-making for the planet as a whole. It was a peaceful federation of independent states, bound by consensus to a set of rules designed to prevent antagonism and conflict[1]. One of the 'articles' he prescribed for this futuristic agreement was, not unexpectedly, the abolition of all permanent armies. It was a good suggestion that unfortunately was not heeded; shortly after he wrote *Perpetual Peace* [1795], Europe was shattered by the Napoleonic wars. Another of Kant's proposals, more surprising and interesting with hindsight, was strict control over the size of financial sectors, which he thought would, if left to grow unchecked, turn into war machines aimed at dominating and oppressing neighbours. He had Britain in mind in this respect.

More than two centuries and many wars later the international community has embarked on an experiment that in some ways is reminiscent of Kant's idealistic vision. The motives differ from the philosopher's, though the size of financial systems has something to do with them. Threatened by a financial crisis of intensity equal to, or worse than, the one that led to the Great Depression of the 1930s, the leaders of the largest economies have decided to create a 'council' to coordinate their economic and financial actions, with the goal of safeguarding stability and prosperity as a common good, by avoiding, in particular, destructive trade and financial conflicts. The creation of a Group of 20 (G20) summit in November 2008 surprised the world but was not, strictly speaking, without historical precedent as an attempt at global governance. The United Nations with its constellation of agencies and the Bretton Woods organisations (International Monetary Fund and World Bank group), all having their near-universal membership, have formed the backbone of global cooperation since World War II. There has been, of course, a G7/G8 process since the mid-1970s, trying with variable success to coordinate the economic policies of the leading industrial nations. The G20 itself existed before 2008, though at a smaller scale. The 'new' G20 is different, not just for its loftier ambitions but also because it combines many features in an unprecedented way. The political leaders participate directly, rather than being represented as in the IMF. Advanced and emerging nations are present, unlike the G7/G8. It is representative, not universal; its selective participation (19 members plus the European Union), while potentially conflicting with the

[1] Kant (1795).

universality of the interests it claims to represent (will shall return to this), gives the grouping the potential to become a standing world 'economic governing board'. This possibility is remarkable in itself, though whether it will become reality remains an open question.

During its three-year life (a short time, admittedly, to express any firm conclusion), the G20 has fulfilled its ambitions only in part. After a good start, there have been less dynamic phases, and on some occasions its role has not been as significant as one would have expected or hoped. Recently, observers have expressed outright disappointment over its performance and pessimism about its relevance. Yet the reality is that it is still an evolving entity, driven by circumstances, following a largely unwritten script. Its mission remains to be better understood and defined. The new and recent configuration of world power, in which emerging and advanced nations dialogue and decide on an equal basis, has not yet been internalised in all countries' approaches to policy and foreign relations, nor has it generated sufficient awareness of the responsibilities and the opportunities it entails for each participant. Until this happens the G20 is likely to produce, in different times, equal doses of hope and disillusion, inspiration and criticism.

What purpose is the G20 supposed to serve? Since its birth this body has had two souls, one as policy coordinator in good times and another as crisis manager in times of economic and financial instability. The G20 was actually born twice: first in 1999, after the Asian crisis, as a forum for finance ministers and central bank governors, and second in the autumn of 2008, when it was lifted to the level of heads of state and government during the great financial scare that followed the Lehman demise. On both occasions, the situation called for a crisis manager, not a fair-weather sailor, and both times the immediate danger was averted. But in both cases, after the risks receded, the G20 turned to the more routine task of crisis prevention, through attempts at economic policy coordination. In this respect, its performance has been less convincing, at best.

The resurgence of turbulence in international financial markets in 2010 and especially 2011, with epicentre no longer in the US banking system but in the European sovereign sector, has offered the G20 an opportunity to engage itself again at the centre of policy action. Many questions have arisen in recent months. Are the new financial risks stemming from the euro debt crisis relevant from a global perspective? Is the G20 the right forum to detect and avert threats to financial stability? And if so on both counts, what concretely can and should the G20 do? An interesting and constructive dialogue has developed among observers and policymakers around these issues, with many radically innovative options being actively considered – including that of emerging countries providing a safety net to protect global finance, something unheard of previously. In this context, expectations for the Cannes summit grew very high; many felt that the G20 could help manage the new crisis by striking some kind of 'grand bargain' within its membership. Nothing of that happened. With the ink still drying on Cannes' concluding statement, the prevailing sense is of disappointment, and concern for the consequences of what is perceived as a lost opportunity. But work continues, and, as often, excessive pessimism could later prove premature.

It is useful, at this juncture, to revisit some basic ideas, reviewing first the reasons for the existence of a G20 at all (not following Kant's demonstration, but using more modern economic arguments and evidence). Second, it is worth examining in some detail how the G20 has acted in the six meetings that have taken place so far, and trying to evaluate systematically its overall performance. These are the main aims of the pages that follow. We take stock of the at the time of writing very recent Cannes meeting, where the leaders were forced to deviate from earlier lines of work to focus on the European debt crisis emergency, and last-minute events that created obstacles to successful negotiation. We conclude that, contrary to what many critics say and despite some recent setbacks, neither is a global governance forum like the G20 unnecessary, nor should the judgement on how it has performed be unambiguously negative. It is true, however, that its effectiveness has diminished, particularly when it has acted as policy coordinator (less so in crisis times). We conclude in the last section with some thoughts on ways to enhance the relevance and effectiveness of the G20.

Benefits from international coordination: reviewing the arguments

In spite of a long stream of research over the recent decades, the scope of international economic policy coordination, and its benefits and limits, remain unresolved issues in economics. The research literature has given us useful insights, elegant models and plenty of empirical evidence (often ambivalent), but the main questions remain open. Policymakers remain, in this complex matter, without reliable theoretical guidance.

In principle the issue would seem easy to settle. In an interdependent world, in which national economic performance and policies influence others, hence generating 'externalities' from national policies and outcomes, there should be collective benefits from coordinating policy actions – that is: deciding on policies not only on the basis of national interests or objectives, but also in relation to how they affect others. Moreover, since economic interdependence has increased in recent times, due to the surge in international trade and financial flows, coordination should have become more valuable over time. In practice, however, economists have never succeeded in measuring these benefits precisely or showing that they are significant, for several reasons. First, the counterfactual is lacking: it is not possible to observe what the outcome would have been, should coordination in a given circumstance have (or not have) materialised. Second, many empirical analyses date back several decades, prior to the surge in international trade and capital flows and long before the rise of emerging economic powers. In that world, interdependence was limited, and it is not surprising that early research concluded that benefits from coordination were negligible.

A revival of the literature on international policy coordination occurred after the collapse of the Bretton Woods system – somewhat surprisingly, since, according to some authoritative voices, floating exchange rates should have rendered such coordination unnecessary. Models of strategic interaction among policymakers[2] showed that monetary policy could be used to generate Pareto-superior outcomes. While this finding provided an argument for coordination, the question was how significant this gain was quantitatively. In the 1970s and 1980s, the question was approached with multi-country econometric models, in which individual countries were linked by international

[2] Hamada (1974, 1979), Canzoneri and Gray (1985).

trade[3]. Capital flows were absent or passive, reflecting the reality of the time. As a consequence, any international spillovers in these models depended on trade integration – also limited at the time, but rising. The central message of this literature[4] was mixed. On the one hand, there was clearly a role for coordination, generated by the fact that domestic policy choices had cross-border effects – in particular, beggar-thy-neighbour policies were possible by manipulating the exchange rate. On the other hand, these effects were quantitatively small, and so were the potential gains from coordination.

More recently, economists have revisited the subject using more sophisticated models,[5] with explicit microeconomic foundations and individual preference functions. The characteristics of the new models permit exact calculations of welfare (within the model, of course) as well as comparisons of it across different policy frameworks. In spite of this precision, this literature has unfortunately not achieved more conclusive results. In the interest of simplicity, the models are very restrictive, often assuming constant balance-of-payments equilibrium and no capital flows, in addition to homogeneous agents. Under these assumptions, these models cannot provide sufficiently reliable descriptions of, and prescriptions for, a world dominated by persistent external imbalances and large, highly volatile capital flows.

When analytical answers are lacking, reasoned conjecture can be helpful. Given that the gains from coordination are found to be small either because cross-border linkages are assumed to be low, when in fact they have increased in recent years, or because the models disregard other important aspect of financial globalisation, it does not seem unreasonable to think that coordination may be worth considering in today's economy, particularly if the costs and risks involved are not overwhelming. The financial crisis has provided one important argument for this, showing the existence of substantial international spillovers in the area of financial regulation. Countries with large developed financial sectors act typically, particularly if their money performs a role as reserve asset (such as the US, and to a lesser extent the euro area), as financial intermediaries for borrowers and lenders located across borders. Their financial structures adapt to this role. The local banking system typically collects large volumes of short-term funds (bank deposits or securities

[3] Eg Oudiz and Sachs (1984).
[4] See Canzoneri and Henderson (1990) for a review.
[5] Obstfeld and Rogoff (2001); Corsetti and Pesenti (2001); Canzoneri, Cumby and Diba (2002).

traded in liquid markets) abroad and re-lends these funds across borders, typically long term. Since financial regulation is a national responsibility (except for harmonisation of certain rules or standards), usually assigned to the competent authority in the country where the bank is incorporated, the supervisory regulatory frameworks prevailing in major financial centres can have significant international repercussions, affecting financial stability in other countries and even globally. This thus provides an argument in favour of international coordination. This is, in fact, an area in which the G20 has been prominently active since 2008, mainly through the Financial Stability Board.

A narrative of the G20 in times of crisis

Table 1 presents a synoptic view of the G20 summit meetings so far, with dates and an indication of the main topics.

Table 1: From Washington to Cannes: An evolving agenda

Summit	*Date*	*Headline priorities*
Washington	November 2008	• Reform of financial regulation
London	April 2009	• Global stimulus • Reform of financial regulation
Pittsburgh	September 2009	• Rebalancing of world economy • Reform of financial regulation
Toronto	June 2010	• Rebalancing of world economy • Reform of financial regulation
Seoul	November 2010	• Rebalancing of world economy • International financial institutions
Cannes	November 2011	• Euro crisis • International monetary system • Financial reform • Macroeconomic policies • Commodity prices

Washington (November 2008)

The G20 meeting in the composition of heads of state or government was convened for the first time in Washington on 15 November 2008, at the peak of the financial turmoil in the US, shortly after the failure of Lehman Brothers. Several policymakers later claimed credit for the idea, including the then UK Prime Minister Gordon Brown, the outgoing Bush administration and President Sarkozy of France, which held the rotating EU presidency at the time. The G20 summit on that occasion performed the role of a 'crisis committee,'[6] an entity that could adopt the urgent measures deemed necessary to contain the immediate risks and, by its mere presence, reassure financial markets and instil confidence in the public at large.

As the US was holding presidential elections, leadership at that time was more than usually exercised by the Europeans, among whom coordination had strengthened after an emergency meeting of euro-area heads of state and government (and the UK), convened at the initiative of the French on 12 October to define common responses to the banking crisis. That was still a time in which many, in Europe and elsewhere, thought that the transatlantic repercussions of the financial crisis would remain limited. The euro, so it was thought, was providing and would continue to provide an effective shelter against financial instability.

Regardless of who can legitimately claim credit for the initiative, the Washington meeting achieved its goal. It contributed to the stabilisation of financial markets, by conveying to market participants the sense that authorities were on top of events, capable of agreeing on a forceful coordinated response to a likely global financial meltdown.

The concluding statement[7] was short by usual standards (5 pages, plus an annex containing the Action Plan on financial regulation) and fully concentrated on the situation in the financial markets and on the actions to be taken to stabilise them. The section on the diagnosis of the crisis mentioned macroeconomic factors (global imbalances, macro-policies) only vaguely, mentioning 'unsustainable global macroeconomic outcomes.' This was reportedly because the Chinese did not want global imbalances to be explicitly mentioned among the root causes of the crisis, as this

[6] See Woods (2010).
[7] See http://www.g20.org/Documents/g20_summit_declaration.pdf.

would have suggested that their surplus was somehow to blame for it. The macroeconomy would come later.

The statement included a concrete action plan; in addition to committing to all the necessary macroeconomic stimuli (monetary and fiscal) with due regard to individual country needs and conditions – a notion dear to the Europeans – the plan was focused on financial markets and financial institutions, with five lines of action: strengthening transparency and accountability; enhancing financial regulation; promoting integrity; reinforcing international cooperation; and reforming international financial institutions (IFIs). The agenda was further broken down between actions to be implemented by 31 March 2009 and medium-term actions. The G20 ministers, supported by an enlarged Financial Stability Forum (FSF), by standard-setting bodies and national supervisors, as well as by the International Monetary Fund (IMF), were entrusted with the task of monitoring and ensuring progress against the action list. In an informal way, a pyramidal governance structure (G20 at the top, supported by FSF and IMF) was taking shape, though it would be enshrined in formal decisions later.

The Washington communiqué conveys a sense of urgency, focus and concreteness that could not be found in the traditional G7/G8 declarations. Instead of broad, often nebulous, open-ended political declarations encompassing a wide range of topics, it reads like what it is – an extremely focused action plan. The traditional set of commitments that can suit every participant, because it merely restates what they are already committed to nationally, cannot be found in the text. Instead, the language is precise, even technical. Specialised institutions in charge of carrying out work – the IMF, FSF, the Basel Committee, national regulators and others – are named and given strict deadlines for implementation.[8]

London (April 2009)

The London summit on 1-2 April 2009 is likely to remain in history as the moment when the international community united to ward off the risks of recession and protectionism. Indeed, it took

[8] For example, the first item of the financial regulation action plan, for implementation by 31 March 2009, reads "The IMF, expanded FSF, and other regulators and bodies should develop recommendations to mitigate pro-cyclicality, including the review of how valuation and leverage, bank capital, executive compensation, and provisioning practices may exacerbate cyclical trends."

place at a time when world output and trade were only beginning to stabilise – and this was not apparent at the time. Observers were wondering if the world was heading towards another Great Depression.[9] In the same city where the countries participating in the World Economic Conference of 1933 had failed to find common ground, the London summit provided a major impetus toward cooperation.

The leaders convened in London just after the deadline set for the 'immediate actions' on financial markets decided in Washington. A 'Progress Report on the Washington Action Plan', published in London on 2 April, [10] suggests with hindsight that most of the major areas of financial reform, such as bank capital strengthening, the definition of a new capital framework to avoid pro-cyclicality, new liquidity and risk management standards, IMF surveillance (including the unprecedented decision to conduct a Financial Sector Assessment Program for the United States), internal incentives and compensation practices, were underway. Less clear was the progress on transparency and accountability, in particular due to lack of progress towards harmonisation of accounting standards. On financial regulation the London summit maintained the momentum launched in Washington, and also brought about new results. The final statement was again relatively short and to the point, explicitly indicating concrete actions to be taken. The leaders decided to reshape the FSF, transforming it into a Financial Stability Board (FSB) with broader representation (mirroring that of the G20) and an enhanced mandate. The FSB would, from then on, act as coordinator of all actions taken, in the area of financial regulation and supervision, by national and international standard setters. The leaders also started to establish the broad principles that would characterise, after a transition, post-crisis bank capital standards: in the short term, until the macroeconomic recovery would strengthen, minimum capital requirements would remain unchanged or even decline, to facilitate lending; subsequently, prudential standards would be strengthened, building capital buffers above regulatory minima, increasing the quality of capital, mitigating the pro-cyclicality of capital ratios (including a requirement that banks build up capital buffers in good times), supplementing capital requirements with non-risk based measures, improving risk management incentives, and enhancing liquidity buffers. In addition to capital standards, the London conclusions feature provisions on hedge funds (registration, information gathering), credit derivatives

[9] Eichengreen and O'Rourke (2010).
[10] Available at http://www.g20.org/Documents/FINAL_Annex_on_Action_Plan.pdf.

(establishment of central counterparties), executive compensation and bank board risk control responsibilities, credit rating agencies (registration and supervision, according to IOSCO rules). Still tentative were, on the contrary, the initiatives agreed in London concerning systemically important banks (SIFIs), eventually adopted at the Cannes meeting in 2011, shadow banks and accounting standards.

The London summit also broadened the scope for action to include macroeconomic topics. The leaders stated that their countries were implementing fiscal expansion, monetary expansion and banking sector repair, indicating that these actions constituted[11] *"the largest fiscal and monetary stimulus and the most comprehensive support programme for the financial sector in modern times."* They pledged to conduct *"all [their] economic policies cooperatively and responsibly with regard to the impact on other countries"*– a significant commitment for a number of non-G7 countries which were used to regarding sovereignty over macroeconomic policy as nearly absolute. It should be noted, however, that the declaration included no specific commitment in terms of either effort or date.

A major innovation was the strengthening of the resources available to emerging and developing economies through the IFIs. The summit decided on a $750 billion overall increase in the resources available through the IMF (of which $250 billion in immediate, temporary bilateral loans, to be substituted at a later stage by $500 billion in form of an expansion of the Fund's New Agreements to Borrow, plus SDR allocations of $250 billion), and on an increase in the capital endowments of the multilateral development banks, part of which was earmarked for low-income countries. Finally an increase in trade credit at the global level, to be channelled through the IFC, was agreed. All this amounted to a historically unprecedented increase in the resources available to multilateral institutions. This support more than offset the restrictions that had been enacted in the benign economic and financial environment of the preceding years.

The reason for this massive increase in available resources was the fear that, at a time when advanced economies were struggling with the domestic fallout from the financial crisis, emerging countries would suffer from a major reversal of capital flows. Indeed, these countries, which had

[11] See http://www.g20.org/Documents/final-communique.pdf.

mostly been immune to the financial crisis until the Lehman shock, experienced a sudden stop in the third quarter of 2008, especially in emerging Europe and in Asia.

Pittsburgh (September 2009)

Five months later, the summit in Pittsburgh marked what can be regarded as a sort of watershed. In a number of ways, in a climate of low expectations, Pittsburgh achieved important results, but also coincided with a marked slowdown in the productivity of the G20.

By the time the leaders gathered it was clear that a recovery was underway and optimism was on the rise: the October IMF forecast envisioned 3.1 per cent world growth in 2010, against 1.9 foreseen by the April forecast. The sense of urgency that had characterised the two previous meetings had abated and the policy focus was shifting to making preparations for more normal times. Nevertheless, the communiqué unambiguously emphasised that it was too early to remove the stimulus[12]:

> *We pledge today to sustain our strong policy response until a durable recovery is secured. We will act to ensure that when growth returns, jobs do too. We will avoid any premature withdrawal of stimulus. At the same time, we will prepare our exit strategies and, when the time is right, withdraw our extraordinary policy support in a cooperative and coordinated way, maintaining our commitment to fiscal responsibility.*

A first important result from Pittsburgh concerned institution-building. The leaders decided that the G20 summit would become a regular event, replacing the G8 at the top of the international financial architecture. In this framework, Finance Ministers would act as deputies, preparing agendas and implementing decisions, supported by the FSB and the IMF – the first responsible for financial markets, the second for macroeconomic surveillance and last-resort lending. The leaders also committed to a strengthening of the voice of emerging and developing countries in the IMF by shifting by January 2011 at least five per cent of the quotas from over-represented to under-represented countries. However, because of US reluctance, they could not agree to appointing without condition of nationality the heads of the Fund and the Bank.

[12] See http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf.

On financial reform, a key challenge in Pittsburgh was to continue to exert guidance and preserve the reform momentum, while at the same time avoiding micro-management and excessive top-down command of what were bound to be increasingly technical discussions. In this area, the leaders struck a reasonable balance between direct guidance and delegation to the FSB and to the national authorities. On risk control the message was clear – strengthen capitalisation; extend the focus to leverage and liquidity; avoid pro-cyclical regulation – but implementation was left in the hands of the Basel Committee. A number of broad principles on compensation practices were established, but the task of working out the implications and, most importantly, implementation, was left to the FSB and especially to national supervisors (which "*should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind…*"). On moral hazard, the leaders asked for the establishment of bank resolution procedures and crisis management standing groups in all systemically important institutions, especially those operating across borders.

The G20 made the most significant headway in Pittsburgh on global imbalances. The issue had been left aside in the two previous meetings, first to avoid turning the summits into US-Chinese confrontations and second, because the priority was to address financial regulation failures and the common risk of a depression. But it was becoming too important an issue for continued avoidance. First, in discussion on the causes of the crisis, the idea was gaining ground that large and persistent payment disequilibria among currency areas had been among the contributors to systemic risk-building.[13] Second, the IMF was projecting for the medium term a rebound of imbalances (the October 2009 WEO envisaged that they would stabilise at about 2 percent of world GDP – a forecast that has not changed much since – against 2.5 to 3 percent in 2006-2007). Third, it was feared that in the years ahead, demand in the advanced countries would remain subdued because of the extent of deleveraging and the coming fiscal retrenchment, and that to sustain global growth there was a need to foster demand in the emerging countries.

On the eve of Pittsburgh it seemed unlikely that leaders would enter this contentious territory, but the outcome surpassed expectations. On the initiative of the USA, a 'framework' for macroeconomic

[13] This link was made explicit in two influential European reports by Jacques de Larosière (2009) and Adair Turner (2009) on the reform of financial regulation. However, the idea remained disputed among academics, with some notable exceptions (Eichengreen, 2009; Portes, 2009) and among policymakers.

policies was agreed upon, with the aim of making national policies ('fiscal, monetary, trade, structural') consistent with balanced growth, including regular consultations on commonly agreed policies and objectives. Agreement on the Framework represented an ambitious international coordination endeavour, which set differentiated goals for deficit countries and surplus countries.[14] Furthermore, the leaders instructed their finance ministers to put in place a surveillance process, the 'Mutual Assessment Process' (MAP) "to evaluate the collective implications of national policies for the world economy". The IMF was asked to give technical support to this exercise in multilateral surveillance, working with G20 ministers and central banks, and to report regularly to the G20 leaders.

Less significant for the short term, but noticeable nevertheless, Pittsburgh was also characterised by a significant broadening of the agenda: for the first time the communiqué mentioned at length energy security, climate change, poverty, job quality, and trade and investment. All important issues for sure, but on which pronouncements were more verbose than on core G20 business.

Toronto and Seoul (June and November 2010)

In the year following Pittsburgh, the G20 calendar included two summit meetings under a joint Canadian-Korean chair: Toronto and Seoul. The Toronto meeting on 27 June 2010 marked the lowest point, based on progress made at the meeting, in G20 history. The macroeconomic coordination framework virtually stalled against the test of delivering a joint assessment. The IMF, which was steering the process although its responsibility was in principle one of technical assistance only, was reluctant to move too fast to policy conclusions as it wanted first to educate governments in the process of information-sharing. At the same time specific circumstances contributed to rendering agreement difficult. In spring 2010 it was undisputable that the recovery was underway, but fears of double-dip recession remained widespread. In all countries, monetary and fiscal authorities, while beginning to think about 'exit strategies' and to refer to them in public communication, maintained de facto an accommodative stance. But the awareness was increasing that the revenue shortfall provoked by the recession (and to a lesser extent by the stimulus) would give rise, in time, to a historically unprecedented debt explosion. In the midst of the trade-off (expand now, consolidate later), positions were divided. Europeans were especially concerned

[14] On this see Vines (2011).

about fiscal risks after the outbreak of the Greek crisis (which had led, weeks earlier, to what many regarded as a first controversial step towards a fiscal union, the creation of the European Financial Stability Facility), while the US, where unemployment had risen much more, being still decisively positioned in favour of fiscal expansion. The majority of participants in the summit emphasised the fiscal risks and the need for consolidation, as evident in these passages from the final statement[15]:

> *[…] recent events highlight the importance of sustainable public finances and the need for our countries to put in place credible, properly phased and growth-friendly plans to deliver fiscal sustainability, differentiated for and tailored to national circumstances. Those countries with serious fiscal challenges need to accelerate the pace of consolidation.*

and

> *Sound fiscal finances are essential to sustain recovery, provide flexibility to respond to new shocks, ensure the capacity to meet the challenges of aging populations, and avoid leaving future generations with a legacy of deficits and debt. […] Those with serious fiscal challenges need to accelerate the pace of consolidation. Fiscal consolidation plans will be credible, clearly communicated, differentiated to national circumstances, and focused on measures to foster economic growth.*

Not least because of a convergence of views between the new British Prime Minister, David Cameron, and German Chancellor Angela Merkel, the tone of the final statement concerning macroeconomic policies was surprisingly emphatic on the need for fiscal consolidation, an orientation that left the US uncomfortably isolated. The advanced G20 countries agreed to halve fiscal deficits by 2013 and to reduce public debt ratios by 2016 if not before. The whole macroeconomic discussion was very much reminiscent of traditional US-European disputes, with the emerging countries playing a secondary role. In this respect, as well as in the fairly general tone of the discussion, the Toronto G20 summit was closer to a traditional G7 summit than to the meetings in London and Pittsburgh.

[15] See http://www.g20.org/Documents/g20_declaration_en.pdf.

At the same time, the financial reform agenda had visibly slipped out of the hands of the heads of state and government. It was left entirely in the hands of the FSB, without much further political stimulus or guidance. This was probably an inevitable development in view of the complexity of the details involved, but contributed to give the impression that the Toronto summit had little to deliver. The Seoul G20 summit was the first chaired by a non-G7 country, and Korea was especially keen on making it a success. It was not an easy task: on the macroeconomic front, a swift return to normality was reviving old problems. The currency dispute between the US and China was again making headlines and other controversies had erupted as many emerging countries were overwhelmed by capital inflows. 'Currency wars', in the words of Brazilian Finance Minister Guido Mantega, was the theme of the day. Simultaneously, the Mutual Assessment Process was proving more cumbersome and controversial than expected.

In this climate, the Korean presidency was not able to achieve breakthrough on the controversial issues. An attempt was made to open a new road towards compromise between China and the US by stating that current account balances should remain below 4 per cent of GDP, but no agreement could be found in time for the summit. Heads of state and government could only agree to name the problem (a change from the initial reluctance to mention imbalances) and call for further work by their Finance Ministers. The corresponding sentences in the communiqué[16] were particularly convoluted:

> *Persistently large imbalances, assessed against indicative guidelines to be agreed by our Finance Ministers and Central Bank Governors, warrant an assessment of their nature and the root causes of impediments to adjustment as part of the MAP, recognizing the need to take into account national or regional circumstances, including large commodity producers. These indicative guidelines composed of a range of indicators would serve as a mechanism to facilitate timely identification of large imbalances that require preventive and corrective actions to be taken.*

In this passage, a mandate is given to ministers and governors to identify the set of relevant indicators; interestingly, such a mandate had already been given at Pittsburgh, and not fulfilled.

[16] See http://www.g20.org/Documents2010/11/seoulsummit_declaration.pdf.

Repetita iuvant? Perhaps. For sure, the reiteration revealed the diplomatic hurdles the new coordination model entailed, with countries on opposite sides of the fence twisting concepts and wordings to pursue momentary interests or reputational concerns. The MAP produced a set of 'policy commitments', in which each country indicated its policy goals in several fields (fiscal, financial, monetary and exchange rate, structural, development, other policies) and how they contributed to the Framework goals.[17] The fact that all participants agreed to commit to policy actions vis-à-vis partners was a valuable political signal, though the commitments themselves did not entail departures from their pre-existing policy course.

Seoul was more successful on two other fronts: first, it delivered ahead of time on the Pittsburgh commitment to reform IMF governance, with a reform that shifted 6 per cent of quota shares toward under-represented countries.[18] Second, it could take stock of an agreement reached in the Basel Committee to revise bank capital adequacy ratios.

Korea had been keen to open two new chapters in the discussion. It had first proposed to discuss 'financial safety nets,' in other words mechanisms to give countries access to liquidity when facing capital outflows. This intended to remove, by providing better insurance, a motive for self-insurance through reserve accumulation, itself a potential contributor to global imbalances. Safety nets could consist of IMF facilities, regional agreements and swap agreements with the major central banks. The theme was widely recognised as valid, but achievements and agreement remained limited. The IMF announced in August 2010 a new low-conditionality facility, the Precautionary Credit Line (PCL) to complement the pre-existing Flexible Credit Line (FCL), but no agreement could be found on the more ambitious Global Stabilisation Mechanism (GSM). The theme however served as a bridge to discussions under the French G20 presidency on reforming the International Monetary System.

The other chapter was development. This was indicative of the broadening of the G20 agenda from an initial focus on financial regulation and crisis management to a much broader, potentially very large set of issues. Clearly, Korea had substantive and political motives to open a new chapter –

[17] IMF (2010).
[18] Agreement was reached in a Finance Ministers meeting in Gyeongju on 22-23 October 2010.

and so would future presidencies. But the downside was, inevitably, a lack of focus and lower potential for significant deliverables.

Cannes (November 2011)

In 2011, the French G20 presidency started with high ambitions, adding two new elements to the agenda[19]. The work programme for the year was intense, including four ministerial meetings in preparation for the Cannes summit on 3-4 November, plus working group meetings and a high-level seminar.

The first new element was a focus on the international monetary system (IMS), and prospects for its improvement and reform.[20] According to the Presidency's programme, the theme would have included four chapters:

- A new framework to address the volatility of capital flows, of interest especially for emerging countries;
- The introduction of new financial safety nets, along the lines pursued in the previous year by the Korean presidency;
- A review of the role of the SDR, possibly including the composition of the currency basket;
- A strengthening of IMF surveillance on financial, monetary, fiscal and exchange rate policies.

The activity in the first part of the year – two ministerial meetings (February and April) and a high-level seminar on the 'Reform of the International Monetary System' in China in March, with the participation of President Sarkozy – confirmed the central role of this issue in the French agenda. However, in the second part of the year the intensification of the European crisis diverted attention and narrowed down the original ambitions on this front. The IMS does not feature in the communiqué following the September meeting of ministers and governors, and the mention in the

[19] See French G20 Presidency (2011).
[20] An overview of issues concerning the IMS is contained in Angeloni *et al* (2011).

subsequent October meeting, the last preceding the summit, is verbally long but insubstantial in content[21].

The second innovative element was a new chapter on commodity markets. The origin of the idea lay in the sharp price fluctuations experienced in recent years, with a particularly dramatic rise in 2008 subsequently reversed after the financial crisis. Some G20 members felt that these movements had something to do with the increasing presence in the market of financial investors, particularly through derivatives. A group of experts was asked to execute an in-depth study. The main message from it was that commodity price developments had been driven, in the last 10 years, mainly by the expansion of demand by emerging economies, linked to their fast rate of growth and to the accompanying changes in social structures and consumption patterns (leading to high energy consumption and food demand). According to the study, the uncertain response of supply accounts for the volatility of expectations and prices. Financial factors are deemed to be present, but their overall impact is believed not to be dominant. In light of these conclusions, and of the diverging positions within the G20, the initial ambitions of some to agree on concrete interventions to stabilise the market by curbing 'speculative' activities was not upheld. The study recommended improving the functioning of markets by increasing transparency, and tackling market abuse, thereby avoiding distortions and creating favourable conditions for investment and an expansion of productive capacity.

Another French programme item, inherited from past agendas, was the further development of the 'Framework for Growth'. The immediate goal was to agree on a scoreboard of statistical indicators to monitor macroeconomic developments and policies, with a view to coordinating policies to reduce global imbalances. Here progress was made in the ministerial meetings of February and April, with an agreement on a two-step approach. In the first stage, countries whose size and/or conditions may imply systemic risks for the global economy would be singled out, on the basis of a small set of indicators. In the second stage, an in-depth analysis of those countries would be conducted. The negotiation was long and complex, largely around semantics. Reportedly, in the Paris meeting, the drafting came to a gridlock over the acceptable use of the term 'current account', and the meeting

[21] The two final statements are available respectively at http://www.g20.org/Documents2011/09/G20%20communiqué%20-%20Washington%20DC%2022%2009%202011.pdf and http://www.g20.org/Documents2011/10/G20%20communiqué%2014-15%20October%202011-EN.pdf.

lasted more than 14 hours. In the end, as reported by the press, the confidential list of countries singled out for second-stage examination includes the US, Japan, Germany, France, the UK, China and India. Notwithstanding these complications, the outcome was valuable because it broke the stalemate prevailing in earlier meetings, in which leaders and ministers had been unable to give shape to their commitment to give operational content to the 'Framework' agreed in Pittsburgh.

On financial regulation, ministers and governors continued to give stimulus and guidance to the FSB, mainly in four areas: the prudential regulation of Systemically Important Financial Institutions (so-called SIFIs), particularly of global relevance (GSIFIs); the regulation and oversight of shadow banking systems; the reform of OTC derivatives, introducing where possible and appropriate central clearing arrangements and margin requirements; and the monitoring and disclosure of compensation practices, in line with the standards and principles agreed in the FSB.

These were the initial goals of the French presidency. In practice, however, starting in mid-2011, the focus of policy discussions was increasingly absorbed by the euro-area sovereign debt crisis. An extended description of this crisis cannot be given here.[22] A clear alarm bell rang in July, when the tension in sovereign debt markets, already severe since spring 2010 in smaller countries such as Greece, Ireland and Portugal, extended to Spain and Italy, countries large enough to pose severe threats to the stability of the whole euro area, and to render the existing crisis-management instruments, principally the European Financial Stability Facility (EFSF), insufficient to ensure adequate protection. Since then, the situation in European sovereign markets has deteriorated gradually but steadily, a consequence of hesitation on the part of European leaders in putting together a cohesive strategy and, more importantly, the lack of an adequate response by the countries concerned, especially Italy. In the end, after two tense meetings, a euro-area summit on 26-27 October decided to expand the scale of the EFSF through, *inter alia*, additional capital contributions that according to the concluding statement should come from unspecified 'public and private' sources.

The explicit official announcement of the possibility of external support, other than that already provided by euro-area members through their contributions to the fund, came after several weeks

[22] A detailed and compelling account is provided in a forthcoming book by Bastasin (2012).

during which such a possibility was repeatedly mentioned and explored.[23] Bilateral contacts are reported to have been taken by some euro-area governments with large emerging countries in surplus, including China. On a number of occasions, Brazil has signalled its willingness to contribute. Immediately following the October euro-area summit, the CEO of the EFSF, Klaus Regling, travelled to the Far East, reportedly to take soundings about, or perhaps to solicit, contributions to the fund. The response was mixed – Japan was more positive, China more prudent. In any event, the most natural occasion for any final decisions and announcement would have been, it was felt, the forthcoming Cannes summit.

Against this background, the expectations for Cannes grew. In the meantime, however, several events complicated the situation and undermined the prospects for a potential agreement. Risk spreads on peripheral bonds, notably those of Italy, deteriorated further, amidst indecisiveness and divisions among the authorities in Rome, with the Italian risk increasingly in the spotlight of European discussions. Three days before the summit, then Greek prime minister George Papandreou announced his intention of calling a referendum on the EU-backed economic programme. The announcement, which stunned markets, European leaders and even Greek cabinet members, was promptly withdrawn following a meeting with Germany, France and the European Union hastily convened in Cannes before the beginning of the summit. But the sequence of events in the crucial preceding hours had already given the impression that Europe was not ready to negotiate with external contributors, due to lack of cohesion, hesitation by national leaders in deciding crucial adjustment measures at home and, importantly, lack of clarity on how the enhanced EFSF would effectively function.[24]

In this environment, though leaders discussed the issues openly and explored several options, the outcome of Cannes fell dramatically short of expectations. Not only did the contribution from emerging countries not materialise – the conclusions vaguely refer to the intention of ministers to return to the table in the near future – but the G20 leaders also failed to make significant progress on other areas ministers had been working on during the year. No substantive conclusion was reached on possible improvements to the IMS, a flagship of the French agenda. No new initiatives

[23] An early mention of this possibility is by this author, Angeloni (2011).
[24] Reportedly, a near-struck deal on enhancing the EFSF further by, *inter alia*, pooling a fraction of central bank reserves failed because of opposition from Germany.

were mentioned on IMF surveillance or on managing volatile capital flows. On financial reform, the final statement confirms conclusions and intentions already expressed by the FSB on SIFIs, shadow banks and other items. On macroeconomic policies, an announcement was made on a new Action Plan for Growth, rather generic in content. The only exception was an unusual reference to Italy, stressing its decision to 'invite the IMF to carry out a public verification of its policy implementation on a quarterly basis.' Even this unexpected and potentially important request, however, failed to reassure markets; Italian spreads climbed to historic levels as soon as the summit conclusions appeared on the screens, eventually contributing to the government's fall a few days later.

Scoreboards of success

In this section we change perspective, moving away from the contingencies of specific events or negotiations and focusing on an alternative way to assess the G20 record. The approach involves the compilation of 'scoreboards' to measure success or failure ex-post, using a systematic methodology. Luckily we do not need to build a new dataset from scratch; we can draw on the work of the University of Toronto (UoT), which is accessible through the website of the 'G20 Information Center'.[25]

The UoT's approach consists of measuring the compliance of G20 nations with their own stated objectives as expressed by official post-meeting statements. UoT researchers have watched, for several years using a consistent methodology, the G8 and G20 processes, and compiled detailed scoreboards after each meeting. There is a fairly long time series of these data for the G8, and a more limited one for the G20. More specifically, the UoT researchers catalogue, for every G20 summit, the commitments expressed in the final statement, and then monitor compliance with these commitments in the period up to the next summit. For each commitment and each meeting, each country is judgementally assigned a value of 1 if the commitment was fulfilled fully or nearly, of 0 if the commitment could not be fulfilled or was fulfilled only to a limited extent, and -1 if the country did not act.[26] The next step is to calculate average measures of the degree of compliance,

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[25] See http://www.g20.utoronto.ca.

[26] See a technical note available on the University of Toronto G20 Information Center website (http://www.g20.utoronto.ca/analysis/index.html).

separately for each meeting or each topic. A positive value means that there was at least partial compliance on average with the commitment made, while a value close to 0 or negative signals limited or no compliance. The information conveyed by this type of data is, it should be noted, different from that examined in the previous section, because it refers to the extent that stated commitments were fulfilled, without making any judgement about the quality of those commitments.

Table 2 reports simple average scores, divided by topic (upper part of the table) and meetings (lower part). For simplicity we have restricted attention to four topics: macroeconomic policy, financial reform, IFI reform and others (a heterogeneous mix including trade, development, climate change, terrorist financing and money laundering, etc). The latest summit for which scores are available is Seoul. We calculated simple average scores for the G20 as a whole and for the following sub-groups of members: the advanced countries, the advanced countries with a current account deficit, the emerging countries, the emerging countries with a current account deficit, the G7 and G7 Europe. We have also calculated the standard deviation across the G20, as a measure of the cross-country dispersion of the degree of compliance.

Table 2: G20 compliance scores

	Macroeconomic policy	Financial Reform	IFI Reform	Other	Average
G20 Total	0.55	0.22	0.48	0.28	0.38
Advanced countries	0.66	0.58	0.89	0.54	0.67
Adv. countries in deficit	0.67	0.58	0.83	0.59	0.67
Emerging countries	0.46	-0.08	0.14	0.06	0.14
Emg. countries in deficit	0.35	-0.01	0.25	0.18	0.19
G7	0.65	0.61	0.93	0.57	0.69
G7 Europe	0.73	0.67	0.88	0.64	0.73
Memo: Std-dev G20 Total	*0.31*	*0.43*	*0.49*	*0.34*	*0.39*

	Washington	London	Pittsburgh	Toronto	Seoul	Average
G20 Total	0.67	0.23	0.24	0.28	0.49	0.38
Advanced countries	0.86	0.49	0.59	0.58	0.67	0.64
Adv. countries in deficit	0.80	0.57	0.57	0.60	0.71	0.65
Emerging countries	0.50	0.02	-0.03	0.04	0.35	0.17
Emg. countries in deficit	0.80	0.17	0.00	0.03	0.40	0.28
G7	0.86	0.54	0.57	0.59	0.64	0.64
G7 Europe	1.00	0.65	0.60	0.62	0.71	0.72
Memo: Std-dev G20 Total	*0.47*	*0.43*	*0.45*	*0.34*	*0.25*	*0.39*

Source: University of Toronto G20 Information Center, author's calculations.

Two messages emerge immediately from the table. First, almost all numbers are positive. This means that, based on the assumed criteria, there was at least some compliance in most cases. For the G20 as a whole, and as an average across all meetings, the score is 0.38, with a standard deviation of 0.39, which means that a large part of the distribution, including that comprised between ± sigma, lies in the positive range. The only negative numbers regard emerging countries in the area of financial reform. Surprisingly, the overall G20 compliance in the area of financial reform is rather low (0.22). This, however, depends entirely on the negative score of emerging countries (where financial reform may be perceived as less urgent than other areas), and on the fact that the averages reported in the table are not weighted by size (which implies for example that the US, with a GDP share in total G20 close to 25 percent and an even larger share in terms of financial market size, is weighted equally to Indonesia, that has a share of 1 percent in total GDP). [27] This suggests that performance in this domain tended to be stronger for large developed countries.

The second finding is that compliance drops after the first meeting (Washington). The London meeting, which, as we discussed earlier, was very successful on the basis of the commitments expressed in the final communiqué, seems to have been less so on the basis of the eventual compliance as measured by the UoT indicators. The decline is visible in both the advanced and the emerging-country groups. However, the two groups are characterised by sharply different levels of compliance, the advanced having a much higher score than the emerging. In essence, the decline in

[27] Weighted scores are presented in Angeloni and Pisani Ferry (2011).

G20 compliance after Washington tends to be largely a problem of emerging countries. To the extent that this concerns financial reform, the signal is not necessarily disappointing, since reform of the financial sector was (and remains) a priority principally for the advanced countries.[28] The G20 financial reform agenda was meant to trigger action in advanced countries and it should be no surprise to observe that it is in these countries that it was most effective.

Note that, after London, the average compliance increased steadily, with a somewhat stronger increase in the scoring of the Seoul meeting. This strengthens the impression that the Seoul commitments, while perhaps not constituting a breakthrough relative to expectations, were realistic and achievable.

Across topics, the highest scores are obtained by macroeconomic policies and IFI reform. Again, advanced countries display a higher degree of compliance.[29] On macro policies, the positive score, despite slow progress in setting up the 'Framework for Sustainable and Balanced Growth', is attributable to the timely enactment of the stimulus policies agreed mainly in the Washington meeting.

Two comments should be made before closing this section. First, despite its novelty, the performance of the G20, based on implementation of the self-assigned objectives, seems remarkably good. There are caveats to this conclusion, however. First, commitments may be made ex-ante to be not very ambitious hence easily achievable. This underscores the need to supplement the score analysis with a judgemental evaluation of the 'weight' of the decisions.[30] The data in Table 2 suggests the possibility that the degree of ambition of the G20 commitments may have been inversely related to their subsequent implementation. This hypothesis is unproven at this stage, and would require a deeper analysis. Second, the scoring procedures, being judgemental, are subject to errors and possibly bias. That said, it is interesting to note that the G20 scores are

[28] Rottier and Véron (2010) suggest that, in the area of financial reform, the effectiveness of the G20 depends on the implementing agent – national authorities or international agencies. They show that the latter have on average been more effective, especially when they claimed full authority as opposed to a mere coordination role.

[29] The compliance with the IFI reform commitments is calculated with reference to the national ratification of the international accords, and/or with the countries "taking an active stance in addressing the reforms". This explains why compliance scores differ across countries, even if these reforms are collective in nature.

[30] On the other hand, caution is also warranted also in judging summit outcomes on the basis of final statements; they may conceal difficulties in translating them into national decisions.

roughly similar to those of the G8, calculated by the UoT researchers following the same approach, despite the much longer experience and the more manageable size of the older formation[31].

Taking stock and looking forward

From November 2008 to November 2011 the G20 has gone through a cycle. The initial period (Washington and London summits), characterised by a 'crisis mode', was marked by success on several fronts: financial reform, coordinated macroeconomic stimulus and the avoidance of protectionist measures. The Pittsburgh summit, while effective in terms of institution building (establishment of a permanent G20, plus the macroeconomic 'Framework') marked the transition to the second stage, in which the G20 moved towards macroeconomic coordination and progress stalled, in the context of economic recovery, renewed asymmetry between advanced and emerging countries, and reduced financial market tensions. In recent times, there seems to have been some revival of effectiveness, based on compliance with announced goals; however, this was probably due to more limited ambitions. The Cannes meeting, disappointing in all areas where progress was expected, confirms this trend.

In spite of the recent disappointments, a final judgement cannot be made on the overall performance of the G20 summits. Three years is a short time, and besides, the setback at Cannes may have been due to specific contingencies – lack of preparedness on the European side – and unfortunate timing. Having said this, it seems clear at this stage that the G20 is unlikely to fulfil the ambition announced at Pittsburgh to swiftly become, by the mere fact of existing, the central forum of global governance. This is likely to be a more gradual process, with small steps to be taken and extensive homework to be done, and will be prone to reversals and accelerations. Further advances will depend on several factors, some of which are related to the G20's internal working and organisation. Among them, three are worth mentioning.

First is how to ensure a higher degree of representation and ownership in G20 deliberations. Political and geographical representation is supposed to be provided by the presence at the table of leading representatives of the largest economies, plus a correction in favour of the emerging world

[31] See Angeloni and Pisani Ferry (2011).

– a distinguishing trait of the G20. This may not be sufficient, and the 'representation issue' should not be underestimated, as shown by some recent minority, but vocal, critical views[32]. In a global community counting nearly 200 independent nations, 19 countries (and one region) can claim universal legitimacy only if there are mechanisms to ensure that decisions are also effectively owned by countries not present at the table. Procedures to ensure this do not exist at present. They could be established within existing international organisations with broader membership (for example, the IMF).

A second point concerns internal organisation and effectiveness. The G20 has established good working arrangements with a number of entities that de facto report to it – IMF, Financial Stability Board, Basel Committee on Bank Supervision – and is assisted by substructures (ministers and governors, plus their deputies). The lack of own technical expertise does not seem to be a serious limitation. The expert input comes from the bodies just mentioned. A more serious problem, however, has been ensuring continuity of action over time. In the absence of a permanent secretarial structure, agenda setting completely relies on the annual rotating presidencies, often with very different priorities from one year to the next.

Some improvements in working arrangements could help. Long-term (multi-annual) work lines should be agreed, with the aim of providing guidance to the rotating chair. Leaders and ministers should seek, with other sources of expertise, input from independent experts. More ambitiously, a steering group, similar to that set up in the Financial Stability Board, with a mandate extending beyond the annual chair, could be established. A more ambitious possibility in the same direction would be to set up a small permanent secretarial structure at the IMF. Its mandate – ensuring continuity to the process and stronger liaison between the rotating chairs – would not require large staffing, and bureaucracy and red tape should be avoided.

That said, it is clear that organisational changes can never be a substitute for substance and vision. As it stands, the G20 cannot provide such a vision, in part because it lacks a shared philosophy, a common understanding of the economic priorities of our time and the way to approach them. A serious debate has not started yet on many questions of central importance for the global

[32] Vestergaard (2010); Åslund (2011).

economy, though it would be desirable. How will the global community cope with the limits to global resources in this century and beyond? How will the inescapable aspirations of economic newcomers (the emerging world) be made compatible with the requirements of the veterans, in a balance of interests that may benefit all? How can within- and between-country inequalities generated by the globalisation process be tackled? How, in the political economy of this balance, should the interests of future generations be considered? What economic system, specifically what position in the multifaceted spectrum between free and regulated markets, offers the best chance of making the reconciliation of this multidimensional set of interests easier? And, neither least nor final, what are the specific orientations to be taken in the key areas facing the global economy – energy, environment, financial regulation, international monetary relations, crisis and natural disaster management, just to name a few?

The increased relevance of these themes is the fruit of the same historical forces (globalisation and the new balance in international relations) that gave rise to the G20. These are admittedly complex and controversial issues, over which the risk of stalemate is significant. The G20 can and should respond to this challenge by helping develop this dialogue in the most harmonious possible way. Until now the G20 has worked on the urgent issues of the moment and on those inherited from the past. This was justified at the time of the global crisis but is be hardly sufficient now. The G20 needs to make the best of its diversity and set itself a forward-looking agenda.

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