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ECONOMIC ANALYSIS FROM EUROPEAN COMMISSION'S DIRECTORATE GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

The G20@5: Is It Still Delivering?

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Summary

It has been five years since the Leaders of the Group of Twenty (G20) first met in Washington in November 2008 to provide a coordinated policy response to the largest economic and financial crisis since the Great Depression. In these five years the G20 has become the premier forum for global economic policy coordination. Recently, it has drawn increasing criticism over its effectiveness in dealing with major global economic issues. This economic brief argues that the G20 is not (yet) showing decreasing returns. It has rather moved from an initial high performance equilibrium to a lower one, which nevertheless continues to deliver important public goods. However, in order to remain relevant, the G20 needs to define more precisely where and how policy coordination and cooperation at international level can be effective in fulfilling the G20's overarching objective of achieving strong, sustainable and balanced growth at the global level.

1. Introduction

Five years ago, confronted with the largest economic and financial crisis since the Great Depression, Leaders from the twenty world largest economies met in Washington to provide a coordinated policy response, so as to avoid a downward spiral that could have had devastating effects on the global economy. Since then seven more G20 Summits and many more ministerial, deputies and working group meetings have taken place. Judged against its ultimate goals, the results of the G20 have been mixed. On the one hand, the economic and financial crisis did not develop in a second Great Depression. On the other hand, five years after the collapse of Lehmann Brothers, the global economy is still struggling and a new and coherent international growth model has not surfaced yet. As pointed out in the Autumn 2013 IMF World Economic Outlook and confirmed by the 2013 Autumn Forecast of the European Commission, major economies are experiencing increasingly different growth dynamics. Therefore questions have been raised on its effectiveness once the situation starts to stabilize. Is the G20 still delivering and will it be able to deliver further in future? This economic brief argues that the G20 is not (yet) showing decreasing returns. It has rather moved from an initial high performance equilibrium to a lower one, which nevertheless continues to deliver important global public goods. However, it is true that, since the peak of the crisis, there has been a decline in the G20 level of ambition. This was partly inevitable: with the return to a more 'normal' situation, the national interest is again prevailing over the collective one. However, the ambition to do more at international level may have dropped too fast. Against this background, if the G20 intends to keep its role of premier forum for international economic cooperation, its members need to define more precisely where and how policy coordination and cooperation at international level can be effective in fulfilling the overarching objective set in Pittsburgh, namely achieving, strong, sustainable and balanced growth for the global economy.

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2. The G20 before the G20

The G20[1] was created in 1999, in the aftermath of the Asian financial crisis and its global spillovers. For almost a decade it was mainly a discussion and consultation forum on international financial issues between finance ministers and central bank governors of the major advanced and emerging economies. The global financial crisis of 2008 changed the nature of the G20. The decision to lift its profile was taken at the EU-US meeting in Camp David in October 2008: the rapidly deteriorating economic situation after the collapse of Lehmann Brothers made evident to the Leaders of advanced economies that also emerging markets had to be part of the solution[2]. It was agreed that the forum would be steered by the G20 Leaders, who would meet to discuss the economic situation, and to take the actions needed to stabilise the global economy and to strengthen the recovery.

The five years of the 'new' G20 can be divided in two periods[3]: (i) the first three Summits, where the focus was on countering the downward economic spiral and stimulating the global economy, and (ii) the Summits that followed, where the focus shifted to how to achieve strong, sustainable and balanced growth and to fix some of the structural weaknesses that either were among the root causes of the crisis or acted as a brake to the recovery.

3. The rise of the G20

The first phase of the G20 in the new format was dominated by the coordinated response to the global recession and the stabilisation of the financial system. The Summits in Washington (November 2008), London (April 2009) and Pittsburgh (September 2009) focused on three key issues: (a) the macroeconomic stimulus needed to avoid the repetition of depression similar to that of the 1930s; (b) the increase of the financial resources of the International Monetary Fund to strengthen global firewalls and support countries under financial stress because of the crisis; and (c) the reform of financial markets so as to reduce or eliminate the perverse incentives that generated the crisis, to recapitalize banks, and restore the proper functioning of credit mechanisms damaged by the financial collapse[4].

The enacted macroeconomic packages were without precedents both for its size and in terms of economies involved in it. Central banks in advanced countries rapidly cut interest rates, bringing them to a 0%-1% range. In addition, unconventional monetary measures were introduced to support economic activity and a frail banking sector badly damaged by the crisis. Some emerging market economies, while not in a need to adopt non-conventional measures, also lowered interest rates to support the economy and avoid a too sharp appreciation of their currencies. On the fiscal side, large fiscal stimuli to be implemented in the period 2009-2010 were agreed in almost all G20 countries[5] (*cf.* figure 1).

Aggressive monetary policies together with expansionary fiscal policies (amounting to several points of GDP and complemented by the work of automatic stabilisers) contributed to stem the collapse of demand and to bring global growth in positive territory already in the second half of 2009.

G20 Leaders also agreed on the need to avoid introducing protectionist measures, intervene to revitalise financing for trade[6] (that had dropped dramatically at the onset of the crisis), and allow trade to play an important role in the recovery (although the calls in the various G20 Communiqués to conclude successfully the Doha Development Round so far did not produce the expected result).

[1] The G20 Members are: Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom and the United States. Since the beginning of the crisis, Spain, although not officially a member, is permanently invited to G20 meetings.

[2] The Statement of the United States, France and the Presidency of the European Commission issued on 18 October after the meeting indicated that *"The three leaders ... agreed they would reach out to other world leaders ... with the idea of beginning a series of summits on addressing the challenges facing the global economy"* (http://georgewbush-whitehouse.archives.gov/news/releases/2008/10/20081018-2.html).

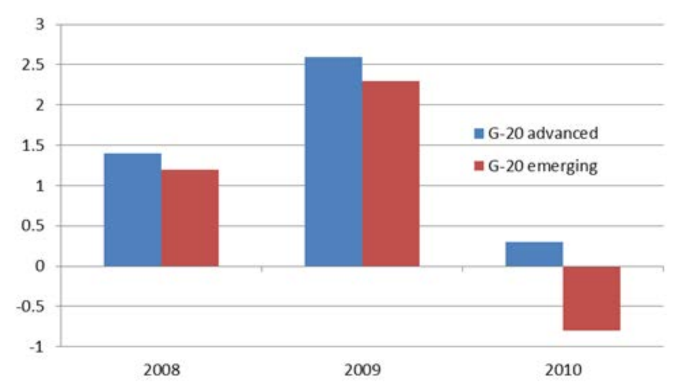
[3] Angeloni and Pisani-Ferry (2012) have also a two period structure, while Pisani-Ferry (2012) adds an additional phase, namely "Assisting Europe, 2011-2012". While there were a lot of discussions on Europe, in particular at the Cannes and Los Cabos Summits, we consider that both these Summits had a wider scope. Therefore we consider the two-period structure more appropriate.

[4] For an analysis of the outcomes of the first phase of the G20 or some of its Summits see also Angeloni and Pisani-Ferry (2012), Portes (2009), Wyplosz (2009).

[5] As regards the EU, on 26 November 2008, the European Commission presented a European Economic Recovery Plan (EERP) to combat the economic downturn. The Plan was endorsed by the European Council on 11-12 December 2008. Member States and the EU agreed on an immediate fiscal impulse amounting to around EUR 200 billion (1.5% of GDP). It consisted of a budgetary expansion by Member States of EUR 170 billion and EU funding in support of immediate actions of the order of EUR 30 billion.

[6] See on this Auboin (2009). At the 2009 London G20 Summit, Leaders declared they will ensure availability of at least $250 billion over the next two years to support trade finance through export credit and investment agencies and through the Multilateral Development Banks (MDBs).

Fig.1: Fiscal Impulse (stimulus) in the G20, 2008-2010



Note: The fiscal impulse (stimulus) is measured by the yearly change in the cyclically-adjusted primary balance (% of potential GDP). Cyclically adjusted primary balance is defined as the cyclically adjusted balance excluding net interest payments.

Source: Authors' calculations based on the IMF Fiscal Monitor Database, October 2012.

At the London Summit in April 2009, G20 Leaders decided to treble resources available to the IMF to $750 billion, to support a new SDR allocation of $250 billion, to support at least $100 billion of additional lending by the MDBs, to ensure $250 billion of support for trade finance, and to use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries. The combined package constituted an additional $1.1 trillion programme of support to restore credit, growth and jobs in the world economy. The increase in IMF resources strengthened significantly its lending capabilities and created firewalls that could be used to reduce or avoid financial contagion.

A pivotal issue for Leaders at the Washington Summit was to avoid a collapse and restore the functioning of financial markets and financial institutions. They agreed to implement reforms to restore the stability of financial markets and strengthen regulatory and supervisory regimes so as to avoid future crises. This was underpinned by a set of concrete actions aimed at reforming the financial system and changing the perverse set of incentives that led to the financial collapse. In London, Leaders decided to establish a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries. The momentum for reform was enhanced by further commitments aimed at strengthening financial supervision and regulation.

Overall, the measures introduced produced the impact that was anticipated and the G20 can rightly claim that it is partly its merit that the 2008-2009 Great Recession did not become a Great depression[7]. Therefore, when G20 Leaders met in Pittsburgh in September 2009, their sense of relief was justified: *"...When we last gathered in April, we confronted the greatest challenge to the world economy in our generation...Global output was contracting at pace not seen since the 1930s. Trade was plummeting. Jobs were disappearing rapidly. Our people worried that the world was on the edge of a depression... At the time, our countries agreed to do everything necessary to ensure recovery, to repair our financial systems and to maintain the global flow of capital... It worked"*[8].

However, even if it was possible to avoid a new economic depression and the recovery started to materialize, it became increasingly clear that the post-crisis growth regime could not be the same as the one before the crisis which was unsustainable. There was a need to put growth of advanced countries on more solid foundations and avoid the resurgence of the imbalances, both in the real economy and the financial system. In the meantime, emerging countries needed to reconsider their growth models, making them more balanced and less dependent on exports (China, and oil and commodity producing countries) or more resilient domestically (India, Brazil). Just to put its own house in order was not good enough any longer and could even trigger sub-optimal outcomes. It was against this background that in Pittsburgh it was decided to create *"a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced global growth. We need a durable recovery that creates the good jobs our people need"*.

3. The long way to strong, sustainable and balanced growth

In the period separating the Pittsburgh Summit (September 2009) from the Toronto Summit (June 2010), the global economy seemed on the mend. Growth in emerging economies was back to pre-crisis levels (e.g.,

[7] While it would be misleading to claim that it was only thanks to the G20 that a Great Depression II was avoided, its role should not be downplayed. In this respect we agree with Pisani-Ferry (2012a) when he points out that *"In a situation of global demand shortfall, high risk aversion and partial paralysis of financial markets, the policy prescription was very much the same everywhere. It is likely, however, that the G20 action plan helped focus the policymakers' attention on a well-defined policy package, facilitated domestic consensus, and helped overcome free-rider attitudes. It made each and every government more secure than it would have been had they acted in isolation. So the G-20 probably helped overcome obstacles to the appropriate policy response"* (Pisani-Ferry (2012a), pp. 28-29).

[8] See the G20 Pittsburgh Summit Leaders' Statement from 24-25 September 2009, p.1. This and all other G20 Statements are available at the G20 Information Centre site of the University of Toronto, Canada: http://www.g8.utoronto.ca/g20/.

China's growth was again above 10%) while in almost all advanced economies growth had moved above potential and the output gap was slowly declining.

3.1. The Toronto Summit (2010)

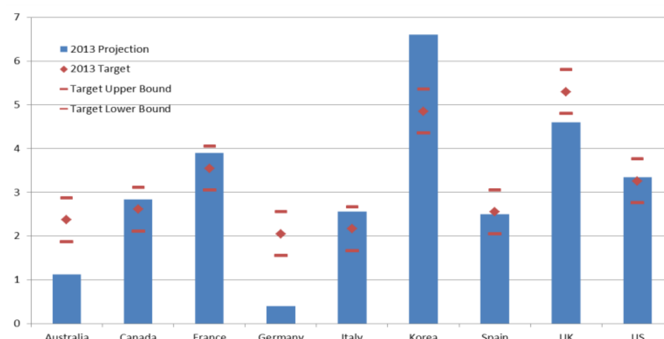
When the G20 Leaders met again in Toronto, there was growing concern that unsustainable imbalances were cumulating on the fiscal side: in many advanced countries the general government debt-to-GDP ratio had grown between 10 and 20 percentage points since the crisis and it was still growing, fiscal deficits remained high, and the sovereign debt crisis in Greece started to appear on the policymakers' radar screens. While there was some disagreement on the role of fiscal policy in supporting the recovery[9], in Toronto G20 Leaders decided to send a strong signal with regard to fiscal responsibility. The objective was to avoid that too high deficits and debts affected negatively the confidence of consumers and investors, with negative spillovers on the recovery. To this end, while allowing for some flexibility (for example the final Communiqué pointed out that *"the path of adjustment must be carefully calibrated to sustain the recovery in private demand"*), G20 advanced countries –with the exception of Japan[10]- took the commitment to halve public deficits by 2013 and to stabilise the debt/GDP ratio by 2016 (for projections on the fulfilment of this commitment *cf.* figures 2 and 3).

After the emphasis put in the first three Summits on the need of a rapid and strong recovery, with Toronto the G20 started its efforts to find a new equilibrium. Differently from Pittsburgh, the emphasis was put a bit more on 'sustainable' and 'balanced' and a little less on 'strong' growth. Still, the fiscal dimension was not the only relevant dimension in the search for a new equilibrium.

External imbalances (deficit or surplus of the current account; overvaluation or undervaluation of currencies; destabilising capital inflows or outflows) were also seen as factors potentially weakening and destabilising medium-term growth. External imbalances played a role in the fuelling of the 2008-2009 financial crisis. And, in the post-crisis period, they remained a major obstacle to the recovery.

Figure 2: IMF Projections of General Government Deficits for 2013

(Percent of GDP; Red Diamond is Deficit Target Based on 2010 Deficit)

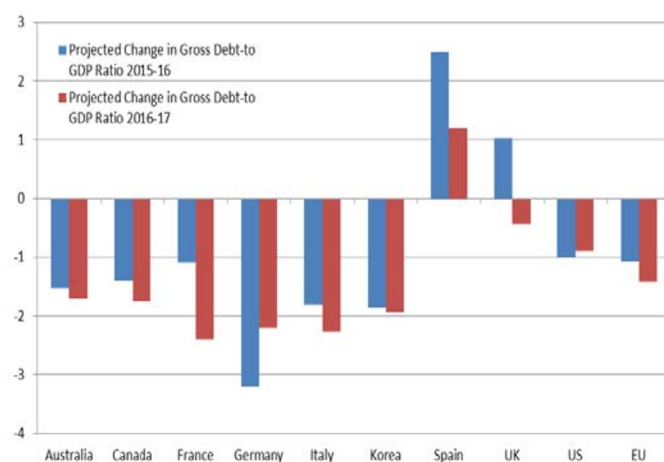


Note: Korea has a fiscal surplus and Japan was exempt from the Toronto Commitment. For the Accountability Assessment, the UK is assessed using its cyclically adjusted primary balance, and using a target based on the Spring 2010 WEO. The US is assessed using IMF forecasts of the federal government deficits.

Source: April 2013 Fiscal Monitor; Updated data from 2013 IMF Article IV for France, Germany, Spain, US. Chart courtesy of the G20 Framework for Growth Co-chairs, published in the Accountability Assessment Charts for the St. Petersburg Summit.

Figure 3: IMF Projections of the Change in General Government Debt Levels from 2015 to 2016 and 2016 to 2017 in Toronto Fiscal Commitment Countries

(Percent of GDP)



Note: Japan was exempt from the Toronto Commitments.

Source: April 2013 WEO; Updated data from 2013 IMF Article IV for France, Germany, Spain, US. Chart courtesy of the G20 Framework for Growth Co-chairs, published in the Accountability Assessment Charts for the St. Petersburg Summit.

[9] See more on this in Angeloni and Pisani-Ferry (2012), Woods (2010).

[10] At the Toronto Summit G20 Leaders welcomed *"the Japanese government's fiscal consolidation plan announced recently with their growth strategy."* At the G20 Summit in Cannes in 2011 Japan committed that *"for the national and local governments' primary balance, the deficit ratio to GDP shall be halved from the ratio in FY 2010 by FY 2015 at the latest, and the surplus shall be achieved by FY 2020 at the latest...From FY 2021, a stable reduction in the ratio of public debt to GDP for both national and local governments shall be maintained"*.

Despite the fact that the crisis led to a considerable narrowing of external imbalances, there were justified concerns that such a decline was essentially cyclical. In countries with large deficits such as the United States, the UK and Spain their reduction could have been mostly due to a contraction in economic activity, while in the cases of China and Germany lower surpluses could well have been the outcome of the fiscal stimulus as well as the weakness of their main export markets. Most analyses carried out at the time indicated that the narrowing of global current account imbalances had a significant temporary component[11].

3.2. The Seoul Summit (2010)

In the run-up to the Seoul Summit in November 2010, the discussion focused on how to address effectively global imbalances. Ahead of the Summit, US Treasury Secretary Geithner suggested that countries with a current account surplus or deficit superior to 4% of GDP should take measures to bring it below such a threshold (this rule however would not have applied to commodity producing countries). China and Germany opposed the proposal arguing that governments had no direct control of the size of the current account (in addition, Germany stressed that it had a floating exchange rate). In Seoul, a compromise between the two positions was reached: the G20 Finance Ministers were tasked to develop 'indicative guidelines' to provide policy prescriptions aimed at ensuring a more balanced growth among G20 economies.

The issue of global imbalances was a turning point for the G20. To obtain the desired outcome, it was necessary to differentiate the economic policies of its members: countries in deficit had to increase their saving ratios, become more competitive, and, over the medium term, change their consumption patterns, while countries in surplus had to stimulate consumption and investment through structural reforms and, if appropriate, expansionary fiscal policies. In addition, some emerging market economies (e.g. China) needed to introduce more flexible exchange rates, and, in the presence of high surpluses, let their currency appreciate.

The underlying disagreement on how to deal with global imbalances at the Seoul Summit gave the impression that the G20 was less and less able to produce substantive actions to deal with the challenges the global economy was facing and therefore that its role and usefulness were on a declining path. While, over the medium term, the issue of the relevance of the G20 was a pertinent one, the perception that the Seoul Summit was a failure was wrong. At the Summit, important progress was made on financial market reform (*in primis* with the agreement on Basel III, to which one has to add the progress made on the resolution of systemically important financial institutions complemented by the strengthening of supervisory institutions and mechanisms). In addition, an agreement was reached on IMF quota and governance reform, which included a new quota formula, a quota transfer from advanced to dynamic emerging and developing economies, and the increase of the number of seats going to emerging markets at the expense of advanced European countries in the IMF board[12]. Last but not least, the development dimension was significantly strengthened[13]. The G20 continued to deliver important results.

Since the most acute phase of the crisis was over, in 2010 G20 Leaders agreed to reduce the frequency of Summits, so that they could be better prepared and have more time to agree on what should be done. As a result, from 2011 onwards G20 Summits have been held on an annual basis.

3.3. The Cannes Summit (2011)

In 2011, the focus of the G20 stayed on global imbalances and on the 'indicative guidelines' whose recommendations, if implemented, could have brought them to sustainable levels. The 'indicatives guidelines' were approved at the Cannes Summit (November 2011) and contained a number of policy proposals to be taken in a coordinated way in surplus and deficit countries in order to put global imbalances on a downward path and in the meantime ensure a rotation of global demand that would support economic activity[14,15]. In Cannes

[11] See, for example, IMF (2010a), IMF (2010b) and OECD (2009).

[12] The G20 role in IMF reform is discussed in Truman (2010).

[13] See on the strengthening of the development dimension Angeloni and Pisani-Ferry (2012) and Woods (2010).

[14] For a comprehensive analysis of the work carried out in the G20 on global imbalances see in particular Faruqee and Srinisavan (2013). See also Angeloni and Pisani-Ferry (2012) and Eichengreen (2011).

[15] The G20 process for external imbalances is partly modeled after the two-step European Macroeconomic Imbalances Procedure (MIP). The G20 process starts with an indicator based filter step, followed by an in-depth study step for selected economies leading to the formulation of policy recommendations and follow-up. The G20 uses four methodological approaches in the first step to identify countries for the second step in-depth assessment: a structural, model-based approach; a statistical time-series approach which benchmarks G20 countries on the basis of their national historical trends; a statistical cross-section approach which benchmarks G20 country's historical indicators against groups of countries at similar stages in their development; and a statistical quartile approach which draws on data, benchmarking G20 country's indicators against the full G20. A G20 member is considered for selection to step 2 if indicators signal large or excessively large imbalances for at least two of the following three sectors: external imbalances; private finances; public finances. The final selection of a given country for the second stage depends on whether

further progress was made on the issues on how to resolve systemically important financial institutions and on how to increase transparency in commodity markets, so as to reduce speculative booms and boosts. There was also progress on the reform of the international monetary system, in line with the overarching goal of the French G20 Presidency to better involve emerging market economies, with an agreement on so-called G20 Coherent Conclusions for the Management of Capital Flows whose aim was to help build a new international consensus on the liberalization and management of capital flows. However, the positive results of the Cannes Summit were overshadowed by the worsening of the sovereign debt crisis in Greece and its contagion to large Euro area economies such as Italy.

3.4. The Los Cabos Summit (2012)

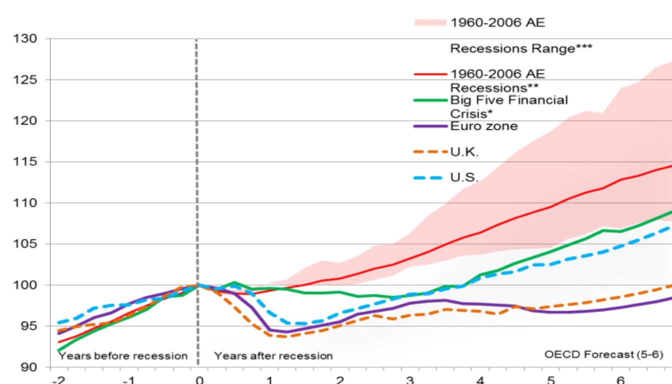
In June 2012 in Los Cabos, G20 heads of state and government met during times of strong systemic risks stemming from the Euro area, whose economy was in recession. In the G20 Leaders' Declaration issued at the end of the meeting, Euro area G20 members committed to *"take all necessary policy measures to safeguard the integrity and stability of the area, improve the functioning of financial markets and break the feedback loop between sovereigns and banks"*. The commitment was rapidly followed by decisive action: at the European Council at the end of June European Leaders took new measures to strengthen financial stability in the Euro area, leading in the end to a banking union, and to strengthen growth through the "Job and Growth Compact", which included a financial envelope of €110 billion. In September the European Central Bank, after its President committed to do "whatever it takes" to preserve the integrity of the Euro area, announced the *Outright Monetary Transactions* (OMT) programme, which significantly reduced the tail risks in the vulnerable countries of the Euro area.

Another important outcome of Los Cabos was the agreement reached to further increase IMF resources by $460 billion (however neither the US nor Canada contributed to it) to address possible systemic risks, including those stemming from the sovereign debt crisis.

3.5. The St. Petersburg Summit (2013)

Fifteen months later, the Saint Petersburg took place in an economic environment significantly less tense than in Los Cabos. The reduction of systemic risks, the strengthening of growth in the US and Japan and clear signs that the recession was finally ending in the Euro area, contributed to a balanced discussion on the economic outlook. Overall, Leaders considered that growth was still far from satisfactory (cf. figure 4). Momentum in advanced economies was firming gradually but growth in a number of emerging economies had lost vigour.

Figure 4: Recovery from Financial Crisis
(100 = first quarter of real GDP contraction)



Note: *Big Five Financial Crisis includes Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992). **Recessions, i.e. two straight quarters of contraction in G20 advanced economies (AE) since 1960. ***Range limits are average of best/worst three AE recessions 1960-2006.

Source: OECD June 2013 Forecast, Haver Analytics, Rogoff and Reinhart (2008), Finance Canada Calculations. Chart courtesy of the G20 Framework for Growth Co-chairs, published in the Accountability Assessment Charts for the St. Petersburg Summit.

An important discussion took place on the question of spillovers. The G20 Leaders recognised that while the early signals of an unwinding of monetary stimulus in the US were a sign of normalisation as growth resumes, they also raised policy challenges. They committed to continue to monitor the situation and to cooperate to ensure that policies implemented to support domestic growth also support global growth and financial stability and to manage their spillovers on other countries.

The G20 also reached an understanding on the follow-up to the Toronto fiscal commitments, which tries to combine sustaining demand where possible whilst en-

it responds to those criteria in at least two of the four methodological approaches so as to increase the robustness of the results. More rigorous rules apply for systemically important countries. The G20 process does not have clear-cut rules for the second stage of the assessment. The objective of the G20 is to come up with a thorough analysis of the root causes of imbalances and with clear individual recommendations on measures that have to be taken to reduce them and prevent their future build-up. In this it uses the expertise of the IMF which provides its insight regarding all G20 members selected in the second stage.

suring fiscal sustainability. All advanced G20 economies put forward country-specific fiscal strategies. The G20 agreed that these strategies would be implemented flexibly to take into account near-term economic conditions, so as to support economic growth and job creation, while putting debt as a share of GDP on a sustainable path. There was a strong differentiation of ambition: for instance Canada and the EU Member States formulated their fiscal strategies in specific medium-term fiscal frameworks, while the US just put forward budgetary projections.

G20 Leaders agreed that while global current account imbalances have declined, reflecting in part important reforms in a number of countries, a substantial part of this progress has occurred due to demand compression. The sharp decline of China's current account surplus (from 10.1% of GDP in 2007 to 1.9% of GDP in 2011) reduced significantly the sensitivity of the issue and required to have it reconsidered in a broader perspective. As a result, the G20 has started to redefine the issue of global imbalances more in terms of progress toward broad based rebalancing of global demand between surplus and deficit countries, as well as internal rebalancing. The St. Petersburg Leaders' Declaration stressed the need to achieve stronger domestic demand growth in large surplus economies, increased savings and enhanced competitiveness in deficit economies and more flexible exchange rates. Leaders declared that they were committed to actions in all these areas and would regularly assess progress.

G20 Leaders also agreed on a renewed narrative to reconnect the agenda on financial regulation to the original aim of Leaders in 2008 to ensure that all financial institutions, markets and participants are regulated or subject to oversight, and agreed on a roadmap with clear actions and deadlines to progress towards strengthened and comprehensive oversight and regulation in the shadow banking sector.

Another key deliverable was the agreement to shift the regime on the international exchange of tax information from an at-request basis to an automatic basis, and the expectation to begin to exchange information automatically on tax matters among G20 members by the end of 2015, and the endorsement of the OECD Action Plan on Base Erosion and Profit Shifting to ensure that tax rules do not encourage multinational companies to artificially shift profits to low tax jurisdictions.

Finally, Leaders extended the standstill on trade and investment restrictive measures until 2016. The Summit moreover sent a strong political signal for a successful deal at the Bali WTO Ministerial scheduled for December 2013 with trade facilitation at its core.

4. Decreasing returns or a new equilibrium?

The 'heroic' period of the G20, that of the coordinated policy response to the global financial crisis, ended with the Pittsburgh Summit in 2009. The issue that emerged already at the Seoul Summit and that is still relevant today is whether the G20 can survive when the national interest reaffirms its prominence over the collective one.

It is important to stress that the regain of prominence of the national interest was somewhat inscribed in the G20 genetic code. The G20 is not an institution, it is a forum[16]. Its members can exert peer pressure to reach an agreement or a compromise, but all decisions are taken by consensus. It is therefore inevitable that, once systemic risks are brought under control, each country tries to push forward its own priorities and suggests collective actions from which it would benefit most. The coordination process is complicated further by the fact that, while there was widespread agreement on what to do when the crisis broke out, this has not been the case since 2010, when governments started to have different readings of the challenges ahead and of the policy mix to adopt. As a result, some governments stressed the need to further strengthen growth and reduce rapidly the output gap, even if this implied a slower pace in the process of fiscal consolidation, while others considered that this strategy was not viable and that therefore the emphasis should be put on the need to put in place gradual and credible strategies to reduce the fiscal deficit and the government debt over the medium term, as well as on structural reforms able to increase the growth potential of the economy.

Against this background, are those who think that the G20 is showing decreasing returns[17] right? It is certainly true that the G20's greatest successes took place in its initial period, which ended in 2010. Compared to that period, it could be argued that the G20 became less effective. Still, the G20's initial period was an exceptional one and it would have been unrealistic to think of a situation of constant returns once exception-

[16] While it is true that the G20 has some features typical of an institution (e.g., working groups), some others are missing (e.g. a permanent secretariat). Eichengreen defines the G20 as *"the grouping that progressively superseded the G7/8 as the locus for policy coordination"* (Eichengreen (2011), p. 28).

[17] See, for instance, Pisani-Ferry (2012a and 2012b). Some commentators are more radical and consider that the G20 has already run through its role since it can produce substantive progress only "under most extreme conditions" (Bremmer (2012) p.2).

ality was over. This would have required the creation of a 'global economic government' for which the conditions simply do not exist.

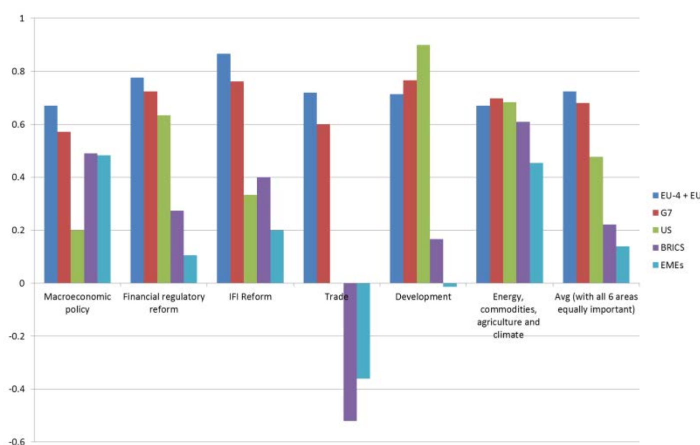
To assess the G20's effectiveness, after and beyond its 'heroic' period, a different benchmark has to be adopted. The benchmark we suggest here relates to the value added provided by the G20 compared to a situation where there would be little international cooperation and coordination and each economy would simply try to put its house in order without concern for the global spillovers of its domestic policies[18]. If 'putting its own house in order' becomes the benchmark, then it can be argued, on the basis of the deliverables mentioned in the previous section, that the G20 has continued to produce results and has shown a value added that goes beyond its ability to react to exceptional challenges. Rather than showing decreasing returns, the G20 has shifted to a different (lower) equilibrium, which nevertheless continues to provide global public goods that probably would not have materialised in the 'putting the house in order' scenario.

Furthermore, there is another dimension of G20 effectiveness that is not sufficiently recognised, namely its role in the prevention and management of international economic tensions and conflicts. For instance, the G20 has been instrumental in avoiding a significant increase of trade and investment protectionist measures at the onset of the crisis (contrary to what happened during the Great Depression) and to keep under control risks of 'currency wars' that have emerged frequently in the last five years[19].

Against this background, the G20 still seems able to move beyond the common minimum denominator of its members (for a discussion on possible advantages and drawbacks of international economic coordination see Box at the end of the Brief).

However, while there is value added in the G20 even in normal times, it is true that in recent years the G20 deliverables have been below what was hoped that the G20 would deliver as the main forum for international economic coordination (*cf.* figure 5).

Figure 5: Average progress on G20 commitments between the Summits in Pittsburgh (2009) and St Petersburg (2013)



Note: "EU-4 + EU" is the average of Germany, France, Italy, UK, and the EU itself. Emerging Market Economies (EMEs) include Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey. The methodology uses a scale from -1 to +1, where +1 indicates full compliance with the stated commitment, -1 indicates a failure to comply or an action taken that is directly opposite to the stated goal of the commitment, and 0 indicates partial compliance or work in progress (as for example the average US progress with trade commitments between the two Summits).

Source: ECFIN staff calculations, based on data from the G20 Research Group compliance assessments, University of Toronto: http://www.g20.utoronto.ca/analysis/index.html#compliance

Commentators and, more in general, the public opinion expected more decisive actions, able to accelerate the recovery, making it more sustainable and balanced, so that unemployment rates could be brought down, in particular in advanced economies[20] . The agreements reached in the G20 have only partly fulfilled such expectations and requests.

As a result, the status and the role of the G20 have to a large extent still to be set. For the G20 to continue to provide relevant deliverables (and as such perceived by the public opinion), on some key issues related to growth, employment, financial stability, and fiscal sustainability its members should be ready to better match national interest and cooperative solutions at interna-

[18] Another possible benchmark can be the degree of compliance to the commitments taken at G20 Summits (see Bracht (2013), Angeloni and Pisani Ferry (2012), Rottier and Véron (2010)). While it can provide some useful aggregate information, the degree of compliance to commitments has however the strong disadvantage of assembling together actions that have various degrees of relevance for the global economy while giving them the same weight. In such a case a Summit would be considered a failure because in its aftermath only few commitments were implemented, even if these actions were instead the top priorities agreed at the Summit.

[19] A point in case is the commitment of the G20 to continue to orient exchange rates towards domestic objectives, and "*in this regard, work more closely with one another so we can grow together*" as a reaction to the rapid depreciation of the yen at the end of 2012-beginning of 2013 (G20 Finance Ministers' and Central Bank Governors' Communique of 16 February 2013). The expression 'currency wars' was first used in the G20 context by the Brazilian Finance Minister in 2010. On the issue of currency wars in the G20 context, see Bergsten (2013), Evenett (2013) and Pisani-Ferry (2010).

[20] See, for instance, Temin and Vines (2013).

tional level. Even if a return to the spirit of Washington, London and Pittsburgh is not very probable, there is nevertheless a need for more cooperation than what has been seen and perceived since then.

Still, Grand Bargains seem unlikely[21]. If in the future vetoes, resistance to peer review and disagreements take the upper hand, macroeconomic coordination might move to other -more homogeneous- fora, like the G7 or the BRICS Summits. In such a scenario, the G20 would end up as a forum registering rather than determining key decisions for the global economy. While it would preserve its function of a forum where international economic issues are discussed (neither the G7 nor the BRICS Summits can claim such a role), its political relevance would decline. Should this be the case, a much lighter (and less costly) process than the current one would be sufficient and appropriate.

5. The way forward

To become more effective as a forum for economic policy coordination, the G20 needs to improve its working methods. This would require that: (i) At the start of a new Presidency, G20 members should agree on general economic objectives based on a common analytical assessment. In practice this would mean that G20 members would set these objectives at the February meeting of G20 Finance Ministers and Central Bank Governors; (ii) All G20 partners should submit national growth strategies by mid-year to achieve these overall objectives. These national submissions would be assessed by the Finance Ministers with the support of the International Organisations for alignment with the common objectives, and the specific challenges pertaining to that country; (iii) Countries' specific commitments should be put together into a comprehensive strategy for the G20 as a whole by the autumn G20 Finance Ministerial meeting; and (iv) G20 members should present national growth strategies at the Brisbane Summit, as agreed in the St Petersburg Declaration. Last but not least, in terms of accountability G20 members should agree to the strengthening of the peer-review process, so as to allow for more peer support and peer pressure. It would be important that G20 members do not oppose being mentioned in final public statements, should they present potential risks to the global economy.

[21] As pointed out by Pisani-Ferry (2012a), *"it is not clear which of the participating countries is ready to trade a change in its own policy for a change in its partner's policy. Would, for example, a Chinese exchange rate adjustment facilitate a U.S. budget agreement? The political economy of international horse trading is highly uncertain"* (p. 32).

To recover its élan, the G20 needs to refocus on its core business, namely economic policy coordination to ensure strong, sustainable and balanced growth, which also includes the 'new narrative' regarding the regulation and supervision of financial markets, the tax agenda and the reform of the international financial architecture. At the same time, a number of aspects which have been added lately should be dropped. In Saint Petersburg, Leaders committed to develop further the comprehensive growth strategies for presentation to the Brisbane Summit in order to get to clearer, more consistent, and better coordinated economic policy for the G20. This should also imply a rotation of global demand significantly larger than we have seen so far. As pointed out by Blanchard and Milesi-Ferretti (2013), such a rotation would also be in the interest of the countries with large deficits and surpluses since *"in many cases, current account balances reflect underlying domestic distortions. It is then in the interest of the country to remove those distortions and, in the process, reduce imbalances"* (p.14).

The G20 has to complete its agenda on strengthening global financial stability. G20 Leaders at the Washington Summit in 2008 set out to *"ensure that all financial institutions, markets and participants are regulated or subject to oversight"*. Significant progress has been made. The G20 has considerably strengthened capital standards with Basel III; it has moved forward on systemically important financial institutions; it is making progress on shadow banking; it is implementing OTC derivatives reforms and is addressing remaining cross-border regulatory issues. Importantly, Leaders established the Financial Stability Board which includes all G20 members. However, while global financial stability has been significantly strengthened, with the EU in the lead in implementation, the G20 needs to continue the necessary reforms and maintain the framework for sustained and permanent international cooperation in this area. Looking forward, it is important to make sure that financial reform remains a key plank of the broader G20 agenda and that G20 members remain committed to finishing the job that Leaders set out to do.

The G20 has also been an important driving force behind action to address tax havens and non-cooperative jurisdictions. In the field of taxation, G20 action so far has prompted the signature of over 800 bilateral tax information exchange agreements. The OECD Global Forum for Transparency and Exchange of Information monitors the effective implementation of the internationally agreed standards of transparency and exchange of information in the tax area through a peer review

process ensuring that each member country has a legal framework for the exchange of information for tax purposes (phase 1 review) and that this legal framework is effective (phase 2 review). Important progress has been made in 2013, with the agreement to switch to a system of automatic exchange of tax information, and the agreement on the OECD Action Plan on base erosion and profit shifting to avoid artificial profit shifting to low tax jurisdictions. In the area of anti-money laundering, the Financial Action Task Force identified a number of jurisdictions whose strategic deficiencies constitute a threat to the international financial system. Progress was also made in the field of trust transparency.

Another area where progress is needed is the strengthening of the G20's legitimacy, since, while the repercussions of its decisions have a global dimension, the majority of countries are not represented in the forum. Moreover, at least initially, non-governmental economic and social representatives were not involved in the work of the forum. Since 2010, however, all G20 Presidencies together with its wider membership made important efforts to increase the legitimacy of the G20, including through a rotating system of guest countries, and the preparation of outreach groups (Business 20, Labour 20, Civil 20, Think 20, and Youth 20)[22]. Efforts to increase transparency of the G20 and to deepen outreach need to continue with the aim of taking into account more thoroughly the positions and views of the non-members as well as civil society.

The G20 will also be assessed on its ability to generate a sustainable growth regime. Here sustainability has two meanings: one related to the economy and the other to the environment. From an economic viewpoint, the G20 needs to bring under control at the global level the imbalances created before and during the crisis, *in primis* the burgeoning of government debt in advanced economies. It has also to put in place mechanisms able to avoid situations in which financial markets again bring the global economy in a tailspin, without unduly hampering financial innovation. Last but not least, the G20 must help and support emerging and developing economies in the redefinition of their growth models, which, despite the successes of the last two decades, are not any longer viable in the post-crisis world. From the environmental viewpoint, it is essential to provide new momentum to the green economy, to make it an engine of growth both in advanced and emerging economies, and reduce significantly the costs on the environment in emerging economies.

6. Conclusions

The G20 is here to stay and the G20 is still needed. However, to ensure its legitimacy and credibility, it needs to continue to provide global public goods. Otherwise it would risk to become a talking shop (as it was in its pre-Summit period), whose usefulness can rightly be put into question. The G20 also needs to resist the temptation to look continuously for new topics if it is unable to deliver concrete results *hic et nunc* in terms of economic policy coordination[23].

It is also essential that the G20 improves its effectiveness to avoid diminishing commitments from its members. The coordination of economic and financial policies is the core task of the G20. The coordination process has made an important step forward this year with the Action Plan for Growth and Jobs adopted in St Petersburg, which is now stronger and more consistent than before. However, more is needed. Next year the G20 will have to follow up on the mandate of Leaders to develop comprehensive growth strategies for presentation at the 2014 Brisbane Summit. They will need to go beyond past Action Plans and ensure more ownership. Our experience in Europe shows that there are three key prerequisites for success: first, a common analytical framework and agreed objectives; second, willingness by countries to undergo peer review; and third, a monitoring system to assess delivery[24].

In sum, in order to maintain and further strengthen its relevance the G20 should:

(i) reform its working methods;

(ii) focus on key objectives;

(iii) build on the executive function of Leaders;

(iv) improve its legitimacy.

In the post-Lehmann world it is difficult to think that the redefinition of the growth regime at the global level can be left to unregulated markets and national authorities alone. Furthermore the objective of a strong, sustainable and balanced growth set in Pittsburgh is still far from being achieved. The durable reduction of glob-

[22] See, for example, the outreach strategy of the Russian G20 Presidency: http://www.g20.org/docs/G20_russia/outreach_strategy.html.

[23] See also Callaghan (2013a), who emphasizes the need for the forthcoming Australian G20 Presidency to focus on a targeted agenda that engages Leaders in making substantive progress on some difficult, but important issues.

[24] There are considerations ongoing to make G20 working methods more effective, including its agenda setting process, its organization, the preparation of communiques, and the role of international organisations. See, for example, Cameron (2011) and Callaghan (2013b).

al imbalances, global demand rotation, economically and environmentally sustainable growth, job creation, and the rebuilding of a resilient and stable financial sector are the key challenges that still require international economic cooperation and that the G20 will have to address from here to the end of the decade. In the end, the future of the G20 will depend on the answers it will be able to provide to these challenges.

Box

International economic cooperation in the G20: "much ado about nothing"?

Is international economic cooperation at global scale effective or is it just a costly talking shop?

In an article preceding the G20's rise, Martin Feldstein argued that: *"It is unfortunately easy and often politically convenient to exaggerate the potential gains from international economic coordination and to understate the ability of a nation to guide its own economic future. Our politicians and those of other leading countries should not be allowed to escape their responsibilities by blaming poor domestic economic performance on the policies pursued abroad. Similarly, it would be a serious mistake if the pursuit of international coordination in exchange markets and in macroeconomic policy management became an excuse for not pursuing appropriate domestic policies."* (Feldstein (1988), p.11). Eichengreen (2011a) draws on 150 years of historical experience to conclude that successful cooperation is most likely in four sets of circumstances: (i) when it centres on technical issues; (ii) it is institutionalised (i.e. supported by procedures and precedents); (iii) it is concerned with preserving an existing set of policies and behaviours; and (iv) when it occurs in the context of broad comity among nations. Angeloni and Pisany-Ferry (2012) acknowledge that *"Theory and evidence in the recent decades have tended to support the view that, under plausible circumstances concerning the working of the international economy, the most efficient and effective arrangement for policymaking corresponds to each country acting in isolation, pursuing national objectives"*.

Against this background, the G20 has to prove itself against a reasonable dose of scepticism.

Taking a stance in favour of economic cooperation in a G20 framework, Angeloni and Pisany-Ferry (2012) argue that the world economy has evolved in such a way in recent years that the benefits from policy coordination at the G20 level are made more likely and more substantial. Their assessment of performance is based partly on judgment, partly on the use of more systematic indicators available in the literature. They conclude that: (i) in today's global economy a 'G20-type' institution is necessary; (ii) the G20 had its high-noon moment in 2008-2009 and some recalibration of expectations was inevitable, but its achievements in 2010-2011 have nevertheless been disappointing; (iii) however, there is, in detailed and technical work, more than there seems to be at first sight; (iv) from a governance standpoint, the G20 is not an efficient forum and needs to improve its working methods; and (v) finally, for the G20 to retain its role, its members need to develop a common vision of global economic problems and the way to approach them.

Lipsky (2011) finds that *"the G20 has produced some impressive results and remains a vehicle for providing critical, heads of state level impetus for cooperation and reform"* (p. 13). On this he is joined by de Brouwer (2013), who enumerates the main achievements of the G20 process to date and summarises that the *"G20 has made a difference and continue to do so"* (p.1).

The IMF has also weighed in on the benefits of policy coordination and cooperation to improve outcomes. This is underlined in several reports from the IMF Staff to the G20 that have tried to quantify the advantages of economic cooperation and coordination through upside growth scenarios. *"An upside scenario suggests that strengthened collective action by the membership would deliver appreciable mutual benefits towards achieving lasting stability and growth. Complementary and mutually reinforcing action in all members would help secure stronger and healthier global growth. The upside scenario shows that tangible benefits for the entire membership in terms of jobs and growth are within reach—global output would be higher by about 2½ percent in five years and global imbalances would be lowered further by ¾ percent of GDP. Cumulative gains would be larger. Collective and comprehensive policy action also helps insure against possible welfare losses associated with downside risks."* (IMF 2012, p.1).

While the jury is still out, more work is needed before drawing conclusions on whether the G20 has been or not the game changer that has definitely proven the advantages of global economic cooperation and coordination. There is, however, no doubt that the G20 has played a critical role in providing an initial effective response to the financial crisis and since then has continued to deliver important global public goods.

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