CHATHAM HOUSE

briefing paper

Legitimacy vs Effectiveness for the G20: A Dynamic Approach to Global Economic Governance

Paola Subacchi and Stephen Pickford

International Economics | October 2011 | IE BP 2011/01

Summary points

- The emergence of new economic powers in an increasingly integrated world economy has highlighted the need for better management of international interdependencies and reform of global economic governance.
- Since 2008 the G20 has emerged as a key multilateral forum on the basis of its perceived effectiveness as a 'crisis committee' managing the global economic and financial turmoil. It is now turning into the world's 'permanent steering committee' with a broader agenda including global imbalances, climate change, trade and development.
- In the process, the G20's lack of legitimacy and representativeness has become more apparent. Improving its governance is necessary over the long term, but simply expanding its membership could undermine its effectiveness.
- Developing the G20's outreach to a broader range of countries and building a permanent secretariat could make it more representative but this will take time and be very contentious.
- In the short run, the G20 can increase its legitimacy through greater transparency and accountability, by establishing an independent audit mechanism for commitments, and leading governance reform of the international financial institutions.

Imbalances, multilateral action and policy cooperation

The emergence of new economic powers and the resulting shift in the global economic order predate the 2008 financial and economic crisis. By dramatically showing how complex financial and economic interdependencies between countries have become, the crisis did bring to general attention the issue of linkages and spillovers in a highly integrated world economy. It also made it clear that such interdependencies need to be addressed and managed through mechanisms and processes that transcend national jurisdictions. The crisis also highlighted the shift in the global economic order and narrowed the gap between established powers and emerging powers. It was the trigger for rethinking the essential ingredients of the global economic and financial architecture in terms of participation and agenda, and a constructive catalyst for reforming global economic governance.

Three years on from the collapse of Lehman Brothers, the world economy remains in a position of instability and faces an array of challenges – from volatile capital flows, current account imbalances, pressures within the international monetary system and the eurozone to fragile growth and development challenges. Sharp differences persist among countries regarding exchange rates and capital flows. Short-term domestic policy objectives are often in conflict with longer-run sustainable global growth and the medium-term goal of external stability. These conflicting objectives tend to promote a policy discourse based on a zero-sum game approach, and increase the risk of countries taking retaliatory measures in response to adverse, or perceived adverse, spillovers. Indeed, domestic policies, if not appropriately coordinated, could undermine the rebalancing of the world economy. And they could generate adverse spillovers for other countries, especially in case of the domestic policies of systemically important countries (SICs).[1]

The challenge for international policy-making is to manage a world economy with deep interdependencies and high potential for spillovers, and to accommodate the new rising economic powers. It is also necessary to foster an understanding that the benefits of an internationally integrated economy do not come without increasing national exposure to shocks, and that it is in the national interest of all countries to manage pressures in the system through a framework for multilateral policy cooperation. The alternative – ignoring the external effects of national economic policy – would encourage international instability and increase national exposure to high-impact shocks, transmitted in faster and more complex ways.

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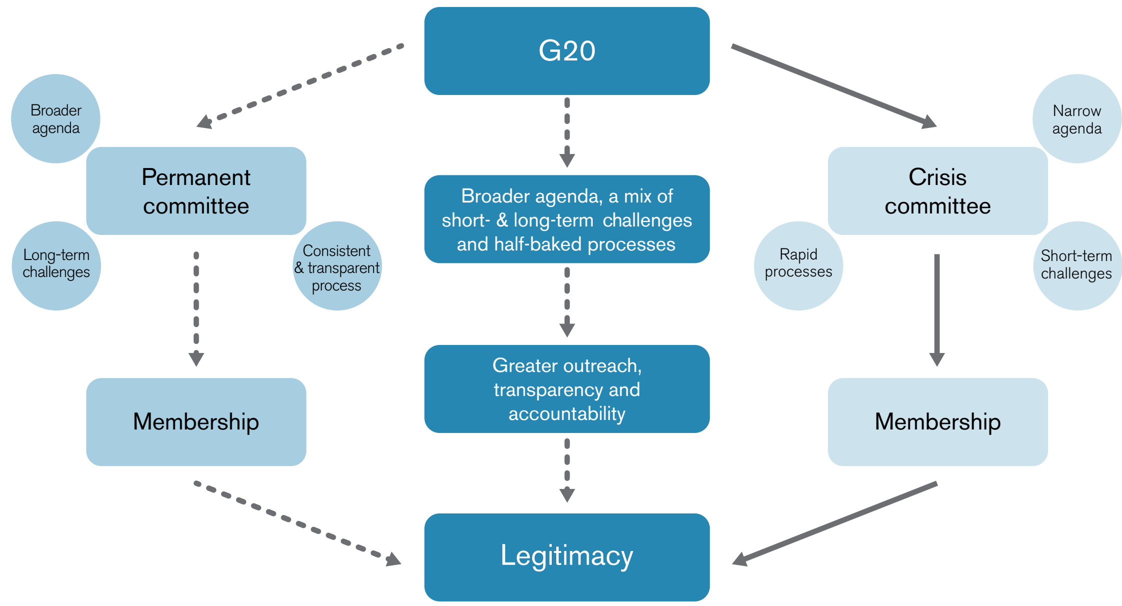
Managing the world economy, however, requires a strong, effective and legitimate governance framework. National policies tend to be driven by domestic concerns, whereas managing the interaction between countries' policies through a global system of interrelated markets and institutions needs to be based on multilateral dialogue. It also needs to encompass several dimensions, including the relationship between international markets and domestic political authorities, the relationship between the old-established order of advanced economies (which were at the centre of the economic crisis) and the emerging states (which have driven the recovery), and the balance between national and global rules. Finally, it requires mechanisms to coordinate macroeconomic adjustments among countries, especially SICs, in order to improve macroeconomic stability and prevent future crises (Subacchi and Jenkins, 2011).

1 SICs are countries that have the potential to generate spillovers because of their size and their interconnectedness. For the IMF, SICs comprise the United States, China, the euro area, the United Kingdom and Japan (IMF, 2011).

Figure 1: The G20 – from crisis committee to permanent committee



Against this background the G20 has emerged as a key multilateral forum, embracing old and new economic powers, managing the tension between international financial markets operating within a framework of national rules, and trying to deliver balanced and sustainable global growth that reconciles different national objectives.[2]

This briefing paper was developed through a detailed analysis of published material on the G20 presidencies and working groups, and through a number of discussions with leading policy-makers from both G20 and non-G20 countries. The paper looks at the role of the G20 within the overall framework for global governance and discusses the steps that the G20 needs to undertake to evolve from the world's 'crisis committee' to its 'permanent steering committee'. Reforming G20 governance is essential for this transformation. The G20 is currently the 'only game in town' for providing multilateral and cooperative solutions to the challenge of managing the world economy and the international financial system. However, it suffers from a governance deficit that is particularly evident in how its members are selected or co-opted. There is a clear trade-off between G20 efficiency and G20 legitimacy. However, making the G20 more representative and legitimate could also render it more rather than less effective.

The debate on global economic governance cannot be restricted to just a matter of G20 membership. In the short term, allowing more countries around the table could hamper the G20's effectiveness as a key multilateral economic forum. It also carries the risk of driving the debate into a dead-end as there is no straightforward solution to the legitimacy issue. Many countries feel they have a strong claim to join the G20 as full members, but acquiescing to their demands could result in a more unwieldy body.

In view of this, the Governance Review undertaken by the UK government on behalf of the G20 in the lead-up to the Cannes Summit in November 2011 needs to focus on improving existing processes and institutions rather than simply reviewing the line-up of countries around the table. For now, G20 governance and legitimacy should be addressed by proxy rather than directly. This means promoting public understanding and support that then translate into legitimacy, by improving the credibility of the G20 through clear objectives, stronger transparency and accountability, and by strengthening the governance of the international financial institutions (IFIs), notably the International Monetary Fund (IMF). As the IFIs increasingly perform the role of 'operations arm' for the G20, strengthening their governance would also confer legitimacy by proxy to the G20.

2 The G-20 is made up of the finance ministers and central bank governors of 19 countries and the European Union: Argentina, Australia, Brazil, Canada, China, the EU, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, the Republic of Korea, Turkey, the United Kingdom and the United States.

Separating long-term governance issues from measures to improve how the G20 functions in the short term would allow more time to think of future governance in dynamic terms. In a global economic order that is rapidly evolving, any fundamental governance reform now risks becoming obsolete in a few years, as emerging markets, China in particular, continue to increase their role in the world economy (Dadush and Shaw, 2011) and take on greater responsibilities.

How the G20 has developed

By what may be regarded as an accident of history, the G20 has become the key multilateral economic and financial forum and the 'new club' at the heart of the process of reform in global governance. As the financial and economic crisis hit the world economy, the G20 was able to coordinate a response by involving a broad range of SICs.

The upgrade of the G20 from a forum for finance ministers to a heads-of-state summit in November 2008 strengthened its political basis and profile. It broadened the main forum for dialogue from the G8 and recognized that the new dynamics of the world economy had created the need for a more inclusive dialogue on critical economic and financial issues, bringing in the major emerging markets. Most of all, the G20 upgrade helped contain contagion through fast, effective and universal action. One lesson from the Latin American and Asian crises in the 1990s is that there is a premium on swift action, given the potential for crisis in individual countries to spread quickly through contagion. The globally connected financial system that had evolved by 2008 could transmit problems even faster.

Box 1: The timeline of global economic governance

1. Fighting the crisis, sense of urgency and global consensus

November 2008 – Washington G20 Summit: G20 upgraded, fiscal stimulus agreed, fight against protectionism (but initial lack of credibility)

April 2009 – London G20 Summit: agreement on liquidity measures, role of IMF and Financial Stability Board

September 2009 – Pittsburgh G20 Summit: the G20 becomes the prime multilateral forum for economic and financial matters

2. Defining the situation/dealing with loose ends

July 2009 – L'Aquila G8 Summit: inadequacy of the Heiligendamm Dialogue (OECD) and towards better division of labour between G8 and G20

September 2009 – Pittsburgh G20 Summit: defining the G20 and 'downgrading' the G8

June 2010 – G20/G8 back-to-back summits in Canada

May 2011 – Deauville G8 Summit: G8 and G20 on two separate tracks

3. Setting up a multilateral framework for economic governance, building strong policy cooperation processes and focusing on deliverables and commitments (G20: from crisis committee to permanent steering committee)

September 2009 – G20 Pittsburgh Summit: Framework for Strong, Sustainable and Balance Growth

November 2010 – G20 Seoul Summit: expanding the agenda (development and trade), improving macroeconomic cooperation through the Mutual Assessment Process (MAP), setting indicative guidelines for imbalances and progressing on discussion on the global safety net

4. Broadening the agenda

2011 – G20 French presidency: from narrow economic and finance to broad economic and beyond (climate change, food security, labour market and social issues etc.)

The G20 leaders' meetings in Washington and London in 2009 agreed on fast, coordinated action that helped contain the crisis. Their decisions on an unprecedented fiscal outlay and additional resources for the IMF and development banks helped avoid a global depression and stabilize markets. The establishment of the Financial Stability Board to advance regulatory reform of the financial sector, the initiation of reforms of the IFIs, and the maintenance of an open trade regime against protectionist sentiments are all to the G20's credit. By fostering a concerted policy response, it showed that ad hoc policy cooperation was possible in times of crisis.

The G20 was able to reach these agreements because of the overriding need to act, while its informal structure allowed the necessary flexibility and adaptation for a swift response.[3] But the hurried upgrade created a governance problem. Members were not chosen on the basis of shared, transparent, objective and measurable criteria, but on their membership of the Group of Twenty finance ministers and central bank governors.[4] The urgency of the moment and the ultimate goal of fighting the crisis led to its members choosing the G20 as the global 'crisis committee'. By the same token, considerations about the legitimacy of such a choice were put aside.

As the G20's agenda has expanded and moved beyond dealing with crises to addressing important broader, but less immediately urgent, questions such as global imbalances, climate change, trade and development (see Box 2), the issue of legitimacy has become more important. At the same time, consensus between members on these matters has become more difficult to reach. The G20's efforts to take forward climate change issues ahead of the Cancún summit in December 2010 came to nothing, and the process of defining indicators for the Mutual Assessment Process (MAP) was not straightforward as countries defended their own national interests.

The G20's ambition of addressing a broader global agenda and providing political leadership inevitably highlights the body's restricted membership and lack of legitimacy and representativeness. Ultimately, a broader agenda requires the G20 to expand its membership and involve other countries and regional organizations to reach a more inclusive level of consensus. It also needs to respond to the increasing demands for the interests of non-members to be represented in G20 discussions.

Without greater legitimacy it will be difficult to achieve full implementation of any agreement reached by the G20, as this will be perceived as implementing the decisions of a self-selected group of countries, however systemically important they may be. Global issues ultimately require global action through fully representative institutions.

The G20 reform efforts have yet to be fully implemented. In some regions and countries, financial reforms have not been pursued at all. Before taking on other questions where global collective action may be required

Box 2: The French presidency agenda

- *Reforming the international monetary system:* improving its stability and forming a collective response to the issues of destabilizing capital flows, persistent imbalances and the excessive accumulation of FX reserves.
- *Strengthening financial regulation:* maintaining and reinforcing the financial framework and ensuring that rules agreed upon at the G20 are applied.
- *Combating commodity price volatility:* improving the transparency and regulation of commodity trading markets as well as expanding food supplies and enhancing responses to food crises.
- *Supporting employment and strengthening the social dimension of globalization:* promoting employment, particularly for young people and disadvantaged individuals; stronger social protection; respect for social and labour rights; and improved coordination of strategies among international organizations.

3 This flexibility and adaptability lead many commentators to conclude that the G20 should not be turned into another bureaucratic structure with a permanent secretariat.

4 The Group of Twenty was established in 1999 in response to the Asian financial crisis.

(such as food and energy security, healthcare and climate change), it is essential that the G20 follow through on current efforts in order to make the international community better equipped to deal with and more resilient to financial crises in the future.

The G20 and the governance deficit

The G20 is an informal forum with limited outreach and representation. Given the aspiration to turn it from a crisis committee into the premier multilateral forum for the global economic and financial agenda, the limits of its governance hinder such aspiration.

It is sometimes argued that, because G20 members account for about 80% of the world GDP, this forum already includes all the economies big enough to make a difference. But Switzerland, for example, has a higher GDP – at $523 billion – than some of the current G20 members (Saudi Arabia, Argentina and South Africa), and it has a large banking and financial sector. Moreover, as the problems of Greece have shown, even countries that are too small to make a difference can generate systemic effects and huge spillover impacts.

> ‘Given the urgency posed by the rekindled economic and financial crisis, it will be more practical to strengthen the credibility of the G20 in its current shape and its processes by improving accountability and transparency’

The original rationale for the G20 was that it would include the largest and most systemically important countries in the world. But there were arguments from the start: should size be measured by GDP or population? And should systemic importance be defined through financial sectors or trade linkages? In practice the initial choice of countries was determined by the need to maintain balance – between regions and between developed and emerging countries. Geopolitics also played a part in the decision. And attempts by other countries to join the ‘club’ since then have failed.

Given the governance deficit facing the G20, would the expansion of its membership solve the legitimacy issue? Thorough reform of the G20 membership with the view not only to allowing more countries around the table, but also to establishing objective and ‘measurable’ criteria for membership is highly desirable in the long term. But expanding membership is not a zero-cost solution. There is potentially an inverse correlation between legitimacy and efficiency, at least in the short run. Promoting the former can weaken the latter. Having more participants around the table would make it more difficult to reach agreement in a forum that works on consensus.[5]

There are a number of ways, short of expanding membership, through which the G20 could become more representative. It could develop its outreach to a broader range of countries on an issue-by-issue basis (Box 3). Members could also take on responsibilities for representing a ‘constituency’ of non-members. And the G20 could develop a permanent secretariat to institutionalize outreach and reduce the discretion of the presidency to set the agenda.

These changes would take time to put in place and there would be resistance in many quarters to further institutionalizing the G20. In the short run, and given the urgency posed by the rekindled economic and financial crisis, it will be more practical to strengthen the credibility of the G20 in its current shape and its processes by improving accountability and transparency. Doing so would in effect improve its legitimacy without immediately addressing the question of membership. G20 members should also set out clear individual and collective roles and responsibilities, and should improve accountability mechanisms through transparency in interactions with the IFIs. By focusing the global governance agenda on promoting and supporting reform of the IFIs, the G20 can mitigate the difficult issues of its membership and increase its legitimacy by proxy.

5 On the other hand, because of its legitimacy problem, the G20 can only reach decisions by consensus. But this creates significant inefficiencies too, as consensus in a forum that incorporates as many disparate views and backgrounds – in contrast to the ‘like-mindedness’ of the G7 – can only be reached after long discussions and significant compromises.

Box 3: Focusing outreach on an issue-by-issue basis

As the G20 addresses more systemic global issues, demands will rise for it to take greater account of the views and interests of non-members. To date, it has organized outreach on a very ad hoc basis. The G20 presidency each year invites a few non-members to participate in meetings. But the basis for their participation and the rationale for their invitation are not clear. This lack of clarity has increased demands from other countries to be included.

The G8 also recognized the need for outreach beyond its membership and tried to organize this through the Heiligendamm process. This is generally regarded as not having worked well. Non-members (in particular the large emerging markets) viewed the process as binding them in to G8 decisions without having been fully involved in decision-making.

The G20 already involves a much broader range of countries and interests than the G8. But to avoid the same problems arising, it needs to put in place a transparent and accountable system for outreach on an issue-by-issue basis, and to establish a clear rationale for inviting other countries and institutions to participate in meetings. In particular, inviting countries whose interests are clearly affected by the G20's discussions on specific issues, and whose perspective would be of benefit, would be seen as increasing its legitimacy. For example, its discussions on energy security would benefit from including a wider range of energy producers; development issues should take account of the views of low-income countries; and food security issues should involve non-member agricultural commodity producers.

This requires the G20 to set out a clear agenda and an associated timetable for the issues it wants to take forward. The emergence of G20 ministerial groups (in addition to the regular meetings of finance ministers and central bank governors) also would make it easier for non-members to participate in discussions on specific issues.

Legitimacy by proxy: credibility, transparency and accountability

While the G20's governance deficit needs to be addressed in the long run, in the shorter term legitimacy can be made a less pressing issue, and credibility increased, by focusing on existing processes to improve the transparency and accountability of decision-making, and on strengthening the implementation and monitoring of decisions. This means that the G20 should agree on common objectives and members should accept that their domestic policies will be assessed against these. Vague goals and non-measurable objectives leave too much scope for interpretation and therefore reduce credibility. For instance, while G20 summits have resulted in broad agreements on overarching principles and objectives for the world economy,[6] it could be argued that the goal of strong, sustainable and balanced global growth leaves much open to interpretation. This provides countries, especially SICs, with leeway to pursue their own objectives regardless of agreed commitments and of the resulting international spillovers.

Recently some progress has been made on agreeing more concrete objectives for the G20. For instance, at the finance ministers' meeting in February 2011, the world's major economies agreed on indicators to measure imbalances in the global economy (including public debt and fiscal deficits, private savings rates and private debt, and the external imbalance composed of the trade balance and net investment income flows and transfers). Subsequently, in April 2011, the G20 finance ministers agreed on indicative guidelines for monitoring each of these indicators.

As for monitoring progress on objectives, two processes have been used: surveillance and peer review.[7] These have been limited so far to the domain of macroeconomic policy coordination, but can be extended to other policy

6 For further details, see Leaders' Statement, The Pittsburgh Summit, 24–25 September 2009, and the G20 Seoul Summit Leaders' Declaration, 11–12 November 2010.

7 Surveillance refers to the analysis and review of countries' policies by an objective and independent outside body, normally the IMF. Peer review describes a process where the analysis and review are carried out by other member countries.

areas. Both processes fit well with the current G20 initiatives and structure. However, their effectiveness must be improved. Experience provides helpful lessons. For example, the multilateral consultation process to address global imbalances launched by the IMF in 2006 failed to persuade countries to adapt their domestic policies. This was because the process was run by the IMF with little or no ownership by the countries involved.

As regards the conduct of surveillance, the objectives should be clear and well defined, and not subject to different interpretations, both over time and among the membership. The diagnosis of economic challenges should not be biased towards the interests of any one subset of countries. Moreover, adequate attention should be given to outward policy spillovers. Without this, the usefulness and relevance of the diagnosis would be limited, further adding to credibility concerns (the IMF has sought to regain the initiative in this area through a new mechanism – spillover reports – that will show, on a trial basis, how each country's policies are affecting other countries). Finally, accountability for acting on the conclusions of surveillance exercises has to become more symmetric and generate more traction on SICs (IMF surveillance tends to have more effect on the policies of actual or potential borrowers from the IMF, but much less on SICs).

Peer review, which is well developed within the Organization for Economic Co-operation and Development (OECD) and the European Union, offers an alternative way for countries to talk to one another directly at a level that emphasizes trust, openness and the search for best practices. If countries accepted that their policies should be evaluated by their 'peers', the process would take international cooperation efforts a few steps further than mere publication of indicators and their assessment against benchmark measures. Peer review is also an important process in terms of building ownership of change (as well as providing external pressure from other countries involved in the process), and allowing countries to develop a better understanding of the nature of external spillovers, while respecting sovereignty.

However, peer-reviewed processes present the risk of 'peer protectionism' if accountability mechanisms are not in place. 'Peer protectionism' occurs when countries reviewing one another make a strategic decision that if they review their peers preferentially, this treatment will be reciprocated. When this occurs, or even when it is perceived that this could occur, it inevitably hampers the credibility of the process.

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The integrity of the peer review process or other surveillance mechanisms will therefore depend on a credible independent audit mechanism of the process itself. In the G20 context, involvement of the relevant international institutions, which are themselves accountable to their membership and the wider public, provides one way to 'keep the process honest' by enabling independent assessments of G20 performance. Going further, full transparency of G20 summit commitments is important to ensure that NGOs, the think-tank community and civil society can monitor and assess G20 members' performance in their implementation.

The G20 is already burdened by a very large backlog of commitments. Leaders can and should play a crucial role in removing obstacles at official level to meeting past commitments. But they cannot and should not become bogged down in the technical details of meeting those commitments. Their role is to set priorities for the group, to accept the diagnosis and then to put the necessary political weight behind promised actions. Leaders therefore need to be mindful of keeping to the distinction between what is strategic and in need of political direction, and what is more technical and can be delegated (for example to international institutions). Clarifying the political direction will, in turn, help advance the technical discussion.

Legitimacy by proxy: the G20 and the IFIs

The G20 has to rely on other organizations to implement its decisions, and over the past three years the IFIs have supported its work more intensively. The IMF, in particular, has become the 'operations arm' of the G20 in the economic sphere, providing analytical and research capacity, especially in the area of surveillance and peer review, and implementing G20 decisions. It has been tasked by the G20 to run the Mutual Assessment Process. The emergence of the G20 has also had a catalytic effect on the IMF and helped provide more focus and coherence to efforts to reshape its role and rethink its governance.

Being an informal organization at the intersection of long-established IFIs, the G20 needs to clarify its role and responsibilities within the broader international architecture. For instance, it was clear that many of the agreements reached at the G20 finance ministers' meeting in April 2011 were subsequently picked up and endorsed at the IMF's International Monetary and Financial Committee (IMFC) meeting later that week. By the same token the goals of the G20, at least the stream of work under the remit of the finance ministers, and those of the IMF have become more convergent. As US Treasury Secretary Tim Geithner explained, 'the IMF needs to ensure going forward that the distribution of global demand is far better balanced', and that there is no return to a global economy 'characterized by large global imbalances and reliance on a single or a few engines of growth' (Geithner, 2009). This is also what the G20 tries to achieve through the framework for strong, sustainable and balanced growth.

The G20 should therefore avoid any overlap of remits and send a clear signal about areas of specialization. It should encourage greater cooperation between IFIs and make an effort to improve the effectiveness of each of these institutions.

The potential exists for the G20 and the IMF to deepen their collaboration further. For instance, the areas where the IMF can exercise surveillance on behalf of the G20 can be extended to policing exchange rate obligations and assessing the stability of national financial systems. The IMF, drawing on the expertise of the Financial Stability Board and other relevant international institutions and standard-setting bodies, could also assist the G20 with analytical tools and research (and potentially incentives and enforcement mechanisms) to promote monetary and financial stability

But being the operations arm of the G20 raises fundamental questions for the IMF. For instance, is it appropriate for the IMF, as a broad membership institution, to spend so much time and resources on one segment of its membership? The number of such questions is bound to increase. Ultimately the tensions between the exclusive membership of the G20 and the broad membership of the IMF will have to be resolved.

Box 4: The Mutual Assessment Process (MAP)

The G20's Mutual Assessment Process draws on some elements of both surveillance and peer review, but it is also an attempt to overcome the credibility and accountability shortcomings of earlier processes such as 'multilateral consultation'. Emphasizing common objectives and yardsticks applied uniformly across all countries, the MAP is an effort to bring structure to the consultative process in a complex and integrated world economy. It has sharpened the focus on cross-border linkages and evaluation of whether country policies are collectively consistent, and the G20 leaders' direct ownership of this process is an attempt to make it more outcome-oriented. The MAP is designed to improve ownership of the process by the countries involved and limit the IMF's involvement to technical expertise and support. Thus, as a country-led peer review, it is expected to be more effective than current surveillance processes in encouraging countries to adopt policies that are in the global interest. It is seen as the first step towards transforming the G20 in a permanent committee. Nevertheless, the MAP is in its infancy, and it is still uncertain whether the process is capable of producing hard-edged policy prescriptions, and whether countries will implement their agreed commitments (Subacchi and Jenkins, 2011).

In the meantime tensions and the concerns of the non-members can be reduced if the G20 shows leadership in continuing the reform of the IMF's governance structure. If it is to perform a role in support of the G20, the IMF needs to inspire trust and confidence among all its members. For this it will need to continue and strengthen the root-and-branch reform of its governance structure to reflect the changing balance of economic power in the world, rather than the historical dominance of the SICs. Issues such as selection of the leadership, recruitment of staff, quotas, voting rights and board composition are critical for the governance of the IMF. Demands from emerging powers – G20 members and others – for a greater say in its governance have grown louder in recent years, and threaten its effectiveness.

Without a greater acceptance of the IMF's legitimacy, its members will be reluctant to embrace mutual consent to peer review processes, especially on behalf of the G20. An IMF grounded in good governance would also provide the added benefit of transferring legitimacy to the G20.

On the other hand, by outsourcing analysis, surveillance and recommendations to the IMF, the G20 could lend weight to and indirectly endorse its work. A critical step here is to ensure that IMF documents are commented upon seriously and in detail in the public domain. The conclusions of the IMF analysis and their policy recommendations to the G20 should continue to be published in full, so that their advice is fully transparent and public (Vines, 2010).

Conclusion

Over the past three years the G20 has become an important and largely effective part of the architecture for international cooperation. But as its policy spread has broadened and it has become involved in longer-term issues, the question of its limited membership has become more problematic. Its lack of representativeness and legitimacy has hindered its ability to address important international issues.

Over time the G20 will need to deal with the underlying question of its composition. But addressing this now would be a distraction: it would demand a great deal of political effort, with no guarantee of success, at a time when its focus should be on current global economic problems.

Nevertheless, the G20 recognizes that governance reforms are necessary. The United Kingdom has been tasked with coming up with ideas for the Cannes Summit

Box 5: Monitoring the G20 commitments

An unbiased and candid process of monitoring of the member nations' commitments from summit to summit would make it harder for countries to retract their earlier commitments. Initiatives such as the *Interim Compliance Report* on the G20 Summit, by the University of Toronto G20 Research Group (G20 Research Group & Digital20 Partnership, 2011) should be supported, refined and potentially adopted by the G20 process to monitor its earlier commitments.

Moreover, a well-developed process of monitoring would prevent countries from failing to comply or taking action that is directly opposite to the stated goal of the commitment. For example, despite the Seoul Summit's commitment to 'lead by example in key areas as detailed in the Anti-Corruption Action Plan, including: to accede or ratify and effectively implement the UN Convention against Corruption (UNCAC) and promote a transparent and inclusive review process' (Annexe 3 – G20 Anti-Corruption Plan), many countries have not made much progress on this front, according to the *Interim Compliance Report*. Germany, India, Japan and Saudi Arabia had not ratified the UNCAC as of 31 March 2011.

If the G20 nations fail to comply with their commitments – in particular the less controversial ones that have been repeated from summit to summit such as the Anti-Corruption Plan, as discussed above – their ability to make progress on more controversial issues relating to rebalancing the world economy in the wake of the crisis will be increasingly called into question. And a growing backlog of commitments will put the G20 at risk of being perceived as a 'talking shop'.

in November 2011. Rather than tackling the membership issue head-on now, the G20 should concentrate on increasing its credibility and legitimacy by proxy. It can do so by making its own processes more transparent, by becoming more accountable and by encouraging further reforms to the governance of the IFIs.

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In particular, there should be more widespread monitoring of the G20's decisions and commitments to hold its leaders more accountable for implementing them. Transparency with regard to its own processes, and to the analysis and advice it receives from the IFIs, should become standard. And the techniques of surveillance and peer review that have been used extensively in the economic field could be extended to all parts of the G20's agenda.

G20 members, as systemically important countries, should take the lead in pushing for further reforms to the governance of the IFIs. This will make the IMF and World Bank, in particular, more representative and open to the views of all their members, and therefore a better counterweight to the G20 with its closed and restricted membership.

Ultimately, a fully representative and legitimate structure of international governance for addressing global issues will be needed. But until that goal is achieved, these interim steps should give the G20 a greater degree of credibility to address the important and pressing problems that the world economy currently faces.

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Paola Subacchi is Research Director, International Economics at Chatham House. An economic historian by training, her main research interest is in the functioning and governance of the international financial and monetary system, with a particular focus on post-crisis policy and institutional change. An Italian national, she studied at Bocconi University in Milan and at the University of Oxford.

Stephen Pickford is an Associate Fellow, International Economics at Chatham House. He is an economic consultant working on international economic issues. From July 2007 to January 2010 he was Managing Director, International and Finance, at HM Treasury in London. He previously served in a number of roles in HM Treasury, including Director for Europe, and Director for International Finance. Between 1998 and 2001, he served as the UK's Executive Director at the IMF and World Bank in Washington DC.

Acknowledgments

The authors would like to thank Creon Butler, Uri Dadush, Paul Jenkins, Lana Nusseibeh, Garry Schinasi, Parthasarathi Shome and David Vines for their comments on early drafts, and all participants in the July 2011 G20 Chatham House research roundtable on global governance.

The support of the UAE Ministry of Foreign Affairs is gratefully acknowledged.

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