

MOBILIZE THE G-20 TO RESPOND TO THE GLOBAL ECONOMIC CRISIS

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Framing the Issue

The world has many international institutions dealing with global issues, including the United Nations, the International Monetary Fund, the World Bank, the World Trade Organization, and so forth. These are formal organizations based on treaties and are universal (or near universal) in their membership. In parallel, the leaders of the systemically most important countries have found it useful to meet for summits based on smaller and more exclusive “groups” (hence the term “G”), which are not formal organizations but rather clubs with self-selected membership.

The current G-8 goes back to a G-6, which was formed in the 1970s by the six largest Western economies in response to a financial crisis. Its purpose was initially to help their leaders develop a suitable crisis response, which they could jointly pursue through their representatives in the international financial institutions. Over time, the G-6 was enlarged to the G-7 and finally, with the inclusion of Russia after the break-up of the Soviet Union, to the G-8. Over time also, the G-8 broadened its horizon beyond the purely economic area, including global poverty, environment, health and certain security concerns. With that, the G-8 assumed for itself the role of a global steering committee, which

sought to respond to global challenges in an effective manner.

The benefit of having such a global steering group, especially in times of crisis like today, is that it provides a visible locus of deliberation and decision making at the highest level. This can inspire confidence that effective action will be taken. It can help ensure that the often slow and ponderous machinery of the formal international institutions is jump-started and takes action with deliberate speed.

In recent years, however, as major emerging market economies, especially those in Asia, have rapidly grown in importance, the G-8 has become increasingly unrepresentative and ineffective by excluding key centers of economic and political power in the world. Clearly, these countries need to be included in the process of deliberation, decision making and implementation if the leaders’ summits are to be representative and effective, and hence legitimate. It was therefore a major step forward when President Bush invited the leaders of the G-20 to meet in Washington in November 2008 for a summit of a group of countries that represent two-thirds of the world’s population and 85 percent of its GDP. With this single step, the promise of a credible and legitimate response to the global financial and economic crisis was visibly enhanced.

Although it is true that the November 2008 event was officially called “The Summit on Financial Markets and the World Economy,” and that the April 2009 summit is officially called “The London Summit 2009,” both have been widely referred to as the “G-20 Summit” in the media and in the official Web site and in official pronouncements. Moreover, the Italian government has announced that it will invite the leaders of all G-20 countries to attend at least part of the G-8 Summit in Italy in July, and it appears that the London Summit will call for a third G-20 summit.

At the same time, selected G-8 leaders from Europe, Canada and Japan appear to remain unconvinced that the G-20 is the right format. Some would prefer to stick with the G-8, joined by selected guests on an ad hoc basis; others seem to prefer a G-13 or perhaps G-14. The new U.S. administration has not yet announced which summit format it prefers.

In the meantime, countries that do not traditionally belong to the G-20 have been pushing hard to be included in the April G-20 Summit. The Netherlands and Spain had already been invited for the November 2008 event at the strong urging of the French president and are now again apparently joining the April 2009 Summit, along with representatives of selected international and regional organizations. At the same time, the German Chancellor has proposed the creation of an Economic Security Council at the United Nations.

In short, there is a great debate ongoing and the future of the G-20 is far from assured. Nonetheless,

the momentum seems to be moving the G-20 forward as the global steering committee for this historic economic crisis and it may well extend itself into other related issues such as climate change and global poverty in the future. Whether or not this happens will depend to a significant extent on the direction chosen by President Obama.

Policy Considerations

Any group necessarily involves a tradeoff between representativeness and effectiveness. The larger and hence the more representative a group, the less effective it is. Any group larger than 20-25 members sitting around a table will not be able to interact effectively. International institutions try to bridge this tension with the use of a constituency system, which allows all countries to participate, while maintaining a relatively small governing council. In practice, however, the constituency system—especially when applied to the summit level—involves a lack of continuity and other possible weaknesses, which can limit effectiveness. In any case, whatever group is formed—unless it is a preexisting one, such as the G-20—gives rise to endless debates about who is “in” and who is “out.” It was precisely for this reason, that the G-20 offered itself as a pragmatic response to the need to broaden the scope of the G-8.

This does not mean that the G-20 is the ideal solution. Indeed, in the longer term it may be appropriate to explore improvements. Among these could be the consolidation of European chairs; the inclusion of more African countries; a systematic representation of regional bodies; consultation procedures by which members of the G-20 systematically sound

out non-members in their regions in advance of summits, so as to be able to reflect the concerns of non-members explicitly in the summit discussions. If the G-20 continues to function, a small secretariat should also be formed to assist with the logistics and technical aspects of the preparation and follow-up of summits. And very importantly, only leaders should sit at the main table. If need be an outer circle of chairs can be added for ministers or other participants who do not represent countries or key international institutions.

Action Items for Global Coordination

The London Summit should principally focus on what measures are required to fight the current economic and financial crisis. The G-20 leaders should focus, agree and act on seven specific items:

- The scale, implementation and monitoring of a set of ambitious stimulus measures by enough G-20 countries so that their joint actions will credibly support an early recovery and the beginning of reestablishing global financial balance;
- Strengthening the regulation of national financial markets, the international financial system and reform of the international regulatory institutions, especially the IMF and the Financial Stability Forum, by increasing the role of emerging market economies in them, so as to ensure an effective crisis response and help prevent future crises;
- At least a tripling of resources for the IMF from currently \$250 billion to \$750 billion through a combination of a generalized quota increase, a sizeable SDR (\$250 billion) allocation, a further authorization to borrow under the so-called “New Arrangements to Borrow” (NAB) or ad hoc borrowings from selected surplus countries—following the commitment already by Japan to \$100 billion—and other measures to make the IMF a major actor in the global financial system again;
- Serious governance reform of the IMF under which the Europeans would agree to yield some of their dominance currently consisting of 33 percent of the voting shares, eight of the 24 chairs and the right to name the head of the IMF; this should convince Asia that there is a role for them in the IMF and ensure the IMF makes the transition from a transatlantic institution to a truly global one and for the additional resources to materialize;
- Mobilization of significant additional resources for the World Bank and the regional development banks to provide financing for the poorer developing countries to shield them from dramatic reductions in social and environmental investments; this should be linked to governance reform in the World Bank and other development banks to give a greater role and responsibility to developing countries;
- A commitment not to engage in protectionist actions on trade, finance and fiscal policy—such

a commitment was honored in the breach after the November 2008 G-20 Summit; this time it is critical not only that the commitment is reiterated, but that it is honored in full by all; and,

- A commitment that the G-20 will continue to serve into the foreseeable future as the leading body for global leadership that is more inclusive and effective than the G-8 for steering the world through this crisis.

Taken together, these decisions will instill a measure of confidence and trust among the markets and the general public around the world that the leaders are decisive in moving forward with addressing the global crisis.

What should not happen is a protracted and unresolved debate about the appropriate future summit format. Not only would this distract leaders from a clear focus on the coordinated fiscal, financial and institutional actions they need to take urgently; it would also send a signal to the world that the leaders remain indecisive on the highly visible question of what will be the group that will help guide the world through the worst of crises in recent history.