The G-20 and International Macroeconomic Policy Coordination in a Divided World

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The Group of 20 (G-20)

"You never want a serious crisis to go to waste"

- A New International Financial Architecture?
- In 2009, President Obama declared that "from now on the Group of 20 (G-20) will be the primary organization responsible for coordinating global economic policy."
- The G-20, created in 1999, includes, Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States, plus one representative of the current EU council.
- In total, the G-20 represents around 90 percent of global gross national product, 80 percent of world trade (including trade within the European Union), as well as two-thirds of the world's population.

The G-20's Ambitious Agenda

- April 2009 London Summit, the G-20 agreed to "empower" international organizations, including the IMF, the Bank for International Settlements, and various "standard setting" bodies such as the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions, the International Association of Insurance Supervisors and the International Accounting Standards Board.

- The G-20 pledged some $5 trillion in fiscal stimulus spending over two years and to increase funding for the IMF and the other multilateral development banks by $1.1 trillion, including tripling the IMF's lending capacity to $850 billion. Also, the G-20 agreed to transfer about 6 percent of voting power within the IMF to "dynamic emerging-market and developing countries." This meant that China would become the IMF's third-largest shareholder -- behind the United States and Japan.

The G-20'S Agenda

- The BCBS was assigned responsibility for reaching agreement on new capital and liquidity standards,
- The Financial Stability Forum (renamed as the Financial Stability Board (FSB) expanded to include all G-20 members) was made into a permanent institution with the powers to report directly to G-20 finance ministers on issues pertaining to regulatory reform and implementation.
- The FSB was also given primary responsibility for coordinating the actions agreed upon by the G-20.
- The G-20 adopted the "Declaration on Strengthening the Financial System" or "G-20 Action Plan" consisting of "47 concrete measures designed to reform all systemically important financial institutions and instruments based on five principles": strengthening transparency and accountability; enhancing sound regulation; promoting integrity in financial markets; reinforcing international cooperation; and reforming international financial institutions.

G-20's Agenda

- At Pittsburg (Sept. 2009) the G-20 unveiled "Framework for Strong, Sustainable, and Balanced Growth." The core of this framework is a multilateral process through which the G-20 hopes to identify objectives for the global economy, the set of policies needed to reach them, and the progress towards meeting these shared objectives via the so-called Mutual Assessment Process (MAP the so-called Mutual Assessment Process (MAP).
- At the Seoul Summit (November 2010), the G-20 committed to work with "greater resolve" to global imbalances and reached agreement on a set of indicators and guidelines to identify what constitutes "large and persistent imbalances."
- November 2011 Summit in Cannes, the G-20 announced the "Cannes Action Plan for Growth and Jobs"

G-20: Actual Outcomes

- To date, G-20 has not lived up to expectations. Why? Technical and Substantive issues
- G-20 has no formal adjudicating/enforcement powers, non-binding commitments, or formal voting system.
- G-20's recommendations depends on peer-pressure and voluntary implementation, individual G-20 governments can cherry-pick what they want enforced and what to be left alone or ignored.
- Internationalization of financial markets and deepening economic interdependence has generated regulatory challenges that states cannot address individually.
- Differing supervisory and regulatory frameworks in many national jurisdictions; lack of transparent disclosure and reporting rules, limits coordination and harmonization at the global level to ensure effective macro-prudential supervision

The Substantive Issues

- interrelated issues regarding **trade, currency and global imbalances**
- Seoul (2010) stinging rebuke to President Obama “shared jobs agenda” designed to create a “level playing-field” for U.S. exporters.
- To Washington, there is two ways to achieve this. First, Beijing must stop its policy of deliberately keeping its currency, the RMB artificially undervalued
- Beijing’s neo-mercantilist “cheap yuan” policy
- Second, a number of G-20 members, in particular, China must work harder to “rebalance their economies” or limit their trade surpluses with the United States.
- Washington proposed specific targets regarding how much a country's current accounts of trade and capital could go into either surplus or deficit

Political Economy of Global Economic Imbalances

- Economic Imbalances," refers to the huge current account deficits and surpluses that has built-up in the global economy.
- The U.S., including the U.K. and Italy have built-up large deficits, while China, Japan, Germany, Russia, Brazil have build-up huge dollar surpluses totaling some $8t by 2009
- To date, efforts by the G-20 to correct imbalances have proven to be unsuccessful because the underlying structural roots that gave rise and sustained the imbalances remain intact.
- Both the borrowing or "deficit" countries (the United States, the U.K. and several Eurozone countries), and the lending or "surplus" countries (China, Germany and Japan) will have to make deep and painful adjustments in their economies

Political Economy of Quantitative Easing

- With federal funds rate at “zero-bound” since Dec. 2008, U.S. Federal Reserve can no longer lower interest rates to boost investment and consumption. Hence the use of “Quantitative Easing” (QE) which allows the Fed to literally flood the banking system with excess reserves in the hopes that the banks would begin to lend. This policy option also allows the Federal Reserve to engage in a real exchange rate depreciation.
- November 2008 through March 2010, Quantitative Easing 1 (QE1) bought $1.75 trillion in long-term Treasuries
- From November 2010 through June 2011, QE2 bought $600 billion of U.S. government debt. In September 2012,
- QE3 or “open-ended bond purchases” (totaling $40 billion in mortgage-backed securities per month). QE3 has no limits -- meaning the Fed can buy unlimited amounts of mortgages, Treasuries or other securities “indefinitely”

Political Economy of QE

- European Central Bank (ECB) three asset purchase programs since 2011 providing more than €1 trillion in low-cost financing to Eurozone banks.

- Between March 2009-January 2010, the Bank of England (BOE) purchased some £200 billion of assets. On 6 October 2011, the BOE increased the QE target from £200 billion to £275 billion, and on 9 February 2012, to £325 billion. On 5 July, 2012 the BOE increased the QE target again to £375 billion. Cumulatively, the BOE's QE program has quadrupled the country's monetary base.

- December 2012 Japan's Shinzo Abe who has long blamed the yen's appreciation to the easy monetary policies of the United States instructed the Bank of Japan (BOJ) to ease up on monetary policy by doubling its inflation objective and expanding its asset purchase program. In April 2012, the BOJ announced the purchase of $61 billion of assets. In September 2012, the BOJ added $128 billion more, in December 2012 another ¥10 trillion ($118 billion). By year end 2012, the BOJ had pumped an estimated $1.2 trillion (¥101 trillion) in the economy. January 2013, Tokyo approved an "emergency" stimulus of ¥10.3 trillion ($116 billion)

- On April 4, 2013, the BOJ's ¥50 trillion ($520 billion) in government bonds per year with maturities of up to 40 years. Cumulatively, an expansion of monetary base of 10% of Japan's GDP.

Economic Nationalism: Currency Wars?

- Fred Bergsten of the Peterson Institute for International Economics note that “currency wars pose a clear and present danger" to the world economy on a scale not seen since the breakup of the trading system that led to the Great Depression in the 1930s.”
- Bergsten, “manipulation to weaken currencies averages $1 trillion per year and transfers $700–900 billion of production annually from deficit to surplus countries. This costs 1–5 million US jobs—the same order of magnitude as have been created by the fiscal stimulus of 2009 or the quantitative easing (QE) policies of the Federal Reserve. The manipulation has had substantial effects in Europe, significantly exacerbating the euro crisis.”
- Bergsten “the absence of effective international rules to address this problem the largest single gap in today's global economic architecture.”

Global Governance: A New Bretton Woods?

- **Charles Kindleberger's (1973. *The World in Depression: 1929-1939),* famous observation that "the 1929 depression was so wide, so deep, and so long because the international economic system was rendered unstable by British inability and U.S. unwillingness to assume responsibility for stabilizing it."**

- **G-Zero World**

- **diminished U.S.; weakened and divided EU; a neo-mercantilist China ambivalent about global engagement; a "concert of nations"**

- **Global leadership in a Post-American World**

- **Competing models of capitalism:**
- **Liberal Market Economies/ Anglo-American/neoliberal**
- **Coordinated Market Economies**
- **Keynesian state capitalism**
- **China's centralized market economy or "network capitalism"**