Macroeconomic Coordination: What Has the G-20 Achieved?

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G-20 macroeconomic coordination went through three successive phases. In the first one, from Washington to Pittsburgh, the focus was on stimulating the global economy across the board. All countries were requested to contribute, to the extent permitted by the domestic fiscal situation. In the second one, from Toronto to Cannes, it shifted toward a more complex set of objectives, with the aim of combining continued support for growth, budgetary consolidation, and the avoidance of a resurgence of global imbalances. In the third phase, from Cannes onwards, the focus was on the European crisis and potential contributions to its solution from the rest of the world.

In this note, I give a broad-brush assessment of the priorities and achievements in the three phases, before offering a few conclusions on the overall performance of the G-20.

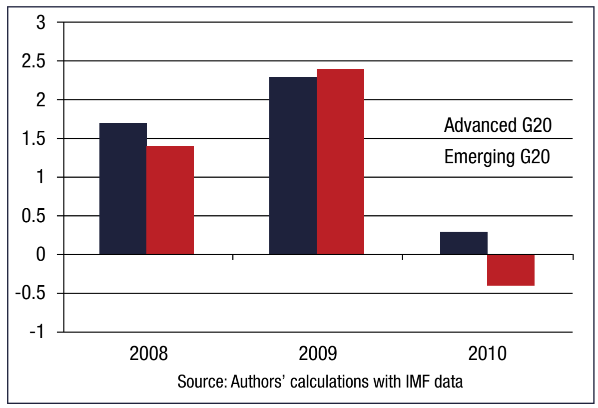
Phase 1: Saving the World, 2008-2009

The G-20 was created in extraordinary times. Its initial focus was on coordinating a global stimulus to ward off depression, equipping the International Monetary Fund with sufficient resources to cope with potential requests, and beefing up global liquidity through an exceptional allocation of Special Drawing Rights (SDRs).

The intellectual case for global action was made forcefully by the IMF[2] and it was—at the time at least—relatively consensual among economists and policymakers. If there had ever been a time for a global Keynesian stimulus, it was 2009.

On the fiscal front, data confirm that a stimulus was engineered not only in the advanced G-20 group but also, and to a broadly similar extent, in the emerging group (Figure 1). Russia, India and China were among the countries where the 2008-2009 effort was the largest.

Figure 1: Fiscal Impulse in the G-20, 2008-2010



Note: Fiscal impulse is measured by the change in the cyclically-adjusted primary balance.
Data are from the IMF's Spring 2011 Fiscal Monitor

The full participation of the emerging group to the concerted stimulus was a remarkable achievement. Emerging countries were traditionally viewed as passive players in a global macroeconomic coordination game dominated by the members of the G-7. The fact that they fully took part in the stimulus was indicative of their new global role and was an ex-post vindication of the very creation of the G-20.

To what degree was action undertaken at national levels triggered by G-20 coordination? In a situation of a 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 G-20 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.

With hindsight, whether or not the IMF was right to call for a uniform response is a matter for discussion. Whereas Italy assessed its own fiscal situation as too precarious to participate in the stimulus, Spain took part fully but soon realized that it had overestimated its fiscal space. The IMF in this respect lacked caution.[3] However it was probably still wise to advocate an across-the-board stimulus, rather than a tailored-made one whose preparation would have taken precious time and opened the door to endless disputes.

There was more heterogeneity on the monetary front because situations differed markedly. In Europe and the U.S., central banks had to resort to enhanced credit or liquidity support, but no such action was in order in Japan or the emerging world. Even after the Lehman shock, access to domestic-currency liquidity remained much less problematic in the emerging world and in Japan than in the U.S. and Europe.

The London G-20 Summit also agreed on a $500 billion increase in IMF resources and on a special allocation of SDRs. The increase in IMF resources was enacted swiftly and made possible a large increase in lending through standard programs, as well as the granting of credit lines to selected countries through two new facilities, the Flexible Credit Line (FCL) and the Precautionary Credit Line (PCL).

Angeloni and Pisani-Ferry (2012) find that without the replenishment of resources at the time of the London G-20 Summit the commitment capacity of the IMF would have been severely constrained already in 2009. With hindsight, the increase in IMF resources seems to have been of the right magnitude, at least taking into account the size of the subsequent assistance programs. Other initiatives were less successful: by end-2011 only three countries, Colombia, Mexico and Poland, had had access to the FCL and only one, the FYROM (Macedonia) to the PCL. None had drawn on these facilities. As to the exceptional $250 SDR allocation, subsequent data suggest that effective usage of SDR by IMF members was limited and restricted mainly to small countries. It seems unlikely on this basis that the allocation contributed significantly to revive global demand and growth.

A particularly important development, but one that took place outside the remit of the G-20, was the provision of U.S. dollar liquidity by the U.S. Federal Reserve. Dollar liquidity was a global concern and the Fed played its role as the provider of the international currency through exceptional swap agreements with selected partner central banks across the globe. However this was done in a discretionary way, with selected partners only and without any institutional involvement of the G-20.

Summing up, this first period can be considered a high point of international macroeconomic coordination and the G-20 played a significant role in fostering coordinated responses to the global crisis. For a group of rather heterogeneous countries with little tradition of dialogue and joint action, this must be considered a significant achievement.

Phase 2: Addressing Imbalances, 2010-2011

Whereas warding off depression was conceptually simple, the aftermath was more complicated because it involved addressing a conceptually debatable and politically delicate issue: the so-called global imbalances. The intellectual background to the policy agenda was the fear that the recovery would leave preexisting international imbalances largely untouched. Writing at the end of 2009, Blanchard and Milesi-Ferretti (2009) warned that "one of the three central adjustments emphasized in the earlier multilateral consultations has taken place, namely the increase in U.S. private savings. Two remain to be implemented, lower fiscal deficits in the U.S., and lower current account surpluses in

China and a number of other emerging market countries. If these do not take place, there is a high risk that the recovery will be weak and unbalanced. Staying in midstream is dangerous."

Against this background, the goal from the Pittsburgh G-20 Declaration was to develop "a forward-looking analysis of whether policies pursued by individual G-20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy" that would feed into the leader's discussions and help decide on joint action. This was the purpose of the Mutual Assessment Process (MAP)—the aim of which was to make all participating governments more conscious of the international spillover effects of their actions and, through peer pressure, to lead them to amend their policy course in the case of global inconsistency.

This was a difficult endeavor. To start with, there had never been a consensus among economists on the risks involved in the persistence of global imbalances. Pre-crisis discussions had highlighted differences both on the normative front (are "uphill" capital flows welfare-reducing?) and the positive front (is there a risk of abrupt unwinding of the imbalances?). Second, previous attempts at global discussions on imbalances—through the so-called multilateral consultations on global imbalances initiated in 2006 by the IMF—had failed to deliver any meaningful result. Third, the G-20 itself had experienced difficulties with the topic, as indicated by the absence of an explicit reference to it (apart from an oblique allusion to "unfavorable macroeconomic outcomes") in the Washington Summit Declaration of 2008.

The initial strategy for making coordination work was to ask each country to submit medium-term policy frameworks and plans. The IMF staff was entrusted with the task of checking the consistency of national assumptions and policy directions, providing feedback to G-20 members and evaluating policy alternatives. This was intended to be a multistage iterative process involving: (1) initial submissions by G-20 governments; (2) aggregation and multilateral consistency check by the IMF; (3) evaluation of alternative policy paths by the IMF; and (4) discussions on policy adjustments among G-20 members.

As conducted for the Toronto and Seoul G-20 meetings, the MAP was a cumbersome exercise technically and it resulted in projections of uncertain accuracy. Discrepancies between the MAP and the World Economic Outlook projections were supposed to signal biases in the evaluation by G-20 countries of the likely global outlook—in its report for the Cannes Summit, for example, the IMF staff (2011) assessed national projections underlying the MAP outlook as "too sanguine"—but they could also indicate forecasting errors by IMF staff. The coexistence of two sets of projections, both of which emanated from the fund, was also confusing for observers and policymakers. Furthermore, the MAP was not an indispensable input to policy simulations: those could equally be carried out on the basis of WEO projections. Its value was probably more in the bottom-up process leading to the diagnosis. More than in a top-down exercise, this may have facilitated ownership of the outcome and genuine discussions on the challenges facing the world economy.

At the Seoul meeting, it was agreed to "enhance" the MAP by outlining "concrete policy commitments" for each of the members and by assessing "the nature and root causes of impediments to adjustment" behind "persistently large external imbalances". Clearly, the G-20 had gone beyond the Washington stand-off. This agreement opened the way to a more ambitious attempt at multilateral surveillance. A set of indicators and guidelines intended to help tackle global imbalances through policy adjustment in the key countries was adopted in April 2011 at the G-20 ministerial in Washington. These indicators were in turn used by the IMF staff to identify seven key countries experiencing imbalances, to provide a broad-brush assessment of their underlying causes, and to make corresponding recommendations.[4] In effect, the IMF essentially indicated that imbalances had been driven by saving behavior and it recommended fiscal consolidation for some (France, Japan, the U.K., the U.S. and India), the removal of distortions that keep Chinese savings artificially high, and measures to lower corporate savings in Japan and Germany. These recommendations were in part taken on board in the Cannes G-20 Action Plan adopted by the leaders; there was agreement on differentiated budgetary consolidation strategies, including through letting automatic stabilizers work in Australia, Brazil, Canada, China, Germany, Korea and Indonesia (without excluding further discretionary stimulus if needed). This was a non-negligible achievement but it obviously does not guarantee implementation.

Whether the MAP will have lasting traction and help fruitfully change the policy conversation in the main participating countries also remains to be seen. The process faces three difficulties.

First, the model of international interdependence underlying the MAP may not capture the relevant channels of transmission of shocks. Standard international macroeconomics puts emphasis on interdependence through flows (of goods and services, capital and, in some cases, labor) and prices. It provides the intellectual framework for the MAP assessment and simulations. At the same time, however, empirical research, notably the evaluations provided by the IMF (2011b) in the context of its *spillover reports*, emphasizes other channels of interdependence through cross-border holdings of financial assets. Neither the open-economy models à la Mundell-Fleming of the 1980s nor those à la Obstfeld-Rogoff that were developed in the 1990s offer much insight into the type and extent of interdependence through stocks, not flows, documented in these reports. Empirical research undertaken by the IMF highlights that interdependence through traditional channels can be dwarfed by that arising from gross holdings of financial assets and the bellwether role of U.S. capital markets. Except for countries like Canada, Mexico, China and Saudi Arabia, for which the U.S. is primarily an export market, asset price links are significantly more important than traditional links and taking them into account typically multiplies spillover effects

Box: Indicators and Guidelines for Identification of Required Policy Action

The G-20 finance ministers in February and April 2011 agreed on:

- A *process* leading to the identification of countries whose policies deserve closer examination.
- A set of *indicators* to monitor, which include: (1) internal imbalance indicators (public debt and fiscal deficits; private savings rate and private debt); (2) external imbalance indicators (current account balances, though they are not named because of China's reluctance to have them explicitly included in the list). External imbalance assessment is to take "due consideration of exchange rate, fiscal, monetary and other policies".
- Indicative *guidelines* against which each of these indicators is to be assessed. It is stated that "while not policy targets, these guidelines establish reference values for each available indicator allowing for identification of countries for the second step in-depth assessment".
- Four *approaches to assess individual country positions*: (1) a "structural approach" presumably inspired by the IMF's GGER methodology for the assessment of equilibrium exchange rates[5]; (2) a statistical approach which benchmarks G-20 countries on the basis of their national historical trends; (3) a statistical approach which benchmarks G-20 country's historical indicators against groups of countries at similar stages in their development; (4) a statistical approach which draws on data, benchmarking a G-20 country's indicators against the full G-20. The three statistical approaches are primarily based on data for the 1990-2004 period and they are expected to be based on simple methodologies. In all cases, forecasts for 2013-2015 are to be assessed against the four guidelines.
- A *categorization of countries* into two groups: seven systemic countries, and the rest of the G-20. Selection criteria will be stricter for the second group, so that they will only be selected for review if they depart significantly from benchmarks. The goal is to help the process focus on the most important countries—presumably again the U.S. and China.

of U.S. shocks by a factor comprised between two and five, or even more. Furthermore, these linkages are asymmetric as U.S. developments affect the rest of the world much more than vice-versa. These phenomena, which constitute the bread and butter of policy discussions at the global level, are often assumed away in standard models like those underpinning the MAP.

Second, the whole exercise is predicated on the assumption that global imbalances remain a serious concern for the world economy going forward. Indicators, guidelines and processes may serve coordination well if this assumption proves correct. The pattern of imbalances, however, has changed significantly with the reduction of the Chinese surplus and the rise of those of oil-producing countries. Building on the insight of Caballero, Fahri and Gourinchas (2008), some observers[6] do not see current-account imbalances as a problem but as a normal response to the asymmetry in the state of public finances between the advanced and the emerging countries. Furthermore, should other problems—say, sovereign solvency risks in the advanced countries or global inflation—become a major cause for concern, they may rather prove to be a distraction. There is a difficult trade-off here: to keep focusing on the same issue helps narrow down differences through the development of common concepts, indicators and guideposts. As indicated by the European experience, however, this process takes time, and for the outcome of this process to influence national policies even more time is needed. The same requirement applies even more to coordination within a large group whose participants are not used to speaking openly to the others about their policy choices. But keeping the focus on a particular set of issues involves the risk of focusing the policymakers' attention on a certain set of problems at the expense of others. Again, Europe provides a clear case of attention distraction: its focus on making its fiscal pact operational has distracted the policymakers' attention from the build-up of large imbalances in the private sector.

Third, 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. As things stand, a conversation has been created but to claim that significant policy action has been triggered as a consequence would be an overstatement.

On the whole, this second period was clearly less successful than the first one. A significant process of assessment and dialogue was launched and it went much beyond what had been achieved in the pre-crisis context. Nevertheless policy achievements are few and doubts remain on the adequacy of the process.

Phase 3: Assisting Europe, 2011-2012

The Cannes G-20 Summit was meant to be devoted to global discussions, not least about reforming the international monetary system. However, it was largely hijacked by the euro crisis. In the months that followed, the international discussion was again largely dominated by the European crisis, the responses to it, and the potential contribution of the rest of the world through increasing IMF resources.

Decisions announced on the occasion of the 2012 IMF and World Bank spring meetings in Washington resulted in pledges to increase IMF resources by $430 billion. Although these resources are not earmarked for any particular country, they are widely regarded as motivated by the precarious state of the euro area and some countries within it. Euro-area countries (for €150 billion or about $200 billion), were joined by other European countries including the U.K. (for about $60 billion), Japan ($60 billion), South Korea ($15 billion), Australia ($7 billion), and Saudi Arabia ($15 billion). Emerging countries such as China, India, Brazil and Russia also committed contributions, but no specific number was announce officially and there are suspicions that their commitments remain conditional on changes in the governance of the IMF. Finally, neither the U.S. nor Canada took part.[7]

On this occasion, the G-20 as an institution failed to provide the "premier forum for international economic cooperation" it had expressed its intention to be. First, two major members broke ranks with the consensus on increasing IMF resources. Second, disagreements on the policy prescription for Europe and in particular on the nature of the appropriate fiscal response could not be resolved. In a context of serious concerns about the pace of the recovery in part of the world economy, the communiqués of Mexico (February) and Washington (April) did not go beyond the usual platitudes. Third, several emerging and developing countries reacted with suspicion to the very notion of assisting a group of prosperous and financially wealthy countries.

It is hard therefore for the G-20 to claim success on this front. There are probably two reasons for this disappointing result. First, Europe is difficult because of its internal coordination process. It takes time for the Europeans to agree among themselves and when they have reached an agreement they are not ready to reopen it in the context of G-20 discussions. Two-level coordination is inherently difficult and this applies to Europe.

Second, the problem at stake is highly asymmetric. The rest of the world expects Europe to sort out its problems. While those outside Europe have shown a willingness to extend a helping hand, this inevitably comes with strings attached in the form of a faster rebalancing of power within the international organizations. This is not the easiest of all sorts of dialogue.

Conclusions

Macroeconomic coordination is by no means the only or even the main field for assessing the performance of the G-20. Financial regulation has been in recent times an equally important topic. However, it is one on which the G-20 focused at an early stage and also one on which it promised to deliver. So it is worth a specific assessment.

The picture this note has presented is one of major initial achievement and diminishing returns. The effectiveness of the G-20 in the macroeconomic coordination field seems to have declined from one phase to the next one. To what extent is this due to the nature of the problems on the agenda and to what extent to the evolution of the dialogue and the participants' commitment to the process? There is no easy answer to this question. Clearly, global coordination cannot be expected to proceed with the same intensity when facing a global recession or regional troubles. What was done in 2008-2009 was by nature exceptional and the following steps were bound to be of lower intensity.

There is also certainly more value in the process initiated by the Pittsburgh Summit than what casual observation suggests. The mere willingness to discuss global policy issues and their national ramifications is a non-negligible achievement. Issues that are traditionally thought of as domestic choices are not anymore considered beyond the reach of international discussions. Yet the outcome remains disappointing. One cannot but ask questions about the ability of the G-20 to avoid the traps that over time greatly reduced the effectiveness of the G-7 and G-8 summits. It is certainly too early to claim that the G-20 has failed, but early enough to wonder whether it is on track toward lasting success.

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Endnotes

[1] A version of this note, which draws significantly on Angeloni and Pisani-Ferry (2012), was presented at the conference "Searching for Strategies to Restore Global Economic Stability and Growth" organised by the Chicago Council on Global Affairs on 2-4 May 2012.

[2] See, for example, Spilimbergo, Simansky, Blanchard and Cottarelli (2008).

[3] Pisani-Ferry, Sapir and Wolff (2011).

[4] IMF (2011).

[5] IMF (2006).

[6] See , for example, Landau (2012).

[7] Statement by IMF Managing Director Christine Lagarde on April 20, 2012.