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The G20 after Cannes: An identity crisis

Giovanni Grevi

›› The dramatic G20 summit in Cannes on 3-4 November 2011 represented an identity crisis for the self-declared principal forum for global economic coordination. This crisis is the product of the risk of political default by supposedly leading economic powers. A collective assumption of responsibility by G20 stakeholders – notably key EU Member States via the Eurozone, the U.S. and China – is a necessity if the G20 is to find a new sense of direction, and to avert the risk of a double-dip global recession.

HIGHLIGHTS

- The G20 in Cannes did not show the same resolve to address the economic crisis as in the Washington and London summits in 2008-2009.
- The risk of financial default can lead to political default.
- Even at a time of acute crisis, the G20 can perform a useful role promoting governance reform and normative convergence among its members.

AN IDENTITY CRISIS

The G20 meetings in Washington and London between 2008 and 2009 established the forum as the pivotal crisis management committee in the rescue of the global economy from imminent financial meltdown. The focus was on the global stimulus package and financial regulation. The Pittsburgh summit in September 2009 triggered the incremental, and contested, transformation of the crisis management committee into a global steering board tasked with addressing the root causes of the crisis by tackling global economic imbalances. This time the focus was on national fiscal and monetary policies and on strengthening global financial safety nets. Throughout 2009 and 2010, the agenda of the G20 steadily expanded to issues related to the economic crisis, such as price volatility in commodity markets, energy subsidies, the fight against corruption and the development agenda.

At Cannes, the G20 atrophied as a global steering board. Its ambitious but rather vague agenda was overtaken by the deepening of the Euro-

››››››zone debt crisis. Furthermore, it has not performed as an effective crisis management committee either. The difference here is between credible, or lasting, crisis resolution on the one side and damage limitation, or buying time, on the other. The scale of the risk was acknowledged but decisive action to manage it was postponed. Neither a steering board, nor a crisis management committee, the G20 seems to have entered an identity crisis.

The matter at hand was indeed a difficult one, given the intricacy of the crisis, its impact on the global economy, and the different degrees of exposure of the main parties to the financial contagion from Europe. The G20 has built on the painstaking procedural achievements of the so-called Mutual Assessment Process (that established indicators and benchmarks to assess national economic policies). Its members have entered a strong political commitment to take serious national measures to rectify global imbalances through the new Action Plan for Growth and Jobs. This plan envisages a common but differentiated responsibility. It aims to put the fiscal house in order, sustain domestic demand, or progressively introduce exchange rate flexibility, depending on the country in question.

Some would argue that these significant achievements pave the way for tangible policy progress. However, process is a necessary but insufficient condition for policy output. It needs to be complemented with the political will to take action, and quickly, at the national level. In the last year or two, within the EU and at the global level, events and crises have often overtaken firm commitments, while sustainable solutions have proved elusive.

FROM BOATS TO ROPES

Following the unexpected announcement by (then) Greek Prime Minister Papandreou of a referendum on the EU deal to bail-out Greece – agreed upon a few days earlier – and given the uncertainty surrounding the commitment of (then) Prime Minister Berlusconi of Italy to take resolute action on the Italian debt, frantic negotiations preceded and accompanied the G20 summit. The style of the proceedings, and the overall mood, was certainly closer to crisis management than to the complacent sense of gradually steering the global economic recovery that prevailed in Toronto and Seoul. However, the recognition of political responsibility to face up to the crisis together that emerged from Washington and London was not replicated in Cannes. The crisis was common, but perceptions differed. The fellowship of the lifeboat gave way to the dilemma of the rope.

Back in November 2008, there was an overriding and shared view that the financial crisis risked plunging the global economy into a recession that would impact in severe, but unpredictable, ways on both advanced and emerging countries. G20 members were in the same lifeboat in the midst of a storm, facing clear and present danger. Collective action (albeit via nationally determined policy packages) was the only option for collective survival.

The crisis looked different in Cannes. G20 members stood at the edge of a cliff, tied to each other with a rope. A few of them wandered too close to the edge and were warned by others to step back. Some of them lost balance and fell over the cliff; others started sliding dangerously toward the precipice. A majority of them managed to stand more or less steadily on their legs and hold the others by pulling the rope. In Cannes, the old saying applied that where you sit depends on where you stand. Threat perceptions differed depending on respective positions along the rope, whether close to or removed from the edge of the cliff.

Sure enough, with too many G20 members (and Eurozone countries such as Greece) losing balance and falling over, all would be dragged down at some point. Like in 2008, the crisis is a common one. But there was a sense in Cannes that the crisis imposed different burdens on different members and that the way out of the crisis was not necessarily a collective one. Those pulling the rope could be tempted to pretend to do their best but actually conserve energy and let others put in maximum effort. Those suspended into the abyss, many felt, were strong enough to climb their own way out. Finally, those furthest from the cliff could seek to untie the rope around their waist should the burden become unbearable. Doing so would be risky, but they could at least hope to avoid the free-fall, and reduce the damage that sovereign defaults would inflict upon their economies.

End of metaphor. EU countries found themselves in dire straits at Cannes, between the shaky bail-out package agreed by the European Council and the request for external financial support. Many in the G20 perceived the latter as unduly indulgent of their own indecisiveness. There is clear awareness that all are exposed to the risk of new global financial and economic turmoil, but some are (or feel) more exposed than others. Aside from the fact that the epicentre of the crisis moved from the U.S. to the EU, two main political factors made a difference to the G20's performance between 2008 and 2011.

There was a sense in Cannes that the way out of the crisis was not necessarily a collective one

First, the relative positions of advanced and emerging countries have changed since the crisis erupted four years ago. In material terms, China, India and Brazil contributed 70 per cent of global growth in 2008-2009. Over the last three years, they featured average growth rates of, respectively, 9.5 per cent, 7 per cent and 4 per cent, compared to less than 1 per cent in the U.S. and average negative growth in the EU. Their positive performance boosted the self-confidence of emerging countries, while a sense of fatigue and domestic political instability crippled decision-making in the U.S. and Europe.

Second, crisis management in 2008 was driven by American leadership and convening power, with the strong initiative and support of the UK and France, among others, in setting the agenda. Sluggish growth, a deficit barely under control, growing federal debt and, for the first time in history, the reduction of the U.S. triple A rating last summer have blunted American leadership. Moral suasion did not deliver in Cannes, where President Obama could not offer much in the way of financial firepower to help tame the Eurozone crisis – especially at a time when the U.S. themselves are standing not so far from the edge of the cliff. There is a risk of a dilution of power and responsibility at the top of the G20 and of the global economy at large.

THE RISK OF POLITICAL DEFAULT

Compared to the collective mobilisation and sense of responsibility to meet the financial crisis in 2008, the 2011 debt crisis stemming from Europe (and the U.S.) is an asymmetric one in terms of the distribution of risks and balance of perceptions. The G20 did not send a strong signal to the markets or the public reassuring them of the shared will and tangible commitments of G20 members to stop contagion from sovereign default. In fact, the threat of financial default has attracted much more attention than the equally, if not more, serious risk of spill-over from financial to political default. In both cases, default can be defined as the inability to fulfil commitments or expectations.

Symptoms of political default take many forms, whether at the domestic or international level. The gap between principle and practice, or discourse and behaviour, in global affairs has been widening to unsustainable levels. This has applied, for example, to the political commitment of surplus countries to reduce global economic imbalances via a reduced reliance on exports; to the ritual pledges of big polluters to take decisive action against climate change; and to the statements of faith of key stakeholders in their ability to conclude the Doha Development Round within the coming year.

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At the national level, the impact of the financial crisis on growth and jobs has clearly polarised politics in the U.S. and many EU member states, shrinking the political space for leaders to negotiate in multilateral fora. In some countries like Germany or the Netherlands, the public resents the idea of rushing to the rescue of countries that have proved unable to run themselves well. In countries holding on to the rope like Greece or sliding close to the cliff's edge like Italy, the public resents national politics but even more so the limitations to sovereignty that come with the imposition of severe austerity programmes from abroad. In the U.S., partisan political fighting is hampering the development of a strategic vision over how to address domestic economic problems in order to renew the confidence of the markets and sustain global recovery.

Political default inevitably spills-over into institutional default at the multilateral level, whether in the case of the UN Framework Convention on Climate Change or, as the risk keeps growing, in the case of the G20. From this standpoint, the crisis of the G20 and the crisis of the EU fuel each other. Despite considerable efforts to the contrary, EU member states showed up at the summit with little sense of a common front, if not the urge to put out the fire at home. On the one hand, suboptimal policymaking within the Union complicates dialogue with the other G20 partners and weakens the authority of EU bodies. On the other, by its very nature the G20 sets the stage for major countries to run the show. This puts the EU in an uncomfortable position unless its member states taking part in the G20 show a high degree of commitment to common positions.

THE G20 AS A PATHFINDER

With its identity as either an effective crisis management committee or an authoritative steering board for the global economy in question, the post-Cannes G20 should continue to invest in a third critical function, namely a pathfinding role for institutional innovation and normative convergence. Focusing on this function at a time of acute crisis puts the ambition of the G20 in perspective. And yet, paving the way for the structural reform of global regimes is critical in order to put the global economy on a sustainable path over the medium to long term.

On top of its non-negligible *acquis*, the Cannes G20 has made some sensible progress toward institutional reform, including the adoption of the Cameron report on global governance. In particular, the International Monetary Fund has been promised more resources, the creation of a new Precautionary and Liquidity Line and a review of the Special Drawing Rights currency basket (in 2015) have been agreed, and the prospect of further re-distribution of quotas and votes has been discussed. Agreement was also achieved on the much-needed strengthening of the Financial Stability Board, which was granted autonomous legal personality and more resources; although it is unclear whether more staff will also come along. Basic, if very loose, principles have been laid out on cooperation between multilateral bodies and regional financial arrangements, a dimension of multilevel governance that will likely grow in importance.

As a senior European official recently noted, an informal body without rules is not well placed to create rules. While binding rule-making is better left to established or future institutions, the G20 seems well-positioned to support the progressive convergence of, or at least the structured dialogue on, different political and normative perspectives. In a more heterogeneous and polycentric world, the search for common ground is an important function of global governance. Since the Seoul summit in 2010, the renewal of the development agenda has entered G20 proceedings, with a view to drawing on the experiences of old and new donors alike and identifying best practices and key priorities. Issues of infrastructure investment, innovative funding, food security and investment in agriculture featured prominently in the G20 debate in the run up to Cannes.

The French Presidency of the G20 has put a lot of emphasis on the social dimension of globalisation, namely the need to include social and employment issues on the forum's agenda and to invest nationally in adequate levels of social protection and welfare. Time may not be ripe for momentous progress on these issues, which were largely overshadowed by the pressing debt crisis at Cannes. However, the matter is essential for political stability and sustainable prosperity in both advanced and emerging countries, and is an important dimension of addressing global imbalances. The EU and its member states have an important contribution to make to this debate in the context of the G20 and beyond.

CONCLUSION

The Cannes summit failed to provide a resolute political solution to overcome the acute debt crisis that threatens the Eurozone and with it the global economy. It showed the limits of the process when the main political actors are not aligned, but did not mark the demise of the G20 formula. This top level forum has delivered important commitments to adopt national policies in order to tame the crisis and reduce imbalances. It has also planted the seeds for further innovation at both the normative and institutional level, not least concerning its own functioning with the institutionalisation of the Troika presidency. If, however, the gulf between words and deeds widens over the next year, the stage would be set for political and institutional default.

The politics of the Cannes summit suggest that the big question for the future of the G20, and of the global economy, is not so much who is a rising power or who is in relative decline. Rather, it is about who is prepared to provide leadership and also take some risks to enable collective action, beyond short-term posturing and interest-maximising considerations. The EU has a special responsibility to tackle the debt crisis but also the opportunity to show internal cohesion and strengthen its credentials as a supporter of viable forms of international cooperation. The G20 would not fare well in a world of inadequate, introspective powers.

Giovanni Grevi is a senior researcher and research coordinator at FRIDE.

e-mail:fride@fride.org
www.fride.org