The G-20 framework for strong, sustainable, and balanced growth: glass half empty or half full?

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Abstract The G-20 Framework for Strong, Sustainable and Balanced Growth was launched by the G-20 leaders in 2009 to strengthen coordination of national economic policies as the world emerged from the 2008–9 financial crisis. Building on earlier attempts at international economic policy coordination, the Framework has made significant advances in the detailed institutional procedures for policy coordination, including information sharing, analytical tasking, and the development of structured policy discussions to address medium-term issues. Some politically difficult challenges have been overcome using varied techniques, including enabling the system of collaboration to evolve incrementally over time. However, further progress is needed if the Framework is to deliver on the remit set by leaders.

Keywords: G-20, G-20 Framework, international economics, economic policy coordination

JEL classification: F02, F33, F42

I. Introduction

The G-20 Framework for Strong, Sustainable and Balanced Growth was launched by G-20 leaders at the Pittsburgh Summit in September 2009. Its core aims were to address the continuing risks to global economic recovery and to underpin a high rate of sustainable growth over the medium term. It was widely regarded then as the most important agenda item for the G-20 and remains so. It is the mechanism through which the G-20 seeks to deliver on its ‘commitment to be the premier forum for our international economic cooperation’.

G-20 leaders described the Framework as ‘a compact that commits us to work together to assess how our policies fit together, to evaluate whether they are collectively consistent with more sustainable and balanced growth, and to act as necessary to meet our common objectives’.

It reflected the G-20’s determination to build on the success of the London Summit in April 2009. The G-20 had agreed a suite of measures, including a coordinated fiscal stimulus and trebling of IMF resources, which were widely seen as a bold and
effective response to the evolving crisis. A key element was to make ‘the whole more than the sum of the parts’. By coordinating the individual national fiscal measures that countries were ready to take, and including steps by the International Monetary Fund (IMF) which explicitly required collective decision-making, G-20 members had a more substantive impact on global business confidence than if they had acted separately. In addition, some countries that might not have felt able to take expansionary fiscal action on their own, or on such a scale, owing to political or market pressures, were emboldened to do so.

However, as the global economy began to recover later in 2009, concerns grew over the need to coordinate the exit from exceptional policy measures. On the one hand, it was critical to ensure that deficit and surplus countries did not simply resume their earlier policies leading to a return of the global imbalances which many felt had been a major cause of the financial crisis. On the other hand, it was crucial to ensure that the efforts by current account deficit countries to re-balance their economies by switching to private investment and external demand were matched by offsetting efforts on the part of current account surplus countries to boost domestic demand. Otherwise the world economy would be left with a ‘hole in demand’ (see HM Government, 2009).

Achieving an adequate response to this policy challenge was a key objective for many countries in establishing the G-20 Framework in late 2009. Once again there was the potential to enhance market confidence by coordinating the actions that countries in any case intended to take. But it was also hoped that the G-20 would be able to agree an improved policy mix, in which individual members took more account of global requirements in developing their domestic policies. The outcome would be better for all. It would also be one which no single country could achieve independently of the others. In this sense, the Framework could be seen as providing a mechanism to move from a non-cooperative (‘Nash’) equilibrium to a cooperative equilibrium.

As time has progressed, rapid changes in the global economy added other policy challenges to that of the ‘hole in demand’. The need to develop a credible medium-term framework for fiscal consolidation in the advanced economies took centre stage in the first half of 2010. And by the summer of 2011, the eurozone crisis, and its increasingly serious spillovers on the global economy, were the top priority. In the second half of 2012, the need to avoid a very sharp fiscal contraction in the US (the ‘fiscal cliff’) has been an increasingly important factor in the G-20’s agenda.

The continuation of a ‘state of crisis’ beyond the initial 2008–9 crash has ensured that G-20 leaders and their governments have remained focused on the need for international policy coordination. But it has also significantly complicated the challenge of developing the Framework, adding new high priority themes and the need for policies to deliver short-term crisis management, as well as more medium-term goals.

This paper looks at the way the Framework has developed, starting with the original concept at Pittsburgh and then tracking its evolution over the past 3 years to the present day. The paper does not attempt a detailed analysis of the progress made in delivering the Framework’s economic objectives since that has been done on a regular basis by the IMF through reports provided for the G-20, and by the G-20 itself. Instead, the focus is on the political economy and practical challenges of building a system of economic policy coordination, what the scope is to go further, and whether it will be worth the effort.
The paper makes three main arguments drawing on the experience with the Framework.

First, however great the potential gain from international economic policy coordination, success is crucially dependent on developing detailed institutional procedures for sharing information, finding common ground, and articulating choices for political decision at the highest level. Such institutional development may not be sufficient to achieve successful policy coordination, but it is necessary.

Second, by consciously planning for an institutional system of collaboration to evolve incrementally, one may ultimately reach a more effective mechanism than if one tries to specify every aspect from the outset. Events may change certain perspectives, making collaboration easier. Practical experience with a particular approach may show that it is not as problematic for an individual country as might have been originally feared. It may also be easier to build trust among those collaborating, particularly where new countries are involved in the group, through a series of small steps rather than a single leap. Such an approach clearly has risks, too—of going down a dead end, of some participants running out of patience, or of the effort losing credibility with the watching voters and financial markets. But these can be managed provided all the key players buy into the underlying goals and recognize the nature of the process they are engaged in.

Third, while the initial outputs from the policy coordination process may be modest, essentially limited to those that can be generated by better information-sharing and clearer articulation of national objectives, the outputs over the longer term could be far greater. As the degree of familiarity grows and the institutional mechanism supporting policy coordination deepens, outputs could extend to a broad-based ‘package deal’, in which countries make a series of conditional policy commitments, and eventually even the foundation for a ‘rules based’ coordination system.

The remainder of this paper is divided into six sections. Section II summarizes some key ideas from the literature on economic policy coordination. Section III describes the original concept for the Framework, the core factors influencing its design, and the influences from previous efforts at policy coordination. Section IV describes the four subsequent phases in the Framework’s development: in the run-up to the Toronto, Seoul, Cannes, and Los Cabos G-20 Leaders’ Summits. Section V examines the achievements over this period and the challenges ahead. Section VI discusses next steps and section VII concludes.

II. The theory of economic policy coordination

Bergsten (2003) identifies four main reasons why a group of countries may become involved in active coordination of their economic policies. First, to improve the economic performance of individual countries. Second, to enable countries to trade off outstanding issues that affect them in ways that would not otherwise be available. Third, through the process of policy coordination, to strengthen overall relations between countries. Fourth, to enable leaders to strengthen domestic support for particular policy initiatives. While all these factors may have played a part in motivating participants in the G-20 Framework, the strongest motivation, and the common
thread, throughout its development has been the desire to improve national economic performance.

Putnam and Henning (1989) distinguish two main types of policy coordination. First, a rules-based system, such as the Bretton Woods exchange-rate regime or the World Trade Organization (WTO) trade system, where participants are legally committed to following a comprehensive set of rules in conducting certain economic policies. Second, discretionary policy coordination, which they characterize as a continuum with five different types of cooperation arrayed according to the level of intensity.

Unilateral adjustment has the lowest intensity—national policies are set unilaterally, but following information sharing about actual or intended policies of other countries. Next in the spectrum is Consultation in which policies are still set unilaterally, but in the light of consultations between countries which may lead them to change their analytical model and/or refine their national preferences. Third is Reinforcement, where an individual government may be able to improve its domestic policy choice because it can use the international agreement as a re-enforcing mechanism to convince domestic constituencies. Under a Package deal, the fourth type of cooperation, national policies are determined as part of a conditional international agreement with mutual commitments. And under Supranational integration policies are set through a formal process, which may include weighted voting by governments, with the outcome binding on the participating governments.

From its inception, the G-20 Framework was expected to encompass the first three types of cooperation. It was also hoped that the fourth type would play a part, though most participants recognized that a lot of work would be required before members would be in a position to negotiate conditional policy commitments with each other. However, the fifth type of cooperation was explicitly excluded, as the Framework from the outset was characterized as voluntary and consensus based. Some emerging market participants were most vocal in emphasizing the latter point. However, most advanced countries would clearly also have balked at an approach in which significant policy choices could be imposed on them through a majority vote.

Much of the literature on international economic policy cooperation has framed the challenge as that of finding a fully comprehensive solution to a given policy problem at a given point in time. This tends also to be the expectation in the media. However, the nature of the problem the G-20 has faced since 2009 has changed rapidly, and the approach to tackling it has consciously been allowed to evolve. This has partly been necessary to reflect the changing nature of the challenge, but importantly it has also given the G-20 the maximum flexibility in overcoming the political constraints on cooperation. Some key insights from the Framework are therefore not yet adequately captured in the literature.

III. The original concept of the Framework

The G-20 comprises finance ministry and central bank representatives from 20 of the world’s largest economies, representation from the EU (including the European Commission and the European Central Bank (ECB)) and representation from the IMF, World Bank, and a number of other international organizations. It was first
established in 1999, shortly after the Asian financial crisis. At that stage its highest body was meetings of finance ministers and central bank governors. For the first decade it focused largely on building a shared technical understanding of issues of common concern between emerging and advanced economies, but had little operational significance. The G-7/G-8 continued as the main focus for global economic policy cooperation.

However, in late 2008 the G-20 emerged as the grouping best able to address the global financial crisis. For the first time it met at Leaders level—in Washington and then London—and became a focus for taking immediate operational decisions to address the crisis. By the time the G-20 leaders launched the Framework for Strong, Sustainable and Balanced Growth at the Pittsburgh Summit in autumn 2009, the G-20’s character had already changed significantly from the pre-crisis period. But the process of building working-level links and relationships and common working methods was still at a relatively early stage.

The G-20’s senior finance ministry officials (Finance Deputies) were tasked with working out a detailed road map for implementing the Framework at the St Andrews Finance Ministers’ and Central Bank Governors’ meeting in November 2009.

They agreed on five steps, endorsed by the Finance Ministers and central bank Governors, which together describe the Mutual Assessment Process (MAP) under the Framework:

**In step I** G-20 countries share information on (a) their policy plans and frameworks across a broad range of economic policy areas, including monetary/exchange rate, fiscal, financial sector, and structural reforms; and (b) their national economic forecasts setting out what impact they expected these plans to have on key macroeconomic variables over a medium-term time frame, of 3–5 years.

**In step II**, the IMF uses this information to estimate a ‘base-case’ projection showing how the world economy would evolve if countries do what they say there are going to do. To complement this, the World Bank assesses the implications of G-20 plans and forecasts for the poor living in countries inside and outside the G-20.

**In step III** the G-20 assesses this projection against the criteria for strong, sustainable and balanced growth, examines any inconsistencies between country plans and downside risks, and decides whether further policy actions are required to achieve a better outcome against one or more of the three objectives.

The threshold for deciding that action is needed has not been explicitly defined. To an extent it will depend on the circumstances and political priorities within member countries. However, likely drivers will include the view that projected performance on one or more of the ‘strong, sustainable, and balanced’ criteria is not ‘good enough’, or that the downside risks around the central case projection are too great.

On the assumption that improvements are judged necessary, **step IV** sees the IMF, assisted by the World Bank and other international organizations, develop a limited number of alternative scenarios showing the medium-term impact of alternative policy mixes.

**In step V**, the G-20 selects from these policy options, and other sources, to construct the G-20 Action Plan for that cycle of the process.

Underlying this approach are a number of features which make the Framework one of the most comprehensive, sustained, and far-reaching attempts at economic policy coordination since the breakdown of the Bretton Woods system in the
early 1970s. These can be grouped under the headings: participation, scope, and methodology.

*Participation*

The Framework includes *all the major participants* in the global economy—accounting for more than 80 per cent of world GDP. And for the first time the major emerging economies and G-7 advanced economies are participating from the outset on a fully equal basis in the technical preparation. Working methods have been developed to support this, such as the custom for all G-20 working groups to have both an advanced and emerging economy country act as co-chairs. A series of seminars has also been used to build the common information base. The result has been an increasingly interactive technical group with relatively little evidence so far of caucusing among advanced and emerging economies, respectively. The latter has also been supported by the nature of the economic problems the Framework has been tackling—such as the design of exit strategies from coordinated fiscal stimulus and global rebalancing—which do not favour a clear separation between the position of emerging and advanced economies.

The Framework is also ultimately the *responsibility of G-20 Leaders* rather than resting entirely with Finance Ministers and Central Bank Governors. This creates the potential for traction over a broad range of policy measures, including those outside the remit of Finance Ministers and Central Bank Governors, and the scope to inject an additional political dynamic into decision-making.

*Scope*

The Framework covers a very *broad range of policy measures*. This is necessary to address the complex economic challenges the world economy faces. Thus, it would be impossible to address concerns over a lack of global demand during re-balancing by attempting to coordinate monetary and fiscal policies alone. It also increases the prospect of finding a mutually beneficial set of policy enhancements, since individual countries have more flexibility in choosing policies that meet domestic political constraints. However, it increases the difficulty of comparing the scale of contribution and strength of commitment made by different countries to the overall improvement in outcomes under a given scenario as one is not comparing like with like. And it demands greater political authority, going beyond finance ministries and central banks.

The Framework also explicitly looks at the impact of policies over a *medium-term time frame*. This is also necessary to tackle the kinds of question the Framework is intended to address—such as the most appropriate exit strategy from exceptional settings for monetary and fiscal policy. In addition, it ensures that short-term policy responses are properly evaluated in the light of their longer-term consequences. However, looking at the medium term necessarily increases the degree of uncertainty when evaluating the overall impact of a given policy choice.

*Methodology*

From the outset the consultations under the Framework were designed to be *repeated over a number of annual cycles*. The Pittsburgh Summit declaration speaks of ‘sustained and systematic international cooperation’. This increases the scope both to tackle
entrenched issues and to improve the cooperation mechanism over time. The ‘repeated
game’ nature of the collaboration may also increase the degree of trust among partici-
pants. This contrasts with the experience of a number of G-8 Summits where individual
Presidencies have launched entirely new signature themes.

Using national forecasts as inputs for the base-case scenario substantially increases
the extent of country ownership in the policy discussions and eventual conclusions. Why
should a country agree to a policy change justified on the basis of a projection for its
own economy that it does not agree with and is not the basis for its own policy process?
This is as true whether the forecast used in the national policy process is developed by
an independent agency or by the government itself. Use of national forecasts has given
rise to a number of technical challenges. For example, some countries did not have
published forecast data going out 5 years and so needed assistance from the IMF and
other independent forecasters in completing their projections. The IMF had to adjust
some forecasts to ensure common global assumptions e.g. on the outlook for oil prices.
Countries have different forecast cycles, making it hard to get a full set of concur-
rent forecasts from different countries at a particular point in time. However, despite
these challenges, the IMF has been able to produce four base-case scenarios based on
national forecasts.

The IMF has a critically important role, but as technical and policy adviser to the
G-20 rather than as manager and cheer leader of the overall cooperation process. Thus
the IMF has developed the analytical tools in the MAP, coordinated the expert advice
from other international organizations, and periodically offered policy options and rec-
ommendations, all in response to specific requests from the G-20. This approach has
helped strengthen the country ownership of the Framework. And, together with other
developments, such as the 2010 reform of IMF quotas, it has also helped address initial
concerns among some of the emerging market participants over the legitimacy and
even-handedness of the IMF. At the same time the IMF has found a way to respond to
the G-20’s requests while maintaining, and indeed enhancing, its independence, techni-
cal reputation, and transparency.

The design of the Framework drew on a range of earlier efforts to enhance interna-
tional economic policy cooperation.

As mentioned earlier, it was clear at the outset that there was no appetite to try and
attempt a formal rules-based system for policy coordination. The reluctance to give up
sovereignty was critical in this. But even if sovereignty had not been an obstacle, it is
very unlikely a rules-based system could have been implemented to deliver the complex
multi-faceted objective the G-20 had chosen in the time available.

Instead, the G-20 drew on the experience of G-7 policy coordination, where coun-
tries made policy commitments through annual summits and were then held to account
through a mixture of peer pressure and the external pressure arising from transparency.

Perhaps the closest parallel to the Framework is the G-7 Summit in Bonn in 1978.
Germany and Japan made commitments to stimulate external demand, while the US
undertook to liberalize domestic energy prices. All participants made a renewed com-
mitment to complete the Tokyo Trade Round. Bonn is now widely seen as unsuccessful,
although this is more to do with the inflationary impact of the subsequent oil price
shock, than a failure of design or implementation in the Summit commitments (see
Putnam and Henning, 1989).
A key similarity between the G-20 Framework and Bonn is that both exercises had the objective of changing the overall policy mix through a diverse set of macroeconomic, financial, and structural reform initiatives, differentiated between countries. The main differences are that the G-20 Framework: has involved many more countries in the negotiations; has drawn on a different set of policy variables (e.g. less emphasis on trade liberalization, and a greater role for structural reform and coordinated financial regulation); and has sought to look well beyond the immediate economic conjuncture at potential future sources of instability by deploying a medium-term approach.

Other influences included: the IMF-led Multilateral Consultation on Global Imbalances in June 2006 (which attempted to find a cooperative solution to address the problem of imbalances); WTO trade rounds (particularly the model of including a broad range of issues in the negotiation in order to increase the chances of a ‘win–win’ outcome for all participants, and the use of technical formula to crystallize negotiating issues and make them more tractable); OECD economic policy consultations through the Economic and Development Review Committee—EDRC (which rely on peer pressure and in-depth economic analysis of the policy issues, particularly on structural economic reform, to unlock policy action); and international negotiations on bank capital standards in the Basle Supervisors’ Committee and Financial Stability Board—FSB (which have faced the challenge of applying common approaches across highly diverse financial systems). A consensus-based approach is also a feature of all these negotiations.

There is also a parallel with the national inflation-targeting systems operated by a number of central banks. Thus the goal of the G-20 is to identify a set of policy measures to be taken by the G-20 as a whole which meets the target of strong, sustainable, and balanced growth (this compares with a central bank’s goal of setting the short-term interest rate to meet its inflation target). The first stage is to make a projection of the key economic variables relevant to this objective conditional on existing G-20 policies being followed through (this is similar to making an inflation forecast conditional on an unchanged short-term interest rate). The outcomes are then assessed against the objective and, if the result falls short, an alternative policy mix is considered (this is similar to comparing the inflation forecast with the inflation target and adjusting the short-term interest rate if they do not converge).

However, the technical challenge for the G-20 in operating this system is considerably greater than for an inflation-targeting central bank. The timeframe for the conditional projection in the Framework is longer—3–5 years as against 18 months. The policy objective of strong, sustainable, and balanced growth is much more complex than a one-dimensional inflation target. And the range of policy variables is far more diverse than simply changing the short-term interest rate.

For these reasons the approach adopted by the G-20 has been a ‘satisfying’ rather than optimizing one: i.e. is the result achieved by the present policy mix ‘good enough’ when measured against the objective of strong, sustainable, and balanced growth, and to the extent it is not, what change in the policy mix would deliver an acceptable outcome?

Viewing the base-case projection as a forecast conditioned on exiting G-20 policies further illustrates the case for using national forecasts in its compilation. A government’s own forecast necessarily assumes that it will follow through on the policy commitments it has made. More generally, the exercise of aggregating national forecasts...
to estimate the base-case scenario is a potentially important tool which appears not to have been used before. While each country might be strongly committed to its own forecast, the process of aggregation can reveal a picture of inconsistent assumptions or excessive optimism which is hard to refute. It would not tell you what has to change in the collective policy mix, but it can be a powerful way of demonstrating that something has to change.

Two further important considerations would need to be factored into the design of the Framework as it evolved. First was the trade-off between the three different components of the ‘strong, sustainable, and balanced’ objective. There are clearly circumstances in which a given policy action will increase the probability of a higher growth outcome, but at the expense of medium-term sustainability. And countries will have different preferences across this choice, depending on their current economic circumstances and political priorities. Second, was the trade-off between individual countries in the costs they incur—either in terms of domestic politics or economic performance—from moving to a new policy mix designed to deliver a better overall outcome for the world economy.

Such questions are difficult to answer, both technically and politically. They go to the heart of the question of exactly how the Framework will achieve a better policy mix for the G-20 than would otherwise be the case. In particular, is it fundamentally about enhancing the quality, relevance, and structure of pooled information on existing national policy choices and options for changing the collective policy mix in the expectation that this will encourage better choices at the national level? Or is the intention to structure a formal negotiation, similar to that in a trade round, in which countries go further than they otherwise would in their individual policy commitments as part of a deal to secure similar commitments from other participants?

In practice, neither issue was formally addressed at the launch of the Framework, although many participants recognized that they would need to be, either implicitly or explicitly at a certain stage. This is a good example of the incremental approach adopted.

Similarly, it was decided at the initial stage not to attempt a detailed definition of strong, sustainable, and balanced, although this would clearly be necessary fairly soon. One key issue would be the meaning of the ‘balance’ criterion. Under one interpretation this raised the goal of eliminating global imbalances to being an objective of the Framework in its own right. However, one could argue that addressing excessive imbalances—both within countries and externally—should be seen as a ‘means to the end’ of achieving strong and sustainable growth rather than being an end in its own right. Another interpretation was that ‘balance’ was essentially about ensuring an equitable outcome within the G-20 and between members of the G-20 and countries outside. The latter interpretation in particular would underpin the view that the G-20 had a responsibility to adopt a policy mix which would support growth in the poorest countries.

An important feature of the Framework has been the way it has managed the interaction with other national economic objectives. Thus, monetary policy was among the policy variables to be deployed by the G-20 in implementing the Framework, even though a number of the participating central banks already operated under formal inflation-targeting policy frameworks. The latter clearly differ from the G-20’s goal of strong, sustainable, and balanced growth, both in so far that an inflation-targeting objective would be set at national level rather than for the G-20 as a whole, and that it would focus on a
single price stability objective. The way this has worked out in practice is for inflation-targeting central banks to maintain their existing domestic frameworks and for this to be seen largely as a given, but a constructive one, in the broader G-20 policy mix. Similarly, financial sector policies are clearly within the remit of the Framework, but in many areas are also governed by separate multilateral negotiations overseen by the FSB, and in practice the Framework has taken the overall objective of these negotiations as a given.

Thus, the policy variables deployed in the Framework vary substantially in character. In some areas, such as fiscal policy or structural reform, there are few existing constraints on what can be agreed, while in others, such as monetary and financial sector policy, the options are more limited.

The relationship between the European Union’s existing formal mechanisms for policy coordination and the new approach being developed at the G-20 level in the Framework was also a concern for some at the outset of the Framework. There were two main issues. The more straightforward was how the EU as a whole would input into the collection of plans and projections. The solution was for member states to provide data on their areas of competence (fiscal policy, structural reforms, and, for some, monetary policy), for the Commission to provide data on EU-level competences (e.g. development of the single market), and for the ECB to provide data on eurozone monetary and exchange-rate policy.

The second issue was how the EU participants would interact with the other G-20 participants in the negotiation process. In trade policy the European Commission has the legal competence and a negotiating mandate to speak for the member states, while in climate change negotiations the member states have agreed that the EU representative should present the jointly agreed negotiating position. Neither of these models would have been appropriate for the G-20, either legally or as a practical matter. The solution adopted has been for the member states and EU institutions to have orientation discussions both in Brussels and just ahead of G-20 meetings, but for each member state or institution to speak according to its area of competence at the G-20 itself.

IV. Implementation

Following the definition of the original plan in St Andrews there have been four main phases in the Framework’s development, with in each case the end point set by a Leaders’ Summit.

(i) St Andrews to Toronto

At the start of 2010, G-20 Finance Deputies established the G-20 Framework Working Group to take forward the implementation of the Framework. The Working Group was co-chaired by Canada and India, reported to the Deputies, and comprised senior officials with a country and institutional representation matching that of the Deputies.

The initial backdrop for the Group’s work was evidence of a faster than expected recovery from the financial crisis, particularly in the emerging economies. One view emphasized the need to see through the fiscal stimulus and maintain ultra loose monetary policy until the recovery was fully secure. Another view focused on the risks for
some countries of running exceptionally high public deficits and the need to take early measures to begin the process of fiscal consolidation.

The immediate task was to take forward preparation of a basket of policy options for consideration at the Toronto Leaders’ Summit. During early 2010, countries supplied templates to the IMF setting out their policy frameworks, their latest macroeconomic forecasts, and the key assumptions underlying these forecasts. For many countries it was essential that these data be fully consistent with existing published material, even if that meant that the forecasts were less up to date, or less complete, than might have been ideal. In some cases, where the authorities had not previously generated medium-term forecasts, new processes were put in place in order to meet the G-20 requirement. Some countries also chose to use independent market forecasts for all or part of their projections. In all cases the IMF helped countries provide the most useful information possible within the structure previously agreed at St Andrews.

The IMF then used the information supplied by G-20 members to construct a base-case scenario showing the implications of current plans. This was presented to the G-20 in spring 2010. At the same time the IMF advised (a) that the projections provided by member countries were broadly consistent with each other, but (b) that they were in the IMF’s view collectively too optimistic. One useful metric to illustrate this was the comparison between the IMF’s G-20 base-case scenario and the latest World Economic Outlook projection. This captured differences between the IMF staff view and the collective view of the G-20, revealed by the base-case scenario, on both the likely evolution of the global economy and the extent to which existing policy commitments would actually be delivered.

In the light of this assessment the G-20 requested the IMF to develop two policy scenarios/projections. First a scenario and projection which would show what would happen if the risks the IMF had identified to the base-case scenario came to pass (the ‘downside scenario’). And second, a basket of policy measures, with an associated projection, which would both address these risks and improve the outcome, as judged against the objective of strong, sustainable, and balanced growth, relative to the base case (the ‘upside scenario’).

At the same time the G-20 agreed the following definition of strong, sustainable, and balanced growth, saying:

The objectives of strong, sustainable and balanced growth are closely related and need to be pursued in a way that is mutually reinforcing.

Strong growth should

a. Close current output and employment gaps in G-20 countries as soon as possible,
b. Converge to the growth rate of potential output over the medium term, and
c. Be enhanced over the long term by increasing potential output growth, primarily by efficiently utilizing available resources through the implementation of more effective structural policies.

Sustainable growth should be:

a. In line with underlying potential growth over the medium term, thereby providing a firm basis for long-term growth,
b. Based on sustainable public finances and price and financial stability,
c. Resilient to economic and financial shocks,
d. Determined primarily by competitive market forces, and
e. Consistent with social and environmental policy goals.

Balanced growth should:

a. Be broadly based across all G-20 countries and regions of the world,
b. Not generate persistent and destabilizing internal or external imbalances, and
c. Consistent with broad development goals, in particular, convergence to high
   standards of living across countries in the long run.

This definition incorporates both short-term and long-term goals. It recognizes the
interrelated nature of the three objectives, but does not give guidance on the potential
trade-off between actions to strengthen sustainability and those to raise growth, arguing
that, at least at that time, they were mutually reinforcing. The definition also defines
the balance criterion to be both about ensuring equity between countries and addressing
the immediate issue of excessive internal and external imbalances.

The G-20 Framework Group discussed how best to incorporate the eurozone in the
G-20 analysis. Should it be treated as a single entity, or as its constituent countries? The
conclusion reached was that, for the purposes of discussions on monetary and exchange-
rate policy, the eurozone should be treated as a single entity. But when the discussion
focused on, for example, structural reform, both national and EU level policy actions
were relevant (at that stage there were no structural reform measures specific to the euro-
zone). However, the issue of whether internal eurozone imbalances were properly an
issue for the G-20 to discuss was not resolved at that stage. One view was that such imbal-
ances were of little relevance to the wider G-20, any more than, for example, the financial
and trade flows between two regions within a federal state. Another view was that the
composition of intra-eurozone imbalances was both influenced by nationally determined
policies and relevant to the broader picture of global imbalances and financial stability.

The Group also discussed two key process questions—whether policy recommen-
dations and eventual policy commitments should be made at the country level or be
defined in terms of categories of country, and what level of transparency to give the
underlying analysis on which the G-20 based its recommendations. On the first issue,
some countries were concerned at being picked out unfairly or being required to make
commitments not matched by others. There was also a practical question of how to
capture the commitments of 20 countries in a succinct document. It was therefore
agreed, for the time being, that policy actions should be phrased in terms of different
categories of country—i.e. advanced vs emerging, current account surplus vs current
account deficit, government surplus vs government deficit. This worked up to a point,
but it later became clear that there was a significant cost in terms of the clarity of coun-
try commitments. On the second issue, one view held that being transparent about the
underlying analysis would enhance the credibility of the Framework and would be con-
sistent with the G-20’s decision to publish IMF surveillance reports prepared for G-20
meetings. However, there were also concerns that certain countries might be singled
out unfairly, and that market confidence might be damaged. It was therefore agreed to
postpone a decision until later in the year.

The Framework Group report to Deputies and Finance Ministers/Central Bank
Governors for the June Toronto Summit set out a basket of policy options, supported
by IMF MAP analysis. These fed in to the Toronto Leaders’ Communiqué which set out: a differentiated approach to fiscal consolidation; commitments by advanced current account deficit countries to undertake generic reforms which would support deleveraging and re-balancing of their economies towards external demand and investment; and similarly generic commitments by current account surplus countries (both advanced and emerging) to undertake structural reforms and, where relevant, enhance exchange-rate flexibility which would re-balance their economies towards domestic demand.

This first phase of the Framework process did not move policy positions or generate the degree of specificity in policy commitments that some participants had hoped for. However, it did demonstrate that the Framework could add value by (a) strengthening the shared information base across a very diverse group of countries; and (b) generating new kinds of analysis with the capacity both to motivate action and point participants towards mutually beneficial policy choices. There was also a real attempt to structure the discussion of policy options at various levels in the G-20 in a manner more likely to generate movement, although there was generally less progress here than in the area of information-sharing/new analysis.

The first phase also highlighted four procedural lessons:

— The critically important role of the Framework Working Group Co-chairs in summarizing views (Co-chair reports were typically not formally negotiated texts), using off-line discussions and chair proposals to move the process forward, and building overall trust. There is a strong parallel with the part played by the Chair of a trade negotiating committee—e.g. for Agriculture or Non-agricultural Market Access (NAMA)—in the WTO.

— The need to distinguish between the ‘ideal’ package of policy reforms and an ambitious, but politically do-able package. The first version of the upside scenario prepared for Toronto contained a very ambitious set of structural reforms which generated considerable gains for world GDP, but for some countries would have been politically impossible to implement. This reduced the overall value of the scenario in motivating concrete policy commitments.

— The deadening impact of analytical disagreements on cooperation. Where participants have fundamental analytical disagreements, e.g. on the potential contribution of greater exchange-rate flexibility in resolving global imbalances, on the impact of fiscal consolidation on consumer/business confidence, or the extent to which potential output has been reduced by a financial crisis, it is much harder to make progress. On the other hand, time spent narrowing differences on these issues, and bringing the expertise of the international organizations to bear, can pay real dividends.

— The value gained from integrating expert analysis by the international financial institutions (IFIs) in a single product or process. Thus the Organization for Economic Cooperation and Development (OECD) analysis on structural reform gained much greater traction in the policy discussions because of the way it was incorporated in the overarching documents prepared under the responsibility of the IMF. Other issues, such as the implications for financial stability or developing countries of specific policy proposals being considered by the Framework Working Group would have benefited from this approach.
(ii) Toronto to Seoul

Following the Toronto Summit, G-20 countries agreed: (a) to update their own plans and projections and set out their policy commitments to deliver as far as possible the upside scenario, and (b) to put forward proposals as to how the overall policy mix adopted by the G-20 should be enhanced to achieve the same goal. The idea was to generate a consensus around a new set of policy options. However, two constraints quickly became clear.

First, there were significant differences in policy/electoral cycles between countries. Thus some members who had just completed a planning or budget cycle, or, more fundamentally, seen a change of government, found it relatively straightforward to set out new measures in response to the upside scenario. Others were much more constrained. Similar differences in national forecasting cycles, which were typically linked to policy cycles, meant some countries could contribute forecasts that were right up to date, while for others the most recent published forecast was relatively out of date.

Second, individual countries sometimes did not have sufficient knowledge of each others’ economies to put forward detailed proposals on the overall policy mix. Some countries may also have been reluctant, for political reasons, to put forward specific proposals for other countries to take action. As a result, while some countries put forward specific proposals, in most cases the recommendations followed the broad country groups used in the IMF analysis.

The result was that these two initiatives generated little new information on potential policy commitments. The proposed actions submitted by individual countries largely reflected pre-existing policy commitments and were of wide variability in terms of specificity and relevance to the Framework’s three objectives (despite the agreement that each country commitment should be linked to one or other of the three objectives).

The Framework Group report to Finance Ministers and Central Bank Governors ahead of their autumn meeting summarized the situation. At the same time the IMF updated its MAP analysis with the latest data on plans and projections and took the opportunity to incorporate a more politically realistic structural reform scenario.

The Framework therefore faced a situation where there was a broad consensus on the need for country-specific actions of the following type: US to adopt a credible medium-term plan for fiscal consolidation plan; China and some other emerging economies to enhance exchange-rate flexibility and take structural reform measures to underpin growth in domestic demand; EU countries to undertake structural reform to raise the potential growth rate and underpin internal re-balancing. But there was no clear process for resolving key differences on implementation, particularly over the timing of particular actions, or in addressing some countries’ concerns over the potential loss of market credibility if they were to commit to certain actions which subsequently had to be abandoned.

Moreover, a key concern for several countries at this stage was that, whereas the G-20 had arguably taken effective action to address the strong and sustainable parts of the Framework objective (e.g. through the Toronto agreement on fiscal consolidation and the eurozone response to the Greek debt crisis), insufficient attention had been paid to the objective of preventing a re-emergence of global imbalances. One approach put forward to address this, and discussed most extensively among Sherpas (the G-20 Leaders’ personal representatives), was that the G-20 should signal its expectations on the future
course of country-level current account imbalances, by stating, for example, that current accounts were expected to remain within a range of +/- 4 per cent of GDP over a medium-term timeframe.

In the debate that followed one view was that even if signalled as an ‘expectation’ the +/- 4 per cent band would be read as a ‘commitment’ by the financial markets. And since a country’s current account might expand or contract for reasons entirely beyond the government’s control, there would be a significant risk of a loss of credibility with financial markets. Another view was that signalling the G-20’s expectations would highlight to financial markets that the G-20 was sensitive to the risk of widening imbalances and had plans in place to address this risk.

In the event, the Seoul Summit did not agree to signal current account expectations. However, Leaders did agree that there should be an in-depth study of persistently large imbalances and the impediments to adjustment. They requested the Framework Working Group to draw up a set of indicators by which Finance Ministers would be able to judge which countries might have such imbalances and requested the IMF to provide an independent assessment of progress towards external sustainability. The Seoul Summit showed that the G-20 Leaders’ process could also play an important role in moving the Framework forward, even though in this case the agreement was to a process rather than a specific outcome.

(iii) Seoul to Cannes

Following the Seoul Summit, the Framework Working Group agreed on a two-stage process to implement the Leaders’ remit. In the first stage they would develop a set of imbalance indicators whose role would be to determine whether further investigation of a particular country was warranted. In the second stage, the IMF would undertake an in-depth analysis of the imbalances faced by countries identified in the first stage.

The Group agreed that the imbalance indicators should span both internal and external variables, since both could highlight underlying risks to external sustainability. The variables selected included: public debt, public deficits, private savings, private debt, and the current account. Similar work was under way at EU level and a key consideration for EU countries was to avoid inconsistent signals emerging from the two mechanisms.

Following proposals from the IMF, the Framework Group selected three statistical techniques and one model-based technique to identify unsustainable imbalances. A country had to be selected under at least two of the four techniques and, if borderline, account for at least 5 per cent of G-20 GDP in order to go through to the second stage. In the event seven counties were selected in the first stage: US, China, Japan, Germany, UK, France, and India.

While the process was highly complex and technical, it successfully enabled the G-20 to narrow down its focus to a manageable group which included all those countries one would expect to feature in an analysis of persistent excessive imbalances. It was a significant step forward when seen against the backdrop of the Seoul Summit’s inability to agree a current account indicator. It also showed that the G-20 could overcome one of the recurring criticisms from the Washington Summit onwards, i.e. that there were too many countries around the table to focus on the major issues. Indeed, it is quite likely
some of the major economies would not have agreed to undergo such analysis except as the result of such a process and in the G-20 context.

In line with the Seoul Communiqué, the Fund’s work on the seven sustainability reports was fully independent (the subject countries only had the opportunity to highlight factual issues). In addition each report focused on the contribution of persistent internal and external imbalances to all three of the Framework objectives, reflecting the strong relationships between them. In preparing the reports, Fund staff were able to draw on parallel work for country Article 4s, Financial Sector Assessment Program reports (FSAPs), and a new type of report assessing the economic and financial spillovers between systemic economies.

A key feature of the IMF’s sustainability reports was the longer-term analytical perspective they provided on the sustainability of individual country economic policies. Moreover, the reports did not gloss over the role played by past policy failures and, despite this, were for the most part accepted by the subject countries as a fair description of their situation. The reports contained clear recommendations as to how sustainability issues should be addressed and these provided those preparing the Cannes Action plan with useful input to the final text. They also provided a clear focus for individual countries in preparing their action plans. But, as country-level reports, they did not explicitly look at the sustainability of the system as a whole.

In parallel with the sustainability reports the Framework Group re-ran the established MAP, developing medium-term ‘base-case’, ‘upside’, and ‘downside’ scenarios. Countries also updated their policy commitments, but this time under a tighter format and with more peer pressure, at least from the Co-chairs, to propose commitments that were specific and relevant.

This work was carried forwards against the background of the worsening eurozone crisis and increasing signs that the problems in the eurozone periphery were affecting the economic outlook for the core as well as triggering financial market outflows from emerging economies. Other contributing factors to global economic fragility included the US debt ceiling stand-off, the Japanese Tsunami, and the increased oil price risk premium following the Libyan uprising. Against this background there was further debate within the G-20 on whether certain countries had the capacity to slow the pace of fiscal consolidation and, if they did, whether they should do so.

In the run-up to the autumn meetings of Finance Ministers and Central Bank Governors, it was agreed for the first time that the Framework Working Group should prepare a first draft of the Cannes Action Plan. In previous iterations the Working Group had provided inputs that were then used by the Presidency to develop the Leaders’ declaration. The draft plan would draw on material from the sustainability reports, the policy options highlighted by the MAP, and the updated country action plans. It was also agreed that the draft plan would need to include both short-term measures designed to restore and strengthen market confidence (particularly with respect to the eurozone crisis) and medium-term measures reflecting the medium-term focus of the Framework.

One new proposal put forward for the Action Plan was the idea that certain countries with very high reserves should signal their expectation that reserve accumulation would slow in the future. This was supported by the argument that a country could regulate its foreign exchange reserves to a much greater extent than it could its current account. Although it was also recognized that, for precisely the same reason, an implicit
commitment on reserve accumulation would have less far-reaching implications for policy than a similar signal on the current account.

At Cannes, Finance Deputies worked on the draft action plan, updating it to take on board the fast-moving developments in eurozone crisis. It was then published as an Annex to the Leaders’ November Communiqué, together with a table of country-specific commitments covering all members of the G-20, and a full report of the IMF analysis underlying the plan, including the seven sustainability reports.

The Cannes Action Plan represented a significant step forward in three respects: by including selected country-specific commitments in the main report; by incorporating policy actions with both a short- and medium-term perspective; and by attaching a more user-friendly table of policy commitments which would be more amenable to subsequent efforts to ensure accountability. Allocating responsibility for the first draft to the Working Group played an important part in delivering these enhancements by ensuring there was sufficient time for the work to be done.

(iv) Cannes to Los Cabos

The next Leaders’ Summit in Los Cabos, Mexico, came only 7 months after Cannes, in June 2012. Initially, some G-20 members were concerned that this would be too soon, either to assess performance against the commitments made at Cannes, or to develop further commitments.

However, the global economic situation continued to evolve rapidly, particularly in the eurozone. The ECB’s decision to provide long-term liquidity to the eurozone banking system on a very large scale through two rounds of long-term refinancing operations (LTROs) in December 2011 and March 2012 initially calmed market tensions, but by the late spring of 2012 concerns over the destructive interaction between banking risk and sovereign risk, particularly in the case of Spain, led to a sharp rise in sovereign yields and calls for further urgent policy action by the eurozone. In addition, more than two years on from the Pittsburgh Summit, there were growing calls for the G-20 to show that it was delivering on the commitments that had been made.

Against this background, the G-20 agreed on three priorities for the Framework over the first half of the year:

— to ask the IMF to carry out a full analysis of eurozone sustainability, including looking at the implications of intra-euro area imbalances;
— to develop a stronger mechanism for ensuring countries are held to account for the commitments they make under the G-20 Framework, and to carry out a first full review of performance against commitments at Toronto, Seoul, and Cannes; and
— to rerun the base-case scenario given existing policy commitments and consider what additional commitments the G-20 might need to take at Los Cabos in addition to those made at Cannes.

At the Los Cabos Summit in June, the IMF and G-20 delivered on these work streams with the following outputs.

First, the IMF published a new ‘Umbrella Report’ including a detailed analysis of the causes of instability in the eurozone. As with the previous sustainability reports, this
added a valuable long-term analytical perspective to the on-going crisis in the eurozone. The Report did not pull any punches, but was nonetheless widely recognized by G-20 members as being of high quality and balanced.

Second, the G-20 Leaders published an updated ‘Growth and Jobs Action Plan’ and revised tables of national policy commitments which set out for each individual country, its commitments, its objectives, and an update on progress. This reiterated the main commitments from Cannes, but went further on the eurozone.

Third, the G-20 agreed on six principles to guide the future accountability process. It would be, as the G-20 has stated:

— country-owned and country-led, based on the members’ assessment and with the input of independent third-party evaluations (by the IMF and other international organizations);
— based on a rigorous ‘comply or explain’ approach, which recognizes that policy actions take time and policy priorities may need to change;
— concrete, using quantitative measures where possible to help focus the discussion and assess progress;
— consistent across members, to ensure comparability of treatment, while at the same time allowing for country-specific circumstances where relevant;
— fair, by encouraging an open dialogue between members through self-assessments and by providing objective, third-party analysis;
— open and transparent, with the overall outcomes communicated to the public after agreement by the G-20.

They also agreed that accountability would be delivered through a peer review process, drawing on independent technical reports from the IMF, OECD, and other international organizations, with regular reports to Finance Ministers, Central Bank Governors, and Leaders. And they committed themselves to agreeing ‘a common approach to measure progress against previous commitments in the areas of fiscal, monetary, exchange rate policies’.

Despite, the relatively short period between Summits, these steps constituted useful progress in further strengthening the Framework.

The IMF’s eurozone analysis effectively extended the approach taken in the seven national sustainability reports published in 2011 to the eurozone. And, in a similar manner, some of its key conclusions were eventually mirrored in the updated Action Plan. For example the statement that ‘The Euro Area members of the G-20 will take all necessary measures . . . to break the feedback loop between sovereigns and banks’ mirrored the IMF’s conclusions. Moreover, the report’s focus on the way internal imbalances within the eurozone had implications for the stability of the eurozone and spillovers from the eurozone to other countries crystallized the change in perspectives from discussions in the G-20 2 years earlier when some participants had argued that it was only the eurozone’s net external position that was relevant for G-20 policy coordination.

At the same time, the framework for accountability assessment codified the approach that had been adopted in two meetings of the Framework Working Group during the first half of the year. At these meetings, a selection of countries (chosen according to their systemic importance and/or the nature of the challenges they faced) made presentations on their progress in complying with their G-20 commitments. In addition, the
IMF, OECD, and a number of other international organizations presented independent cross-cutting assessments of the progress all G-20 countries were making on commitments where they had particular technical expertise—thus the IMF assessed fiscal and monetary and exchange-rate commitments among others, while the OECD focused on structural reform indicators. These presentations were then discussed by the Group as a whole.

But a key conclusion from this experience was the urgent need: to make further progress in developing the concept of ‘comply or explain’ (so that countries felt more ready to take on policy commitments, in the knowledge that they would not be held to account unreasonably); to make individual country policy commitments more precise; to agree *ex ante* how performance would be measured, including the circumstances under which failure to meet given targets would be deemed acceptable; and to have a better assessment of how valuable to the G-20’s overarching objective of strong, sustainable, and balanced growth a particular national commitment was likely to be. This would be a particular challenge in the case of structural reform commitments, given the wide diversity in measures across countries. But there would also be significant challenges for macroeconomic targets. In the case of deficit reduction, there is a clear tension between choosing an indicator which is easily measureable (such as the general government deficit) and one which is economically rational, particularly for a medium-term goal (i.e. a cyclically adjusted deficit measure). And in the case of a commitment to increased exchange-rate flexibility, which is not directly measurable, one has to choose appropriate proxy indicators. A key priority for the Framework Working Group following the Los Cabos Summit has been to make progress on these issues.

The Cannes to Los Cabos period illustrated two further issues: first, the importance of getting the *timing* right for key decision points in the G-20 policy coordination process. While there was real progress between Cannes and Los Cabos, this was arguably less than might have been achieved if the period between the two summits had not been truncated to 7 months. In particular, there was insufficient time to make full use of the IMF’s base-case scenario and the policy alternatives. Nor was there time to assess, and where necessary challenge, the policy commitments individual countries proposed, except on the most high-profile issues. Moreover, the timing of the Los Cabos Summit just ahead of a European Summit precluded firm agreement by Eurozone members on issues which needed to be agreed at EU level. And second, it illustrated the value of those managing the process—in particular the co-chairs of the Framework Working Group and the Presidency of the G-20—having the flexibility and authority occasionally to push participants *beyond their comfort zone*. This happened in the run up to the Los Cabos Summit and arguably helped contribute to the eventual positive outcome for the Summit.

V. Assessment

Rather like a cult television series, there is no inbuilt guarantee that the ‘producers’ of the G-20 Framework will renew it for a further season. It depends crucially on what it delivers, on the experience of those using it, and on the reviews from those watching. Some advanced country participants have clearly at times been frustrated with the
Framework’s slowness to deliver the kind of policy changes they feel are needed. Others have worried aloud about the amount of process. On the other hand, some emerging and advanced country participants clearly feel it is adding value, albeit slowly.

The G-20 Framework has clearly not yet achieved its declared goal of delivering strong, sustainable, and balanced growth. But given the series of events in the global economy over the past 3 years, this would have been a very tall order and it is certainly possible that the counterfactual, in the absence of the Framework, would have been even more problematic. It is not a substitute for political will. Nor, at present, is it working as a forum in which governments negotiate specific trade-offs between policy commitments in the manner of a trade round, although this may yet come. But it has begun to provide an increasingly effective system for information sharing, analytical tasking and structured discussion within the G-20. And it is still evolving.

The previous section illustrated the way the Framework has developed through incremental steps. Politically difficult aspects of the mechanism’s development have been addressed in a number of different and sometimes creative ways. For example, by creating a technical model to think about an issue (as in the indicators of imbalances in first half 2011); by allowing events to change the basis of an argument (as in the need for an in-depth analysis of eurozone imbalances in early 2012); by using practical experience to allay participants’ fears (as in the publication of the IMF’s background analysis); or by drawing on the technical expertise of the IMF, OECD, and other international organizations essentially to ‘retrofit’ national policy commitments with appropriate ways to measure them and assess progress.

Other initial concerns have been partially or fully addressed. First, that there would be too many participants around the table to have a meaningful discussion. This has been addressed within the Framework Working Group by building up the network of contacts and familiarity between participants through a series of policy seminars; by using analytical techniques to structure the discussion around the key issues; and by the efforts of the co-chairs to resolve the most sensitive issues through bilateral or small-group discussions. Second, that some emerging markets were too distrustful of the IMF to allow it to act as an effective technical adviser. By responding fully to the ‘country-led’ nature of the Framework process, working with other international organizations, and providing timely, high quality, and focused analysis in response to G-20 requests, IMF staff have built substantial trust among participants. Third, that commitments would not be made at country level. The latest Action Plan and annex of commitments has a detailed set of country-specific commitments. These have gradually become more specific and measureable as the process has continued, though there is further work on this to do. Fourth, that there would be too little transparency. The IMF has published final versions (ex post) of almost all the supporting material it has provided to the Framework Working Group in a series of G-20 reports (see, for example, IMF (2010) and IMF (2011)) and the G-20 Finance Ministers and Central Bank Governors have provided regular updates on the Framework through their communiqués.

The continuation of the economic crisis since the 2008–9 crash has played an important role in maintaining Finance Ministers’ and Leaders’ focus on the Framework. But it has also created risks—that the medium-term focus of the Framework would appear to have little relevance to the immediate crisis, or that prioritizing immediate concerns would destroy the value added in the original concept of the MAP. So far, the G-20 has managed to steer between these two risks successfully.
Looking further ahead, a key question is whether any system for discretionary policy cooperation can survive—in the way that a rules-based system can—when there is no longer an immediate economic crisis to motivate those participating. This was certainly the intention when the Framework was first established. But at this point, it is too soon to say. The more effective are the mechanisms underpinning coordination, the more likely that it will be sustained. In this respect, it will be particularly important to sustain, and strengthen, the ‘ratchet effect’ in the Framework Working Group and Finance Deputies, so that when forward steps are made, either on policy substance or process, these are retained going forward. Continuity in the individuals attending the Working Group can help in this.

For anyone sceptical on the value of continuing with the Framework, there is also the important question of what one would do instead?

It is hard to see that there is an alternative to the process of discretionary policy coordination pioneered at the G7 Bonn Summit and extended by the Framework. This is particularly true of proposals to move to a rules-based system with, for example, financial penalties for countries which fail to comply with commitments. If you cannot agree on a given change to the global policy mix through a process like the Framework, why would you agree to a system of rules which would force more or less the same shift on you, and perhaps also open the possibility of a wide range of alternative, and far less desirable, policy shifts being imposed?

Similarly, it is questionable that much would be gained by moving to a smaller group of participants. If the reduction in number was substantial, say to G-7 plus BRICs (Brazil, Russia, India, and China), or a G-4 (US, China, eurozone, and Japan), it would heighten concerns over the legitimacy of the decisions reached and also lose the contribution that medium sized economies can play in helping to broker agreements between the larger blocks and putting collective pressure on the major economies to act. There is also a greater risk, as the multilateral character of the coordination process is reduced, that economic policy coordination will become a hostage to bilateral political disputes among those that remain in the coordination process. And the experience to date with the G-20 has shown that ways can be found to focus policy discussion on the core issues.

Another possibility is to change the governance arrangements for the G-20 Framework, for example, by merging it with the IMF’s International Monetary and Financial Committee (IMFC). Steps over the past few years to strengthen and streamline IMF surveillance would make this more straightforward than when the Framework was first established. But it is still unclear how substantial the immediate benefit would be—IMF staff already play a central role in the Framework process drawing on the full range of IMF surveillance products—and there are also risks. For example, one could reduce the high degree of flexibility in the Framework’s development, the strong perception of it being a country-led process, the ability to draw equally on expert input from a range of international organizations, the direct input from national policy officials, and the critical direct reporting line to G-20 leaders.

VI. Next steps

An assessment of the alternatives therefore suggests that continuing with the present approach is likely to be the best course—the Framework, or something rather similar,
is still the only real game in town. But the past 3 years’ experience has suggested three practical enhancements that could substantially improve the Framework’s effectiveness. Action is already in hand on a number of these areas.

First, strengthening accountability mechanisms while ensuring they are efficient, credible and retain the confidence of the G-20 members.

The Framework Working Group is looking at approaches to improve the way countries are assessed on their compliance with policy commitments and explain any significant divergences. The emerging system will employ a mix of self assessment, peer review, independent assessment by IFIs/international organizations, and wider transparency. But so far too little attention has been paid to the way commitments are formulated in the first place.

The most important policy commitments, typically at the collective level, are prepared by the Framework Working Group (where initial options for the Action Plan are identified) and then negotiated by Finance Deputies and Leaders’ Sherpas in the course of drafting the Summit communiqué—often in the early hours of the morning. At the national level, countries propose the policy commitments they are ready to include in the detailed action plans published along with the Summit declaration, but there is only a very limited ex ante examination of these in the G-20 Framework Group, and hence no way to guarantee that an individual county’s proposed commitments are significant, measureable, and relevant to the goal of achieving strong sustainable and balanced growth. Both processes would also benefit from more direct multilateral discussion by Ministers and Leaders of specific policy proposals and potential trade-offs, either in plenary or focus groups.

Addressing this will require a conscious effort at all levels to devote more time to the coordination process and at an earlier stage in the cycle, and to create a negotiating architecture and timetable which mitigates the natural inclination of countries not to give any ground relative to established positions—even in the form of policy options—until the very last stage in negotiations. Some have also suggested introducing external advisers (such as an expert academic panel) to play a role in advising the G-20 on the formulation of policy commitments. But would such advisers (a) clearly add value to the input already provided by IMF staff and other international organizations and (b) be able to work within the practical constraints on international policy coordination?

Second, developing and refining the analytical techniques for illuminating and structuring Working Group and Finance Deputy discussions.

Technical analysis has already played a major role in the Working Group’s discussions. Key examples include the IMF’s development of the base-case scenario derived from country plans and projections and the indicators for determining whether to do an in-depth analysis of the sustainability of a country’s policies. The OECD has also deployed a number of tools for assessing the value of and progress made on structural reform commitments. But further difficult issues are likely to arise. In some cases there may already be an academic literature, but even then there is a critical role for the IMF and other international organizations in turning this into practical tools to be used by the Framework Group.

One area that has already been identified is the need to try and enhance the available measures of cyclically adjusted government deficits for use in defining national policy commitments and measuring compliance over the medium term. Another is the need to model (e.g. in the MAP scenarios) the medium-term impact on policy credibility, and
hence business and market confidence, of alternative policy measures, including proposals for a fiscal stimulus in certain countries and bank re-capitalization in others. An even more difficult issue, but highly relevant to the issues of burden sharing within the G-20, is how to assess the relative contribution of different policy measures, made in different economic circumstances, with different capacities to commit—e.g. an immediate change in exchange-rate policy in one country versus structural changes spread over several years in another.

Third, strengthening the coordination of different G-20 work streams which feed into the Framework’s overall outcome.

Since its inception the Framework’s development has been reinforced by other work streams in the G-20 itself and organizations such as the IMF and FSB. Thus, under the 2010 Korean Presidency, work on the development of global financial safety nets sought to strengthen the ability of emerging economies to deal with global shocks. While the Framework is designed to help manage global shocks through policy coordination, financial safety nets help countries deal with the consequences that remain. Similarly, under the French G-20 Presidency, a key strand in the work on reforming the International Monetary System focused on enhancing the quality, scope, independence, and traction of IMF surveillance. The Framework will be more effective the better the surveillance available.

Going forward, it will be important for G-20 Presidencies to ensure the different work streams they launch are mutually reinforcing and the potential gains from coordination are fully realized. In the most recent Mexican Presidency, the work stream on commodities was an important complement to the Framework. It will also be critical to make a stronger link with some policy areas that have not yet featured in the coordination process as much as they should. Thus, increasing the momentum to conclude the Tokyo Trade Round was a key element in the Bonn Summit ‘package’ in 1978, and trade liberalization offers considerable gains—both the direct economic benefit and in boosting confidence. But, so far, the various action plans emerging from the Framework have put relatively little emphasis on trade, beyond the commitment to resist protectionism.

VII. Conclusions

The IMF-led analysis underpinning the G-20 Framework has illustrated once more the potential gains for world GDP from effective economic policy collaboration. A popular view is that the G-20’s failure so far to capture a significant share of these potential benefits, either through soft policy coordination or development of a suitable rules-based system, reflects lack of political will to overcome domestic interest groups and/or a fundamental inability for different countries to agree on the way the costs of achieving these net gains should be shared. However, an alternative perspective is that a significant part of the blockage reflects the lack of an effective system for information-sharing, analytical-tasking, and structured discussion, combined with unsynchronized policy and electoral cycles. This paper seeks to illustrate how over the past 3 years, the G-20 has made the most sustained effort to date in testing this proposition. My conclusion is that enough has been achieved to suggest it is worth persevering for a time yet,
even if the immediate gains from the effort in terms of policy improvement appear to be small. The glass is half full rather than half empty.

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