working paper

The G-20 Economies and the Financial Crisis: Concerns over Governance (WP)

Luis A. Riveros

Area: International Economy and Trade / Latin America / RIBEI
Working Paper 41/2011 (Translated from Spanish)
15/3/2011

Elcano Royal Institute
Madrid – Spain
http://www.realinstitutoelcano.org/wps/portal/rielcano_eng

The G-20 Economies and the Financial Crisis: Concerns over Governance (WP)

Luis A. Riveros [*]

Introduction[1]

Governance is understood to mean the institutions and systems that determine the *modus operandi* and capacity to respond of a given organisational reality, such as a company, a corporation or a government. For this reason, the concept refers to institutionality, which is often a factor of major importance with regard to the correct functioning of a community, or to policy in the case of a country. Although it is usually applied to the corporate concept, governance has been increasingly used in the context of public policy, in other words, with regard to the institutionality and functionality of the state, as well as in its relations with international organisations. Global financial governance is, therefore, an issue that concerns the institutionality and ways in which the world's economic and financial system operates, and it is a key factor in the process of overcoming the current crisis.

The global financial crisis that erupted in late 2007 in the US, and which stemmed from policies implemented over the past three decades, has highlighted a severe problem of financial governance within countries and in the international context itself. The financial sector in the US and in other industrialised countries lacked the self-regulation –or regulation by the authorities– to allow it to refrain from an expansive credit policy despite being aware of the greater risk to its customers and of blindly following the incentives and signals given off by fiscal and monetary policy. The lessons learned from this crisis –both in its origins, in how it evolved and in its consequences– show that the government itself and its spending habits reflect and lead to a governance problem at the macroeconomic level, which, as made evident in another dimension by the European case, that becomes manifest in a permissive fiscal and monetary policy designed with political and electoral objectives in mind. What is more, even before the crisis, and because of a problem of foreign currency accumulation, credit flowed from emerging economies to wealthy nations, allowing them to sustain an unprecedented rise in the price of assets. Finally, the international financial institutions, also because of problems associated with their corporate governance, failed to act with enough energy and effectiveness to confront the crisis in its infancy because they are also facing a crisis of

[*] *Professor, Institute of International Studies and School of Economics and Business, University of Chile.*

1 A paper presented at the first meeting of the Red Iberoamericana de Relaciones Internacionales (RIBEI), in Buenos Aires, 18-19 November, 2010. The author would like to express gratitude for observations made by José Morandé, Donald Robbins and Cristián Torres on earlier versions of the paper.

legitimacy and representativeness. The G-20, as a grouping of the world's leading economies, is concerned about the changes needed to address the governance problems revealed by this economic episode, as well as the effects the crisis has had in the poorest of the world's economies.

The need for global economic governance has been made clear by this latest crisis, which, by leading to a European crisis, has underlined the essential role of policy coordination and compatibility at a global level. In particular, given the likelihood of a virtual currency war and a Chinese currency rate policy which does not exactly answer to the needs of the global economy, it is increasingly clear that consensus-based global financial criteria are required. The countries of the G-20 should contribute to this through an urgent overhaul of the international financial institutions and by creating new mechanisms to allow the neutralisation of exchange-rate consequences at times of crisis and recovery.

But it cannot be ignored that the countries of the G-20, as a group with an effect on global policies, suffer from a certain crisis of representativeness and even at the institutional level: they lack a permanent system that allows the group to establish continuity and clear supervision of the agreements it reaches, while its legitimacy as an authority at the multilateral level is under debate. Perhaps for this reason, the recommendations and intentions defined by this group when it comes to reforming international organizations have been of a rather general nature and lacked an action agenda with significant scope. In particular, the commitments that the G-20 countries have made on social issues, which would require more effective action by multilateral organizations, have involved more statements of intentions that real action. All in all, the G-20 agenda must include this basic problem of governance, the issue of building its own institutionality and of its effective weight of its decisions in the global context, specifically with regard to multilateral organisations.

This paper reviews the fundamental elements of G-20 countries' diagnosis of the causes of the crisis, highlighting the main policy orientations that stem from this analysis. At the same time it looks at the agreements that have been reached at successive summits called to deal with the crisis and their mechanisms for propagation and control, establishing actions associated with diagnosis and identifying in particular those which are related to aspects of governance. The paper reaches the conclusion that the G-20 has not done satisfactory work in building global governance, particularly with regard to the weight of contingent political goals in some countries, which lead to economic imbalances and have noticeable effects on the rest of the world. At the same time, in the area of support for governance and social policies in the poorest countries the emphasis has been more on general aspects, without a reform that would allow international organizations to give effective priority to this realm. Despite their unquestionable relevance, issues such as global warming, international migration, protecting the environment and food security have been practically excluded from the main agendas. But there has been meticulous

implementation of improvements of governance of financial sectors inside G-20 countries, especially the industrialized economies, and there is even risk of over-regulation of them. This introduces the possibility of new kinds of rigidity, which will exacerbate the weaknesses of these markets if new crises erupt.

The Crisis and its Causes

It has been said that failures in regulation and oversight of the financial system, along with weak management of expectations, exposed fundamental weaknesses in the financial system of several industrialized countries, particularly the US. Indeed, the financial sector led a rapid expansion of credit granted to increasingly risky clients and in the absence of adequate collateral (securitization). To a large extent the expansion of credit stemmed from an incentive derived from public policy based on success-oriented political discourse that was far removed from economic reality, designed specifically to reap electoral gains. At the same time, we have here a crucial issue of governance that the G-20 has acknowledged as a fundamental factor in the crisis, as also tends to be the consensus among economists (G-20, 2009; Taylor, 2008). Weak oversight and regulation of credit that expanded at unsustainable rates and amounts was only part of a political model based on encouraging high expectations on the pace of the economy. Thus, the US stumbled into a major financial crisis that had as its virtual accessory the government itself it successive administrations because, in the end, it was very costly politically to burst the real estate bubble, and it was preferable to keep fuelling the expansionary cycle through more fiscal (deficit) spending.

But a crisis does not become global just because of the direct role of the situation in the US and other developed economies, including Japan and parts of Europe, with regard to their trade and financial ties around the world. There are other macroeconomic weaknesses inherent to the global economy. On one hand, the growth in demand and net flow of capital did not match up, revealing a weakness in the international monetary system (G-20, 2009; Roubini & Mihm, 2010). A high rate of savings from changes in the makeup of age brackets in populations, the accumulation caused by the extraction and export of natural resources by emerging economies and a strong cautionary sense showed that the rest of the world did not share the ‘party’ of cheap credit in the US. Along with an over-valued exchange rate a low propensity to invest persisted, and capital tended to flow rather from emerging economies to developed ones. This helped trigger the financial crisis because it facilitated a rise in asset prices and the maintenance of an expansionary monetary policy. It is for this reason that the G-20 is now concerned about making the exchange rate situation more manageable in the current circumstances, through a policy agreed at the international level to avoid a currency devaluation war aimed at boosting exports.

The international monetary system has been one of the greatest sources of worry among the G-20 when it comes to diagnosis and corrective measures with regard to the crisis. In the first place, it is acknowledged that the monetary policy of advanced countries has been centred on a very narrow definition of price stability. In other words, price stability has been achieved (ie, low inflation) without taking into consideration the parallel conduct of the price of assets, which was creating a major financial bubble. A highly expansionary monetary policy, as a opposed to moderate inflation, led to interest rates that allowed for credit to expand in a way that was unsustainable given the capacity of the real economy. Despite the difficulties inherent in defining a financial bubble, everyone thinks that additional policy tools were needed to slow down the boom in asset prices that was fuelled by the credit expansion (Collyns, 2009).

But along with this, in its diagnosis the G-20 stressed the problem with currencies, which are at the same time a holder of value and a source of liquidity (G20, 2009). Those who issue them face fewer restrictions than those who accumulate them and this leads to expansionary monetary policies. Ideas for correcting this problem range from adopting a new fiduciary currency that serves for accumulating reserves to the establishment of stricter currency regulations through countries. The Chinese, for instance, support the idea of adopting the old Keynesian recipe of Special Drawing Rights as an international currency, while many others feel that the euro by nature should become the best replacement for the dollar as the world's main international currency. Ideas have also gone in the direction of creating an international wealth fund, which would allow for investing –in a scheduled fashion and in emerging economies– a proportion of the funds accumulated in developed countries (Helleiner & Kirshner, 2009).

So far, however, the G-20 has not addressed the European crisis, which stands apart as a different process separate from the one sparked in the US for fiscal and credit reasons. As it is known, the European situation stems exclusively from excessive public debt. It has compromised in a decisive way at least five economies and it a threat to the rest of Europe, requiring deep programs of fiscal reform and spending cuts, with their ensuing political costs. Here also there is also a governance issue associated with the design and execution of fiscal policy, which has not been explicitly taken up by the G-20.

The G-20's Political Agenda

There is a clear consensus within the countries of the G-20 on the need to work toward reforming international financial institutions and to seek better financing for them. In actual fact, from a practical standpoint these institutions are to a large extent considered responsible for the crisis because they never consolidated as a centre of gravity in international monetary policy, especially in relation to industrialized economies. These institutions have adequate systems for analysis and diagnosis, but their weakness lies in their inadequate monitoring of policies. To this one should also add that these institutions

have been concentrated on emerging and under-developed economies but have paid much less attention to industrialized economies and their monetary policy, where their recommendations and actions seem to bear less weight than those made for the other countries. For this reason, it is considered that the process of reforming governance in these institutions should be a central issue in efforts to make their intervention more consistent and credible so as to avert new crises and encourage a quick resolution of the current one. The main difficulty is that apparently the G-20 economies themselves lack significant practical agreement on how to transform these institutions so as to make them more effective and more able to build and oversee global economic governance.

The main economic challenge for the G-20 is to achieve a full return to sustained economic growth, with quality jobs, while reforming the financial system to give consistency to monetary policy and ensure effective global coordination. The action prompted by the emergency of 2008 have centred on maintaining a globally concerted fiscal policy, along with implementing monetary stimulus measures that were unprecedented in world economic history, in order to ensure recovery (G-20, 2010). In particular there has been a significant flow of greater resources to international financial institutions, thus seeking to ease the impact of the crisis on the most vulnerable economies. The G-20 has also stated its commitment to series of reforms related to governance and institutional management, particularly in the context of improving the international financial system's response capability and averting tension over increasing protectionism and the development of what amount to currency wars (IMF, 2010). At the same time, the G-20 has made a commitment to moving toward greater regulation both within countries and in the international context, thus taking up the suggestions of those who advocate a financial system that is more tightly controlled (Stiglitz, 2010).

It is particularly important to note that the coordination effort made by the G-20 starting in 2008 in fiscal and monetary policy has been a crucial factor in shortening the crisis time-wise, and in easing its depth as measured in the crisis' negative effect on economic growth. The crisis of the 1930s, for instance, did not have a comparable level of information to evaluate the situation at hand, nor a coordinated system in terms of fiscal and monetary policy in major countries. Because of this the crisis grew deeper and lasted longer. There was also more protectionism in the main economies and countries carried out unilateral currency devaluations. The latter had the undesired effect of a drop in trade and a decisive shortage of capital flows, in addition to the problem of macro-economic management in smaller countries.

Without a doubt G-20 policy deals with a broad agenda that is consistent with the gravity of the economic situation and has been operating in a visible way, especially in coordinating policy and making more resources available. But much remains to be done in terms of reforms aimed at enhancing transparency and strengthening financial institutions financially, while broadening access to credit, also creating conditions for

better global governance. The Toronto Declaration (issued in June 2010) acknowledges that the collective action of the countries of the G-20 is the strength that must be taken advantage of in terms of consistent policies.

Specifically, at their last meeting in Toronto these countries agreed to:

(a) Insist on policy based on fiscal stimulus, restricted by the principle of fiscal balance and monitoring the sustainability of the expansion of private demand so as not to lead to price distortions, a goal which must be backed up with a proper monetary policy.

(b) Strengthen a social protection network and go further in reforms of corporate governance, as well as in development of the financial market, investment in infrastructure and greater exchange rate flexibility in emerging economies.

(c) Commit to pursuing structural financial reforms in the case of its member countries so as to boost and sustain growth prospects.

(d) Narrow the existing divide in economic development by taking into account the effect that G-20 action has in poorer countries.

Even keeping in mind the complexity of this agenda, the countries of the G-20 acknowledge that measures need to be adjusted to the individual conditions of each country, and that a monitoring system can be important for diagnosing how reforms are going and defining what follow up measures might be needed. In any case, the definitions that have been proposed are too general. For example, the G-20 has not specified the kind of structural reform that will be considered for boosting growth prospects, nor the measures aimed at narrowing the development divide, and the technological divide inherent in this. Nor has it spelled out criteria in fiscal or monetary policy, including the operational concept of fiscal balance. The Toronto statement is much more like a traditional political communiqué than a technical agenda that spells out goals, tools and mechanisms for oversight and coordination.

The policy agenda of the G-20 includes four pillars which are stated thusly (G20, 2010):

(1) To achieve a more consistent and demanding regulatory structure aimed at the financial and banking sector, for which consultations are under way to boost measures aimed at improving transparency and regulation, also reaching application of better global standards of accounting registry.

(2) To achieve more effective oversight, with better rules and through adequate institutionality, especially by means of central banks and finance ministries.

(3) To resolver current problems involving financial institutions that are in crisis, without imposing a higher cost on taxpayers and improving consistent policies with better supervision and decision-making tools.

(4) Establish greater openness to international evaluation of the institutional kind, especially through the role played by the World Bank and the IMF, in particular with a focus on tax havens, the fight against money laundering and financing of international terrorism.

More specifically, the G-20 agreement also features non-imposition of new trade or financial barriers until the end of 2013, fighting against corruption and reducing economic differences with the poorest countries by ensuring a more robust global economy.

Report on Actions in the Economic and Financial Realm

For its summit in July 2010, the G-20 carried out a thorough assessment of the actions it has undertaken in different areas, on the basis of agreements reached at previous summits and their implementation (G-20, 2010b). Examining this document allows one to analyze the emphasis that has been placed on the different areas in the framework of the policy definitions that were adopted, especially with regard to determining the relative weight actions taken in the area of governance, at the country and global level, in response to the crisis and its consequences. Here we are talking about a total of 96 commitments that have been made on the basis of previous agreements and led to progress and decisions on what to do next. What follows is a description of these agreements in their overall policy areas.

(1) Macro-economic Policy

In the macro-economic field and that of the world economy, there are six pledges regarding the need to carry out fiscal changes to restore growth, such as sustaining expansionary monetary policies that are consistent with price stability, establish criteria in long-term fiscal policy and define a platform of policies designed to restore global growth. In the latter, the G-20 explicitly pointed out the need have the support of the IMF and the World Bank – especially by improving the support system for countries' social network. These agreements also cite the need carrying out policy in industrialized countries keeping in mind the effect they have on other economies, and to restrict competitive currency devaluations and encourage an international financial and monetary system that works properly in the context of global economic governance. It adds to this the London agreement aimed at reaching a new global consensus to promote sustainable economic activity.

As for progress reported in this area, actions are described which are aimed at meeting the stated goals, such as implementing fiscal packages that call for deficit reduction, lowering interest rates, coordinating countries' strategies as to financial issues and

mobility of capital, the search for structural reforms in G-20 countries, especially in areas related to the financial sector, the drive to reform IMF tools so as to boost their efficiency, and greater inspiration of the activity of international organizations with regard to decisively encouraging global economic growth on the basis of the so-called "framework for sustainable and balanced growth."

(2) The Role of the IMF and Global Financial Governance

As for resources available to the IMF and reform of international financial institutions, six fundamental accords are also in place. Besides the increase in resources available to the IMF, a move which created more accessible lines of credit, debt limits have been broadened for eligible economies. And other specific measures have been agreed to increase the Fund's financing activity in order to resolve the liquidity and refinancing crisis. It was in this way that a flexible line of credit was created at the same time as, following an accord reached in 2009, the amount of money available to the IMF for refinancing was quadrupled. Under measure 36, it has also been stressed that the IMF ensure that its supervision and lending policy focus adequately on the causes of countries' problems of balance of payments, especially when it comes to emigration of capital to the banking and corporate sector. In particular, the G-20 has established a group of experts in a financial security network to confront the problems of financial volatility. The goal is to reduce the permanent risk involved in abrupt shifts in capital flows. Through the Financial Stability Board and the Bank for International Settlements, in the context of G-20 consensus a new set of financial policies will be developed to avert future crises.

With regard to governance of the IMF, the G-20 has established six other relevant accords. The main one has to do with revising the contribution quotas that are to be completed in January 2011, and adopting a reform on the voting system and the choosing of additional alternative executive director. At the same time, it was agreed to transfer enough quotas to grant 5% more representation to emerging economies and developing countries. Also revised were the size and makeup of the Executive Board, and more participation was granted to governors on the course of the IMF and improvement of technical staff. Special emphasis was placed on an accord to implement more transparent systems and merit-based mechanisms for hiring IMF officials. More consideration was given to the Board in guiding the institution's strategic direction and effectively increasing its accountability. The G-20 commissioned its president, along with the finance ministers, to examine the problems that exist in this area and come up with an overall reform proposal in order to improve the response capability and adaptability of international financial institutions.

(3) Financing by Multilateral Credit Organisations

In a third area of consensus within the G-20, policies were established that grant greater access to financing from multilateral development banks. In order to do this it was agreed to boost their financial capacity, focusing loan policy on the task of keep future crises

from having an impact, especially by improving institutionality and the quality of economic policy. The G-20 has expressed a commitment to greater transparency, accountability and good corporate governance, along with a greater capacity for innovation in these institutions. But effective progress in this has not been reported in recent evaluations by the G-20. The group has also agreed to stimulate support from private capital for the actions of multilateral Banks, while granting greater access eligible countries, extending limits for large countries so as to facilitate reforms there, and making more effective the operations of the Response Fund designed to make contributions on social policy.

As with financial institutions and the IMF, reforms were also agreed to the stakes that industrialized countries hold in the capital structure of the World Bank. Also mentioned was the need for the Board to commit itself more in the assessment of results. This has been a long-standing problem at institutions like the World Bank, where the focus of action has been on implementing loans with strings attached, which in reality become a secondary factor when it comes to measuring the efficiency of the actions and in terms of the follow-up that is necessary. There is also a high-profile G-20 agreement on fashioning policies that are more transparent and merit-based for the hiring of the president and high-level technical staff. More in particular, as for financial regulation in G-20 countries, there are consultations under way on an additional measure to raise regulatory standards, avoiding fragmentation of markets and protectionism.

In this field it is also relevant to mention that the G-20 have committed to creating a board that will encourage financial stability and carry out activities that will promote it even in nations that are not part of the G20. Along with this, the G-20 countries have committed to maintaining financial stability, create incentives for transparency and openness in the financial sector and carry out periodic revisions in this area using evidence from the IMF and the World Bank.

(4) Support for the Most Vulnerable Countries

The fourth area of G-20 agreements refers to boosting support for the most vulnerable countries. It consists of three fundamental measures, including support for a global social network, work with donors and creation of a group of experts on financial inclusion. Here there have been calls to develop funds based on donations aimed at raising farm productivity, improving the distribution of revenue and promoting innovations in food production. Emphasis was placed on the role that multilateral development banks must play. The creation of the group of experts on financial inclusion is inspired by the idea of developing measures aimed at creating public-private partnership models as well as innovative models in terms of linking small and medium size companies to the financial sector. In this last area, however, the measures have not progressed toward defining more precise terms of reference, nor in terms of the relationship that this should have with multilateral organizations.

On a related issue, there is also consensus on international cooperation issues, but this is mainly limited to the financial realm. One prominent part refers to the need to monitor and report on the situations that exist in different countries so as to adopt corrective measures through finance ministers and central banks, establishing policies to manage the crisis. Along with mentioning the need to improve international organizations' standards of analysis, the G-20 stressed the need to provide consulting to emerging and developing economies in order to ensure compliance with financial regulations that are in force around the world. The G-20's lack of a formal organization, especially the absence of a permanent operational structure, means that many of the agreements which are adopted, as in this specific case, are later watered down in actual practice. The tight oversight that is supposedly assigned to the finance ministers and the central banks of the G-20 countries is insufficient and inadequate. Also insufficient is their interaction with multilateral organizations, as the G-20 nations do not have the status of a multilateral institution.

(5) "Prudential Regulation" in the Countries of the G-20

There is an extensive chapter on prudential regulation in the analysis on agreements and implementation follow up by the countries of the G-20. At stake are 16 packages of measures that were agreed on and are being supervised. Their goal is to improve the governing of financial institutions in member countries, including the enhancing of oversight, optimization in the process of financial capital mobility, improving risk management and securitization, progress in the compatibility of systems of information and registry, the establishment of an effective system for monitoring the price of assets and their implications for the macro-economy and the financial system.

Without a doubt, when we examine the wide range of measures included in this section, it is clear that the attempt to deepen institutional and procedural changes is evident, especially if one considers the special emphasis placed on the financial sector of the G-20 countries themselves. One of the problems is that the consensuses that these countries adopt are not necessarily binding for each of them, or a commitment to a specific working agenda to achieve the goals that are set out. This is another structural problem that adds to that of the absence of a permanent Secretariat for the group with oversight and executive powers. The G-20 just holds meetings; it is not a multilateral organization.

Nor is there clear coordination between attempts at change in the financial sectors of economies with those being made with regard to international financial institutions. In other words, the issue of global governance in financial aspects has become implicit in the reforms laid out for the countries of the G-20, without reaching defined standards on the issue of the status of the global economy. Even though the G-20 countries account for 80% of global GDP and trade, reform of the financial sectors (if it were to be completed

adequately) in these countries has not necessarily led to an overall one for the financial sector that is capable of resisting another crisis.

(6) Economic and Financial Regulation

There is a chapter within the accords reviewed at the meeting in Toronto that features nine areas in which there has been substantial consensus on economic regulation. Fundamentally, the structure of the accords is based on the idea of improving the regulatory system that exists in countries so as to strengthen the authorities' capacity to identify and adequately address prevailing risks in the financial system. For this purpose, the design implicit in the agreements consists of trying to give more power to regulatory bodies so as to acquire financial information and have available the tool that would ensure proper and timely intervention. With this in line, it has been established that all of those companies that can jeopardize the financial stability of a country are subjected to consistent and consolidated oversight and regulation, one of the potential cost of the existing problems is estimated. The IMF and the FSB have been tasked with creating a guide for authorities to determine if a financial entity or a determined instrument wields systematic importance in terms of stability and crisis risk. At the same time, a registry of hedge funds will be created and require them to an effective risk management policy. In a similar fashion, the standardization of credit derivatives will be encouraged, with specific rules for negotiating and trading them.

All of the aforementioned has been done in the spirit of improving existing regulations as well as the functioning and transparency of the financial and commodities markets so as to avert price volatility. All of this responds to a statement of intentions that is totally valid and logical but not really achievable. For the same reason, the huge increase in regulations that is being considered is a bit idealistic; en reality they could introduce severe rigidity in the operations of the financial sector and in terms of the economy in general. Indeed, over-regulation is probably as harmful as the lack of adequate regulations which to some extent led to the crisis, as they can sap an economy's ability to respond adequately to shocks. There is still unresolved debate between those who believe more regulation is better and those who feel that instead of this it is preferable to improve the rules that dominate the market. In resolving this debate, the legitimacy of the G-20 and its ability to force countries to comply are extremely important as an articulator of effective agreements. As the G-20 is a meeting forum that lacks follow-up mechanisms and cannot guarantee commitments from commitments to implement whatever agreements are reached, again the ideas expressed at these sessions slip into an area that is more rhetorical than hands-on effective.

(7) Transparency and the Regulatory System

As for the transparency of regulatory systems, the G-20 agenda includes only one measure, which is a commitment to implement a program of assessment of the financial sector, including support for measures leading to regulatory system transparency in

countries. In a related area – standards for evaluating financial instruments based on their liquidity and their prospects for investors – seven additional measures are being considered. The most important one refers to the creation of a compatible accounting system in order to reduce the complexity involved in comparing accounting standards.

In another related area, a G-20 consensus emerged for credit-rating agencies, whose opinions are used for regulatory purposes, to be subject to a regime of regulatory supervision, including specific registry norms. Governments will take action aimed at eliminating possible conflicts of interest and ensuring transparency in the work of these agencies. This goal fits within the broad regulator spirit which has characterized the working agenda of the G-20.

Final Remarks

The G-20 has taken on more and more importance as an international forum due to the crisis that began in late 2007, including a fundamental change: the fact that international economic power now features for the first time non-Western nations (Wolf, 2009). However, just like its predecessor, the G-7, this group still has three main problems. In the first place, it has no institutional foundation that makes its agreements binding for the countries that sign them. The G-20 is not a multilateral institution, so its scope of action is rather limited as a relevant player in policies aimed at countries specifically and at multilateral institutions in general, and depends solely on the will of its member states. Secondly, it lacks a formal structure that would allow it to make diagnoses or prepare technical recommendations which, with an independent character, allows countries to choose options from a relevant range. At the same time its capacity for monitoring compliance with its recommendations is also limited. Thirdly, its legitimacy is questioned in terms of its role as the main, at least a prominent, driver of economic policies aimed at achieving better global governance. It is true: it is made up of the largest economies and features high percentages of representation in terms of production, trade and population. However, there is still an issue of affinity, cohesion and shared interests which do not allow this group to legitimately assume a role as driver of the world economy.

On one hand it is without a doubt the largest global player and therefore its influence is decisive on issues such as achieving better governance. But it is also a fledgling organization in terms of asserting itself as a relevant international body. Even with its questionable legitimacy as a relevant international organization and its weak democratic origins, the G-20 is certainly destined to become an effective leader in global economic governance, even mustering a superior political role compared to international financial institutions themselves. It is likely, however, as seen in the distancing that will be take place in the group's meetings that rather there will be a reduction in the G-20's drive as a relevant player, while its cohesion will probably weaken as countries begin to place more

emphasis on their individual agendas and find defects in the implementation of common policies.

As for the agenda that the G-20 has designed in the area of governance, and taking into account our earlier remarks, there are five points that need to be made. First of all, the G-20's governance agenda is broad, and focuses on improving the terms of the IMF and multilateral credit institutions so that, having greater resources, they can guarantee the liquidity needed for the recovery program and introduce the measures necessary better functioning of the financial sector at the global level. Secondly, its commitment to economic recovery has been solid and clear in terms of maintaining fiscal and monetary policies that are in line with recovering growth and jobs along with price stability. Thirdly, there is a broad agenda of reforms for the financial sectors in the countries of the G-20. The goal of this agenda is to enhance their ability to respond to situations of crisis, especially by anticipating them, improving the information system and introducing clear rules with regard to registries. In the fourth place, the G-20 agenda on social issues – designed to create and maintain a network of protection for the poorest countries – relies on the capacity of multilateral organizations, for which a series of actions is recommended to improve their ability to respond, their proper financing and the qualifications of their executives. Finally, the G-20's attention environmental issues, international migration, money laundering and other important issues of a global nature and is rather of a secondary nature and is limited by the nature and effective authority of the G-20 at the multilateral level.

After the summit meeting in Seoul, it is a good time to assess how the G-20 agenda is progressing, especially in the issues mentioned in its long list of agreements. The G-20 might want to address the issue of its institutionality or at least the formalization of its relations with the current multilateral system. This latest meeting has been rather discouraging with regard to the G-20's goals of consolidating its agenda aimed at building global governance in the financial and economic areas. More specifically, the G-20 must address the issue of making the agreements it reaches binding for each and every one of its members but this issue remains unresolved.

Luis A. Riveros
Professor, Institute of International Studies and School of Economics and Business, University of Chile

Bibliographical References

Collyns, Charles (2009), 'In Search of the Smoking Gun: Macroeconomic Policies and the Crisis', *G-20 Workshop on the Global Economy*, Mumbai, India, 24-26/V/2009.
IMF (2010), 'World Economic Outlook', Washington DC, October.
G-20 (2009), 'Causes of the Crisis: Key Lessons', *G-20 Workshop on the Global Economy*, Mumbai, India, 24-26/V/2009.
G-20 (2010), 'The G20 Toronto Summit Declaration', Toronto, 26-27/VI/2010.
G-20 (2010b), 'Progress Report on the Economic and Financial Actions of the London, Washington and Pittsburgh G20 Summits', prepared by the South Korean presidency of the G-20, 20/VII/2010.
Helleiner, Eric, & Jonathan Kirshner (2009), *The Future of the Dollar*, Cornell University Press
Roubini, Nouriel, & Stephen Mihm (2010), *Crisis Economics*, Allen Lane.
Stiglitz, Joseph (2010), *Free Fall*, W.W. Norton, New York.
Taylor, John (2008), 'The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong', NBER Paper nr 14631, Cambridge, MA.
Wolf, Martin (2009), 'The West No Longer Holds all the Cards', *Financial Times*, 23/IX/2009.