PISM | POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 100 (317) • October 31, 2011 • © PISM

G20 Cannes Summit: Crisis Governance Under Evolving Circumstances

Marcin Menkes

As the banking crisis gradually turned into a fiscal one, international consensus about crisis management waned. Growing popular movements in both Europe and the U.S. that demanded institutional reforms threatened the implementation of austerity measures. Taken together, an honest public debate about the reform agenda and the future of global economic governance is in order. The Polish presidency of the EU could use its remaining time to initiate a much-needed discussion about these issues, and institutional support could prove useful to these ends.

Political Consolidation. During the first three summits, G20 leaders agreed on short- and medium-term responses to the 2008 crisis, principles of crisis management and a framework for recovery. Yet by November 2010, when France took over chair of the G20, the group started to lose its initial impetus. Although subsequent meetings led to important decisions, including reform of the IMF quota system as parties started to believe the crisis was about to be contained, the political consensus began to fall apart. This was reflected by the failure to reach agreement on issues such as macroeconomic imbalances.

Without a working program to pursue, a non-institutionalised body such as G20 cannot subsist. It was apprehended that a lack of action to solidify the G20 would be paramount to allowing the group to *de facto* lose its "substance". France adopted an ambitious agenda for its G20 presidency, containing both direct anti-crisis responses and strategic goals for expansion and institutionalisation of the group, thus providing a new political impulse to cooperate. While financial summits tackled the imminent threats, other forums have been established. In June 2011, agriculture ministers adopted an Action Plan covering sustainable agricultural production, policy coordination and agricultural commodity derivatives markets. In September, the G20 Labour and Employment Ministers adopted recommendations declaring their commitment to improve employment policies for young people and vulnerable groups, which is an urgent problem in a number of states.

Context. The crisis resulted in the political consolidation of the G20, and while it deteriorated, common attention was focused on the Economic and Monetary Union (EMU). Subsequent states saw their credit credibility plunging, which increased the costs of servicing their debts. Not only was the crisis in Greece still being debated but also a number of other countries found themselves in trouble, including Spain and Italy, and credit rating agencies have begun pinching France. By threatening the entire eurozone, the debt crisis became a peril to the entire international financial system.

Given that only a year ago there were concerns that a diminishing crisis would put an end to G20 leaders' cooperation, one may ask why the re-emergence of the crisis at an even greater scale did not again consolidate the international community. The 2008 crisis pushed governments to guarantee financial institutions' liabilities, provide additional liquidity and, in the long-run, to launch financial system reforms. Although paying for the mistakes of the private sector with taxpayer money raised objections, the burden was dispersed and relatively low for individuals., With policy-makers chiding bankers it did not unite opposition. Leaders provided themselves with mutual support, thus boosting their credibility. However, when fiscal stimulus through sovereign debt switched to fiscal austerity and a struggle for competitiveness, that solidarity vanished. Now, both creditors and debtors blame one another for the situation. The latter look for alternatives to reforms and the former tend to show taxpayers that the funds are provided under strict conditionality.

Also the social dynamic changed. Popular protests in the U.S. (*Occupy Wall Street*) and in Europe (originating with Spain's *Indignados*) only few months after Western societies were taken aback by the spontaneous democratic awaking during the Arab Spring, increased the importance of France's long-term G20 agenda tremendously. While the placement of sustainable development and global governance on the negotiation agenda already had been a political gain in itself, holding the social security model hostage to demands for dismantling the financial establishment puts non-financial issues high on the priorities list. Greater social inclusion in handling the crisis might legitimise austerity measures, most important among them an inevitable depreciation in prices and wages in uncompetitive crisis-economies. However, communication failures endanger the entire global governance project.

Challenges. For some time, the original reform package has been partially dismantled. Some states are wary about domestic financial markets and unwilling to implement the agreed upon regulations, at the same time the reforms that already had been adopted are under mounting pressure from the financial sector. As achievements reached by the G20 are undermined, the mood to settle still unresolved issues deteriorates. For instance the U.S.–Chinese discord concerning foreign exchange rates, which was only suppressed during the G20 Gyeongju summit in 2010, deepened when the U.S. adopted a bill recently that requires currency undervaluation to be included in countervailing-duties.

Back in 2008, G20 leaders feared a contagion of what they perceived to be a crisis of market confidence. They shared a sense of the same goals, which facilitated compromise. Now the roots of the problem are traced much deeper in systematic failures. The necessity to undergo painful readjustments is neither easily explained nor constitutes sound grounds for forging international consensus. Although the G20 forum prevailed when states shared the same objectives and were compelled to promptly adopt anti-crisis measures, the mood has vanished and the IMF just might regain some ground.

Prospects. Although the French G20 presidency set an ambitious global agenda, on the eve of the Cannes summit (3–4 November) the eyes of the world are on the EU, which intends to prove its determination to restructure Greek debt, reinforce the EMU's financial firewall, recapitalise banks and improve monetary governance. The G20's focus on the EMU crisis brings both opportunities and perils. Over the last year, a gradual expansion of the agenda was observable. Despite a food crisis unfolding since 2010, the broadening scope of the G20 communications give a false impression that the situation has ameliorated. Attention given to the eurozone helps to focus again on the gravity of the crisis. This may be used to consolidate political support for reforms: the interdependence of the states in a globalised economy should compel actors to tackle individual problems (be it fiscal crisis or exchange rates) for the sake of global stability. Unlike in 2008, the imminent threats are not the same but there are conditions for a cooperative "plurality in unity". To turn this opportunity into a success, policy-makers ought to undertake a comprehensive, easily comprehensible informational action so the G20 does not petrify as a technocratic process. This may be difficult due to domestic political cleavages in which misconceptions concerning anti-crisis tools are easily misused. Yet, there is no viable alternative for an inclusive public debate. In the short run this could prevent populist calls for quick-fix solutions. From the medium-term perspective, a greater emphasis on G20 leadership in development and social issues, since financial negotiations are held elsewhere anyway, may allow it to raise political support. In the long run, the G20 goal to restore a "moral dimension" to the international financial system and a growing expectation to renew financial institutions are mutually reinforcing.

A crucial impulse to meet these ends could be provided by non-G20 EU states, such as Poland. While holding the rotating EU Council presidency, Poland should try to enhance the role of the EU at the G20 by coordinating European crisis management and bestowing the somewhat obscure G20 with democratic credibility. Greater coordination, especially among non-G20 EU States, is needed to enhance a common European voice for the benefit of both the EU and its individual members. Coming to agreement, under the Polish presidency, on the EU's external representation could be a first, crucial step in this direction. Polish authorities also could set up a "G20 coordination and public debate centre" that could contribute towards more effective public communication. The centre also would provide conditions for greater substantial contribution from non-G20 states, often lacking institutional capacity.