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**Submission to Foreign Policy White Paper:
The G20 and Global Governance**

Dear Sir/Madam

Please find attached a submission to the Foreign Policy White Paper that addresses item three of the call for submissions, 'Which regional and global organisations matter most to us? How should we support and shape them? How can we maximise our influence?'

Specifically, the submission addresses Australia's role in the G20.

The submission compares data on members' compliance with G20 summit commitments to proxy measures of the quality of domestic policies and institutions. While the proxies predict G20 compliance, G20 compliance has no power to predict subsequent changes in domestic policies and institutions. The main implication of these data is that international economic and political cooperation is a symptom, not a cause, of domestic policies and institutions. Improvement in domestic policies makes the best contribution to advancing the G20 agenda, but such improvements do not appear to depend on the G20 process.

These findings have important implications for Australia's allocation of political and diplomatic resources to the G20 that are outlined in the submission.

The attached paper was published in the *Cato Journal*, a publication of the Cato Institute in Washington, DC.

Please note that this submission is made in a personal capacity and does not necessarily represent the views of my past, current or future employers.

Yours sincerely

Dr Stephen Kirchner

THE G20 AND GLOBAL GOVERNANCE

Stephen Kirchner

The Group of 20 sees itself as “the premier forum for international economic cooperation” (G20 2009b). This article examines its evolution and performance, and member countries’ compliance with G20 summit commitments.

The G20 evolved as a response to the shortcomings of its predecessor, the G7/8. Yet its creation allowed member countries to avoid confronting many of the problems that arose out of the earlier forum. The best defense of the G20 is that it is the only institution of its type, but it still consumes scarce political and diplomatic capital, sometimes to the detriment of the policy objectives to which it is notionally committed.

In this article, I compare data on members’ compliance with G20 summit commitments to proxy measures of the quality of domestic policies and institutions. While the proxies predict G20 compliance, it turns out that G20 compliance has no power to predict subsequent changes in domestic policies and institutions. The main implication of this data is that international economic and political cooperation is a symptom, not a cause, of domestic policies and institutions. Improvement in domestic policies makes the best contribution to advancing the G20 agenda, but such improvements do not appear to depend on the G20 process.

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Stephen Kirchner is [REDACTED]. The views expressed are his own. An earlier version of this article was delivered at the Annual General Meeting of the International Council of Securities Associations held in Mumbai, India, from April 15 to 17, 2015.

I also consider some of the G20's major initiatives in relation to economic policy coordination and financial market regulation. The G20 is assumed to invest these initiatives with greater political legitimacy but, on occasion, the leaders' summit process has actually detracted from this legitimacy. Many of these initiatives arguably would have occurred without the overlay of the G20 leaders' or ministerial processes. In Australia's case, hosting the G20 summit in 2014 detracted from domestic political leadership and the government's ability to advance a domestic economic reform agenda.

G7/G8 Precedents and the Origins of the G20

The G20 can trace its origins to the collapse of the Bretton Woods system in the early 1970s. With the demise of fixed exchange rates, new informal arrangements arose through which the major Western economies sought to address international economic issues. The finance ministers of the United States, Britain, France, and Germany (G4) met in the White House library, forming the so-called Library Group in March 1973 (Bradford and Linn 2011: 1). Japan joined the group in September 1973 to form the G5, followed by Italy (1975), Canada (1976), and the EC/EU presidency (1977), forming what ultimately became the Group of Seven (G7) finance ministers.

A parallel grouping of G7 heads of state began meeting annually from 1975. Russia joined the G7 at the invitation of President Clinton to form the G8 leaders' summit from 1998.

From the late 1960s, a literature grounded in formal theoretical models identified potential economic gains from international economic policy coordination (Cooper 1969). Yet this literature lacked historical and institutional context, and proved misleading about the effective scope and potential of such cooperation. The G7 finance ministers' and G7/8 leaders' meetings were subject to major questions about their agenda, representativeness, and effectiveness.

The G7 presided over two major episodes of economic policy coordination in the 1980s. The 1985 Plaza and 1987 Louvre Accords were designed to address episodes of U.S. dollar strength and weakness respectively. The effect of coordinated foreign exchange market intervention on exchange rates, and its economic significance, has long been disputed, starting with the G7's 1983 Report of the Working Group on Exchange Market Intervention

(the Jurgensen Report). The report concluded that “the role of intervention can only be limited” (Truman 2003: 247).

Mina Balamoune (2000) examined the announcement and compliance effects of the G7 summits held between Rambouillet in 1975 and Munich in 1992. She found no evidence for an announcement effect from these summits on a range of economic and financial market variables, implying a lack of credibility for the G7. She also found that compliance with summit announcements was low. Where there was compliance with summit goals, Balamoune found this did not necessarily improve economic performance.

An analysis by Marcel Fratzscher (2009) of 76 G7 communiqués since 1975 found they were able to move G3 exchange rates in the desired direction, especially when supported by foreign exchange market intervention. However, Fratzscher suggests this is due to the G7 successfully identifying, rather than correcting, episodes of currency misalignment. G7 communication did not cause the subsequent realignment of exchange rates.

Another analysis of G7 summit commitments between 1975 and 1989 found a compliance rate of only one-third in relation to economic policy issues more broadly (von Furstenberg and Daniels 1992). A related study found that many of the economic relationships asserted in summit declarations were contestable, demonstrating that the G7's attempts at policy cooperation were not economically well founded (Daniels 1993).

By the late 1980s, there was growing skepticism about the prospects for effective international economic policy coordination. Stanley Fischer (1987: 4) was representative of this, maintaining that “continued systematic policy coordination on a grand scale among the major economies is unlikely . . . the best that each country can do for other countries is to keep its own economy in shape.” Fischer did hold out the prospect that improved understanding of policy, and growing interdependence, might see greater cooperation in future, “but only in the very long run.” More recently, Jeffrey Frankel (2016: 1) has sought to rehabilitate this theoretical literature “after a 30-year absence,” despite its lack of historical and institutional context.

Issues of international economic cooperation again came to fore with the 1997–98 emerging markets crisis, which went beyond the traditional geographic focus of the G7. In this context, it was thought that a broader grouping was needed to better represent the emerging-market economies that were at the center of the crisis.

The first meeting of G20 finance ministers and central bank governors took place in Berlin in December 1999, at the initiative of the United States, Germany, and Canada. The G20 added Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, and the presidency of the EU to the G7's membership. The managing director of the International Monetary Fund (IMF) and the president of the World Bank were also included. The G20 was given a rotating presidency based on five regional groupings but, like the G7/G8, lacked a permanent secretariat or standing organization. As was the case with its predecessors, this lack of a standing organization has been variously interpreted as both a strength and a weakness.

An important outgrowth of the G20 ministerial meetings was the Financial Stability Forum (FSF), which took on responsibility for coordinating issues in relation to international financial regulation and later became the Financial Stability Board (FSB). However, the meetings addressed a wide range of other issues between 1999 and the onset of the 2008–09 financial crisis, with the G20's agenda inevitably reflecting the issues of the moment.

The period between 1999 and 2008 saw continued debate about how best to expand the G8 and address its shortcomings. A small, often government-funded industry grew up in academia and think tanks to address the issue of global governance; the form and effectiveness of the G7/8 and the G20 ministerial meetings was its major focus. This industry is remarkable for its lack of realism: Alex Brill (2012: 20) writes that “too many experts are unclear on exactly how to improve existing multilateral institutions. Many scholars have critiqued these institutions and proposed strategies for reform, but in reviewing various recommendations, the utter vagueness of much of the advice is striking.”

One concrete idea that did emerge from this industry was that an elevation of the G20 ministerial meetings process was preferable to an expansion or devolution of the G8 leaders' grouping (Bradford and Linn 2011: 7). This was put into action as a result of the financial crisis of 2008–09. Yet, it is noteworthy that in the run-up to the crisis, there was considerable skepticism from close observers about the value of international economic cooperation. Joseph Daniels (2005: 84) was representative, arguing that “global economic stability depends, first and foremost, on good domestic economic policymaking. International policy cooperation, although ever more important

in light of global economic integration, is of second order importance for global stability.” Razeen Sally (2001: 55) put it more bluntly: “Most arguments for global governance are in fact bad economics and even worse political economy.” A key issue is whether the financial crisis of 2008–09 confirmed or demanded a reconsideration of these judgments about the prospects for international economic policy cooperation and coordination.

The G20 Leaders’ Meetings and the Financial Crisis

The onset of the financial crisis in 2008 gave new impetus to international economic cooperation on a broader basis than the G7/G8. The existing G20 ministerial meeting process provided a convenient forum for the organization of a leaders’ summit in Washington on November 15, 2008, which also added the Netherlands and Spain to the G20 meetings.

The elevation of the G20 ministerial process to the status of a leaders’ meeting was an attempt to address some of the long-standing issues around the effectiveness and legitimacy of the G7/8. However, the origins of the G20 in the emerging markets crisis of 1997–98 and the global financial crisis of 2008–09 meant that many of the long-standing issues around the representativeness and effectiveness of the G7/8 and its expansion were avoided. The G20 was seen as a workaround for many of these problems, without actually addressing them other than by expanding on the G7/G8’s membership. As Peter Drysdale and Kemal Dervis (2014: 4) note, “the fact that a finance ministers’ G20 already existed allowed the United States to circumvent debate on inclusion. It was easier to simply invite the government leaders of the existing group of twenty than to try to agree on who should be included. . . . There was no time for such a debate.”

The initial membership of the G20 was an arbitrary selection drawn at the initiative of the United States, Germany, and Canada in 1999, with subsequent additions to the membership made on an ad hoc basis. While the G20 is more representative in a numerical sense, this comes at a cost of commonality of interest and values. The G20 has no natural focus, geographic or otherwise, to bind its members together in the way of the Asia-Pacific Economic Cooperation forum (APEC), and does not have a set of common values, such as NATO does. It also has no membership criteria from which it might derive legitimacy, unlike, for example, the World Trade Organization

(WTO). Brill (2012: 22) notes that applying membership criteria consistent with the stated aims of the G20 would lead to the removal of Argentina, Indonesia, Mexico, and Russia, and the addition of Malaysia, Norway, Singapore, and Switzerland.

The G20 leaders' process thus inherited many of the problems and unresolved issues of its G7/G8 predecessor. The expansion in membership addressed the issue of inclusiveness but multiplied the problems of a lack of common interests and values. Steven Slaughter (2013: 1) writes that "the legitimacy of the G20 is fundamentally uncertain and problematic because the G20's membership and connection to existing forms of multilateralism remain contentious." The extent to which the G20 is an empty vessel is demonstrated by the readiness of policymakers and nonstate actors to project a growing list of issues onto the G20 agenda, leading to the production of insubstantial and often wordy communiqués. Though the G20 is seen as a vehicle for addressing the world's problems, the leaders' meetings bring only a modest amount of new institutional capacity, legitimacy, and political capital to the task. While this conclusion is ultimately a matter of judgment and interpretation, it is nonetheless borne out by a critical review of the G20's achievements to date. As I will argue below, many of the claimed successes of the G20 owe little to its process.

The G20 and Other Multilateral Institutions and Processes

The emergence of the G20 also reflects the limitations of the Bretton Woods institutions, the IMF and the World Bank. Originally designed to manage a world of fixed exchange rates and fund postwar reconstruction, these institutions have survived the demise of the Bretton Woods system. With floating exchange rates largely eliminating the problem of balance-of-payments crises among developed and many developing economies, and with private capital markets readily financing economic development in emerging economies, the IMF and World Bank have struggled to maintain their relevance. Indeed, before being recapitalized during the financial crisis, the IMF faced its own financial crisis because of a lack of demand for its lending on the part of developing economies. The International Financial Institutions Advisory Commission (2000) presided over by Allan Meltzer highlighted many of the problems

with the Bretton Woods institutions, though none of its recommendations were implemented.

The Bretton Woods institutions have sought to maintain their relevance by addressing the postcrisis international economic issues on the G20's agenda. They bring to this task some of the institutional capacity that the G20 lacks. Yet it is notable that reform of the Bretton Woods institutions is itself high on the G20 agenda. As Brill (2012: 24) observes, this creates the problem that the G20 relies for some of its work program on "institutions that are outdated or known to be riddled with problems and pathologies."

Other multilateral processes also offer lessons on what it is reasonable to expect of the G20. The multilateral trade liberalization process under the auspices of the WTO has addressed the legitimacy problem in international organization by demanding unanimous agreement among its membership, but at the cost of narrowing its negotiating agenda (for example, the exclusion of investment) and making little substantive progress since its fifth ministerial meeting in Cancún in 2003, the Bali Agreement on customs procedures in 2013 notwithstanding. The WTO process highlights some of the tradeoffs between inclusiveness, legitimacy, and effectiveness in international economic cooperation. The growing resort to bilateral and regional trade agreements, such as the Trans-Pacific Partnership, has also highlighted the limits of multilateralism in the area of trade liberalization.

It has been suggested that the G20 be given the task of rebooting the WTO's Doha round (Thirwell 2013), though it is notable that this suggestion was also made for the G7 (Daniels 2005: 93). The G7's role in the completion of the Uruguay round of the General Agreement on Tariffs and Trade would serve as a precedent for this, and it would represent an attempt to narrow the G20 agenda and give it more realistic and achievable goals. Yet at the same time, it is unrealistic to expect the G20 to succeed where the G7 and the WTO itself have failed. Indeed, the G20's attempt to put in place a standstill on trade protection at its November 2008 summit is one of its more notable failures. Since 2008, the G20's membership has been responsible for more than half of the thousands of new protectionist measures implemented worldwide, pointing to substantial underreporting of protectionist measures by the WTO in its role as the official monitor of the G20's adherence to its standstill on protection (Global Trade Alert 2014: 4).

This track record makes the G20 an unlikely vehicle for rebooting the multilateral trade liberalization process. As Drysdale and Dervis (2014: 14) note, “International trade has been a poor cousin of global macroeconomic and financial reform on the G20 agenda.” Some analysts have suggested a counterfactual in which the world would have descended into 1930s-style protectionism in the absence of the G20’s “standstill.” Barry Carin and David Short (2013: 9) suggest that “compared with the rampant ‘beggar thy neighborism’ of the 1930s, G20 nations have shown notable restraint.” This is a very low standard against which to assess the success of the G20’s “standstill.” A more straightforward conclusion is that the G20’s commitment was simply irrelevant to national trade policies.

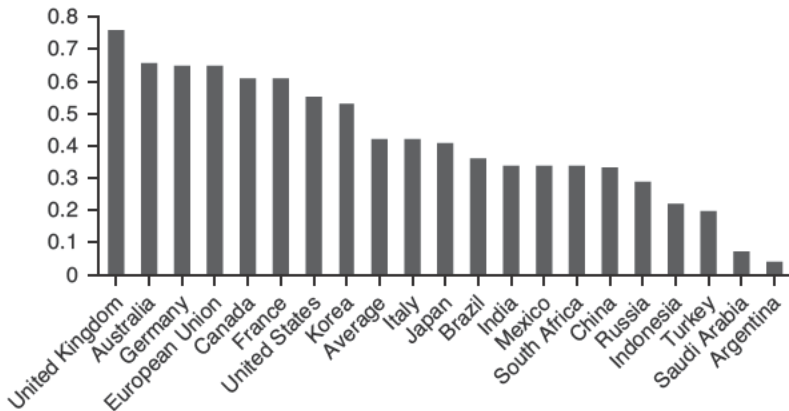
Experience with the G7/G8, Bretton Woods, and other multilateral institutions such as the WTO and the previous G20 ministerial process should have led to more modest expectations of the G20 leaders’ process. The G20 was assumed to have the capacity to succeed where other institutions and processes had often failed. A consistent theme in many discussions of the G20 is the idea that the institution has underperformed relative to its potential. Some of this commentary comes from the same academic think tank industry that was previously preoccupied with the shortcomings of the G20’s predecessors. This projection of previously disappointed aspirations for workable models of global governance onto the relatively new G20 leaders’ process suggests a willful blindness to the G20’s historical, political, and institutional context.

Financial markets have been far more skeptical of the importance of the G20 process. A European Central Bank (ECB) Working Paper by Marco Lo Duca and Livio Stracca (2014: 1) estimated the effects of G20 leaders’ meetings on financial markets, and found that “G20 summits have not had a strong, consistent and durable effect on any of the markets that we consider, suggesting that the information and decision content of G20 summits is of limited relevance for market participants.” Financial market prices give a relatively unbiased and independent assessment of the effectiveness of the G20 process and related policies.

Evaluating the G20’s Commitments

The G20 Information Centre at the University of Toronto monitors compliance with commitments made at the G20 Leaders’

FIGURE 1
G20 OVERALL COMPLIANCE AVERAGE, 2008–13
(SCALE -1 TO $+1$)



SOURCE: G20 Information Centre, University of Toronto.

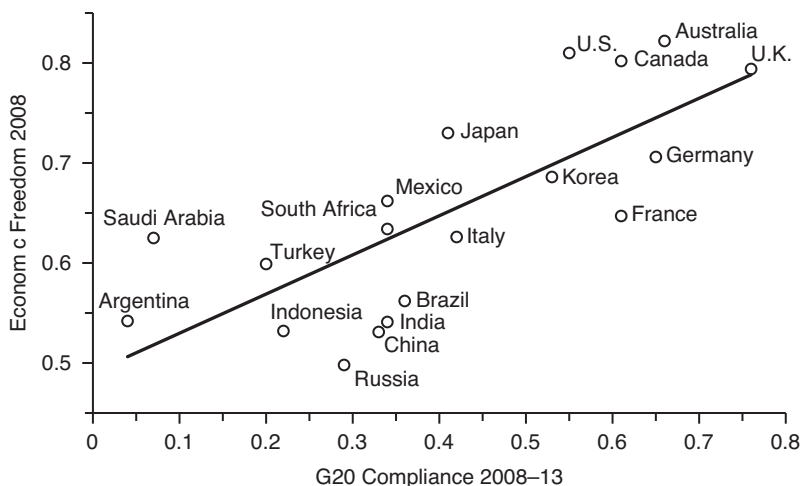
Summit meetings. Figure 1 shows the average scores for G20 countries and the EU between 2008 and 2013 on a scale of $+1$ (compliant) to -1 (noncompliant). A value of zero is assigned to indicate incomplete progress or compliance with a particular commitment.

The data point to a relatively high level of compliance by Anglo-American and most European countries, and Korea, with below-average compliance from the remaining members. Compliance is partly a matter of interpretation, and it is possible to disagree with some of the G20 Information Centre's coding. However, the center's analysis nonetheless represents a comprehensive and relatively independent attempt to monitor G20 compliance.

One approach to evaluating G20 compliance is to consider the relationship between compliance and measures of the quality of domestic institutions and policies, for which the Heritage Foundation's index of economic freedom can serve as a proxy. Plotting individual country average compliance scores against the Heritage Foundation's economic freedom scores for 2008 (divided by 100 for scaling purposes) shows a positive relationship between G20 compliance and the quality of domestic institutions (Figure 2).

Since the 2008 economic freedom scores predate the 2008–13 G20 summit commitments and compliance—actual data used to

FIGURE 2
G20 COMPLIANCE 2008–13 AND
ECONOMIC FREEDOM SCORE 2008



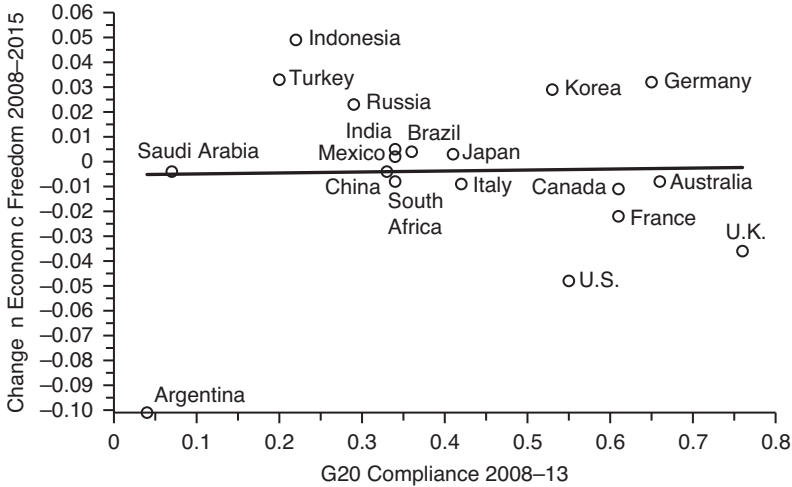
SOURCES: Heritage Foundation; G20 Information Centre.

compile the economic freedom scores typically lagging by around 12 months—we can rule out the possibility that summit compliance caused changes to domestic policies and institutions. On the other hand, the quality of domestic institutions and policies appears to have predictive power for subsequent compliance with G20 summit commitments, which in turn can be taken as a proxy for willingness to engage in international economic-policy cooperation or coordination. An important implication of this data is that the ability to successfully address the issues raised at G20 summits is a function of domestic institutional capacity and quality.

We can examine the possibility that G20 compliance caused improvement to the quality of domestic institutions and policies by comparing average G20 compliance with the change in the economic freedom index between 2008 and 2015 (Figure 3). This allows for a two-year lag in the effects of compliance.

Figure 3 is remarkable for showing no relationship between compliance with G20 summit commitments between 2008 and 2013 and the change in economic freedom over the same period plus a two-year lag. Most countries are clustered around the zero line for the

FIGURE 3
G20 COMPLIANCE 2008–13 AND
CHANGE IN ECONOMIC FREEDOM SCORE 2008–2015



SOURCES: Heritage Foundation; G20 Information Centre.

change in economic freedom while being highly dispersed along the compliance dimension, though it is notable that the major Anglo-American economies saw a reduction in economic freedom despite a high level of G20 compliance.

A similar relationship is found when comparing G20 compliance with the Legatum Institute’s Prosperity Index, which is designed to measure national well-being using a very broad range of measures, and Transparency International’s Corruption Perceptions Index (data available from the author on request).

These data demonstrate that international economic and political cooperation is a symptom, not a cause, of domestic policies and institutions. Domestic policies and institutional settings contribute to advancing the G20’s agenda, but these settings do not appear to depend on the G20 summit process in a measurable way.

Postcrisis Economic Policy Coordination

The strengths and limitations of the G20 process, discussed above, can be further considered by evaluating specific policy areas where

substantive actions have been agreed on and implemented, and have been widely claimed as successes by some observers. A key issue is how important the G20 process has been to actual policy outcomes versus plausible counterfactuals. The IMF has concluded that “evidence to date does not suggest that any of the large countries have made significant adjustments to their economic policies in response to peer pressure” under the G20-mandated mutual assessment of policies (Ostry and Ghosh 2013: 25). A former deputy managing director of the IMF has said that “it is hard to say with certainty that any G20 member has altered its policy plans in the interest of achieving greater policy coherence—and therefore effectiveness—with its G20 partners” (Taylor 2014). The two policy areas considered here are postcrisis macroeconomic policy coordination and financial market regulation.

The 2008 Washington G20 summit communiqué attributed the financial crisis in part to “inconsistent and insufficiently coordinated macroeconomic policies” (G20 2008). If we think of macroeconomic policy as monetary, fiscal, and exchange rate policy, it is far from obvious how greater coordination of these policies could have averted or mitigated the financial crisis, which had its origins in the politicization of housing finance in the United States (Morgenson and Rosner 2012, Acharya et al. 2011, Wallison 2015). The Bretton Woods system of fixed exchange rates provides a historical example of an internationally coordinated system of exchange rates and, occasionally, macroeconomic policies, which lacked the flexibility to accommodate the economic shocks that ultimately brought it undone in the early 1970s.

The evidence for effective postcrisis economic policy coordination is weak. I have already mentioned the data on compliance with the G20’s “standstill” on protection, which shows that despite their commitments, G20 members have contributed substantially to the introduction of new protectionist measures. We can also consider the communiqué from the London G20 Leaders’ Summit on April 2, 2009, which referenced an “unprecedented and concerted fiscal expansion, which will save or create millions of jobs” (G20 2009a). This “concerted fiscal expansion” is cited by some as a major achievement of the G20. For example, Colin Bradford and Johannes Linn (2011: 11) claim that “the major achievement of the London G20 Summit was the confirmation of the \$5 trillion ‘concerted fiscal expansion’ undertaken by G20 governments between

the Washington and London G20 Summits.” Carin and Short (2013: 2 and 11) credit the G20 with “marshalling nearly a trillion dollars to give the global economy some shock absorbers,” through which the G20 “earned an ample supply of legitimacy and effectiveness points.” They even suggest the G20’s response to the financial crisis was “triumphal.”

There is little evidence that these fiscal expansions were attributable to the G20 leaders’ process rather than just being the sum of individual country efforts that would have been undertaken in the absence of that process. The stimulus was not an outcome of the summit itself, having been preannounced by individual countries. For example, Australia’s two discretionary fiscal expansions were announced in October 2008 and February 2009. The counterfactual scenario in which no or less fiscal stimulus would have occurred in the absence of the summit is difficult to accept, given the willingness of G20 governments to adopt discretionary fiscal expansions.

It could be argued that the summit gave some additional political legitimacy to these efforts. Yet the London summit was the scene of a sharp disagreement between the United States and Europeans over what constituted fiscal stimulus. This led the London summit’s U.K. organizers to deemphasize fiscal stimulus as the summit’s main outcome at the time. Sharp disagreements about the appropriate stance of fiscal policy were also a feature of the 2010 G8 and G20 summits in Canada (Bradford and Linn 2011: 10). The 2010 Toronto summit commitments to reduce fiscal deficits by half were abandoned by the time of the St. Petersburg summit in 2013, when they were meant to have been achieved. If anything, these high-profile disagreements over fiscal policy detracted from the political legitimacy of fiscal policy both domestically and internationally, while the failure to meet the G20’s fiscal targets damaged credibility.

The effectiveness of fiscal stimulus at a national level is highly contentious. In the presence of an inflation-targeting central bank, monetary policy will effectively discount fiscal policy actions (DeLong and Olney 2005: 399–400). While some have argued that monetary policy is ineffective when the zero bound on nominal interest rates becomes a binding constraint on official interest rates, the widespread use of quantitative operating instruments for monetary policy in the wake of the crisis demonstrates that this is not the case. In this context, “estimates of [positive] fiscal multipliers become little more than forecasts of central bank incompetence” (Sumner 2013: 3).

It has also been argued that a concerted fiscal expansion can be effective because the world as a whole is a closed economy. However, this merely relocates the fiscal crowding-out effects from the national to the internationally relative change in budget balance as a share of the economy. Given a concerted global fiscal expansion, those economies with floating exchange rates that expand fiscal policy the most will see relatively greater upward pressure on their exchange rate and downward pressure on net exports, all else being equal. Economies with more modest fiscal expansions or larger fiscal contractions will benefit by creating more room for domestic monetary policy and putting downward pressure on their exchange rate. Fiscal policy may still be effective in the context of a fixed exchange rate regime, but this comes at the cost of an independent monetary policy and the benefits of a flexible exchange rate as an economic shock absorber.

The November 2010 Seoul summit saw a U.S. proposal to impose a ± 4 percent of GDP floor and ceiling on current account balances to address the alleged problem of global “imbalances.” The role of current account imbalances in pre- and postcrisis macroeconomic outcomes is controversial and reflects a debate that has persisted since Ben Bernanke (2005) raised the issue of a “glut” of global saving. The issue also reflects long-standing tensions between China and the United States over the former’s managed exchange rate regime, an echo of G7 tensions between Japan and the United States over trade balances and the U.S. dollar–Japanese yen exchange rate in the 1980s and 1990s.

The proposal to limit current account imbalances would have constrained the economic growth of countries that import a large amount of capital as a share of GDP, like Australia, and exacerbated the surplus of domestic saving in capital-exporting countries. The mercantilist assumptions underpinning the concern with such imbalances renders the issue tailor-made for raising tensions between governments, and made the G20 summit “look like an exercise in discord rather than international cooperation” (Bradford and Linn 2011: 14), further undermining the international legitimacy of macroeconomic policy coordination efforts.

Current account imbalances are not a macroeconomic problem under floating exchange rates, although they may be symptomatic of the problems associated with fixed exchange rate regimes. They are symptomatic of the global trade in capital that is an important

benefit of globalization (Cooper 2005). To that extent, they do not demand macroeconomic policy coordination, and so the G20's effort to promote "global rebalancing" was economically and politically counterproductive.

The 2014 Brisbane summit saw an attempt by the host country, Australia, to better focus the G20 agenda on concrete strategies for promoting economic growth. This was a close fit with the domestic policy agenda of the Australian government, but also reflected concern that the G20 had lost its way. G20 members were encouraged to develop plans to raise global GDP by 2 percent by 2018, relative to the IMF's October 2013 forecasts assuming the absence of these measures. These policies were then formally assessed by the IMF and OECD in a black-box process, in time for the Brisbane summit, and declared to be capable of achieving the growth objective—but only under the heroic assumption of full and simultaneous implementation from day one. Global economic growth has since fallen short of even the baseline scenario, as G20 governments implemented less than half of the measures required to meet the Brisbane growth target (Greber 2016a).

While raising global economic growth rates is a worthy objective, the Australian approach only served to highlight the extent to which global growth is a function of national economic policies rather than international policy coordination. Most governments are already committed to promoting economic growth, subject to domestic policy constraints that international policy cooperation and coordination do little to alleviate.

A review of Australia's proposed growth strategy invites skepticism about its origins in the G20 process (Australian Government 2014). The proposed strategy was an inventory of long-standing policy commitments otherwise unrelated to the G20 process or the Brisbane summit.

It has been argued by well-informed observers that the effort invested by the Australian treasurer Joe Hockey in pursuing outcomes for the G20's Brisbane summit compromised his ability to implement domestic policy proposals, undermining Australia's contribution to the G20 growth target (Uren 2015). Indeed, the distraction of the G20 summit was arguably a factor in the ousting of Australia's conservative prime minister, Tony Abbott, and of Hockey, his treasurer, in an internal party revolt in September 2015. In seeking to explain their political demise, journalist Phillip Coorey (2015)

observed that “Australia was chair of the G20 when the Coalition was elected and Hockey had no choice but to assume a prominent international role, which increased his burden.” Hockey’s successor as treasurer, Scott Morrison, said he would not attend meetings of the G20, IMF, or World Bank, deputizing to a junior minister “so he could stay home and sell tax reform” (Coorey 2015). More recently, “Australia hasn’t sent a single senior government minister to a top level meeting of finance chiefs in Paris . . . aimed at preparing for the next crisis” (Greber 2016b). Hosting the G20 summit not only harmed the domestic political fortunes of Australia’s political and economic leadership, but also compromised the domestic economic reform agenda that would have supported its G20 commitments.

The Australian approach to the Brisbane summit was hailed by some as a success in refocusing the G20 agenda. However, it did so in a way that undermined the case for international policy coordination by highlighting the importance of domestic policies and national rather than international political leadership.

International Financial Regulation and the Financial Stability Board

The G20 has been most active in presiding over a program of international financial regulatory reform, including in the areas of prudential and liquidity standards, and derivatives markets. A key institutional innovation of the G20 has been the creation of the FSB out of the former FSF, with a mandate to oversee these efforts. Like the G20 leaders’ process, the pre-financial-crisis history of the FSF provides important insights into the prospects for the FSB.

Until the financial crisis, the Basel Committee on Banking Supervision (BCBS) was largely made up of the G7 countries, and focused on the development of international prudential standards among developed economies. The 1988 Basel Accord (Basel I) was adopted in an environment where Japanese financial institutions were placing competitive pressure on U.S. and European institutions, creating demands for a leveling of the international playing field through common standards.

The emerging markets crises of the 1990s saw the G7 create the FSF in 1999, with a view to promoting international financial standards that would take in both developed and emerging

market economies. The FSF's membership included G7 central banks, finance ministries, and prudential regulators; international financial institutions (IFIs) such as the World Bank, IMF, and Bank for International Settlements (BIS); and international standard-setting bodies (SSBs) such as the BCBS and International Organization of Securities Commissions. Its first chair was the general manager of the BIS, and was supported by a small secretariat within that institution. The FSF's membership was subsequently expanded to include Australia, Hong Kong, the Netherlands, Singapore, and Switzerland.

The FSF's agenda largely reflected issues seen to be arising from the emerging markets crises of the 1990s. The FSF developed financial standards that were the subject of a Financial Sector Assessment Program (FSAP) run by the IMF and the World Bank. However, the FSAP was notable for the refusal of some countries to participate, not least the United States. The precrisis FSAP process is estimated to have cost around \$1 billion. Like Eric Helleiner (2010: 286), we may ask, "given the eventual system blow-up, was this time and money well spent?" Howard Davies and David Green (2008: 116) maintain that the FSF was notable for failing "to carve out a distinctive position, integrating the various perspectives of the diverse membership, as was originally hoped."

The first G20 Leaders' Summit in Washington in November 2008 mandated that the FSF and SSBs should expand their membership. At the Pittsburgh summit in September 2009, the G20 approved a charter for the FSB, and at the Cannes summit in November 2011 it called for a strengthening of the FSB's resources and governance through establishment of the FSB on a permanent organizational basis.

In its report to the 2012 Los Cabos summit, the FSB set out a new organizational, governance, and resourcing framework, and an amended charter, including its role in setting standards. The FSB was established as an association under Swiss law on January 28, 2013. Article 23 of the 2012 FSB Charter is notable for stating, "This Charter is not intended to create any legal rights or obligations" (Financial Stability Board 2012).

The institutionalization of the FSB can be seen as an attempt to invest the G20 process with greater organizational capacity in the area of financial regulation, particularly with respect to coordinating the activities of the SSBs. The broader membership of the G20 and

the FSB, relative to the G7-dominated precrisis processes for international regulatory coordination, is seen as giving these efforts greater legitimacy. However, the postcrisis broadening in the membership of the SSBs was perhaps more important in this regard, even if it was an outcome of the G20 process. Greater regulatory coordination could arguably have been achieved through the SSBs without the overlay of the G20 leaders' or even the G20 ministerial process.

The United States has been an important driver of the FSB process. One interpretation of these efforts is that the United States does not want to be competitively disadvantaged by tightening financial regulation at home. The FSB is thus seen as a vehicle to level the international regulatory playing field (Helleiner 2010: 285). International regulatory policy coordination is a mechanism for managing the competitive implications of domestic regulatory change.

The postcrisis regulatory agenda driven by the FSB has been blamed for a reduction in liquidity in some financial markets and an increase in asset price volatility (PricewaterhouseCoopers 2015). Reforms to derivatives markets have for the most part simply redistributed rather than reduced systemic risks (Pirrong 2010). There are also risks in imposing common regulatory standards, not least the creation of new systemic risks due to a lack of regulatory diversity and competition. Indeed, this should be viewed as an important lesson from the 2008–09 financial crisis. As Dani Rodrik (2009) has argued:

The world economy will be far more stable and prosperous with a thin veneer of international cooperation superimposed on strong national regulations than with attempts to construct a bold global regulatory and supervisory framework. The risk we run is that pursuing an ambitious goal will detract us from something that is more desirable and more easily attained. . . . Global financial regulation is neither feasible, nor prudent, nor desirable.

Conclusion

As an institution for global governance, the G20 inherits many of the problems of its predecessor, the G7/8. The original sin of the G20's creation was to avoid confronting the important issues surrounding G7/8 expansion and the need to reform existing Bretton Woods institutions, which were highlighted by the 2000 Meltzer Commission. An expanded membership was achieved at the expense

of developing a common set of interests and values (or membership criteria) that could have bound the members of the G20 together and served as a source of international political legitimacy.

The best defense of the G20 is that it is the only major forum for global governance; the G20's role in this regard is the outcome of deliberate policy choices and decisions about how to invest scarce political, diplomatic, and other capital. This investment has been undertaken without sufficient attention to the lessons presented by the history of multilateral institutions and processes, which were well known to international governance scholars, but ignored in the rush to embrace the G20 leaders' process.

There is an air of unreality in much of the academic commentary on the G20. The G20 process is often treated as an end in itself, where analysis would be better focused on the G20's substantive achievements and their relationship to that process. Even government-funded think tanks most supportive of the G20 exhibit a notably fading enthusiasm. One journalist compared a Lowy Institute for International Policy forum on the G20 to a "rarefied session of Alcoholics Anonymous," noting that the "hard bitten, one-time true believer . . . Barry Carin . . . simply describes the institution as a 'dead forum walking'" (Earl 2015). The disappointment is palpable, but should not have come as a surprise to well-informed observers.

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