

The G20, the IMF and Global Surveillance

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At the next G20 Summit, for the first time leaders will mutually assess their economic policies on the basis of the so-called "Framework for Strong, Sustainable, and Balanced Growth," proposed by the U.S. in Pittsburgh last September. Through this framework, leaders pledged to devise a method for setting objectives, to develop policies to support such objectives, and to assess outcomes through mutual evaluation. The IMF's involvement has been sought in providing analysis on various national and regional policy frameworks and how they fit together. The end goal is "strong, sustainable and balanced growth" in which the improvement of living standards in emerging-market and developing countries is meant to be a critical element.

On the basis of country submissions, the IMF has been asked to point out inconsistencies and/or incoherence in national assumptions, to evaluate the mutual compatibility of different country frameworks and policies, and to determine the aggregate effects of various national frameworks and policies on the global economy. After the initial phase of the mutual assessment process, which culminates with the June 2010 Summit, the G20, using the data provided by the IMF, will devise a set of specific mutual assessment and policy recommendations that take into account not only policy implementation but follow-ups as well. Once the entire framework process has been completed, in November 2010, following the Seoul Summit, it could then be fully implemented on an annual basis.

This exercise represents the first instance of multilateral surveillance on a global scale in recent history, and it is characterized by two main innovations. To start, this is the first time the U.S. has agreed, even proposed, to submit itself to a structured, full peer-review process. In the case of the Jamaica Amendment, when the current IMF surveillance framework was discussed and approved in 1978, the U.S. only reluctantly accepted its basic premise. The second novelty this time around is the distinct shift from the previous practice whereby multilateral surveillance of the global economy was in effect handled within the closed circle of the G7.

Different from the narrow G7 membership, the G20 includes all the systemically-important countries, such as the largest emerging Asian economies of China and India, as well as Korea and Japan, giving Asian nations an immediate and alternative platform for engaging with the IMF, which these countries still see as dominated by Europe and North-America. The G20 was chosen, in fact, to promptly integrate rising powers, mainly from Asia, into the multilateral system.

The G20-led multilateral surveillance does pose a couple of important challenges, however. The first is that the exercise appears to be mainly geared toward raising

awareness among national policymakers of the international spillover effects of their policies and providing a context in which they can exercise pressure. Whether or not this will bring about substantial revisions to national frameworks is uncertain, as it presupposes a common vision of the costs and benefits from coordination. This means that countries may have to change their policy stance in order to preserve the overall stability of the global economy, to accept higher risks by revisiting their precautionary reserve accumulation policy or to revise their exchange rate policies.

G20 countries have so far all committed to a peer-review process for their economic policies and to a broadly-defined policy objective. This does not mean that they have committed to numerical policy targets—consistent with quantitatively-defined objectives set for the overall group—for which they can be held accountable in a multilateral forum. This is reminiscent of early IMF attempts, in the seventies, to get systemically-important economies to commit to a multilateral surveillance framework. Ultimately, these countries distanced themselves from specific commitments and IMF multilateral surveillance became simply a forum for exchanging views and information on each other's economic policies.

The second challenge refers to the IMF itself and to its role in the G20-led process. Like with the G7, it continues to enjoy an advisory function. Unlike with the G7, however, its advisory role is more clearly spelled out and, given the greater number of G20 member economies, is much more strategic; still, it is not exactly clear what an advisory role such as this means for discharging critical tasks of its own mandate. The proposal from the U.S. to grant the G20, and not the IMF, authority over the issue of China's exchange rate is a case in point.

In keeping with recent tradition, the IMF's executive board plays no part in formulating the IMF's advice to the G20. While it is true that many members of the G20 also sit on the board of the IMF and thus their involvement is guaranteed through their respective capitals, most of the executive directors do not just represent their nominating countries alone, but rather a group of countries, which confers much greater legitimacy to each decision of the Fund's policymaking body.

Clearly the dualism between the IMF and the G20 would disappear, if the latter were to become a formal decision-making ministerial body within the IMF itself. This arrangement would have two distinct advantages: it would increase the legitimacy of the G20, as each member of the ministerial committee would also represent a number of other countries based on the constituency system that underpins IMF governance; and it would reassert the centrality of the IMF's role as overseer of the international monetary system, thereby providing the institution with unprecedented political impetus. This proposal has been featured in a recent advisory report to the IMF Managing Director ("Fourth Pillar Report") and has been put forward by a number of authoritative figures, including Tim Adams and Mervyn King.

The Fourth Pillar Report has also outlined a number of pre-conditions for such a reform to be feasible, namely a realignment of voting power within the IMF membership, a reconfiguration of the composition of the executive board and the establishment in the Fund board constituencies of some (basic) accountability mechanisms, which are currently completely absent.

References

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