

## KEY POINTS

- Forward progress on international economic governance has stalled.
- The IMF annual meetings are the next test of countries' ability to make real progress.
- A number of critical reform areas provide a bench test by which to assess the results.

## PROGRESS ON INTERNATIONAL ECONOMIC GOVERNANCE?

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Released just prior to the St. Petersburg G20 Summit, the new (annual) CIGI Survey on the Progress of International Economic Governance<sup>1</sup> assesses progress in five dimensions of international economic governance. The CIGI experts surveyed provided a pessimistic assessment of progress over the last year.

The CIGI survey uses a quintile scale. Scores between 40 and 60 percent indicate “minimal progress” — sufficient to inspire confidence in the long term and achieve sustainable balanced growth, but with non-negligible risks to the world economy if confronted by shocks. Scores between 20 and 40 percent represent “some regression” — insufficient to be confident that future crises could be avoided, or quarantined, consistent with potentially dramatic vulnerability of the world economy when confronted by shocks. The average score over the five dimensions was 30 percent.

There are three striking conclusions from the inaugural survey:

- There is clear consensus that there is some regression in negotiations and arrangements for international economic governance.
- Progress on international cooperation on macroeconomic policy and financial regulation were both assessed as close to minimal.
- There is surprising uniformity of views among individual experts despite the diversity of their backgrounds.

Most observers have dismissed the St. Petersburg G20 Summit as a wasted opportunity. While the voluminous summit communiqué and annexes provide a long litany of work and studies underway, there was little sense of any tangible progress. Indeed, as CIGI Senior Fellow Barry Carin noted in a recent commentary:

One metric by which to judge the substantive content of the 114 paragraphs in the St. Petersburg Leaders' Declaration is to review how frequently content-free, meaningless words are used as verbs. The vacuous “We welcome” is used 48 times. Regarding existing commitments, “We reiterate” is used 10 times, “We reaffirm” is used in 19 paragraphs and “We renew” three times. One new low for the Leaders' Declaration was the curious use of “We welcome” to endorse a report from their own finance ministers (Paragraph 92).  
...If this is the best that the G20 can do, it may as well pack up and dissolve. (Carin 2013)

The G20 is meant to provide leadership on global economic issues, but it is the responsibility of various multilateral organizations to carry this work forward. The Annual Meetings of the IMF and World Bank will be the next test of the global community's ability to deliver on the often-repeated commitments to collaborative actions to enhance global growth and strengthen resilience against potential future financial shocks.

Given the results of the CIGI survey and the disappointing outcomes of St. Petersburg, what could be some indicators against which to measure progress?



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Under macroeconomic policy cooperation, the survey identified four priority areas: surveillance and cooperation under existing frameworks; crisis-prevention safety nets; sovereign crisis resolution; and accountability, inclusiveness and effectiveness of IMF governance.

With respect to surveillance and cooperation, efforts have been focussed on collaborative efforts to achieve greater global growth and identify spillovers of one country's policies on others. The St. Petersburg communiqué offered a long litany of policy actions proposed by individual countries. What is important is a sense of how these are being meshed into a coherent global strategy that offers enhanced prospects for growth. Concerning spillovers, the impact of eventual tapering of quantitative easing by the US Federal Reserve is on everyone's mind. St. Petersburg offered platitudes, despite the expressed concerns of most emerging market countries. Will there be any signs that the issue is being addressed?

While the IMF made progress on crisis-prevention safety nets in response to the 2008 global crisis, many observers have expressed concerns that the IMF is underfinanced to meet any new global crises. In her August speech at Jackson Hole, the IMF's managing director, Christine Lagarde, addressed the risks to the global economy, saying "So we need further lines of defense — lines of defense that reflect our interdependence, our common purpose, and our mutual responsibility for the global economy" (Lagarde 2013). Will we see signs that progress is being made on the "new lines of defense" that Lagarde called for?

On sovereign crisis resolution, the IMF has reopened debate on ways to enhance the capability of the international system to address, in a more coherent manner, the necessity of sovereign debt restructuring in certain cases. Previous efforts have stalled, in part because of the huge complexities involved. Will we see signs that current efforts will not suffer a similar fate?

IMF governance reform has been held up because of the failure of the US Congress to pass the necessary legislation to implement the 2010 reform package. Many countries are using this as an excuse not to advance further reform measures. The US failure need not stop negotiations on further necessary reforms — a number of which would not require legislative approval. Will we see any signs of progress?

There has been some progress on international co-operation on financial regulation since 2008, and the risks of an imminent financial crisis are perceived to have lessened. But as the IMF has noted, in particular in its 2012 *Global Financial Stability Report*, many of the risks the world faced in 2008 remain. Indeed, the challenge of addressing financial institutions considered "too big to fail" has resulted in even larger institutions exacerbating the original problem. And the shadow banking sector, lacking in regulation, has continued to show strong growth in many countries. Will the IMF be able to show any specific actions to address these two policy challenges?

The world can, of course, expect to see communiqué language that will point to progress on all these issues. But the simple tests set out above provide a scorecard to measure whether progress is real or merely words. Without measurable progress, next year's CIGI survey will likely be even more critical of the lack of progress than it was this year.

## Works Cited

Carin, Barry. 2013. "St. Petersburg G20 and Progress on International Economic Governance." September 20. CIGI Commentary.

Lagarde, Christine. 2013. "The Global Calculus of Unconventional Monetary Policies." Speech, Jackson Hole, August 23.

## Endnote

1 The interactive CIGI Survey on the Progress of International Economic Governance is available at: <http://interactive.cigionline.org/survey-of-progress>.