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The G-20 and global financial regulation

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Introduction

In the wake of the 2008 global financial crisis, the G-20 established itself as the pivotal forum for collective international response to the crisis. The apparent centrality of the G-20 in preventing global economic collapse has thrown the spotlight onto this relatively new player in global economic governance, and has led to debate about both its legitimacy and effectiveness. Many have praised the G-20 for quick and robust action in the wake of the crisis (Cooper and Helleiner 2010; Heinbecker 2011; Smith 2011). In this view, the G-20 has emerged as a powerful player, more truly representative of developed and emerging economies than other institutions, and the best hope for global financial governance (Smith 2011; Carin *et al.* 2010). Others, in contrast, argue that the G-20 has done far too little to effectively address the crisis and, in addition, suffers from a range of legitimacy problems, including its exclusive membership, informality and lack of transparency and accountability (Vestergaard and Wade 2012). In this critical view, the G-20 is an elite club promoting the interests of powerful market economies and impeding deep regulatory reform that is needed to prevent future crises.

Indeed, what is clear to both sides of the debate is that the G-20 offers a different model of governance than the traditional formal intergovernmental organizations (IGOs) established by treaty after Word War II, such as the International Monetary Fund (IMF) and the World Bank. As the balance of power in the international system shifts toward emerging economies and rising non-Western powers, these post-World War II institutions have become outdated, no longer distributing authority to those actors most important for maintaining order and stability. Despite calls for institutional reform, these institutions have remained largely recalcitrant and retain the main attributes they were created with in the 1940s. In the absence of true reform, new ad hoc and non-universal institutions are being created as alternative fora for global governance. In this sense, the G-20 may be symptomatic of an institutional transformation away from traditional, universal, state-based IGOs toward smaller and more flexible clubs of common interest (Drezner 2007; Viola 2008). In a multipolar world with lots of actor heterogeneity, powerful states may pursue ad hoc and non-universal groupings because they facilitate more effective policy co-ordination and consensus, and they mitigate fears of exploitation and redistribution. At the same time, their very exclusivity and informality create problems of legitimacy and authority.

This chapter explores this debate by investigating the specific effectiveness of and legitimacy challenges to the G-20. The G-20 was critical in achieving a co-ordinated policy response from major economies in the immediate wake of the 2008–09 economic crisis. Nevertheless, its performance since then has left doubt about its commitment and capacity to midwife real governance reform. This chapter argues that the G-20's ability to remain a powerful and constructive actor will depend on whether it is willing to undertake institutional adaptations and reforms to remedy key challenges to its efficacy and legitimacy.

The first section begins by explaining the origins of the G-20, which is itself the result of an institutional adaptation to economic crisis. The second section illuminates the institutional design and governance functions of the G-20, with a view to identifying where the main challenges to its effectiveness and legitimacy lie. This discussion narrows in on four sets of issues that affect both the G-20's effectiveness and legitimacy: its membership, the scope of its agenda, its ability to achieve policy co-ordination and the nature of its institutional structure. The third section picks up on these four issues to analyse in what way they present challenges to the G-20, how the G-20 may have already begun addressing them and what further institutional innovations and adaptations are necessary.

The origins of the G-20: an institutional adaptation to crisis

The G-20 was created in 1999 by the G-7 as an institutional adaptation meant to address two challenges facing international financial regulation in the 1990s. First, and most immediately, the Asian financial crisis of 1997–99 made clear that, despite the growing sophistication of international financial institutions, governance bodies such as the IMF and G-7 failed to predict or prevent the crisis. The crisis revealed that these established institutions had a significant blind spot when it came to the systemic importance of a number of emerging economies. Those states most important for the Asian financial crisis were hardly represented in the international financial institutions, and not at all represented in the G-7. It became clear that effective and comprehensive global financial regulation would need systematically to include emerging economies.

The second, and more general, challenge of the late 1990s was the fact that the international financial regulation regime had grown significantly larger, more diffuse, and more complex over the previous two decades. No institution, including the G-7, had effective oversight over the burgeoning number of regulatory institutions. In addition to the Bank for International Settlements (BIS) and the IMF and World Bank, new actors included the Basel Committee on Banking Regulations and Supervisory Practices, the International Organization of Security Commissions (IOSCO) and numerous other committees. These institutions were each producing large amounts of technical data on and analysis of global financial markets. They were beginning to reach agreement on best practices and formal standards, and to create instruments of implementation and oversight. Most notably among these are the Basel Committee's capital adequacy standards and the IOSOC's Objectives and Principles of Securities Regulations. But as these institutions became increasingly connected with national regulators and with one another in an informal way, it became clear that some systematic mechanism for co-ordinating between these bodies was necessary (Porter 2000, 9).

The lesson that states learned from these two challenges was that there was a need for a new institutional arrangement that would maintain a comprehensive view over international financial governance while also being inclusive of emerging economies. As a result, the G-7 created a new body, the G-20, which expanded the membership of the G-7 by including 'systemically significant' states, and whose purpose was to serve as an agenda-setting and oversight institution. The G-20 initially began as a technocratic body, composed of finance ministers and central bank governors who met on a regular basis to discuss co-operation on economic and financial policy.

The hope for the G-20 was that it would be better suited than other international financial institutions (IFIs) to promote international financial stability. However, the 2008 financial crisis, and the ensuing global recession, highlighted the elusiveness of this charge. On the one hand, the crisis exposed the limits of the G-20's ability to prevent economic crisis; on the other hand, leaders quickly identified the G-20 as a focal institution where they could meet to co-ordinate swiftly and effectively the national responses to the crisis. In 2008, President George W. Bush called leaders from the G-20 member states to Washington to create a plan for restoring financial stability and preventing worsening of the crisis (the Washington Action Plan). In doing so, the G-20 was transformed into a leaders' summit. The institutionalization of the Leaders' G-20, held in addition to the Finance G-20, turned out to be a permanent and significant institutional adaptation to the financial crisis, as it shifted decision-making and policy co-ordination efforts to the highest levels of leadership and lent the forum increased authority. Moreover, this move turned an essentially technocratic body into a decidedly political one (Helleiner and Pagliari 2010; Moschella and Tsingou forthcoming).

At the 2009 Pittsburgh Summit, member states declared the G-20 to be the 'premier forum' for economic co-ordination, and so supplanted the increasingly marginal G-7/G-8. Today, most important institutions in the field look to the G-20 summits for guidance and support, turning it into a natural centre for discussing and co-ordinating financial regulation.

Institutional design and governance functions of the G-20

In order to understand the challenges and the potential of the G-20, it is useful to first identify the core features of its institutional design and governance functions. The G-20 is a forum designed to promote informal discussions among a set of states with large and interconnected economies. As such, two of its most important institutional characteristics are that it is intentionally informal and exclusive. According to its own self-understanding, the G-20's broad mandate is to 'shape the international agenda, to discuss economic and financial issues in areas where consensus had not yet been achieved, and to "lead by example"' (G-20 *History* 2007, 5). Indeed, it is most often characterized as a 'forum for dialogue', or as a 'network', or a 'steering committee', underscoring its informal and unbinding nature (Cooper and Bradford 2010; Martinez-Diaz and Woods 2009; G20 *History* 2007, 51). Given the fact that the G-20 does not have the authority or institutional capacity to be a regulatory body, it would seem to be very limited in its ability to engage in governance functions. And yet the G-20 has come to be regarded as one of the most important governance institutions in global finance (Lagarde 2011). The G-20's greatest influence on governance comes through its agenda-setting power and its ability to engage in policy co-ordination, both co-ordinating national policies and orchestrating IFIs to carry out its governance agenda. In the following discussion I assess the G-20's informal structure, exclusive membership, agenda-setting power, and policy co-ordination efforts in order then, in part III, to evaluate critically how these contribute to, or hinder, the G-20's legitimacy and effectiveness.

Institutional design of the G-20

Informal structure

Compared to most IGOs, the G-20 is an informal institution, meaning that it has no formalized rules or operating procedures and no permanent staff of its own. It has no charter, it does not take votes and decisions are not legally binding. Nevertheless, this does not mean that the G-20 is completely lacking an institutional structure. The Group is directed by a chair that rotates annually among all regions and between countries of different levels of development. The incumbent chair establishes a temporary secretariat and website. In order to establish continuity and coherence in the G-20's management, the current chair is joined by the past and future chairs in a three-member team called the troika. The G-20 works as a series of meetings that are held off the record and are oriented toward finding consensus. The G-20 meetings aggregate preferences, which get articulated as common objectives in Action Plans, Frameworks and Communiqués.

The relative informality of the G-20 can be a double-edged sword. Its informal structure means that decisions are non-binding and there are no formal control mechanisms, monitoring arrangements or coercive enforcement options. On the down side, this means that the G-20 has difficulty enforcing its decisions and policy agenda, even among its own members. The G-20 is also unable to be a strong delegator because, as principal, it has no power to invest potential agents (for example, the World Bank) with authority vis-à-vis targets and cannot sanction or rescind the agents' authority (Abbott *et al.* 2011, 5). The most that the G-20 can do is to 'call upon' potential agents to support its agenda. A further consequence of informality is that the absence of reporting requirements to domestic governments or external monitors, combined with the absence of an independent and permanent secretariat, mean that the G-20 is hardly subject to any accountability mechanisms, which has a negative impact on its legitimacy and a potentially negative impact on its effectiveness.

On the other hand, informality allows the institution flexibility and room to manoeuvre that are not easily found in the Bretton Woods Institutions (BWI). The absence of strict procedural rules and the non-binding nature of decisions appear to mitigate the problems of bargaining and posturing apparent in other IOs. The G-20 attempts to promote frank discussion and to approximate the informal get-together quality that the original 'Library Group' initiated in 1973 (Hajnal 2007). According to the G-20 itself, 'The keys to its success have been the ability of the Group to engage in meaningful debate, frankly and informally' (G-20 *History* 2007, 6). Another observer noted that the expanded Group demonstrates 'the value of fresh, practical, and less institutionally based dialogue and co-operation' (De Brouwer 2007, 82).

This is in contrast to critiques of more formal financial institutions, such as the IMF. Work at the IMF is structured by layers of rules and procedures, in addition to a deeply embedded organizational culture, which make quick, flexible and innovative policies difficult to achieve. Moreover, the Fund is staffed by economists with little direct experience of the institutions and political realities in member states (Barnett and Finnemore 2004; Chwieroth 2009). The G-20, in contrast, is unencumbered by rules and a bureaucratic apparatus, and it can bypass the difficult work of hammering out minute implementation plans—something that most IGOs, largely implementing institutions, cannot do on their own. Furthermore, the presence of state leaders at the G-20 summits gives the G-20 unprecedented decision-making power.

Exclusive membership

The G-7 was careful to design the G-20 to be more inclusive and more representative of systemically important actors than previous groupings and even other IFIs. Thus, the G-20 expanded on the membership of the G-7 to include 19 states representing all regions of the world, the European Union (the 20th member) and the Bretton Woods institutions. There are four significant components to the G-20's membership: (1) it includes both states and other IOs; (2) it is exclusive rather than universal; but (3) it includes systemically important states; and (4) these states have an equal voice. The G-20 is only one of a few institutions that bring together advanced industrial economies, the increasingly significant emerging countries and IOs.

The G-20's inclusion of emerging economies is one of its main claims to legitimacy. The G-20 likes to emphasize that it represents about 90% of global gross domestic product (GDP), 80% of global trade and two-thirds of the world population (G-20 website 2012). Perhaps more importantly, the states represented at the G-20 have equal standing. In contrast to the IMF or World Bank, at the G-20 emerging economies have an equal seat at the table and they have equal access to chairing the Group. As chair, a country has discretion to set the agenda for the Group according to its own interests. This has allowed China, for example, to focus the attention of the Group on reforming the Bretton Woods institutions, and India to focus the Group on development and aid (G20 *History* 2007, 41). More generally, whereas the IMF has traditionally viewed developing countries as problems that need to be fixed, the G-20 has incorporated many of them as part of the solution.

At the same time, however, the G-20 is an intentionally exclusive institution. After experimenting with larger groupings (such as the G-22 and G-33), the G-7 determined that exceeding 20 members would compromise the intimacy and effectiveness of the Group (G20 *History* 2007, 12–20). One of the perceived problems of the IMF is that its universal membership endogenizes a range of diverse interests. Interest divergence among actors often requires longer and harder bargaining to get agreement on policy, and that agreement might reflect a lowest common denominator policy rather than an effective one. The G-20, in contrast, attempts to be inclusive enough to command legitimacy, while being exclusive enough to ensure a certain level of interest convergence and, therefore, improved effectiveness.

Nevertheless, selective and untransparent membership criteria have led to criticisms that the G-20 is not representative and, therefore, not a legitimate governance institution. Seen this way, the G-20 excludes more than 80% of the world's countries, even though many of these states, such as Spain and Poland, explicitly wish to be included. While the G-20 argues that its members must be 'systemically important', there are no explicit criteria for assessing this status. Some large economies with important banking and financial services sectors, such as Switzerland, are excluded. Most small countries are excluded, even though the crises in Iceland and Greece have shown that small economies can create significant externalities.

Governance functions of the G-20

Agenda-setting

The G-20 has been intentionally broad in defining the issues that it addresses, which range from loan-restructuring to terrorist-financing to environmental concerns, but financial stability has always been the cornerstone of its mandate. The period between the Asian Crisis and the 2008 Global Crisis, in particular, saw a broadening of the G-20 agenda. In this period, states holding the G-20 chairmanship used the opportunity to emphasize themes of particular importance to them (G-20 *History* 2007, 41). After the 11 September terrorist attacks, US allies holding the chair made combatting terrorist-financing a major theme of the meetings. During their tenures as chair, India, Mexico and China were instrumental in moving the G-20's focus to development and aid issues. China has used its chairmanship to pursue BWI reform. And, just before the global economic crisis, Germany, China and Australia put demographic changes onto the agenda.

However, since 2008 the primary concern of the G-20 has refocused on the prevention and mitigation of the global economic crisis. Initially, the G-20 focused on co-ordinating immediate measures such as national stimulus plans and avoiding protectionist measures. In attempting to address underlying causes of the crisis, the G-20 has since given high priority to international regulatory reform; that is, articulating policy goals for international prudential regulation, and monitoring and enforcement mechanisms for public and private financial actors. A central concern has been to strengthen the regulation and supervision of banks, hedge funds and derivatives. As a result, the first G-20 summit in Washington at the end of 2008 developed 47 immediate, medium- and long-term goals regarding transparency and accountability, coherence in regulatory regimes, financial market oversight, risk management and reform of Bretton Woods institutions (Washington Action Plan 2008). The 2009 Pittsburgh Summit introduced the Framework for Strong, Sustainable and Balanced Growth (FSSBG), the core of which is the Mutual Assessment Process (MAP), which assesses progress on Framework goals, particularly those meant to identify and rectify global imbalances. Subsequent summits have emphasized the creation of a single standards regime, the extension of regulatory principles to new areas, and the institutionalized monitoring of systemically important financial institutions. The G-20 has endorsed important existing regulatory regimes such as the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies, and agreed upon the development of others, such as the Principles for Sound Liquidity Risk Management and Supervision, which introduces new liquidity rules, and the Principles for Sound Compensation Practices, which specifies principles for banker compensation that are designed to constrain excessive risk-taking.

Policy co-ordination

There are two main functions that the G-20 fulfils that make it a significant regulatory actor and more than a mere agenda-setter. First, the G-20 meetings facilitate the co-ordination of national policies, to ensure that domestic policies are working toward the same collective goals. This was particularly important in the immediate response to the 2008 global financial crisis. The G-20 agreed to collectively stimulate demand and it facilitated the concerted expansion of fiscal and monetary policies in member states. It also reached consensus among members on the need to avoid protectionist measures and competitive currency devaluations. These initial co-ordinated domestic measures are generally credited with having prevented a worsening of the crisis (Cooper 2010; Cooper and Helleiner 2010; Heinbecker 2011).

The first several summits also led to the conclusion that long-term efforts to prevent crises will require more, and more systematic, co-ordination of national policies. The MAP, in particular, was conceived as a new approach to policy collaboration. One of the central aims of the MAP is to correct global imbalances over the medium term. Towards this goal, the MAP called on all member states to submit national policy plans and expected economic performance data for assessment by the IMF. The IMF was charged with assessing the extent to which individual plans were consistent with G-20 objectives. G-20 members later agreed to an enhanced MAP that would establish guidelines to monitor policy progress toward collective goals, and that required G-20 members to identify domestic policy actions to further long-term collective growth objectives (IMF 2009).

The second way in which the G-20 co-ordinates is by 'orchestrating' other IFIs—such as the IMF, Financial Stability Board (FSB) and International Accounting Standards Board (IASB)—to carry out the governance tasks agreed upon among states at G-20 meetings and summits (Viola forthcoming). Indeed, orchestration is a mode of governance that distinguishes the G-20 from the work of other groupings, such as the G-7 or G-8. According to the orchestration model, a governance actor, such as the G-20, with a capacity deficit that impedes it from engaging in hard or direct regulation can 'outsource' the regulation of its governance targets by working through other available public or private actors called 'intermediaries' (Abbott *et al.* 2011). Orchestration is distinct from delegation because the orchestrator, unlike the principal in delegation, does not invest intermediaries with authority vis-à-vis targets (they must already possess this authority independently of the orchestrator), and the orchestrator does not have the power or resources to sanction or rescind the intermediaries' authority (Abbott *et al.* 2011, 5). Intermediaries, unlike agents, may accept or decline to carry out a request by the orchestrator, as this is a voluntary interaction.

Because of the nature of its institutional structure, the G-20 itself is not able to implement or enforce policy recommendations and it cannot obligate other institutions to carry out its tasks. Therefore, the G-20 'calls upon' intermediaries, such as the IMF, FSB or IASB, to voluntarily implement governance goals agreed upon at the G-20 by engaging the regulatory targets. One way in which the G-20 accomplishes this is by co-ordinating the supply of resources to IFIs. At the second summit in London in 2009, for example, leaders agreed to substantially increase resources to the IMF in order to facilitate its lending activities, including providing bilateral financing of US $500,000m. (London Declaration 2009). This was followed by the Pittsburgh Summit commitment to a $350,000m. capital increase for the Multilateral Development Banks. But the more significant G-20 influence over IFIs comes from its self-ascribed authority to draft detailed policy recommendations. In November 2008, for example, the G-20 requested that the IMF and FSB take on the main role in crisis prevention surveillance and charged these with creating what has come to be the Early Warning Exercise. The G-20 has also requested that the FSB, along with other institutions such as the IASB, co-ordinate and unify the work of national, international and private standard-setting bodies and then report back to the G-20. These interactions fall short of delegation. The G-20's request that the IMF support implementation of the MAP is exemplary in this regard, as the IMF explicitly states that 'the Fund may choose to accept or decline' the G-20's request for assistance and that this request is not legally authorized under Article IV (IMF 2009, 6).

III Legitimacy and effectiveness of the G-20: challenges and responses

The legitimacy, effectiveness and future relevance of the G-20 for global economic governance will depend on how it overcomes the shortcomings—and exploits the benefits—of its institutional design and governance functions. Legitimacy and effectiveness are intertwined. Legitimacy refers to the extent to which an institution's authority is voluntarily accepted and respected (Hurd 1999, 381). Legitimacy depends both on an institution's procedural fairness and also on the quality of its output (Scharpf 1997). We can expect, then, that limited representation and procedural transparency will tend to reduce the legitimacy of the G-20; but this tendency has the potential to be offset by a very effective G-20. At the same time, effectiveness itself might be improved by fair and transparent procedures because these expose an institution to input from a greater number of relevant actors, and because legitimacy can enhance incentives to comply with decisions. However, as it currently stands, both the G-20's effectiveness and its legitimacy are coming under fire, especially as the public loses patience with the lack of financial sector reform coming out of the summit process that appears to reinforce the market interests of select powerful actors (Barysch 2010; Vestergaard and Wade 2012). In this section I analyse the legitimacy and effectiveness challenges presented by the four specific institutional features and governance functions of the G-20 identified above—membership, agenda-setting, policy co-ordination and institutional structure—and assess the G-20's actual and potential institutional response to these challenges.

Membership

The G-20's larger membership as compared to other informal groupings is a reflection of broader shifts in economic power within the international system. The economic significance of the emerging economies made their inclusion necessary to any serious effort at global financial co-ordination. However, at the same time, this expansion has been limited, and the G-20 remains an exclusive institution. The G-20's exclusivity presents a serious challenge to its legitimacy and effectiveness.

One significant problem with exclusivity is that G-20 decisions and recommendations, while being made by a small group of states, can have substantial implications for non-member states. There are no mechanisms, or even normative obligations, for the G-20 to consult with or report to non-member countries affected by its policies. In an effort to crack down on tax evasion, for example, the G-20 published a list of tax havens that have failed to meet transparency expectations. French President Nicolas Sarkozy went as far as saying that offenders 'will be excluded from the international community' and that 'we don't want to have tax havens anymore' (Allen 2011). States relying on offshore banking activity but not represented at the G-20 were incensed, both because they fear the economic consequences of such a move and because they dispute the idea that a self-appointed group could 'decide' to exclude them from the international community.

Moreover, because the G-20 instructs international organizations (IOs), such as the IMF, to take specific actions, it is able informally to bypass the authorized decision-making processes of those organizations. Among non-member states, such as many Latin American countries, there is concern that the G-20 can use its influence within IFIs to dictate new rules to G-20 outsiders, especially with respect to the financial crisis and international development. The G-20's ability to bypass universal membership organizations has been strongly criticized among non-G-20 UN General Assembly members, as the G-20 has avoided co-operating with the UN General Assembly and thus has successfully circumvented the concerns of these states (Heinbecker 2011, 11).

The G-20 has limited its membership in part out of efficiency considerations, namely the concern that inclusion of too many disparate countries would strain its ability to reach consensus, and it maintains that its limited size is part of its success. However, efficiency concerns also mask potential conflicts of interest. Another motivation likely at play for established economies is that the inclusion of additional emerging and other non-Western economies could result in a shift in the balance of institutional power. While the voting quota system at the IMF makes it difficult for balancing coalitions to be effective there, the less inclusive but more equal G-20 has already enabled emerging economies to co-ordinate with one another to bargain harder for their preferred reforms. This was the case, for example, in the negotiations on New Arrangements to Borrow (NAB), an arrangement by which a group of members provides the IMF with supplementary resources when these are needed. Within the G-20, China, Brazil, Russia and India successfully pushed for an arrangement by which the four of them could collectively veto activation of IMF credit lines (Woods 2010, 9). Continued exclusivity puts a limit on the bargaining power of non-Western states and prevents a potential shift in the balance of institutional power.

How has the G-20 attempted to respond to these concerns? While the lack of explicit and formalized membership rules has been frustrating for non-members, it has also afforded the G-20 discretionary flexibility in who can attend meetings and who belongs to the group. The G-20 has attempted to include non-members by issuing ad hoc meeting invitations to non-member states. Spain, for example, was unsuccessful in its attempts to become an official member of the G-20 but it is nevertheless included as a 'permanent guest' in all G-20 meetings. The inclusion of non-members was more directly addressed at the G-20 Toronto summit, which made an explicit effort to be more inclusive. It was marked by much wider participation of non-G-20 countries, including Algeria, Colombia, Egypt, Ethiopia, Haiti, Jamaica, Malawi (representing the African Union), Netherlands, Nigeria, Senegal, Spain and Viet Nam (representing ASEAN). This move reflected the G-20's acknowledgment of concerns that the G-20 would reach agreements without the input of and without reporting back to affected non-G-20 countries. Now all G-20 summits include some countries from outside its direct membership.

Despite these attempts at informal inclusion, the G-20 has not arrived at an institutional solution to deal with those excluded. Indeed, the ad hoc nature of non-member country inclusion emphasizes the asymmetrical relationship between insiders and outsiders and the institutional intransparency of the G-20. Especially as the G-20 takes on a governance relationship over the IMF, the tension between an elite 'steering committee' and the larger group of affected stakeholders can be expected to increase. This is already leading the excluded to form new, alternative institutions, or to find better means to co-operate. Indeed, a number of non-member states, under the leadership of Singapore, have created the Global Governance Group (3G) to co-ordinate and communicate their views to the G-20. To avoid undermining its own legitimacy, the G-20 would need to create formal mechanisms of outreach to non-members (both states and non-states) and systematize membership rules by, for example, including members who represent regional constituencies.

Agenda-setting

Despite the 'like-mindedness' created by the G-20's exclusivity, existing G-20 members have different priorities when it comes to financial governance. These lines of difference are especially visible between developed and emerging economies. Emerging economies have been primarily interested in reform of governance institutions and the strengthening of development aid, both of which require concessions by developed countries. Developed countries, in turn, have been primarily interested in preventing protectionism, stabilizing currencies and preventing tax evasion, which tend to have implications for policy change within less developed and emerging market countries.

After the Asian Financial Crisis and before the current financial crisis, the G-20 responded to differences in priorities by expanding its agenda to include topics not directly related to financial governance. The emphasis shifted away from crisis prevention and resolution to the broader and longer-term challenges of globalization. The rotating chair of the G-20 allowed emerging economies to bring topics such as development and aid, IFI governance reform and increasing commodity prices onto the agenda (see G-20 *History* 2007, 41, Table 1).

However, with the latest financial crisis attention has again refocused on financial issues more narrowly construed. Terrorism, food and energy security, and climate change have been largely neglected, while development aid has been addressed only in a secondary way. The main components of the response to the financial crisis have been attempting to co-ordinate national stimulus action, committing resources to the IMF and discussing financial market reform. The summit action plans focus on improving country surveillance and monitoring programmes as well as promoting reform of accounting and banking standards.

There is an argument to be made that the continued relevance of the G-20 depends on its ability to expand its agenda once again. Andrew Cooper and Eric Helleiner, for example, propose that the G-20 needs ambitiously to expand its mandate in order to maintain its relevance and momentum, even as the immediacy of the financial crisis recedes. They argue that '[a]bundant risks exist for the G-20 if it does not ambitiously expand its mandate' and so the G-20 should tackle key global public goods such as climate change, food security and global health, and encourage transfers of knowledge, wealth and technology (Cooper and Helleiner 2010, 10; see also Carin *et al.* 2010, 5; Heinbecker 2011, 4). The fear is that leaders will reduce their involvement in and commitment to the G-20 if it does not continue to be involved in a variety of issues. According to this view, 'The G-20 must go on the offensive and show that it has the functional capacity to deal with pressing global issues' (Cooper and Helleiner 2010, 3).

However, another argument contends that the G-20's involvement in a wide array of issues creates confusing overlap and fragmented authority (Zedillo 2010). From this perspective, the move away from financial sector reform after the end of the Asian Financial Crisis and towards other topics may have weakened the G-20's ability truly to engage in the kinds of reforms that could have mitigated the recent global crisis. While attention to a broader range of issues might keep the G-20 in the spotlight, global governance might be better served by having the G-20 specialize in specific governance issues. Unlike with global trade and the WTO, after all, there is no agency directly tasked with global financial regulation. The creation of such a centralized agency might be more effective and more legitimate for the purposes of global financial governance (Eatwell 2000).

The larger question at stake here is whether the G-20 is best seen as a 'steering committee' or a 'crisis buster'. The latter requires a more reactive posture, a flexible G-20 ready to engage in policy issues as they become relevant. This approach emphasizes the ability of the G-20 to quickly convene leaders of the world's most influential states when they are confronted by urgent threats—such as major terrorist attacks, skyrocketing energy prices and supply constraints, or exploding commodity prices. The G-20 would act as a quick-reaction team and would need to remain flexible to adjust quickly to events by adopting practicable action plans. The other governance view envisages the G-20 as a global steering committee that invests up front in a range of specific long-term challenges. In this model the G-20 would concentrate on a set of issues that it would supervise over time.

Policy co-ordination

In order to avoid an outcome worse than the Great Depression of the 1930s, it was clear in 2008–09 that states needed to avoid beggar-thy-neighbour protectionist measures and to commit to stimulus measures at home. The G-20 played a pivotal role in getting member states to co-ordinate policy on national fiscal and monetary expansion, as well as co-ordinating an exit from these measures. This level of policy co-ordination was enabled by an early institutional adaptation, namely the decision to upgrade the G-20 to a leaders' summit. The G-20's two-track existence, as a forum for ministers and as a leaders' summit, has enhanced its ability to take strong action. A leaders' summit reduces the principal-agent problem that is more intensely faced by ministers acting as agents for their leaders. Leaders are able to agree to trade-offs, make concessions and exert pressure in a way that finance ministers and central bank governors cannot.

During the height of the crisis, some form of global response was in the interest of nearly all states, so it was not too difficult to get states to agree to some basic policy co-ordination. But as the crisis recedes it has become increasingly difficult to reach common ground on issues such as resolving trade imbalances, increasing financial market regulation and IMF governance reform, making deeper co-ordination difficult. Initial expectations that the crisis would lead to joint action to overhaul financial governance have been disappointed. Moreover, as the G-20 agenda widens again, achieving policy coherence on a larger set of issues seems illusive given the diverse interests and priorities of states. Moving forward, the G-20 faces the problem of internal fracturing.

Embedded in these difficulties are both questions of legitimacy and effectiveness. The perceived legitimacy of the G-20 will be influenced by how well it is able to come to equitable policy arrangements given the mix of developed and emerging economies that comprise it. In the absence of formal mechanisms for aggregating preferences, the relative power and influence of members will be decisive in determining the fault lines along which policies can be determined. In the absence of a manifest crisis, there is a risk that the interests of smaller or emerging economies will be marginalized and that the G-20 turns into a forum used by a small group of developed countries to generate broader support for their own preferences. On the other hand, over the last decade the emerging economies have developed the skills and capacity to manoeuvre within the G-20—including the capacity to build coalitions and caucuses (Martinez-Diaz and Woods 2009; Woods 2010). However, the development of caucuses within and ad hoc groupings outside the G-20, threatens to undermine the focal nature of the G-20 and its effectiveness in reaching coherent outcomes.

One possible response to these challenges would be to limit 'one-size-fits-all' solutions and instead to intensify work on tailor-made solutions to common problems, such as within the MAP, which take into account the needs of individual states. However, over the long term, it is likely that the G-20 will only be able effectively to co-ordinate policy by undertaking some institutional reforms. Thus far there have been no attempts to create such an institutional response. No new mechanisms for aggregating preferences and overcoming dissensus have been introduced, and divergent national interests make institutional strengthening—in the form of increased delegation, for example—difficult to achieve.

In addition to the co-ordination of national policy, the G-20's 'orchestration' relationship to other international institutions is a source of legitimacy concerns. The G-20 currently 'outsources' the implementation of its agenda to other international institutions, even though the G-20 has no official authority over them. Thus far, the IFIs have been co-operating with the G-20. However, over time, disagreements and turf-battles are bound to appear. It is important for the G-20 to clarify its agenda and mandate compared to other institutions, even while maintaining the network nature of their interaction. The G-20's relationship to the UN is already marked by tension directly related to its exclusion of states otherwise represented at the UN. Seeking out a consultative relationship with the UN General Assembly might allay fears that the G-20 appears to be superseding it as a decision-making body.

Institutional structure

The G-20's weakly institutionalized structure and quasi-informal nature provide it with a useful kind of flexibility that has, in some ways, increased its effectiveness over other more formalized IFIs such as the IMF. The G-20 has, for instance, been credited with breaking the deadlock within the IMF over quota reform. By moving discussions of financial governance to an informal group with no explicit institutionalization of inequality, the Group appeared to satisfy calls for an open and fair governance reform discussion that was too contentious to pursue within the IMF. But the Group's lack of authority to directly implement any changes made this a relatively cheap move, while at the same time possibly forestalling a move by non-G-7 countries to pursue more radical reform strategies. In this way, the G-20's combination of institutional weakness with agenda-setting power can be instrumentally used to avoid deep reforms on issues that are controversial for powerful interests (Stone 2011).

A further limitation of the G-20 is that its informality means that it is unable to enforce member state compliance with its agreements, with obvious implications for effectiveness (Zedillo 2010). Meanwhile, the freedom won from the absence of formal rules and procedural transparency also means that the G-20 is able to set the regulatory agenda and decide on which IOs to support without being constrained by internal or external accountability mechanisms. The inaccessibility of the G-20 for outside actors, especially civil society actors, also compromises its claims to legitimacy. G-20 summits have been accompanied by protests from civil society actors who see the Group as complicit in creating the inequality and poverty associated with globalization.

The G-20 has made some structural changes in response to the efficacy challenges that it faces. The greatest amount of movement in this direction has happened not at the G-20 itself, but in the G-20's support for greater formalization of the FSB. In addition to rebalancing its membership, in 2012 the FSB agreed to formulate Rules of Procedure to improve its internal governance, to create Standing Committees and to investigate the possibility of vesting the FSB with legal personality under Swiss law (for more on the FSB see Pagliari this volume). The G-20 itself has done less to explicitly address its governance capacity. In an indirect way, the MAP can work as a monitoring mechanism. The MAP develops and implements common yardsticks to assess member progress on commitments made within the G-20. But the MAP is essentially an internal mechanism without any teeth. Strengthening the MAP into a harder accountability mechanism that also makes binding policy prescriptions would be one step toward giving the G-20 a stronger institutional structure (Subacchi and Jenkins 2011).

The most common proposal for G-20 reform is the call to create a permanent secretariat (but see the recommendation for a 'non-secretariat' in Carin *et al.* 2010). A permanent secretariat could improve continuity and follow-through from summit to summit and it could take more control over setting the agenda, making it more systematic than ad hoc. In its most structured form, the G-20 could become a type of Global Economic Council with clear procedural rules and a well specified mandate. But such changes would require more bureaucratization and it would most likely come at the expense of member state flexibility. At this point, the G-20 appears unlikely to undertake any major changes that would significantly increase its formalization or bureaucratization.

Perhaps a more likely, and more important, step would be for the G-20 to create institutional mechanisms for more formal and systematic consultation with non-member states and non-member organizations. Such mechanisms would help to offset concerns that the G-20 is not transparent, and they might improve both the legitimacy and effectiveness of the Group by allowing more input from outside without compromising the internal coherence of the group. The G-20 does engage in informal consultation with other actors, but the ad hoc and asymmetric nature of this engagement does not do much to improve its legitimacy. The legitimacy of the G-20 could be greatly improved by opening official avenues of access for unrepresented groups, as most other IGOs have already done.

Conclusion: the G-20 after the global financial crisis—failure to adapt or big new player on the block?

Emerging from this assessment of the G-20 are two competing narratives. On the one hand, the G-20 appears to be a big new player in global financial governance, taking on a leadership role in the aftermath of the crisis. Moreover, the G-20 represents two significant institutional innovations. First, its membership reflects a growing realization that the balance of power among the central players in the global economy has shifted and that existing institutions insufficiently reflect this shift. Second, its own institutional flexibility and its networked interaction with the IFIs that it orchestrates reflect a leaner, more agile, rapid-reaction force than the cumbersome, phlegmatic and entrenched IGOs of the post-World War II period. The proliferation of ad hoc clubs of common interest represents a contemporary experiment in governance that will likely shape institutional forms in the future.

On the other hand, the G-20 has also largely failed to adapt to challenges to its efficacy and legitimacy. Institutional changes are, and will remain, difficult to implement in large part because of the divergence of interests among the member states. States have proven unwilling to give up sovereignty by delegating decision-making power or empowering the G-20 with enforcement mechanisms, and they have proven reluctant to make deep regulatory reforms even after having experienced life on the brink of economic collapse. Even more problematic is the possibility that the deliberate weakness of the G-20, combined with its aspirations of authority, may be an intentional roadblock towards deeper financial governance reforms.

One of the most serious critiques against the G-20 is that it has used its unique combination of authority and weakness to promote a policy agenda in the interest of its strongest members while deflecting, or even impeding, calls for stronger financial governance where this is not in the interest of key players. The G-20's weak institutional structure allows states to deflect pressure away from calls for stronger financial governance and more equitable distribution of governance authority, while its leadership on global financial issues may hinder other forms of financial governance from emerging.

Thus, while this chapter has pointed to a number of institutional solutions that could mitigate both the G-20's efficacy and legitimacy challenges, whether they will be adopted depends on the ability of member states to overcome their short-term interests and to find the common political will to invest in an institution capable of deep reforms that may be unpopular in strong financial and economic capitals.

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