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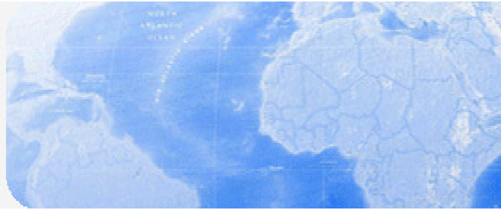

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Analysing the Logic of International Monetary Cooperation in Group-Twenty (G20) Summits

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Abstract

In the aftermath of the global economic crisis, much attention was given to the necessity for reforms. In contrast to the Bretton Woods era, the world economy has developed in a much more *ad hoc* and unplanned way, which from an institutional point of view involves high transaction costs, systemic uncertainty and coordination challenges. The key question we address is whether informal institutions like the Group of Twenty states, (G20), are likely to provide genuine mechanisms for the resolution of inadequacies in the provision of global public goods as well as instruments to face systemic crises.

The main argument is that the G20 does not give expression to more explicitly political considerations that inevitably surround regulatory issues and for this reason it is not, (in its current form), a highly useful framework within which to examine the dynamics of international economic policy cooperation.

The study uses the methodological tools of institutional theory, concentrating on the inefficiency of G20 to create new rules in the international financial system. The latter consists of a set of multilateral agreements, principles, norms, shared understandings and interconnected international groupings which shape transnational economic transactions. It is evident that the G20 targets the network qualities of current global financial governance and is not capable in implementing structural reforms in global economic decision-making.

The paper is organised in the following way. First, it provides an overview of the academic literature on the logic of monetary cooperation. Second, it explores the pillars of G20's cooperation and its contribution in economic actors learning and adjustment process. Finally, the research turns to policy recommendations underlining the need for restructuring global economic policy and systemising the provision of global public economic goods.

Introduction

The most evident characteristics of the current global financial system have been an expansion in its size and a simultaneous rise in its susceptibility to economic crisis and financial turbulence. Indeed many scholars have demonstrated that the enormous increases in international flows of private capital have been a deterrent to classic state activism in foreign exchange market. According to King and Rime (BIS: 2010), average daily turnover rise to almost 4 trillion US Dollars in April 2010. As a consequence of such unprecedented economic evolution, the interest for developing a new international financial architecture became widespread and finally led to the rise of new institutions like the G-20.The purpose of the G20 seemed to be the promotion of discussions on key economic and financial policy issues among systematically significant economies and the strengthening of cooperation to achieve stable and sustainable world economic growth (G20 Communiqué Berlin 15-16 December 1999).

The article is intended to survey the logic that the G20 has articulated since its inception in 1999, in the issue area of monetary relations, detecting the priority it has assigned to key economic norms/principles. More specifically, it seeks to analyse the conception of causality that prevails in the G20's decision-making mechanism. Is the G20 an effective mechanism in which "emerging market economies are able to affect the way in which the global financial system is governed?" (Germain, 2001:421). Is it an inclusive form of governance and a forum to calm short–term financial volatility or is it a strong mechanism providing binding policy coordination and structural reforms? Is the G20 an initiative to integrate emerging market economies more fully and flexibly into the world economy and its main management mechanisms (Soederberg, 2002:614) a way to engage the emerging economies in the merits/norms of the dominant financial practices (Best, 2003:376), or is it a truly effective catalyst for systemic transformation towards a new international financial architecture? Is the G20 a group of states with a common identity or there are diverse states with diverse experiences, challenges and starting points? (Persaud, 2010:645). What type of global financial governance, politically speaking, does the G20 apparatus constitutes and which are the normative aspects of its policies in global financial relations? Finally, which is the subjective meaning of its key recommendations?

In order to address the aforementioned questions, we employ institutional (March and Olson, 1998) and regime (Detomasi, 2006) theory, which can greatly advance our understanding of global financial governance through the influence of formal/informal institutions. The aim is to show that there is a continuing interplay between neoliberal economic ideas (constructivism) and economic/political national interests, (realism) in G20 policy-making. Four claims are made and analysed.

The starting point is the contention that the establishment of the G20 alone in policy fields currently governed by the Bretton Woods system cannot be expected to improve significantly international financial governance because there is no qualitative added value in the global decision-making structures. G20 does not have at its disposal additional innovative instruments that are relevant for efficient global financial governance and that are not already known or available in existing international monetary regime.

Second, it is argued that any major improvement of financial governance through institutional rearrangement can only rely on a considerable modification of decision making rules and a significant change of institutional boundaries. It is submitted that modification of decision making rules, changes the dynamics of inclusion as well as the ability of principal emerging economies to influence economic outcomes. Furthermore modification of the boundaries of financial-monetary issue-areas governed, affects opportunities to link issues and conclude beneficial deals in international economic negotiations. In contrast, a minor institutional reform, strongly embedded in existing neoliberal cognitive framework, cannot be expected to help ensure an effective breakthrough in international financial-monetary procedures. Equally important, irrespective of decision making rules and institutional boundaries, non-participating states in G20, cannot be excluded from the benefits of international financial governance, because the ultimate logic of the latter is the protection of global economic commons.

Third, it is suggested that the G20 cannot be at the same time realistic, beneficial and radical for international financial governance. Acting only as an umbrella for better functioning of existing monetary regime, without modifying the logic and norms of its decision making procedures is irrelevant for global policy and disintegrates consensus in the long-term.

Finally, it is argued that the G20 is not a new independent institution but is closely associated with a particular set of ideological assumptions and policy prescriptions, promoting the sets of implicit/explicit norms, principles, rules and decision making procedures of the dominant neoliberal paradigm. Acting on the basis of the assumptions consistent with the neoliberal thesis may well serve to bring about results consistent with that thesis, irrespective of its perceived veracity or the necessities of the global economic cycle. Thus the G20 appears as a rule taker rather than a rule maker, being part of the international financial network governance. As a result the G20's understanding of the international monetary affairs continues to reflect a concern over the short term effectiveness and equilibrium of the global economy rather than the equity of international economic relations and the legitimacy of the global economic structure. It embraces the functionalist logic that instability and turbulence in financial/monetary issue areas is a rather technical question and it can be resolved only by separating economics and politics in global decision making. Taking into consideration the latter means a necessity to refocus analysis on the discursive dynamics of authority relations in global monetary governance networks and on the conceptual framework that allows identifying the forces that are at play within the G20 edifice.

The article is structured in three sections. The first section examines the broad theoretical framework which defines the purpose of international monetary cooperation. The second section dwells on the norms, principles and values which are considered the key properties of the G20 mechanism and analyses the institutional arrangements derived by the G20 initiatives from monetary-financial issues. Finally, section three concludes by suggesting a series of proposals to make the G20 structure more effective in dealing with long term monetary problems.

Section One: Theoretical Approaches to the logic of monetary cooperation

A number of explanations are often used, to analyze monetary policy differences, exhibited in states' cooperation. The constructivist approach underlines the fact that preferences are malleable in the face of changing perceptions about how the global economy functions. Ideas, which are considered (Goldstein and Keohane, 1993: 10) as "beliefs about cause - effect relationships, which derive authority from the shared consensus of recognised élites" (causal beliefs) influence national monetary preferences.

For example, acceptance of Keynesianism until the late 1970's favoured employment and growth targets in international economic policy coordination (I.E.P.C) than price stability. A central pillar of constructivism is "ideas diffusion" through which decision-makers come to accept a specific way of problem interpretation and suggest relevant monetary policy actions. Haas eloquently states (1990: 23) that as decision-makers "go through the learning process, it is likely that they will arrive at a common understanding that... is likely to trigger a shared understanding of solutions". So, ideas are a crucial dimension of varied forms of structural influence that define the Global Political Economy (Cox, 1987).

Accordingly, in the macroeconomic realm, policy makers' positions cannot be explained without proper attention to ideational variables, in particular, the policy makers' shared causal and normative beliefs, about the nature of monetary relations. Ideas are important, because of uncertainty over the basic workings of the economy, the obstacles of interpreting data about the effects of policy, and the disagreement over what constitutes proper macroeconomic policy. Moreover, uncertainty about cause and effect relationships comprises ambiguity over the distributional effects of exchange-rate coordination. The choice is not politically neutral and involves normative contests over the balance between economic agents and the institutions of the state. Accordingly, the essence of the "social purpose" of New liberalism which emerged in late 1970's, was national than transnational in character and was predicated on financial liberalisation and hands-off state strategy than on strong and effective intergovernmental cooperation. What are the preconditions for such a "paradigm shift" in monetary relations?

Peter Hall proposed (1993) a process of social learning in economic relations with three levels namely, changes to the setting of existing instruments (First Order Change), adoption of new instruments (Second Order Change) and goal alteration (Third Order Change). The last one, concerns policy-makers' perceptions of the very problems they are meant to be addressing. Thus, changes in monetary strategy depend, not only on the displacement of norms and principles blocking the way, but on the promotion of an efficient new analytical framework in monetary relations, establishing "dominant clichés" in public policy. Progressively, from late 1970's onwards, economic ideas reflected the conviction that markets ought to be free and that state intervention was unlikely to be effective in any case. Moreover, a rising number of politicians and technocrats believed that autonomous central banks would have led to better economic results.

A second explanation focuses on the structure of national economies, in order to understand why governments vary in their willingness to reduce monetary policy autonomy. Within this domestic political economy approach, autonomy employed by the government is determined heavily by domestic groups' influence and support. If domestic groups lack the cognitive power and the institutional influence, they don't have significant access to information and to procedural instruments, and thus, they become more vulnerable to manipulation. John Goodman argues (1991) that politicians will choose an independent central bank to insulate policy from future opposition governments, especially from political parties which adopt high-inflation policy programs. Bernhard and Leblang also assert (1999: 72) that politicians' incentives over the exchange-rate regime reflect the configuration of domestic political institutions, especially legislative and electoral institutions.

Henning goes deeper analysing economic institutions linkages and interdependence, nationally, stressing that in states with close bank-industry linkages, a strong political coalition can emerge favouring exchange-rate stability. As he puts it (1994: 6), there are three principal causal connections between bank-industry relations and external monetary policy: commonality of interests, interest aggregation and expression and channels of access to policy makers. Thus, Henning regards the policy decisions of monetary authorities and the financial environments within which they operate, as closely interrelated, with strong feedback effects from one to the other. Consequently, any systemic

or exogenous influence is filtered through structures and institutions and often directed to different national policies.

A third explanation underlines the systemic changes that occurred after the collapse of the Fixed Exchange Rates System. Since the early 1970s, the International Financial System has evolved from one in which most financial flows were channelled through loans made by firms based in the triad market, to a complex system in which investors, speculators and corporations from all over the world transfer capital using a variety of financial instruments, including derivatives, bonds and stocks. The derived spillovers are important not only on the set of technical linkages, but also on the ability to control cross-border financial flows. Further, as Webb highlighted (1995), changes in the financial interdependence of countries have made I.E.P.C. more costly in domestic terms. Indeed, the enormous increases in International flows of capital (according to King and Rime, foreign exchange turnover reached $4 trillion in April 2010: 20% higher than in 2007), have been a deterrent to classic G-20 activism in foreign exchange markets. Substantively, the G-20 faces an increase not only in the volume of private capital flows across borders, but also in the number of actors involved in these flows. This trend, combined with the fact that cross-borders spillovers have gradually increased in intensity render G-20 intervention more difficult to implement. The question thus is if such an exogenous influence on domestic monetary policies emerged in a technical and spontaneous way.

According to Simmons, (2001: 590), financial harmonisation in the 1980s and 1990s resulted less from mutual adjustment than from unilateral decisions imposed by the dominant financial centres on other jurisdictions. Helleiner (2003) agrees that advanced industrial states have played a crucial role in globalisation, by granting increasing freedom to economic agents, by avoiding the implementation of effective capital controls and by trying to control the emergence of global monetary crises.*

A number of scholars offer similar insights, arguing that the size of the US market gave US financial regulators an incentive to unilaterally impose specific regulatory frameworks before 2007, in the sense that it was considered more costly to change US regulatory innovation, than to make an enormous effort to alter the policies of other states. Some even argue (according to the Dollar Wall Street Regime thesis), that the US Treasury exploited its links with Wall Street to orchestrate market movements and thereby defined the value of

the dollar in conformity with the targets of US Administration, (Baker, 2006: 24). Thus, market power linked with US hedge funds was considered as an extension of US' financial power, reflecting the influence of Wall Street Institutions in the World Economic System.

The emerging Neo-liberalism is further propagated by the elite communities which include (Soederberg, 2002) the coalitions of intellectuals, business leaders, technocrats and liberal politicians. This new transnational financial community (Armijo, 2001), or as Gill and Law call it, "the transnational hegemony of specific social groups" (Gill and Law, 1989), became prominent in the 1980s, imposing an ontological primacy of market logic over all levels and areas of human activity (Roukanas, 2009).

The accommodation of this new "social purpose" in the domestic environment is taking place through the structures of the states which according to Cox (1987: 254) "are adjusted so that each can best transform the global consensus into national policy and practice with state structure both referring to the machinery of government and to the historic bloc (the alignment of dominant and acquiescent social groups) on which the state rests. The transnational Haute Finance (to recall K. Polanyi,1944), ensures that Neo-liberal reforms are locked in, favouring the separation of economics with Politics, or the New Constitutionalism (S. Gill, 1992), which is "the move towards construction of legal or constitutional devices to remove or substantially insulate the new economic institutions from popular scrutiny or democratical accountability". Thus as Simmons and Elkins underline (2004: 171), there is a strong policy diffusion, in which the decision to liberalize by some developed states influences the monetary choices made by all other countries.

The afore-mentioned analysis, demonstrates the necessity of a fruitful synthesis of all approaches, (based on the explanatory value of ideas, interests, gains and institutions) to uncover their mutually reinforcing interaction, which shapes international economic policy coordination, (I.E.P.C.), content and G-20 states' preferences on monetary issues.

Section Two: The logic of G20 monetary Cooperation: Priorities and Progress from Berlin (1999) to Seoul (2010)

The necessity of new global governance regime for financial/monetary issues has become more apparent with the onset of the credit market crisis of 2008 (Mundell, 2009:494). Although many authors highlighted the links between governance and market institutions (i.e. Cerny,2001), focusing on the impact of the Bank of International Settlements (Kapstein,1994), or the International Monetary Fund (see Gros et al, 2009 also IMF, 2009 and Pauly, 1997) on regulating effectively complex issue areas of finance, few have conceptualised the dynamics of global governance networks. As a result, there was no holistic analysis of various key subjects like the patterns of inclusion/exclusion in global economic structure, the modes of states' coordination without centralisation or the shared cognitive pillars for common transnational economic action.

The present crisis revealed four fundamental problems of the existing global monetary/financial system. First the crisis represents a case of massive market failure as indicated by the inability of actors to control systemic risk. Secondly, the global financial crisis exemplifies a case of regulatory failure of a similar magnitude, as it is evidenced by the inability of national regulators to contain the systemic risk of interdependent bank institutions. Third, the policy–led responses to crisis have been driven primarily by domestic concerns in affected countries and do not address the functional links of interstate economic flows and the challenges to the existing modes of capital reproduction. Last but not least, the crisis brought to surface the lack of an international lender of last resort with the ability to provide all necessary long-term liquidity to markets.

Taking all these problems into consideration, the article argues that more attention should be placed on G20's cooperation logic, rather than on its superficial initiatives on technical-procedural aspects of global financial governance. In order to unravel the current functionalist logic, the analysis is based on institutional methodology, recognising three fundamental levels of reality.

At the first level, there are basic concepts, norms, conventions and values of the G20. These are considered the key properties of the G20 and are the most enduring and resistant

to change. Concepts are extremely important for institutional analysis as they exert the greatest influence on the nature of the components of analysis at all levels, defining the cognitive conditions that lead to compliance or to non-compliance with conditions for systemic change. It is argued that concepts, norms and values reflect and shape the preferences of G20 states and thus influence who is included in different types of global economic decision-making, how economic information is processed and structured and what kind of economic action is taken. Although, there is a strong interaction between the G20 and Bretton Woods pillars of financial governance, it seems that the fundamental goal of the G20 remains the continued liberalisation of governance structures both domestically and internationally, irrespectively of global economic asymmetries and needs. While the G20 recognize that "the crisis has a disproportionate impact on the vulnerable in the poorest countries and (there is) collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential (G20 Progress report, St.Andrews, 7 November 2009: point 9), the range of allowed debate has remained narrow and constrained in a neoliberal cognitive framework. Obviously, the question of how to institutionalise neoliberal principles/norms at the domestic level retains the essence of G20's action. As a consequence, in order to unravel the key issues at first analytical level, the priority is not to assess the simplicity of G20 rules, their durability , their effectiveness or even their concordance but their raison d'être and how the latter is embedded in the complex institutional environment of global finance.

Indeed, if someone pays closer attention to the logic underpinning G20 communiqués, it becomes clear that the core of the neoliberal paradigm has remained unchanged. Under the banners of transparency and stability G20 leaders are actually proposing specific norms, values and principles on national decision making systems rather than changing international rules of monetary/financial game. Although recognising the social cost of disembedded liberalism (Leaders' statement in Pittsburgh Summit, Sept 24-25 2009: para 22), as well as the need to increase the global institutions' responsiveness to crises (G20 Progress report, July 20, 2010: par 48), all the policies are still considered temporary deviations from the ideal international monetary-financial regime. Despite being denied in words, the Universalist logic of economic policies is not only still in place but is promoted through a one-size-fits-all framework. This is why it is suggested that the majority of claims in G20 Communiqués/policies do not represent a genuine alternative international social

purpose, but a functional moderation within the current global international nexus of finance.

Three examples clearly demonstrate this reality. The first is that economic/monetary problems engendered by global economic asymmetries necessitating a New International Financial Architecture for their alleviation, are considered to be of a transitional nature (G20 Leaders' Statement, Pittsburgh Summit, 24-25 September 2009 and G20 Progress report prepared by the South Korea Chair, July 20, 2010: para 3). They are seen as associated with the temporary dislocations and imbalances generated by the economic crisis and current restructuring. As a result, political/institutional action needs to be oriented to mitigating and offsetting these transitional dislocations as well as their negative spillovers. The faith in the intrinsically benign character and technical superiority of neoclassical paradigm, as well as its capacity to eliminate inequality, generating non-inflationary growth and perfect resource allocation, remains the fundamental normative pillar and conceptual framework. The second example is that all the so-called "transitional economic problems" are considered to be negative results of national deficiencies, internal policy failures, national economic mismanagement and incomplete structural reforms. Consequently, economic hurdles stem only from endogenous institutional/political variables and obviously national economic failures are the key obstacles to national effective insertion in global economic structure. The third issue is the tension between the recognition of the necessity for institutional management of the crisis' negative spillovers on the one hand and on the other hand the downgrade of institutional mechanisms that might serve such a policy.

The above mentioned first level analysis demonstrates that the logic behind G20 formation is largely systemic and functional in character. As a result, it does not address the structural deficiencies of the neoliberal discourse of governance but rather tries to face the structural-cognitive problems by short–term conditional liquidity and superficial changes in global economic decision-making (i.e. rise of quotas of emerging economies in the capital of the International Monetary Fund). There is clearly a circular logic in which the neoliberal cognitive framework serves to reduce the global governance of finance to a set of technical policy making and loose institutional arrangements within the core of the Bretton Woods System that in turn are viewed as necessary for market efficiency. The enforcement of Central Bank Independence removed the setting of interest rates by politicians and placed it

in the hands of a technocratic élite forming a zone of institutional separation between societal interests and policy - making. Monetary orthodoxy advanced, relying for its force on the hypothesis of economic convergence, a contention that all states tend (or ought to tend), toward common policies of organising their monetary action. The "institutionalisation" of liberal principles, exerted important influence not only to the operating rules / norms for national decision - making systems, but also to economic actors' attitudes, separating monetary issues from political cycles. Consequently, neoliberalism required countries not only to behave in accordance with certain rules, norms and principles but sought to create a unique analytical framework for economic problems and financial crises.

Based on this first level analysis, one can also clearly perceive the nature, content and scope of the G8-G20 consensus. Such a kind of targeted consensus is usually described in academic literature as “organisational hedging”, a term which underlines establishing links-relations with key actors outside the G8-G20, as well as establishing new modes of economic practice. As a result, newly formed links within the G20 create an opportunity for sharing policy risk and policy uncertainty, as well as an opportunity for reducing transaction cost and negotiation complexities. The so-called new international financial architecture is a simple institutionalisation of functional changes and a clear imposition of existing economic norms on new comers’ economic strategies. Financial intermediaries, sovereign investors and sovereign wealth funds created with G20 mechanism a network of strong ties giving an absolute control of global financial market. These network links are likely to affect how the institutional/financial market is governed, even if the specific configuration of the networks will change once the current economic crisis has receded. Obviously, shared identity of G8 and G20 is not only cognitive but also functional because collective interests are formed by realistic assumptions on the basis of problem–solving in times of crisis and a lack of international lender of last resort. In this way, G20 becomes the principal marketing route of G8 neoliberal economic policies based on a common perception of collective threats and an undisputable ideological framework of policy action. Which are then the pillars of the G20 monetary logic?

Although the G20 communiqués are theoretically in favor of “a strong, sustainable and balanced growth” (G20 Toronto summit declaration, June 26-27 2010: annex 1), the basic

assumptions of the "social purpose" of the Neo-liberal paradigm in the G20 Summits, (although the list is not meant to be exhaustive), are the following:

1) The rational expectations hypothesis which states that all the market participants will eventually converge on a correct model of the economy. Implicitly, the G-20 mechanism recognizes the inter-subjective nature of finance and pushes countries and economic agents to develop a new ethical code, a new attitude that is completely compatible with market liberalisation. The social purpose that justifies these actions, denies its own normative aspirations, claiming universality. Further, the new purpose implies an analytical separation of economics from politics, conceptualising financial liberalisation as a natural result of market integration and is directed towards the maximisation of economic efficiency. The G-20 urges states to follow standardised monetary rules and implement recommended reforms from International Monetary Fund (I.M.F). The functional integration of the "Washington consensus principles" (Williamson, 1993) is a *conditio sine qua non* for successful economic policy.

2) The efficient market hypothesis which states that market collect and distribute information efficiently, ensuring that prices reflect fundamentals or as U.S' former Treasury Secretary Summers noted (1989:166) "the ultimate social functions [of financial markets are], spreading risks, guiding the investment of scarce capital, and processing and disseminating the information possessed by diverse traders... prices will always reflect fundamental values... The logic of efficient markets is compelling".

3) The call for a new fundamental architecture is a minimalist enterprise, based on the provision of more and better information for all. The intension of course, is to impose a specific set of norms and principles, a uniform set of financial institutional rules, rather than building on domestic institutions, taking into account the variation of financial needs and experiences of participating countries. Within this framework the I.M.F. strengthens its surveillance mechanism and pays close attention to the appropriateness of countries' exchange rate regimes.

4) There is agreement on the need to reduce fiscal deficits and the desirability of giving Central Banks the target of price stability. As it is mentioned in G20 communiqués monetary policy will continue to be appropriate to achieve price stability and contribute to

recovery (G20 Toronto Declaration, June 2010, preamble: para. 10 and G20 communiqués of the Finance ministers and central bank governors in Republic of Korea, 5 June 2010: para. 3). Accordingly, the basic causes of turbulence in the International Monetary System are not systemic but reside with the domestic environment of states.

5) There is agreement on the need to speed up structural reforms and to increase flexibility of labor and product markets (G20 Toronto summit declaration, 2010, annex 1: para. 13). Structural policies, thus, seem to gain an important (although unequal), status to monetary policy in order to sustain growth prospects and potential (G20 Toronto declaration 2010: para. 10) and to foster private demand (G20 leaders' statement in Pittsburg summit, September 24-25 2009: para. 14).

6) Flexibility in exchange rates of the major currencies is the basic feature of the monetary system (G20 Toronto summit declaration 2010, annex 1: para. 12), because unanticipated events occur and economic fundamentals change. Interventions could be effective in certain circumstances, especially when they reinforce changes in policies that lead to changes in market expectations about future exchange rates. But even in that exceptional case, the instrument of intervention must be used judiciously, given its implications for monetary policy and the amount that the authorities can mobilize, relative to the size of International Capital markets. Moreover, such an intervention should be based on a clear and consistent G-20 assessment of the economic fundamentals. Finally, an important condition for success is the appropriate timing of intervention.

7) Sound fiscal policies are considered essential to sustain recovery, (G20 Progress Report prepared by Korea Chair, July 20, 2010: para. 1), provide flexibility to respond to new economic shocks and avoid leaving future generations with a legacy of debt and deficit (G20 Toronto summit declaration, 2010, annex 1: para. 9). As a result G20 countries have a responsibility to ensure sound macroeconomic policies that serve long-term economic objectives and help avoid unsustainable economic imbalances.

8) Finally, there is a commitment to refrain from raising barriers or imposing new barriers to investment or trade in goods and services, imposing new export restrictions or implementing inconsistent measures to stimulate national exports (G20 leaders' statement, Pittsburg Summit September 24-25, 2009, annex: para. 5).

The second level of analysis concerns the institutional arrangements and includes multiple governance networks and hierarchies, influencing behavioral motives, power distribution and risk/profits within G20 structure

Although the communiqués favor the idea of the G20 as vehicle for institutional inclusion of all states and actors in international financial architecture, the reality seems to be that G20 initiatives have by no means transformed crisis management mechanisms in the global monetary order. Instead G20 states focus on three issue areas:

1) Strengthening national financial systems is considered a priority and emphasis is placed on domestic policy. In order to achieve this, several sets of actions are described and are deemed necessary to face national information deficiencies and institutional problems. They include structural reforms across the entire G20 membership, enhancing corporate governance reform, greater exchange rate flexibility (G20 Toronto summit declaration, 2010) and transparency of all national financial sectors (G20 Progress report by Korea Chair, July 20, 2010: para. 43). The idea is to take action at the national level to implement global standards consistently in a way that ensures a level playing field and avoids protectionism. Advancing transparency and accountability at the national level are equally considered targets. All improvements should focus on the implementation by state institutions of common global codes of conduct that establish the benchmark for best practices. Under the heading of prudential regulation, the G20 suggest that "the national implementation of higher level and better quality capital requirements, counter-cyclical capital buffers… as elements of the Basel-II capital framework… will create a financial system better prepared to withstand adverse shocks" (G20 Progress report by Korea Chair, July 2010:paragr 49).

2) Preventing and managing international monetary/financial crises is also a crucial target. Again, limiting the scope of state intervention in financial markets and forwarding an effective insolvency and creditor-debtor deals, are governed by specific prescriptions and standards, underlined by the Working Groups of G20 and of course by the decisive role of the International Monetary Fund.

3) Finally, the second level analysis demonstrates the volition of G20 not to forward a structural-systemic transformation of global finance but rather to promote an efficient

coordination of the already existing key institutions of global financial architecture, like the IMF the World Bank, the OECD and the Bank for International Settlements. Among these institutions the IMF's role as a primus inter pares is evident. It seems that the IMF possesses sufficient financial resources to provide conditional liquidity. As it is stated in the last G20 progress report (Prepared by Korea Chair, 2010: para. 7)," the G20 agreed to increase the resources available to the IMF through immediate financing of $250bn, subsequently to be incorporated into an expanded and more flexible New Arrangements To Borrow (NAB) increased up to $500bn and to consider market borrowing if necessary". Even more importantly, the authority of the IMF in prescribing Universalist economic solutions is further strengthened. As it is noted in the G20's Progress report of July 2010 the "G20 will support now and in the future, candid, even-handed and independent IMF surveillance of our economies and financial sectors, of the impact of their policies on others and of risks facing the global economy" (G20 Progress report prepared by Korean Chair, July 2010: para. 33).

Evidently then, the IMF becomes the centre of global financial nexus and is charged with other already existing global institutions (see relevant chapters in G20 progress Reports of previous years) the control of state economic policies. It is obvious that in accordance with the national explanation of global economic crisis, preventing and managing crises is held as best served by suitable state level economic policies in accordance with the neoclassical global economic principles, norms and values. Although the G20 has concerned itself in words with normative and distributional questions (see Pittsburg leaders' Statement, 2009 and G20 Toronto Communiqué, 2010), that are linked with the negative externalities of international financial architecture, it does not suggest a substantive reformist initiative of global institutions but stays confined in a neoliberal cognitive framework. Despite the ambitious targets of the Washington Plan of Action to promote long term solutions to fundamental problems of global decision making mechanisms (see final report of G20 Working Group-3 on the reform of IMF, March 2009 and G20 Working Group-4 Final report on the reform of World Bank and other multilateral development banks, March 2009), collective positions on reforms proved to be highly functional and short-term.

Finally, G20 mechanism has done little to undermine market-based governance and the networks of financial authority that include the credit rating agencies. Instead of promoting

a single universal and multilateral organisation for credit rating of states or even imposing in the midterm strong obstacle to the links between credit rating agencies, private banks, hedge funds and individual speculators, it is confined in providing general terms for transparent credit rating.

The third level of analysis concerns not institutions *per se* but the systemic dimension of international monetary architecture. The sustainability of G20 policies rests not only on getting the international economic organisations working more efficiently on an individual basis but to do so in an interconnected fashion. This means functional and operational synergies between all key global institutions to face market complexity and size (see the four pillars of the G20 reform agenda in Toronto Summit 2010: para. 17-22). As the G20 Toronto communiqué in 2010 states, “We commit to strengthening the legitimacy, credibility and effectiveness of international financial institutions to make them even stronger partners for us in the future” (paragraph 24).

The third level of analysis also concerns the hierarchy of issue-areas and the multiple linkages among them. While each of the issue areas discussed has some autonomy, an institutional logic leads all the issue areas into a common cognitive configuration. This occurs because all the issue areas are highly embedded in the neoliberal framework and as a consequence their logics are symbolically grounded on the same values (first level analysis), organisationally structured around extant institutions (second level analysis), technically constrained by the same rules (first level analysis), materially specified according to power sharing (realist explanation) and politically legitimised according well established decision making procedures.

G20 proposals clearly try to address institutional complexity and regime inertia coming from a proliferation of formal/informal groups/institutions with overlapping policies and even sometimes short-term conflicting priorities. Again the logic is to legitimate subjective monetary/financial practices that are organised through hierarchical market institutional networks. In this way the overall emphasis of the G20 shifts from the question of how to reorganize issue-area regimes and institutional hierarchies to whether the national economic logic guarantees economic equilibrium. This is not done however automatically and elegantly by the market’s invisible hand but rather by discursively formed transnational coalitions and alliances seeking to maintain already existing international /monetary

financial arrangements. Although some argue that transnational networks and coalitions act as an opportunity for negotiation between developed and emerging states, the reality is an export of norms, principles and values from the former to the latter in an official and institutionalised way. Norms that challenge the neoliberal cognitive framework are not given the capability to shape collective economic behavior As a result, the rules of financial issue-areas favor the already existing networks of international financial architecture and impose their logic of regulating transnational financial/monetary relations. As Cerny (2001:6) puts it, "markets are becoming more entrenched not just as narrowly economic mechanisms, but as quasi-political governance structures in their own right".

Section Three: Summing Up and Concluding Remarks

The objective of this article was to identify and characterize the logic of monetary cooperation among G-20 States, during the past thirteen years, based on Communiqués and statements from the Annual Summits. The overall picture shows that the G20 has served as the essential connector transmitting international financial/monetary governance principles, norms and values into a consensus among key states and then pushing that consensus across the globe. The G20 normative and directional contribution to the International Financial Architecture is highly embedded in present global financial arrangements and its deliberative agenda is strongly influenced by the neoliberal cognitive framework. Although it involved in general terms international organisations, it has shown no sign of involving all states in global decision making, or of inspiring a new international social purpose for the economy. Despite the fact that challenges in monetary/financial relations are both systemic and institutional, the G20 demonstrates instrumental legitimacy and has no volition for radical reforms in international monetary/financial architecture. There is no consensus on a new economic paradigm which can offer an alternative blueprint for international financial governance.

Evidently, the G20 has served as an intervening institutional variable through its role in applying normative consensus in key issue areas of monetary relations when the Bretton

Woods institutions have been incompetent to do so. Besides, the reasoning logic of its existence is to provide a consensus-oriented forum of systematically important countries with a mission to prevent international monetary/financial crises. This second pillar (realist pragmatism) of the G20 reasoning underlines that if accorded the status of club insiders the emerging economies will not act as free riders or in a zero-sum game logic, but will adopt the existing principles, norms and values of international financial architecture. Moreover, they will be willing to share all the risks and transaction costs stemming from international financial turbulence. In this way the central claim of the G20 for a "strong, sustainable and balanced growth," should rather be completed "...among G20 states". Did the G20 as an inclusive multilateralism group, succeed in its functional and economic role in international monetary structure? Despite the effort to consider the G20 as a concert of great powers or as a focal point of coordinated action in the international economic structure, the G20 does not provide genuine mechanisms for the resolution of global public goods such as monetary stability and long-term financial liquidity.

As it has emerged in the course of previous discussions, there are three priorities in G20 policy making. First, the challenge is how to accommodate the incompatible national objectives of US monetary economic policy, the policy preferences of the controllers of financial assets, the neglected interests of non G20 states and the necessity for new decisional arrangements in international financial architecture. There is a clear long-term debate around two competing logics, namely the politics of enlarged coordination among all states and the politics of *à la carte* inclusion in global economic decision making mechanisms. The solution in reconciling the above mentioned logics rests on a new social purpose of international monetary-financial regimes and on truly equitable development. Increasing economic multi-polarity in global structure can be faced only through a new web of norms and a more balanced interaction between international economic structure and domestic autonomy. Additionally, addressing the above tension would not resolve the lack of an impartial and truly inclusive global institution that has the information, the resources, the expertise and the legitimacy to face in time the systemic and structural deficiencies of the international financial architecture. Only a new Bretton Woods and new international economic institutions can look after overall systemic stability and thus promote effectively, (and not in an elitist and *ad hoc* way), monetary policy coordination.

Second, the exit strategy of G20 policies from current short-term economic coordination strategies should be revisited. On the one hand there needs to be a highly cautious approach to the issue of when to decide to reach a collective judgment on whether the expansionary fiscal actions taken thus far are sufficient or excessive. A premature contraction of fiscal policies could well impose a "W curve", in recovery wherein a dip follows the initial rise, whereas providing a longer time period for the current economic-monetary actions to work would give a sustainable U or V type of economic recovery. On the other hand, it is also obvious that prolonged fiscal expansion without global systemic reforms could not generate non-inflationary growth neither reduction of market imperfections nor asymmetric negative externalities. Timing seems critical, as it was shown in 2010-2011 Euro zone debt crisis. Jumping on an exit strategy simply for cognitive-neoliberal reasons or for short-term realistic domestic political concerns will put into doubt the G20's ability to act effectively as a vehicle for international economic policy coordination.

Third, there is a need to develop a theoretical framework that takes the structures, the institutions and the global regimes seriously while recognising the importance of contingent factors at the national level. The new approach should integrate in a holistic way, agencies, norms, structures and institutions, providing an effective framework to perceive and address long-term international monetary-financial problems. As it was shown, issue-areas in international monetary-financial relations are not natural but are socially constructed (Haas,1975). The scope of these issue-areas will be reached if there are efficient trade-offs so as to ensure real benefits for non G20 states while preventing cooperation from becoming unmanageable and too complex. In this direction modification of decision making processes and of boundaries of issue areas is crucial for sustainable global institutional governance. Without such radical changes, organisational failures and institutional inertia will continue to create low institutional performance and ineffective decision making in emerging issue areas of international monetary/financial relations.

Thus, the future of the G20's credibility is a function of its ability to engage states beyond its membership, to coordinate fundamental reforms of the global monetary structure and to ensure long-term coherence in policy development and application. Beyond its instrumental legitimacy in containing negative spillovers in times of crisis, it should be ready to avert crises before they even occur. However, it goes without saying, that as time passes and

cooperative momentum fades, the space for concerted efforts by international financial nexus on the regulatory agenda may be constrained in a significant way. Without prudential financial regimes which encourage systemic stability that face both systemic risk and transaction costs, the idea of a sustainable and equitable economic development seems unrealizable.

Ultimately, three conclusions derive from our research. First, there seems to be a problem in the interaction between cyclical and structural policies in G-20 economic cooperation. Successful policy coordination involves more than monetary discipline and thus more effort should be put toward designing a sustainable framework for counter - cyclical fiscal policy. The economic problems of the USA, the Euro-Area and Japan are simultaneously structural, cyclical and international in nature and thus only a coordinated mix of policies, based on an alternative non-neoclassical common cognitive framework, could bring results in medium and long-term.

Second, it is evident that internal politics of the participating countries, have a major impact on the international monetary cooperation and thus any successful combination of monetary / fiscal / structural policies should seriously consider internal factions on the cross-country coordination process. As Gill and Law contend (1989: 497), this involves not only the issue of which groups and classes gain or lose from different world orders and regimes of accumulation (the distributional effects), but also how constellations of interests are formed and how they disintegrate, learn from experience and develop identity and strategy (adjustment process of economic actors). In this way domestic / institutional arrangements seem more durable even in the face of policy failure than much of the constructivist theorists assume. Consequently, the economic effects of monetary cooperation are highly contextual and they change depending on the specific political / institutional setting (internal / external), economic conditions, (external / internal) and economic thinking (constructivist transformations).

Third, information asymmetry and market irrationality are major threats for both internal and external monetary policies of the G-20 states. The G-20's current approach is of little help in addressing financial turbulence, because it is based on the idea that the interactions between the various economic policy actors are predictable. Thus, there is a need for appropriate and transparent information.

What becomes clear from the G-20's economic policy cooperation is its unwillingness to contribute to a fundamental reform of the International Monetary System, promoting instead a functional inclusivity of emerging countries in a superficially re-organised international monetary regime. Despite the creation of several committees, the agenda of the G-20 has been scaled back to addressing monetary instability and financial vulnerability mainly at the domestic level and only through neoliberal economic approaches. Indeed, effectiveness and durability of the G-20 nexus in the future is embedded not on the inclusionary dynamics of a neo-liberal Global Financial Governance, but on a transparent multilateral framework of cooperation, linking global systemic reforms to well-coordinated monetary policies.

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