Global Economic Governance

Governing Global Crisis: Why the G20 Summit Was Created and What We Still Need It to Do*

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The world needs an effective, functioning Group of 20 (G20). After an early phase as a forum of finance ministers and central bank governors, the body was elevated to the leaders’ level in order to steer the apparatus of global governance through times of great uncertainty from 2008 onward. This period of uncertainty has been characterized by a peculiarly complex mix of financial crisis, shifting economic power and growing environmental threat. The G20’s record since 2008 is not without achievement — for example, it acted swiftly to stimulate the global economy sufficiently to avoid a recession becoming a depression — but it nevertheless remains disappointing overall, failing to break out of the trap of supposed growth-friendly fiscal consolidation. The meeting held in St Petersburg in September 2013 was hijacked by the Syria crisis and contributed substantially to the current dominant view of the G20 as an increasingly ineffective agency of global governance. This placed great pressure on Australia to deliver a successful summit in November 2014. It is also apparent that the G20 now needs substantial institutional reform in order to reduce the “occasionality” of its current mode of operation and embed it more comprehensively into the work of other major global economic organizations and the activities of global civil society.

Key words: G20, global governance, financial crisis, economic power, environmental threat, institutional reform

Introduction

The Group of 20 (G20) summit was created amidst a grave global crisis. Indeed, it is important to remember that it was only created because of that crisis. A G20 of sorts had first been brought into being at the level of finance ministers and central bank governors in 1999 and operated conscientiously but without great impact from that year onward on the basis of regular annual meetings. There had also been much discussion of and some writing about the merits of upgrading this structure to the level of leaders during the course of the first decade of the new century [English, Thakur and Cooper, 2005]. But nothing moved until U.S. president George W. Bush unexpectedly reached out for something different in response to the collapse of Lehmann Brothers and the emergence of a genuine and escalating global financial crisis in the autumn of 2008. Fearing, as he allegedly observed, that “this sucker could go down,” he reversed gears [Herszenhorn, Hulse and Stolberg, 2008]. He decided that the global political economy not only needed some quick and smart steering after all, but that this could only be accomplished

* The editorial position does not necessarily reflect the authors views.
by involving the leaders of all of the major countries of the world, not just the largely western sub-set that met within the Group of Seven (G7) and the Group of Eight (G8). China, India, Brazil and others were revealed at last to be “systemically important” and suddenly invited in from the outer margins of the G7/8 to become full members of a new G20 that met for the first time in Washington DC in the United States on 14–15 November 2008. To repeat, it is highly unlikely that this move would have been made, and perhaps could not have been made, outside of a moment of crisis marked by real fear for the survival and stability of the global economy as it was then constructed.

What this means, however, is that the way chosen to conceptualise this crisis becomes critical to how the record of the G20 summit is subsequently assessed from 2008 onward. On this key question, it is possible to take different views. For example, it was widely proclaimed in some quarters that all that was needed was to fix a few faults in the governance of the system, thereby enabling the neoliberal world order to get quickly back on the road and resume its position in the fast lane. In this case, one knows what the G20 was expected to do and can judge it accordingly. But it has also been argued that the crisis actually connoted an existential challenge for neoliberalism, as it had come to operate by late 2008, and therefore put on the table nothing less than the design of a new world order grounded in a new model, or models, of global capitalism. Needless to say, in this case the task that faced the G20 summit was of a completely different nature and scale, with associated implications for evaluation of its performance. This article sits within the latter perspective and turns now to a brief schematic overview of what sort of crisis the world currently faces before it returns to consider the G20’s record.

The Great Uncertainty

Labels matter in orienting thinking about, characterizing and constructing different eras in the global political economy. They are also invaluable shorthand, increasingly used for writing and, possibly, thinking. So how can the period of the crisis be framed? At one level the answer is (or was) simple: we have been living – at least those of us in the West – amidst the “Great Recession.” Catherine Rampell [2009] provided a nice etymology of the use of this term. It has been accurate enough, but it does not catch the deeper elements of the current conjuncture. Of course, even long-running recessions come to an end, with growth now resuming to varying degrees of intensity in a number of western economies. However, the more honest answer to the question is that no one really knows – yet – where things stand, not least because where we think we are will determine how we get out of this mess and we still seem a long way from that, notwithstanding many claims to the contrary. Many critics suggest, or maybe just hope, that neoliberalism is over. But the neoliberals do not think so and in any case new eras always take longer to emerge than people think. Thus far, neoliberal dispositions seem to have been reinforced by the crisis — for in a sense that is exactly what austerity is all about. It is important, though, to remember that getting from the Wall Street crash of 1929 to the Bretton Woods conference of 1944 took 15 years (including a devastating period of world-wide war). The other great recent period of shift — the “long 1970s” — is even harder to date with precision. But, again, it took a lot of pounding by the neoliberal right to move from the first signs of the crisis of “embedded liberalism” in the late 1960s to the hey-day of Reaganism and Thatcherism in the early 1980s. So perhaps 15 years is about standard for these sorts of transitions.

In these circumstances many analysts fall back on Gramsci [1971], reaching for The Prison Notebooks and quoting that bit where he writes that “the crisis consists precisely in the fact that the old is dying and the new cannot be born,” adding that “in this interregnum a great variety of morbid symptoms appear.” However, to take up the challenge implicitly laid down here by Gramsci, the key elements of the confusion and contradiction that dominate so many attempts
to chart today’s position must be thought through. Colin Hay and Anthony Payne [2013] label
the current era the “Great Uncertainty” and suggest, by deliberate use of this term, that the
present conjuncture is being shaped by a remarkable, and hugely challenging, coalescence of
three major processes of structural change occurring simultaneously and interacting in all man-
ner of complicated ways. They can be distinguished analytically as follows:

- financial crisis: a largely western crisis brought about by neoliberal excess and now ren-
dering the confident resumption of economic growth a severe conundrum for the United
States, Japan and nearly all major European economies and a problem at least for the rest
of the global economy;
- shifting economic power: the recent intensification of longstanding movements in the
locus of economic power in the world characterized by the rise of countries such as China,
India, Brazil and several others; and
- environmental threat: the eventual realisation that climate change is both real and ac-
celerating and is now asking the most serious questions about the ongoing viability of
traditional notions of economic growth and indeed the good society itself.

The key point, though – and the reason that this all adds up to the Great Uncertainty – is
that these processes of change are all taking place in the contemporary period and could well
come to a head at broadly the same time. They also feed off each other in extraordinary and
unexpected ways, with the politics flowing both through and between them in highly complex
fashion. Clearly, much more could be said to elaborate upon these key processes of change, but
this article is not the place. It is enough for the moment to note that this is the conjuncture that
the G20 was formed to steer the world through. Its enormous task is therefore not just to develop
into an effective global steering committee (which would be difficult enough even in predictable
times), but to do so in this current dense fog of uncertainty, charting somehow a workable route
to the building of a more equitable, more sustainable mode of global capitalism. It is in every
sense the tallest of orders.

The G20 in Phase 1: Washington and After

Again, this article is not the place to describe and review in detail the various announcements
and decisions taken by the G20 since its inception as a summit of leaders. All of the many com-
muniqués and declarations are available for all to see and other good analysts have already pub-
lished thorough and informative accounts [Cooper and Thakur, 2013; Kirton, 2013]. However,
a pattern has surely emerged that shows the record of the G20 to fall already into two distinct
parts: an initial phase covering the first three summits (held in Washington DC in November
2008 as indicated, in London in April 2009 and in Pittsburgh in September 2009) and a sub-
sequent phase covering the next four summits (in Toronto in June 2010, in Seoul in November
2010, in Cannes in November 2011 and in Los Cabos in June 2012). The next meeting, which
took place in St. Petersburg in September 2013, was different again (for very particular reasons)
and needs to be treated separately. Accordingly, the next part of this article will make some brief
observations about the lessons that can be learned from these two phases of the G20’s emergent
record and, most recently, from the considerable failure that was St. Petersburg.

The general view of Phase 1 is that the G20 hit the crisis running, as it were, and did well at
handling its most immediate and pressing aspects. Clearly, the first meeting in Washington was
taken very seriously by virtue of its very existence, let alone because of the severity of the finan-
cial pressures that were still being felt strongly at the time of the meeting. It did reflect a strong
assertion, albeit very late in the day, of renewed U.S. leadership of the global political economy.
The next meeting in London benefited hugely from the extraordinary amount of pre-diplomacy
put into it by the British prime minister, Gordon Brown, who had a more acute grasp of the
global nature of the financial crisis than most other political leaders. It was a fine hour for him
personally. The third meeting gained in turn from the fact that it was hosted by the new U.S.
president, Barack Obama, who was convening a major international meeting for the first time;
this seemed to many to mark the moment when the G20 graduated from being an ad hoc crisis
response to becoming the self-proclaimed premier forum for international economic coopera-
tion. The obvious lessons were that global crises do bring the globe together and that leadership
matters and maybe still emanates most easily from familiar Anglo-American sources.

It is also notable that the G20 record in this phase had an apparently easily recognizable
political economy. In the midst of economic crisis its members resorted to a set of policies that
deployed the powers and resources of the state (actually, of course, states in the plural, which
served to make the responses all the more striking and effective) to bring about stability to the
global economy. In particular, many G20 states, led by the U.S., made significant moves to de-
liver both fiscal and monetary stimulus to their economies and thus directly support growth and
counter recession. In addition, they deployed their ample rhetorical talents to oppose a formal
turn toward protection and signal their continued adherence to liberal trading norms. On the
whole, the leaders of the so-called emerging economies of China, India and Brazil were less im-
mediately worried about the crisis, because it was not their financial systems that lay in peril, but
they responded to the pressure of the western countries and mostly joined in the stimulus party.
Many analysts, often with some excitement, interpreted this set of responses as indicating a re-
turn to Keynesian political economy norms after the long night (about three decades) of domi-
nant neoliberalism. There was accordingly much talk of the “return of the master” [Skidelsky,
2010]. This was almost certainly a misreading of the intellectual and ideological motivations of
those involved. Neither George W. Bush nor his treasury secretary, Henry Paulsen, who was a
former chair and chief executive officer at Goldman Sachs, could ever remotely pass muster as
Keynesians, even if Gordon Brown and his chancellor of the exchequer, Alistair Darling, had
once thought that this was a credo in which they believed. The reality is that by late 2008 every-
body was a neoliberal of one sort or another and it was too late for these political leaders to learn
to think again in a different paradigm of political economy. Nor did they actually want or need
to do so. Neoliberalism has often been wrongly understood as signifying a crude rejection of
the state and a thorough-going endorsement of market mores and methods. In reality, it stands
much more for creative use of state power to build liberal market order [Gamble, 2014]. From
this perspective the embrace of growth stimuli by the G20 leadership in Washington, London
and Pittsburgh in the heat of the financial crisis in 2008–09 was exactly how neoliberal leaders
could be expected to react to financial meltdown. In emergency circumstances they used their
states to rescue the global market, not to reform it.

The G20 in Phase 2: Toronto and After

By the time the G20 was preparing to gather as a summit of leaders for the fourth time in To-
ronto in June 2010, the politics of the crisis had changed in quite significant ways. For the bulk
of the previous year the United States (under Obama) and Britain (under Brown) had contin-
ued to press other G20 countries to maintain and even in some cases extend their commitments
to stimulate their economies. Their main target was Germany which the two Anglo-American
leaders felt was not delivering to the extent that its economic strength merited. Yet, as Mark
Blyth [2013, p. 60] has argued, “rather than simply continue to accept the continuing [appar-
ently] Keynesian counteroffensive, some of the neoliberal old guard, in both Europe and the
United States, began to strike back.” He has shown how, initially in the columns of globally
significant newspapers such as the *Financial Times* and then in and around the network of G20 finance ministers themselves, a campaign began to bring stimulation to an end in favour of “tightening up” again for fear of future inflation. It was led by the German finance minister, Wolfgang Schäuble, and the chief of the European Central Bank, Jean-Claude Trichet, and found ready support from the Canadian G20 host, Prime Minister Stephen Harper, and the new British prime minister, David Cameron, who had just replaced Brown in office and was already promising to bring in an immediate austerity budget. At Toronto the leaders of the emerging economies largely sat on their hands, leaving Obama to cope with his new isolation within the traditional G7 western countries. As a consequence, the final communiqué from Toronto no longer endorsed the maintenance of increased public spending and looser monetary policy until the recovery was firmly entrenched, but favoured instead the (oxymoronic) notion of “growth friendly’ fiscal consolidation” This was the preferred slogan of the moment of the neoliberal mainstream. As Blyth [2013, p. 61] put it, “seen at the time as a fudge between the Keynesian and orthodox positions, what it actually signaled was the end of global Keynesianism.” For reasons previously enunciated, this reading exaggerates the extent of the reversion to Keynesianism that had previously taken place, but it nevertheless captures tellingly the reality that a shift of significance in the neoliberal management of the global crisis had been pushed through the G20 at Toronto.

The next three summits that followed Toronto brought nothing to check the G20’s broad austerity agenda. This unfolded painfully and yet hesitantly as various neoliberal leaders sought to ground it within varying domestic political conditions. The Seoul meeting was interesting in a way because it showed glimpses of what the G20 could perhaps begin to look like if the non-G8 members asserted themselves, their interests and their view of the global political economy more coherently and collectively. But even though new issues were tabled and ostensibly adopted as part of the so-called Seoul Development Consensus, the meeting did not seek to tackle the notion of growth-friendly fiscal consolidation formally adopted in Toronto. Indeed, both the Cannes and the Los Cabos meetings (even though the latter was hosted by the government of Mexico) were completely overshadowed by the different stages of the unfolding eurozone sovereign debt crisis and served in the main only to highlight the many grave weaknesses generated within the economy of the European Union by the intensity of the German-led deflation of the growth prospects of the EU’s peripheral members. No political leader was able at either meeting to articulate a wider and more ambitious agenda for the global economy. For his part, thanks to the weakness of his position in Washington in relation to the Republican-controlled Congress, Obama found himself increasingly trapped into having to preside over federal spending cuts demanded of his administration by those in Congress who were seeking to undermine it from an extremist neoliberal position. As Michael Hirsh [2013] wrote in the *National Journal* in October 2013, the Republicans may have lost the “shutdown battle,” but were “winning the fiscal war.” Frankly, the truth is that G20 has been completely irrelevant and utterly unhelpful to Obama as he has struggled with this debilitating domestic issue. By the same token, of course, Obama has not been able to lead the G20, which suggests that the old debate about U.S. decline is coming to have a new relevance even since the moment when Bush forcibly gave birth to the new leadership summit.

The St. Petersburg Summit

The G20 summit held in St. Petersburg in Russia in September 2013 is considered here in a separate section, mainly because it constituted the biggest G20 failure up to then with respect
to demonstrating capacity to manage the global crisis — the Great Uncertainty — that brought it into being. It was not just that the meeting was completely hijacked by bitter disagreement among the leaders about the civil war in Syria, which had reached an especially dangerous stage just as the summit convened, but more the fact that the gathering gave up on its central purpose, indeed its foundational purpose, in order to manage, via headlines, a divisive issue that would have best been handled by conventional quiet diplomacy. This is reminiscent of the trajectory of the G7 in the 1970s (from focus to over-commitment regarding the range of issues it sought to handle) and is a salutary lesson for the G20 that should be recalled every time there emerges a temptation to expand its agenda into “political” or “security” terrain. Syria dominated media coverage of the St. Petersburg Summit, highlighting the many divisions that existed among the leaders on this issue, and thereby inevitably embedded a public perception of the G20 as a hopelessly ineffective agency of global governance.

This is not to suggest that, as a consequence of Syria, the summit did not address global economic questions. In fact, it generated the longest and most detailed communiqué in the G20’s five-year history, plus the St. Petersburg Action Plan, the St. Petersburg Development Outlook and the G20 Anti-Corruption Action Plan. But the communiqué essentially reiterated previous commitments and the other documents rarely rose above the articulation of broad commitments. The general tone was more that of presenting a report card than a bold road map by which to chart a route out of global crisis. As Harold James [2013] put it in a brief post-summit commentary, “it is difficult ... to think that much is left of the original vision, and of the success of the exercise in April 2009 at the London summit.” Official briefings drew particular attention to the leaders’ agreement to seek better administrative means to contain tax evasion, but this was at best only an agreement to negotiate and, although not unimportant, could hardly be considered an issue of the same global importance as the issues that the G20 was initially set up to address. Indeed, on the key matter of continuing fiscal consolidation, and again led by Canada in the person of Harper, the summit repeated its core Toronto commitment to firm medium-term strategies to bring fiscal deficits under control. Careful wording of the communiqué to allow some members some marginal leeway to promote growth was all that Obama and the U.S. could secure.

After St. Petersburg the G20 headed off to Australia where it would meet in Brisbane on 15–16 November 2014. When this venue was first announced there was some optimism expressed that once more a G20 leader, in the form this time of Australian prime minister Kevin Rudd, could take charge of the organization and shape its agenda in a more ambitious direction, much as Gordon Brown had succeeded in doing in April 2009. Rudd, after all, had been one of the leaders, along with Brown and French president Nicolas Sarkozy who had actively pressed Bush to make the historic move toward bringing into existence a G20 of leaders at the moment of greatest fear in the autumn of 2008. But, by one of those awful ironies of timing, the conclusion of the failed St. Petersburg Summit was followed a day later by the election of a new government in Australia, led by Tony Abbott, a leader who, unlike the defeated Rudd, had previously shown no interest at all in the capacity of global governance to serve as a tool for managing important and complex interconnected global issues. Thomas Bernes [2013] starkly expressed the options that lay ahead: the Australians, he said, faced “a huge challenge in trying to bring focus to the G20 work program and agenda, and reverse the sense of drift that exists today.” “Their success,” he went on, “will hold out the possibility of important benefits for the global economy. Their failure will leave the G20 on a downward trajectory from which it may never escape.”
What Needs to Be Done?

The G20 has been in existence long enough now to reveal how and when it works, and also of course how and when it does not work, which is arguably an increasing proportion of the time. It has become ever more apparent that the G20 suffers from a fundamental flaw in its structural design. This is not actually the matter of its membership and the implications that this has for its legitimacy. Payne has contributed to that line of argument in a previous publication and others continue to make that critique forcefully [Payne, 2010; Wade and Vestergaard, 2011, 2010]. It is of course the case that G20 members were selected quickly and in highly political fashion back in 1999 as a result of a conversation between the U.S. Treasury and the German finance ministry; that too many other states just seem to be allowed to turn up and join in; and that there are real questions to be asked about the relationship of the G20 to the “G172,” namely, all the other countries of the world, the “marginal majority” [Payne, 2010]. But these points add up only to a case for a bit more thought about and some adjustment to operating procedures. A G20/21/22, however selected, will always be an elite club, or steering committee, for managing global affairs. That is, after all, its very raison d’être.

The deeper problem is that the G20, as currently set up, is at heart an empty vessel waiting to be filled up. Or, to adopt perhaps a more telling metaphor, it is a parked car, sitting in the parking lot (between meetings) waiting for a new driver to come along and take over the steering wheel. Russian president Vladimir Putin thus rents it out for a bit, then hands it back in (with nobody checking for and even less charging for damage); whereupon it waits around on the lot until at some point Tony Abbott presents himself, gets the keys and takes it back out on the road again. The analogy is no doubt exaggerated, but it does draw attention to the G20’s fundamental lack of permanence, its “occasionality.” It was set up in a hurry during a crisis and was, naturally enough perhaps, modelled on the proclaimed informality and broad commonality of outlook of the member-states of the G7/8. The difficulty into which the organization has now run is that this manifestly cannot be expected to work in the same way at the level of 20 (or more) member states, especially when the leaders, ministers and officials of these states are inevitably drawn from highly diverse cultural and ideological backgrounds. It is, as a consequence, in need of urgent institutional reform. In a nutshell, the G20 now needs to be given the tools to do the critically important steering job that has rightly been discerned as necessary in the context of global interconnectedness at a time of Great Uncertainty.

Such a process of reform would have to embrace the following four moves:

1. the creation of a more effective G20 executive, composed of the previous, current and next heads of government convening the summits, plus a secretary general;
2. the establishment of a modest, but permanent, secretariat headed by an experienced international civil servant or ex-politician as secretary general;
3. the elaboration of clearly understood lines of influence over the major global economic institutions — the International Monetary Fund, the World Bank, the World Trade Organization, the Financial Stability Board and a new fifth institution set up to manage the critically important task of responding to environmental deterioration (this is an argument that will have to await another article, but climate change in particular is at heart an issue of political economy, given its causation by the type of industrial growth that has been pursued all over the world over such a long period); and
4. the development again of clearly understood lines of discussion with a very wide range of organizations and movements within global civil society.

In this way, the G20 would be reshaped from top to bottom and at last rendered fit for purpose in relation to the extraordinarily demanding tasks that it is supposed to be able to han-
It would have greater ongoing coherence at the highest leadership level, would be serviced properly in between summits and other ministerial meetings, would be better equipped to set the working agendas of the various major global bureaucracies, and would be required to keep its feet on the ground in respect of global public opinion.

Of course, what the G20 then did would still depend on politics — on the balance of ideological positions asserted and deliberated upon in relation to all of its activities. That is an inevitable limitation of what would remain in essence an intergovernmental, rather than supranational, institution. Accordingly, G20 leaders could still fail to chart a sensible way through the crisis of Great Uncertainty. There would be no guarantees. At times there would unquestionably be an impasse. But it would be more likely that there would also be more phases of pragmatic muddling through and conceivably some periods when creative leaders were able to set out and implement, at least to some degree, big programs of global change and rescue. In the current context, the debate would still need to be about whether to back growth or austerity and how in either circumstance to bring in sustainability. The core global political economic issue would remain the future of neoliberalism. But, at the very least, the direction of this new reformed G20 would be worth fighting for politically, rather than just occasioning at intervals either good or bad headlines. The organization would matter. As a planet we need urgently to argue through, test out and ultimately shape a global consensus that is both more appropriate to the changed balance of contemporary political power in the world and above all capable of addressing the great challenges identified as generating the Great Uncertainty. The G20 needs to be properly harnessed to this need, or else it will be a big opportunity lost and the uncertainty (and danger) of today’s times will intensify.

References


