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INTERNATIONAL GOVERNANCE

Is the G20 the right forum?

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Highlights

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Is the G20 the right forum?¹

JEAN PISANI-FERRY, MARCH 2009

IT IS TELLING THAT ONE OF THE VERY FIRST DECISIONS taken after the crisis erupted in full force in September 2008 was to reform international governance by creating the G20. This long overdue decision was in part accidental, but it was nevertheless indicative of the consensus within the international community that designing and implementing an appropriate response implied creating a more legitimate and more effective body than the G7. The upcoming G20 meeting in London is expected to result in further reforms, this time of the international financial institutions.

The relationship between the financial crisis and global governance is not entirely straightforward. The crisis is certainly by now a global one but it has been at root a crisis of the US banking system

supervision of pan-European banks and advocates instead closer cooperation between national authorities.

Crisis management since summer 2007 has confirmed that the tension between the globalisation of finance and the weakness of international governance is a major problem. Cooperation between central banks in the provision of liquidity to distressed banks has been remarkably smooth but international cooperation in dealing with banking crises has been less exemplary. Many problems

prevailed in the world economy. For a decade the poor countries, chiefly China, have been financing the rich ones, chiefly the US, whose savings deficit represented some two percent of world GDP.

This outline suggests that issues of governance and of effectiveness are very closely linked. Keynes used to say that the job of the IMF is 'ruthless truth-telling', but the Fund today lacks effectiveness in dealing with global problems because it does not have the legitimacy that would allow it to tell the truth to China and the independence that would allow it to tell the truth to the US. In fact, it has done neither.

Looking further ahead, the reform of global financial institutions should ultimately be seen as a stepping stone towards a more balanced international system of the sort recently advocated by People's Bank of China governor Zhou. Whatever the questions raised by the proposal for a new

and foremost of the International Monetary Fund, is a more promising avenue. If significant enough, it could help contain developments conducive to instability. It could embody the transition from a US-dominated world economy to a more balanced, multilateral regime. And it is the condition for rebuilding trust in the system among emerging and developing countries and thereby avoiding the rebellious behaviour observed in recent years.

This is, at its core, a highly political issue where only heads of state and government can take the initiative. The G20 meeting in London offers a rare opportunity for launching a bold reform process. It is up to the United States and Europe to make the first move, because it is their current power and representation in the international financial institutions which is preventing the rest of the world from taking a stake in them..

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