Assessing the G20's Mutual Assessment Process: A MAP but Little Direction

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Key Points

- After the global economic and financial crisis, the G20 has tried to orchestrate an internationally coordinated approach to economic recovery.
- In late 2009, the Mutual Assessment Process (MAP) was introduced to minimize risk by reducing global economic imbalances and encouraging economic growth.
- To implement MAP, the G20 attempted to oversee macro-economic policy at the global level with the International Monetary Fund collecting data and providing technical assistance.
- Later experience suggests that, in the absence of a global economic crisis, the MAP will continue to lose direction and relevance and is unlikely to become a modality for close international macro-economic coordination.

Introduction

Following the global economic and financial crisis in 2008/09, the Group of Twenty (G20) established a Framework for Strong, Sustainable and Balanced Growth. A central component of this was the Mutual Assessment Process (MAP). The initial response of the G20 to the crisis had been to reach agreement at the London summit in March, 2009 on a package of policies to help the world economy recover and to re-establish positive economic growth. The idea behind the MAP, introduced later in the year, was to provide a medium-term strategy to strengthen the world's growth performance and to ensure that global economic imbalances did not reach a point where they threatened the stability of the international financial system. A focus of the MAP was on external sustainability. The assessment was to be based on a series of 'indicative guidelines' that would be used to evaluate economic performance and policy within G20 members and their consistency across countries. In particular, the focus was to be on G20 countries that were systemically important and where the imbalances were particularly large.

Prior to the crisis, the International Monetary Fund (IMF) had, in 2006, embarked on a round of multilateral consultations with key countries. The consultations were intended to reduce the global economic imbalances that existed at the time. However, they were widely seen as being ineffective (Bird and Willett, 2007). Certainly they failed to have any discernible impact on the size of the imbalances. After the crisis, the notion was that global economic cooperation and the international coordination of macro-economic policy would be better achieved under the auspices of the G20. The IMF's role was redefined to involve providing technical assistance to the MAP. The G20's MAP remains the world's main mechanism for encouraging an internationally concerted approach to the design of not only macro-economic policy but also other dimensions of international economic cooperation.

This paper examines the extent to which the G20's MAP has achieved its objectives. It explores whether the MAP has overcome the fundamental problems associated with organizing the international coordination of macro policy, and offers a prognosis of the MAP's future.

The layout of the paper is as follows. The second section briefly discusses some important terminological and institutional issues. The third analyses the rationale for international policy coordination and the practical problems that it encounters. The fourth section examines previous attempts at coordination and explains how the MAP was intended to overcome the underlying problems. The fifth investigates the record of the MAP and contemplates its future evolution. The final section offers some concluding remarks about the MAP in relation to the overall reform of the international monetary system.

Policy Cooperation and Coordination by the G20: Why are Terminology and Institutions Important?

In any discussion about reaching international agreement over the design of policy, the use of words is telling. There are important differences between what is meant by cooperation, collaboration, and coordination. It is difficult to oppose the idea of cooperation. Why would countries want to present themselves as being uncooperative? However, cooperation might simply entail a willingness to meet and talk, or to share some types of information. There is no presumption that this will lead to a change in policy. Collaboration could reasonably be interpreted as being rather more than this. It could involve shared initiatives. The initiatives could be pursued at the global rather than the national level. Coordination is a still stronger concept. Here it may be envisaged that countries are prepared to moderate or alter their own national policies in order to serve a broader global purpose beyond national boundaries. A defining feature of coordination is the desire to ensure that national policies are internationally consistent.

The consequence of these terminological differences is that it should be relatively straightforward to get international agreement about cooperation, less easy to get it about collaboration, and much more difficult to get it about coordination. It is inaccurate to assume that agreements that discuss cooperation also necessarily imply coordination. They do not. It is reasonable to assume that communiqués that mention cooperation or collaboration have intentionally avoided using the stronger concept of coordination. The selection of the words used should therefore transmit a signal relating to the limitations of what is being agreed and proposed. It is quite feasible to agree to a process of international cooperation without intending to go down the path of coordination.

Communiqués from the G20 about the MAP focus on cooperation rather than coordination. The assessment of economic performance and policy is based on 'indicative guidelines'. Both the word 'indicative' and the word 'guidelines' are relatively 'soft'. Taken together they are even softer. They do not imply solid and reliable measurement or a commitment to policy. By design they leave considerable scope for disagreement and debate. In contrast to the way in which the G20 prefers to describe the MAP, IMF staff are less reticent in presenting it as a mechanism for promoting policy coordination (Faruqee and Srinivasan, 2012). This in turn may imply that the two institutions are looking for different things from the exercise.

If it is important to examine the words that have been used by the G20 countries when discussing the MAP, it is also important to examine the institutional framework that the G20 itself represents. The G20 was constructed in the aftermath of the East Asian crisis at the end of the 1990s initially as a forum for meetings of finance ministers and central bank governors, but as from 2008 as one for heads of states. At its outset, the basic idea was to incorporate a wider array of countries into global decision making than had been the case with the G7 group of major industrialized countries, and to encourage emerging economies to improve their domestic financial policies, since these were viewed as having contributed significantly to the 1997/98 crisis; a crisis that at the time was seen as potentially spilling over and affecting advanced economies.

However, the criteria that were used to determine which additional countries should be included in the membership of G20, and therefore which should be excluded, remain somewhat opaque. The basic notion seems to have been that the G20 should include the systemically important countries, and should reflect the changing balance of economic power in the world by incorporating the major emerging economies. On top of this, there seems to have been a desire to take into account not only economic power but also population size and geographical location so that the G20 represented all regions of the world. Even so, the process by which the membership of G7 was expanded appears to have been rather informal (Cammack, 2012). There were no clearly defined objectives and measurable criteria used. Membership was by invitation only, and some countries that saw themselves as being able to stake a claim to membership on objective grounds were not invited to join. Much could be, and has been, written about the way in which the G20 came about, its political dimensions, and its organizational structure. The overriding issue from the perspective of the MAP is that the success of a process of cooperation, collaboration and ultimately the coordination of macro-economic policy depends importantly on the legitimacy and the effectiveness of the institutional framework through which the process is being orchestrated.

The difficulty here is that legitimacy and effectiveness may be inversely related (Subacchi and Pickford, 2011). Expanding the membership of G7 to include countries that share common views with the existing members might be seen as raising both legitimacy and effectiveness, since a wider group of countries would feel more fully engaged in the process. There might therefore be a higher degree of ownership of the process by which policy at the international level is being formulated. However, including countries with opposing views and ideas, while it might raise the legitimacy and representativeness of the G20 as compared with the G7, might reasonably be expected to make it more difficult to reach consensus. This could reduce effectiveness. There could therefore be a problem of inconsistency in delegating the design of macro-economic policy at the international level to the G20.

In a later section of this paper we assess the extent to which the institutional structure of the G20 has facilitated or frustrated attempts to internationally coordinate the design of macro-economic policy. In the next section, however, we explore the basic logic and rationale behind coordination and identify the factors that influence its likely success.

The Rationale of Coordination and the Modalities for Achieving it

Societies survive by coordinating the behavior of their members. Individuals are not permitted to do just what they like. Instead, there are agreed sets of laws and conventions that regulate how people behave. One person's actions have consequences for others, and it is important to take this into account for the good of society as a whole. It is deemed to be in everyone's overall interests that behavior is regulated and coordinated even where an individual may at times find it tedious and costly to comply with the constraints that this imposes on them. The need to coordinate behavior becomes greater where there is more interaction between people. With such interaction, societies develop ways of defining what behavior is acceptable or unacceptable.

In essence, the logic for internationally coordinating macro-economic policy is the same. In a world where there is a high degree of international economic integration, economic policy and performance in one country, particularly if it is systemically important, will have implications for other countries. While it may be reasonable to assume that governments will set out to devise policies that they deem to serve their own national best interests, calculating what these are will be affected by what others are doing. Left completely to their own devices individual governments may pursue policies that turn out to be suboptimal nationally, because the policies of other countries are not taken into account. Policies designed at the national level may be internationally suboptimal, because the externalities or spill-over effects on other countries are not incorporated into the decision making.

In the midst of a global recession, individual countries working in isolation may decide not to pursue expansionary policies because of the consequences they fear for their balance of payments. Unilateral expansion will lead to an increase in imports relative to exports. With all countries pursuing such policies, however, the balance of payments consequences can be neutralized and everyone can gain through increased economic activity and trade. At the other extreme, governments may in isolation opt for what turns out to be expansionary overkill, because they are unaware that similar expansionary policies are being pursued elsewhere. In these circumstances expansionary policies at the national level may be excessive and have adverse inflationary consequences.

In relation to this, there is the well-established phenomenon of the ‘fallacy of composition’. Policies that may work for one country in isolation do not work when all countries adopt similar policies. The most commonly quoted case of this is the period of the 1930s when many countries adopted beggar-thy-neighbor policies based on competitive exchange rate devaluation and restrictive commercial policy involving tariffs and quantitative restrictions on trade. Here it appears is an example of what can happen if policy is uncoordinated and countries fail to allow for the responses and reactions of other countries to their own actions. Better coordination would have resulted in a superior outcome and might have helped to avoid the Great Depression. It is not coincidental that the perceived costs of a failure to coordinate economic policy in the 1930s motivated a desire to better coordinate policy in the postwar world and led to the Bretton Woods agreement.

More generally, the need for coordination may be seen against the backdrop of the zero sum nature of the global balance of payments. In principle, deficits in some parts of the world must be matched by equivalent surpluses elsewhere. It follows that policies intended to reduce deficits in some countries will only be effective if they are accommodated by an equivalent reduction in surpluses in others. Without such accommodation the competition for foreign demand is likely to lead to a recessionary global bias. It is in such an environment that currency wars may break out (Bird and Willett, 2011). Coordination aims to make sure that policies adopted in individual countries are globally consistent and externally sustainable.

In circumstances where it is agreed that coordination is welfare-enhancing, a secondary issue relates to the modality through which it is to be achieved (Bird, 2012). In principle, it can be based either on discretion or rules. With discretion-based coordination there is little attempt to coordinate policy in the absence of a crisis. However, when a crisis erupts, countries come together to agree a strategy for overcoming it. This is likely to involve collaboration over the design of international policy as well as a coordinated approach to national economic policy. In effect, there will be some form of international crisis committee that is entrusted with the task of organizing agreement on a package of policies aimed at aiding recovery from the crisis. Once overcome, however, there is no presumption that coordination will continue in the same form and at the same level of intensity. Instead, coordination will be replaced by a much softer form of cooperation. Coordination may exist in the short term and for the duration of the crisis, but not in the long term once recovery has begun and the crisis seems to have passed.

Rule-based coordination is different. It places a stronger emphasis on avoiding crises. It does this by seeking to reach agreement on a set of rules, compliance with which reduces the probability of crises occurring. In societies that set out to coordinate the behavior of individuals, the rule-based modality is the norm. Games and sports have rules. Driving behavior is coordinated by having well-established rules of the road. However, for rule-based coordination to work well, a number of conditions need to be met. First, there has to be a clearly defined set of rules that have been agreed upon and with which participants are familiar. Second, participants need to be prepared to abide by the rules. There then needs to be a mechanism for monitoring their compliance. Third, non-compliance needs to be discouraged by having a system of penalties. Coordination needs to incorporate an incentive structure that reduces free riding. Sports have rules, referees, sin bins, yellow and red cards, and suspensions. Societies have laws, police officers, and prisons. They therefore possess mechanisms for establishing the rules, monitoring compliance, and penalizing non-compliance. The effective international rule-based coordination of economic policy also needs to address these issues.

In most societal contexts a preference has been shown for rule-based coordination rather than discretionary coordination. However, and in the context of international economic policy coordination, even where rule-based coordination reduces their incidence, crises may still occur from time to time. An effective system of rule-based coordination is therefore likely to include a pre-prepared plan for dealing with crises. Discretion-based coordination only considers what should be done once the crisis hits; there tends to be no pre-prepared plan for dealing with crises.

Formulating the rule-based coordination of policy at the international level is likely to be problematic. This general observation applies, for example, to international agreement on weapons control or climate change. It also applies to macro-economic policy. Faced with such difficulties there will be incentives to sidestep them. Well-defined rules for good behavior may be replaced with much less well-defined guidelines. While behavior may still be monitored and reported, a 'name and shame' approach may stand in place of a formal system of penalties. There may be a weak form of accountability, but compliance is likely to rely on the powers of moral suasion. At this point, to all intents and purposes a system of international economic policy cooperation has been substituted for genuine coordination. The consequence of such a substitution is that, while the costs of setting up the process are reduced, the benefits of coordination will also be diluted.

To what extent has the G20's MAP overcome the fundamental problems associated with the international coordination of macro-economic policy?

International Policy Coordination and the MAP

Historical antecedents confirm the difficulties that exist in designing long-lasting, effective schemes for internationally coordinating macro-economic policy. The gold standard broke down largely because some of its underlying assumptions were inaccurate and resulted in countries not being prepared to play by the 'rules of the game' that required them to link domestic money supplies to the amount of gold that they held. After a period following the collapse of the gold standard during which coordination was absent, the Bretton Woods system established a form of rule-based coordination in which countries committed to try to defend the par values of their currencies (the rule) by manipulating levels of domestic aggregate demand. This system broke down not only because it was difficult to define the rules (calculating fundamental equilibrium exchange rates), but also because some countries were reluctant to comply with the rules and were not penalized for their non-compliance.

A more recent historical antecedent is the IMF's experiment with multilateral consultations (MC) in the mid-2000s. This approach to coordination failed to fulfil many of the requirements for success (Bird and Willett, 2007). There were no clearly defined rules and no penalties, nor even a significant degree of accountability, for failing to comply with the IMF's policy recommendations. There was little commitment to the exercise by the countries involved and there was a general lack of ownership of the entire exercise. Moreover, there was no compelling case that the IMF provided the appropriate institutional framework for conducting it. The Fund's track record in terms of influencing the design of policy in member countries through conventional, bilateral Article IV consultations was at best modest, and there was evidence that, even under the umbrella of IMF programs, policies that had notionally been agreed between the IMF and national governments in the context of 'letters of intent' often were not fully implemented (Bird, 2008). Empirically it was difficult to discern any impact of the multilateral consultations on the global imbalances. Certainly, if the motivation behind the consultations had been to avoid a serious global economic crisis, they failed.

How was it envisaged that the G20's MAP would overcome the problems encountered by previous attempts to internationally coordinate macro-economic policy?

In the immediate aftermath of the global economic and financial crisis the conditions were conducive to the international coordination of macro-economic policy. However, given the extreme nature of the crisis and the emergency nature of the problems that the world confronted, they were not amenable to a rule-based form of coordination. Establishing the rules would have taken too long. Discretion-based coordination could be more quickly put in place. Since the IMF's experiment with multilateral consultations had been seen as largely unsuccessful, there also appeared to be only one institutional framework within which the coordination of policy could be arranged, and this was the G20; albeit with technical advice being provided by the Fund. There was broad agreement amongst all the G20 countries that the crisis had resulted in a global deficiency of aggregate demand and that the aggressive use of monetary policy and fiscal policy was needed to boost it and aid economic recovery. There was also agreement that all G20 countries should together pursue qualitatively similar, expansionary monetary and fiscal policies in order to stimulate global economic recovery. There was no danger that monetary expansion and low interest rates would lead to unacceptably high rates of inflation given the depth of the recession and the size of the output gap. Moreover, the conventional arguments against fiscal expansion, based on its lagged effect and the worry that its impact would be crowded out by an induced increase in interest rates, did not appear relevant in the conditions encountered in early 2009.

In addition to this, it was agreed by the G20 to increase significantly the lending power of the IMF by tripling its resources, and to make firm commitments to avoid the competitive use of protectionist policy and exchange rate policy. The agreement to avoid competitive, beggar-thy-neighbor exchange rate policies meant that the concerted approach covered both what should and what should not be done.

While the high degree of consensus may have reduced the need for leadership in order to orchestrate a coordinated approach to dealing with the crisis, it is widely believed that the UK used its presidency of the G20 at the time to strongly push forward a coordinated response to the global crisis. The discretion-based coordination of policy carried strong G20 ownership.

Having operated as a crisis management committee for the world economy in the early part of 2009, the G20 then set out on a path to become a standing steering committee to oversee the design of macro-economic policy at the global level. In essence the plan was to move away from short-term discretion-based coordination to something more permanent. This was the motivation for establishing the MAP towards the end of 2009. However, the G20 baulked at the idea of firm rule-based coordination and opted instead for a softer form of cooperation. The notion was that the IMF would provide technical assistance and would collect data on 'indicative guidelines' for the G20 countries. The guidelines were to involve countries' external positions (incorporating the trade balance, net investment income flows, and transfers), private sector saving and investment, and fiscal balances and public sector indebtedness. The data for individual G20 countries were to be evaluated relative to imbalances that they had previously experienced (a time series approach), imbalances currently being experienced elsewhere by countries at a similar stage of development (a cross-section approach), and a quartile analysis providing the median values for all G20 countries. They were also to be evaluated in the context of the Fund's analysis of the consistency and sustainability of countries' external positions. The Fund was to make policy recommendations on the basis of the information it collected and its projections of the imbalances in order to assist the deliberations of the G20. Particular attention was to be paid to those members of the G20 that were systemically important and had relatively large imbalances. The process was intended to mean that individual G20 countries would be accountable to the rest of the G20 membership for their policies and the performance of their economies, and that this accountability would provide sufficient incentive for individual G20 countries to pursue policies that were deemed globally appropriate.

How have things worked out?

Has the MAP been Followed?

A number of factors have impeded progress with the MAP. First, the urgency of the situation that existed at the time of its inception has passed. In 2009 there was still the threat that the so-called Great Recession would turn into another Great Depression similar to the one the world economy experienced in the 1930s. This focused minds on ways of stimulating recovery. Although globally strong and sustained economic growth has not been recorded in the period since 2009, the specter of severe, world-wide, economic depression has receded or disappeared altogether. Table 1 provides evidence on the rates of economic growth in the G20 countries in the pre-crisis, crisis, and post-crisis periods. It may be seen that there has been a significant degree of economic recovery, and growth rates have generally been positive. Expectations that growth could return to the rates experienced over previous time periods prior to the crisis have been tempered by the idea that part of the 'new normal' involves a slower rate of long-term economic growth associated with slower population growth and slower rates of growth of productivity. With these developments, one of the key motivations for an internationally coordinated approach to macro-economic policy has also disappeared.

Table 1: G20 real GDP growth rate

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Argentina	8.9	8	9	4.1	–5.9	10.1	6	–1	2.4	–2.5	2.6	–2.3
Australia	3.2	2.7	4.5	2.6	1.7	2.3	2.7	3.6	2.1	2.8	2.4	2.5
Brazil	3.2	4	6.1	5.1	–0.1	7.5	4	1.9	3	0.5	–3.8	–3.6
Canada	3.2	2.6	2.1	1	–2.9	3.1	3.1	1.7	2.5	2.6	0.9	1.4
China	11.3	12.7	14.2	9.6	9.2	10.6	9.5	7.9	7.8	7.3	6.9	6.7
France	1.6	2.4	2.4	0.2	–2.9	2	2.1	0.2	0.6	0.6	1.3	1.2
Germany	0.9	3.9	3.4	0.8	–5.6	4	3.7	0.7	0.6	1.6	1.5	1.8
India	9.3	9.3	9.8	3.9	8.5	10.3	6.6	5.5	6.5	7.2	7.9	6.8
Indonesia	5.7	5.5	6.3	7.4	4.7	6.4	6.2	6	5.6	5	4.9	5
Italy	0.9	2	1.5	–1.1	–5.5	1.7	0.6	–2.8	–1.7	0.1	0.8	0.9
Japan	1.7	1.4	1.7	–1.1	–5.4	4.2	–0.1	1.5	2	0.3	1.2	1
Korea	3.9	5.2	5.5	2.8	0.7	6.5	3.7	2.3	2.9	3.3	2.8	0.9
Mexico	3	5	3.1	1.4	–4.7	5.1	4	4	1.4	2.3	2.6	2.3
Russia	6.4	8.2	8.5	5.2	–7.8	4.5	4	3.5	1.3	0.7	–2.8	–0.2
Saudi Arabia	5.6	2.8	1.8	6.2	–2.1	4.8	10.3	5.4	2.7	3.7	4.1	1.4
South Africa	5.3	5.6	5.4	3.2	–1.5	3	3.3	2.2	2.5	1.7	1.3	0.3
Turkey	9	7.1	5	0.8	–4.7	8.5	11.1	4.8	8.5	5.2	6.1	2.9
UK	3	2.5	2.6	–0.6	–4.3	1.9	1.5	1.3	1.9	3.1	2.2	1.8
USA	3.3	2.7	1.8	–0.3	–2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.6

Source: IMF World Economic Outlook database

There is also the possibility that there was a cognitive bias in the form of 'disaster myopia' around about the time of the crisis that made discretion-based coordination more likely and any subsequent rule-based coordination less likely. Immediately following the crisis there may have been a bias towards overestimating the probability of future crises. With the lapse of time, and no further crises, there may have been a psychological tendency to downplay the probability of future crises. This means that the incentive to coordinate macro policy diminishes over time. Indeed, somewhat ironically the diminishing incentive to coordinate policy in the belief that future crises are increasingly unlikely, other things being equal, may actually make them increasingly likely.

Second, as things turned out, and as is illustrated by Table 1, not all G20 countries were equivalently affected by the crisis. The pattern of recovery has also varied across the G20. In 2009 there was concern that the crisis would have a fairly common and universally detrimental effect. Fourteen of the nineteen individual country members of G20 experienced negative economic growth in 2009, and those that did not experienced a marked growth slow-down. This made the task of garnering support for coordinating policy relatively straightforward. With the dispersion of economic performance in the post-crisis period the task has become more challenging. For example, notably China, India, Indonesia, and Turkey have been able to maintain relatively rapid rates of economic growth, and another group of G20 members have exhibited some degree of success in restoring rates to those achieved in the years preceding the crisis. The US has recovered modestly, while many of the European economies have appeared to be trapped in a period of secular stagnation. The consequence has been that not all members of G20 have been equally motivated to contemplate a change in the direction of economic policy.

Third, subgroups of countries within the G20 have begun to follow their own policy agendas outside the G20 framework. Other country coalitions within G20 exist. The BRICS (Brazil, Russia, India, China, and South Africa), for example, have formulated their own views on international monetary reform that assign a much smaller role to the US dollar. These have been at odds with the views of other important G20 members. They have also begun to pursue their own initiatives, for example the BRICS development bank (the New Development Bank). Since 2009 the European Union as a whole, and individual European members of G20 that also belong to the Eurozone (Germany, France, and Italy), have become preoccupied with the crisis in the Eurozone and the future of the euro. Latin American members of G20 (in particular Brazil and Argentina) have encountered their own economic difficulties as reflected by the data in Table 1. The UK has rethought its relationship with the European Union, culminating in the Brexit vote in 2016 and its planned withdrawal from the EU. Tensions have increased between the US and China and the US and Mexico, in terms both of exchange rate policy and of trade policy. Brazil, and some other members of G20, claimed that quantitative easing in the US was used as a weapon of currency warfare designed to drive down the value of the dollar and improve US competitiveness (Bird and Willett, 2011). Even within the subgroups there is plenty of evidence to show that it is difficult to reach consensus on key issues of macro-economic policy. In short, the common purpose and sense of consensus that had existed when the MAP was designed has largely broken apart in the years that have followed. This makes it less probable that the MAP will be followed.

Fourth, the way in which the MAP evolved in its early years in terms of its principal purpose also eroded the consensus that existed at its outset. The initial focus had been on stimulating economic growth. This received unanimous endorsement amongst the G20 membership, although even in this context there was some measure of disagreement as to whether 'strong', 'sustainable', and 'balanced' economic growth were essentially synonyms or not. Soon after it was established, the MAP began to emphasize external sustainability and the consistency of national policies at the global level. In the context of coordination this meant encouraging surplus countries to follow policies that would accommodate the correction of deficits elsewhere, thereby avoiding globally demand-deflationary policies. The rebalancing of economic growth implied that deficit countries should put greater emphasis on foreign demand, and surplus countries should put greater emphasis on domestic demand, and in particular on domestic consumption, as ways of stimulating economic growth. Within the G20 there are both important deficit countries and important surplus ones. A fundamental and long-lasting problem with international macro-economic policy coordination has been to achieve a symmetrical distribution of the adjustment burden. It remains a challenge to exert pressure on surplus countries to adjust in ways that reduce their surpluses in circumstances where they do not perceive this as being in their own self-interest. The MAP has encountered just such a problem.

Fifth, the motivation for the IMF's multilateral consultations in 2006 had been to reduce the global economic imbalances that were seen as threatening the stability of the international monetary system. The key concern was that deficit countries would find it increasingly difficult to finance their deficits as creditors became less willing to lend to them. This, it was feared, could lead to severe exchange rate instability and to a loss of confidence in the US dollar that could culminate in a dollar crisis. Such a crisis would have global ramifications. As things turned out there was indeed a crisis, but it was only somewhat indirectly connected to the global economic imbalances. Instead, it largely reflected the inadequacies of domestic financial markets in pricing risk appropriately. To the extent that international capital flows were viewed as an important contributory cause of the crisis, it became increasingly argued that it was gross flows between Europe and the US, rather than net flows from China to the US, that were the source of the problem (Borio and Disyatat, 2011). An implication of this is that the attention paid by the MAP to underlying macro-economic disequilibria, in the form of current account imbalances and the other macro-economic imbalances that underlie them, while certainly important, may have been too exclusive. The MAP's indicative guidelines refer to current-account balance-of-payments disequilibria, saving/investment imbalances, and fiscal imbalances. The MAP may therefore have focused insufficiently on the shortcomings of domestic and international financial markets and how to correct them. This may in turn reflect the key role played by the IMF in the G20's MAP. The Fund's conventional area of expertise is balance-of-payments policy rather than domestic financial policy.

Sixth, and in any event, global current account imbalances narrowed sharply in the aftermath of the crisis (IMF, 2014; Eichengreen, 2014; Bird, 2016b). For the G20 there is a similar pattern, as shown by Table 2. In 2006, current account disequilibria (deficits and surpluses) exceeded 5% of GDP in seven G20 countries. In 2016 there were only two for which this was the case, and these were the surpluses in Germany and Korea. However, the narrowing appears to have had nothing much to do with the execution of the MAP. For example, while there has been a measure of rebalancing in economic growth in the US and in China, which in turn has had implications for their current accounts, it seems likely that this rebalancing would have occurred even in the absence of the MAP. The US was anxious to switch away from a strategy that put emphasis on domestic demand, with low savings rates, large fiscal deficits, and expanding indebtedness. China was anxious to spread the benefits of economic development more broadly and to allow currency appreciation to exert a counter-inflationary effect. The shrinking of global imbalances suggests that in some ways the MAP has become 'a solution in search of a problem'. An exercise designed to narrow imbalances may no longer appear to be needed where the imbalances have already narrowed to an extent that would imply sustainability. This is particularly the case where there is little to suggest that the imbalances will again increase to the level exhibited before the crisis (Eichengreen, 2014).

Table 2: G20 current-account balance of payments (percent of GDP)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Argentina	2.6	3.3	2.5	1.8	2.5	–0.3	–0.8	–0.2	–2	–1.4	–2.7	–2.6
Australia	–5.9	–5.8	–6.7	–4.9	–4.6	–3.6	–3	–4.1	–3.2	–2.9	–4.7	–2.6
Brazil	1.5	1.2	0	–1.8	–1.6	–3.4	–2.9	–3	–3	–4.2	–3.3	–1.3
Canada	1.8	1.4	0.8	0.1	–2.9	–3.6	–2.8	–3.6	–3.2	–2.4	–3.4	–3.3
China	5.7	8.4	9.9	9.1	4.7	3.9	1.8	2.5	1.5	2.2	2.7	1.8
France	0.5	0.4	0.1	–0.9	–0.8	–0.8	–1	–1.2	–0.9	–1.1	–0.2	–1.1
Germany	4.6	5.7	6.7	5.6	5.7	5.6	6.1	7	6.7	7.3	8.3	8.5
India	–1.2	–1	–1.3	–2.3	–2.8	–2.8	–4.3	–4.8	–1.7	–1.3	–1.1	–0.9
Indonesia	0.5	2.4	1.4	0	1.8	0.7	0.2	–2.7	–3.2	–3.1	–2	–1.8
Italy	–0.9	–1.5	–1.4	–2.8	–1.9	–3.4	–3	–0.4	1	1.9	1.6	2.7
Japan	3.6	3.9	4.7	2.8	2.8	3.9	2.1	1	0.9	0.8	3.1	3.9
Korea	1.4	0.4	1.1	0.3	3.7	2.6	1.6	4.2	6.2	6	7.7	7
Mexico	–1	–0.8	–1.4	–1.9	–1	–0.5	–1.2	–1.4	–2.5	–2	–2.9	–2.7
Russia	10.3	8.7	5.2	5.8	3.8	4.1	4.8	3.3	1.5	2.8	5.1	1.7
Saudi Arabia	27.4	26.3	22.5	25.5	4.9	12.7	23.6	22.4	18.1	9.8	–8.7	–3.9
South Africa	–3.1	–4.5	–5.4	–5.5	–2.7	–1.5	–2.2	–5.1	–5.9	–5.3	–4.4	–3.3
Turkey	–4.2	–5.7	–5.5	–5.2	–1.8	–5.8	–8.9	–5.5	–6.7	–4.7	–3.7	–3.8
UK	–1.2	–2.2	–2.4	–3.5	–3	–2.7	–1.8	–3.7	–4.4	–4.7	–4.3	–4.4
USA	–5.7	–5.8	–5	–4.7	–2.7	–3	–3	–2.8	–2.2	–2.3	–2.6	–2.6

Source: IMF World Economic Outlook database

More generally, the evidence suggests that the narrowing of the global imbalances has been mostly caused by the compression of domestic demand in deficit countries (IMF, 2014). This implies that the MAP has fallen short in related ways. It has been largely unsuccessful in stimulating adjustment with growth. Demand compression has negative effects on economic growth whereas the original rationale of the MAP was to raise growth rates and encourage adjustment to be shared between surplus and deficit countries. Following the G20's Brisbane summit in 2014 the objective of the MAP was headlined as '2 in 5'. This involved a commitment by G20 countries to lift their GDP by 2018 by more than 2% above the trajectory implied by the policies that had been in place at the time of the St. Petersburg summit a year earlier. The evidence presented in Table 3 implies that this objective is highly unlikely to be met. The table shows that, with few exceptions, actual growth rates have fallen short of those projected by the IMF.

Table3: G20 real GDP growth rate: actual and projected

Country	2013	2014	2015	2016
Argentina	2.4 (3.5)	–2.5 (2.8)	2.6 (0.4)	–2.3 (–0.7)
Australia	2.1 (2.5)	2.8 (2.8)	2.4 (2.4)	2.5 (2.9)
Brazil	3.0 (2.5)	0.5 (2.5)	–3.8 (–3.0)	–3.6 (–1.0)
Canada	2.5 (1.6)	2.6 (2.2)	0.9 (1.0)	1.4 (1.7)
China	7.8 (7.6)	7.3 (7.3)	6.9 (6.8)	6.7 (6.3)
France	0.6 (0.2)	0.6 (1.0)	1.3 (1.2)	1.2 (1.5)
Germany	0.6 (0.5)	1.6 (1.4)	1.5 (1.5)	1.8 (1.6)
India	6.5 (3.8)	7.2 (5.1)	7.9 (7.3)	6.8 (7.5)
Indonesia	5.6 (5.3)	5.0 (5.5)	4.9 (4.7)	5.0 (5.1)
Italy	–1.7 (–1.8)	0.1 (0.7)	0.8 (0.8)	0.9 (1.3)
Japan	2.0 (2.0)	0.3 (1.2)	1.2 (0.6)	1.0 (1.0)
Korea	2.9 (2.8)	3.3 (3.7)	2.8 (2.7)	2.8 (3.2)
Mexico	1.4 (1.2)	2.3 (3.0)	2.6 (2.3)	2.3 (2.8)
Russia	1.3 (1.5)	0.7 (3.0)	–2.8 (–2.7)	–0.2 (0.5)
Saudi Arabia	2.7 (3.6)	3.7 (4.4)	4.1 (3.4)	1.4 (2.2)
South Africa	2.5 (2.0)	1.7 (2.9)	1.3 (1.4)	0.3 (1.3)
Turkey	8.5 (3.8)	5.2 (3.5)	6.1 (3.0)	2.9 (2.9)
UK	1.9 (1.4)	3.1 (1.9)	2.2 (2.5)	1.8 (2.2)
USA	1.7 (1.6)	2.4 (2.6)	2.6 (2.6)	1.6 (2.8)

IMF Projections in Parentheses
Source: IMF World Economic Outlook 2013 and 2015

Seventh, when initially set up, the underlying direction of the MAP envisaged moves to encourage growth via monetary and fiscal stimulation. In 2009 there had been a strong degree of consensus within the G20 about the appropriate design of macro-economic policy. Over the period between 2009 and 2017 this consensus has evaporated. Issues relating to monetary expansion have become more contentious, with some concerns that quantitative easing will lead to inflation over the longer term. At the same time, many G20 countries have shifted from fiscal expansion to fiscal consolidation. While there was little disagreement over the claim that fiscal deficits and debt accumulation could not continue to grow indefinitely, there has been sharp disagreement about the appropriate time to make the transition.

While the 'expansionary contraction hypothesis' has argued that fiscal consolidation assists economic growth by generating confidence in the private sector, a counter-argument has been that premature consolidation will have negative effects on economic growth (Bird, 2016). Fiscal policies designed to reduce the level of debt may reduce the growth of GDP to such an extent that the debt-to-GDP ratio increases. Conversely, a reduction in debt levels then apparently coincides with a reduction in the sustainability of debt. The ambiguities in the underlying analysis have made it difficult to interpret the 'indicative guidelines' in a clear and concise way and to get international agreement on the direction in which policies in individual G20 countries should go. The information contained in the indicative guidelines may therefore be interpreted and assessed in different ways. The lack of scientific consensus has meant that the MAP has struggled to come up with a well-defined policy agenda that is universally agreed among the member countries. For a long time it has been recognized that model uncertainty undermines policy coordination and the MAP has been confronted with an increasing amount of model uncertainty.

A related point is that policy coordination is less likely when countries face dissimilar trade-offs between inflation and unemployment and when, even if they do, they have different views about the degree to which inflation and unemployment are undesirable. In circumstances where there is disagreement about macro-economic priorities, the policy direction that the MAP should plot out becomes unclear.

Eighth, the closer international economic integration that makes the case for coordinating macro-economic policy more compelling has begun to be challenged, arrested, or reversed. There has been a groundswell of popular political opinion opposed to globalization as reflected by events in the UK (the Brexit vote), the US (the election of President Trump), and throughout many parts of Europe. This creates an environment in which there is unlikely to be political commitment to coordinating economic policy. It also means that the G20 may lack the necessary degree of leadership to push through a reform agenda based on the MAP. Indeed, at the G20 meeting of finance ministers and central bank governors in early 2017, news reports claimed that the US insisted on removing from the final communiqué any commitment to free trade and to the avoidance of protectionism. If key G20 countries are reluctant to commit to the coordination of trade policy, it is unlikely that they will support the coordination of macro-economic policy.

The IMF's own most recent assessment of what has been achieved under the umbrella of the MAP fails to provide a compelling endorsement of success. The Fund's overall conclusion is that 'there has been little progress in reducing excess imbalances in recent years as the absolute sum of the gaps of economies with positive current account gaps and those with negative gaps has remained essentially unchanged since 2013' (IMF, 2015, p. 2). Many of the indicative guidelines continue to reveal relatively poor performance and the Fund places emphasis on the need for 'joint efforts' to achieve more balanced and stronger economic growth. The underlying purpose of the G20's MAP was to encourage just such joint efforts.

Concluding Remarks

The consensus over the design and implementation of macro-economic policy in the immediate aftermath of the global economic and financial crisis in 2008/09 may have seemed to herald a new era of international macro-economic coordination. The failed attempt to coordinate policy in the mid-2000s under the auspices of the IMF's multilateral consultations suggested that the G20 would provide a better institutional framework, and the G20's Mutual Assessment Process was devised to try to achieve a closer and more concerted approach to the design of macro-economic policy.

More careful analysis suggests that this represents a misinterpretation of events and the issues that underpin them. The apparent success of the G20 in orchestrating a genuinely coordinated policy response to the global crisis was largely illusionary in the sense that the member countries did not have to deviate from the policies that, at the time, they deemed to be in their own national self-interest. There was essentially a common view about what such policies should be. While the sharing of information and the discussion of the appropriate economic strategy may have been useful, and avoided the risk of expansionary overkill, it overstates things to regard this period as a high-water mark for international macro-economic policy coordination. Member countries were not being persuaded to significantly modify national policy because of the international consequences of their actions.

From the outset, the prospects for genuine international policy coordination as part of the G20's MAP were undermined by the fundamental problems that coordination encounters. The MAP offered little to suggest that these problems would be overcome. As time has passed since 2009 global economic and political circumstances have changed in ways that make the MAP even less likely to succeed as a framework for bringing about coordination. The very use of the words chosen to describe the MAP, such as 'indicative', 'guidelines', and 'cooperation', implies that a hard form of coordination was never envisaged. This is not to argue that the sharing of information, mutual assessment, and international cooperation are undesirable, but that they need to be seen for what they are. There may by a role for moral suasion in the context of the MAP, but the exercise does not offer any clearly defined rules, nor a system of incentives to encourage compliance with them. Even the benefits associated with the collection and sharing of macro-economic information about G20 countries that the MAP embodies may easily be overstated. Much of this information collection, as well as the discussion of policy, had already been occurring as part of the IMF's regular Article IV consultations with member countries. The issue is then a matter of the value added by the MAP. A reasonable case can be made that this is, at best, modest and almost certainly empirically indiscernible. Judged on its own terms, the MAP does not appear to have made a significant contribution to stimulating global economic growth nor to correcting global economic imbalances.

A prognosis is that, in the absence of another global economic crisis, the MAP will continue to lose direction and relevance. It is unlikely to be abandoned, but it is also unlikely to become a modality for close international macro-economic coordination.

Acknowledgements: Thanks are due to Yanyan Yang for her help in assembling the statistics presented in this paper and to Tom Willett for his comments on it.

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