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Multilateralism and the EU in the Contemporary Global Order

MERCURY
E-paper No.15
December 2011

Fiscal Multilateralism in Times of the Great Recession

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MERCURY is financially supported by the EU's 7th Framework Programme
www.mercury-fp7.net

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Abstract[1]

During the Great Recession of 2008-2010 the need for international policy coordination has been brought into bolder relief. This paper investigates the state of fiscal multilateralism during and in the aftermath of the last economic and financial crisis. In particular, it scrutinizes the EU's role to facilitate fiscal multilateralism in the G20. So doing it presents two modes of leadership; one of structural and one of informational leadership. The first is concerned with agenda control and the potential to exert leadership as an 'architect of change'. The second identifies leadership as information transmission that is signaling via policy action. Building on this distinction, this paper scrutinizes the EU's role to facilitate fiscal multilateralism in the G20, arguing that the EU's leadership has been much stronger on the 'structural leg' than on the 'informational leg'.

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ISSN 2079-9225

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[1] Earlier drafts were presented at the 24-25 March 2011 MERCURY workshop in Prague and the 9 September 2011 MERCURY workshop in Rome. I gratefully acknowledge financial support for MERCURY through the EU's Framework VII programme. Special thanks to Mark Aspinwall, David Howarth, John Peterson and all participants of the MERCURY workshops, for their thoughtful comments as well as all interview partners for their time and willingness to share their insights into the G20.

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Fiscal Multilateralism in Times of the Great Recession

> 'If any good has come from the past 18 months of turbulence, it must surely be that the European Union and the multilateralism it embodies have proved themselves more necessary than perhaps at any period.' (Barroso 2009: 7)

Introduction

In sharp contrast to the Great Depression, the Great Recession of 2008-2010 saw an unprecedented number of attempts to coordinate macroeconomic policies internationally. As the financial crisis turned into a deeper macroeconomic crisis in the fall of 2008, the political dilemma posed by the post-Bretton Woods system – financial integration without fiscal coordination – became apparent highlighting the 'fiscal realities of financial integration' (Pauly 2009). In the light of increased international policy interdependence, the need for international policy coordination has been brought into bolder relief. This paper seeks to investigate the state of fiscal multilateralism and the European Union's (EU) contribution in the G20 during and in the aftermath of the last economic and financial crisis.

Although this paper will gauge the EU's leadership role with respect to fiscal policy, the G20 with its growing list of agenda items and working groups[2] is addressing many more issues. This being said, the broader themes and conclusions identified should be applicable to other policy areas of international macroeconomic cooperation as well. Analyzing the EU's role in this comparatively fledging multilateral setting is a particularly interesting focus of investigation since the G20 at the head of government level emerged as the 'premier forum for economic policy coordination' (G20 2009b) and has been the central stage of what initially promised to be a pivotal moment of international economic policy coordination. Moreover, the case-study of the G20 is empirically interesting, since here EU external representation resembles a half-way house; Five of the EU member states holding their own seats, while the Commission and the Council jointly represent the Community interest. Further, the gatherings of the G20 constitute an analytically interesting interface of the domestic, the EU and the international level. In short, they take place on stages for so-called 'three-level games' (Patterson 1997).

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[2] 'These working groups, they are like the heads of the hydra, you chop one off and you will get twice as many in return' (author interview, 11.4.2011).

The understanding of multilateralism underpinning this paper follows Bouchard and Peterson (2010: 7): 'multilateralism is three or more actors engaging in voluntary and (more or less) institutionalized cooperation governed by norms and principles, with rules that apply (more or less) equally to all'. The G20, although a new addition to the growing family of multilateral fora, is in many aspects a traditional set-up for policy cooperation and runs counter to the alleged trend of the 'new multilateralism' (Ikenberry 2009). That is, instead of being more demanding and necessitating more significant concessions on the part of its member states than the 'old multilateralism', the G20 can be seen as imposing only soft constraints on its member states. So doing it is distinctly non-threatening to states' sovereignty. Due to the soft nature of its agreements in the absence of sanctions or strong control mechanisms, the G20 is especially accommodating to those states who are either less impressed or less targeted by the time honored Ersatz-punishment peer pressure. This design of multilateralism in the G20 impacts not only on policy outcomes (fiscal multilateralism), but also influences the (inter)actions of its member states. One of the key questions will hence be how the EU shaped international fiscal policy coordination within this soft multilateral setting.

Analyzing the EU's involvement in the G20, this research is based on qualitative analysis of primary and secondary documents and interviews with key officials working on the G20 in the International Monetary Fund (IMF), the European Commission, the European Council and Member States' Permanent Representations. Interviews were conducted in the spring of 2011 in Washington, DC and Brussels. This paper proceeds as follows. The next section describes the origins and re-organization of the G20 in 2008 and briefly presents the rationale for fiscal multilateralism, before evaluating fiscal policy coordination between the G20 member states. The following section outlines how this study relates to wider debates in the political economy literature on leadership in the face of collective action. It presents two modes of leadership, one of structural and one of informational leadership. Building on this distinction, this paper scrutinizes the EU's role to facilitate fiscal multilateralism in the G20, arguing that the EU's leadership has been much stronger on the 'structural leg' than on the 'informational leg'. The conclusion outlines some policy implications.

Crises in Multilateralism

One of the key lessons from the Great Depression for those championing multilateralism was that 'the weak and often counterproductive policy response […] was partly due to the lack of international cooperation and coordination on economic matters' (European Commission 2009). Three main reasons can be given for the failure of coordination, one historical, one ideological and one institutional. First, the Great Depression occurred in an historical

environment of political tensions and increased nationalism after World War I had shattered aspirations of cosmopolitan liberalism. Secondly, coordination was hampered by the prevailing economic ideology of the time, the 'gold standard mentality' (Eichengreen and Temin 2000), which encompassed a marked fear of inflation, opposition to 'easy credit' even in the face of liquidity shortages, and a non-intervention policy on the part of governments. Thirdly, multilateral institutions were extremely weak and did neither have the experience nor the mandate to deal with fiscal policy coordination. The absence of institutionalized as well as informal multilateralism was indeed a key reason for the failed attempts of policy coordination, the emergence of nationalistic tensions, and a sharp rise in protectionism (Eichengreen and Irwin 2009).

Have these lessons been learned in the current climate of Great Recession, specifically as reflected in the G20? Similar to the IMF and the World Trade Organization (WTO), the G20 is a phoenix institution, with its cradle standing in the ashes of a global crisis. In September 1999, the finance ministers and central bank governors of the G7 (Canada, France, Germany, Italy, the United Kingdom, Japan, the United States, plus the EU) decided to set up a new international group to address challenges in the financial system that became apparent with the widening East Asian financial crisis in 1997. The G20 consists of 19 countries — Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States — and the EU. The Managing Director of the IMF and the President of the World Bank, along with the chairs of the International Monetary and Financial Committee (IMFC) and the Development Committee (DC), also participate in G20 meetings of finance ministers and central bank governors *ex officio.* In the wake of the Great Recession, in autumn 2008, the G20 reorganized as a forum for the head of states/governments to deal with the ramification of the financial and economic crisis. Notably, the new 'country leaders G20' did not replace the old G20; finance ministers and central bank governors continue to meet at G20 summits. Although modeled on the G7, the (old and new) G20 sought to break away from the previous West-centric institutions by including emerging economies. The G20 is not equipped with a bureaucratic machinery of its own: the secretariats change with every presidency (once a year) and working groups are non-permanent. The latter prepare meetings in advance and sherpas as well as sous-sherpas often work on G20 issues a long time in advance of the (usually) annual meetings. Sharing with the G7 the absence of a charter, voting procedures or legally binding decisions, and favoring 'exclusive executive multilateralism' (Rittberger 2008), G20 members are at least in theory supposed to interact as equals. Decisions have to be carried by all members unanimously (Martinez-Diaz and Woods 2009).

Fiscal Multilateralism

The basic rationale for fiscal multilateralism – in the G20 or any other forum - is to manage externalities arising from macroeconomic policy interdependence. The economies of the G20 are, albeit to different degrees, highly dependent upon another, notably via trade and financial services. Consequently, unilateral fiscal policy is likely to cause unwanted spillovers. Given the economic interdependence of the G20, the fiscal stimulus program of one state is likely also to stimulate other economies. Buiter (2010: 63) argues that international coordination of discretionary stimulus policies is needed 'to allow the internalization of the effective demand externalities of a fiscal stimulus through the trade balance and the real exchange rate'. In other words, the apparent danger is that other countries, depending on their degree of openness, could benefit from the externally generated expansion of demand without having to infer the costs of budget deficits. This introduces the hazard of free-riding, whose mitigation via collective action multilateralism seeks to facilitate. A similar logic applies to the cost-benefit analysis when facing fiscal exit strategies.[3] On the one hand, once one state starts the process of fiscal contraction, it will not only curb economic activity on a domestic level but also create negative spillovers in other states. Whereas the initial benefit of a return to sound fiscal principles is enjoyed only by the first state, the costs of consolidation are accrued by other states as well. The likely reaction of other states is to follow the fiscal exit strategy, which will reduce economic activity further. This reduction could offset the positive effects on budget deficits, and states are left with further deflationary dynamics and limited fiscal space. A non-coordinated exit strategy could therefore hamper the recovery across national borders.

Yet, on the other hand, a late exit might put fiscal sustainability into question. Delayed withdrawal may increase investor concerns about sustainability, which is likely to lead to higher interest rates. This would in turn undermine economic recovery and increase the risk of a snowballing of debt (Horton et al. 2009). The 2009/2010 European sovereign debt crisis has shown that renewed turbulence in sovereign debt markets precipitate adverse feedback loops within the financial sector. Not only for the EU but also for the global economy, there is a substantial danger that these may spill over to the real economy and across regions through higher funding costs, tighter lending conditions, and retrenchment in capital flows (IMF 2010).

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[3] In the context of macroeconomic policy, exit strategy refers to the withdrawal of economic stimulus programmes and a return to sound public finances through comprehensive consolidation strategies (ECB 2009).

Fiscal policy as an issue for international cooperation was on the agenda of the G20 prior to the Great Recession. Notably, public debt and fiscal sustainability came into focus at the G20 when Germany held the rotating chair in 2004.[4] Reflecting Germany's policy preferences, the G20 leaders agreed on orthodox neo-liberal policy recommendations on central issues of economic management. Yet in subsequent years, fiscal policy was not explicitly discussed during the G20 meetings. Against this backdrop, the objective of fiscal multilateralism adopted by the G20 in 2008 put fiscal policy higher up the agenda of economic policy coordination. The various agreements on the conduct of fiscal policy were, at least in theory, designed to present a comprehensive roadmap for fiscal multilateralism. A list of all G20 fiscal policy commitment between 2008-10 can be found in Table 2 of the appendix.

Evaluating Fiscal Multilateralism

The fiscal activism of the Great Recession contrasts sharply with the policies of the Great Depression, when fiscal policy was not used extensively (see for example Hansen 1941). Fiscal policy (in the forms of discretionary spending or automatic stabilizers) was indeed *the* policy instrument of the Great Recession.[5] Consequently, whilst economic spillovers are not a recent phenomenon, their implications are amplified in that the crisis prompted discretionary fiscal policies on an unprecedented scale. Even Robert Lucas, superintendent of Chicago economics, admitted that 'we are all Keynesians in the foxhole' (*Time Magazine* 23.10.2008). At first glance, it would seem that the numerous G20 agreements concerning the fiscal management of the Great Recession heralded a new height of fiscal policy coordination on an international level. Yet, upon closer evaluation, it appears that unilateral policy responses still prevailed and that the various agreements on fiscal policy coordination did not amount to much more than the strategic adoption of common rhetoric.

The Impact of Fiscal Stimuli

The self-set aim of the G20 members was to undertake 'an unprecedented and concerted fiscal expansion, which will save or create millions of jobs which would otherwise have been

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[4] Author interview, 26.03.2011.

[5] It is beyond the remits of this paper to establish any hierarchy between fiscal and monetary policy during 2008-2011. Most commentators are unanimous in their assessment that the decisive policy easing by the Federal Reserve System (FED) and the European Central Bank (ECB) as well as the adoption of unconventional measures by both central banks was vital in fighting deflation and restoring financial stability (e.g. Baumeister and Benati 2010). The vast majority of G20 countries are reported to have engaged in exchange market intervention and/or capital controls to curb currency appreciation during the Great Recession (Cline and Williamson 2010). Yet, even if monetary policy can have significant effects in times of economic downturn, its impact is 'blunter, less predictable and harder to gauge than in normal situations' (Freedman et al. 2009: 4). What is more the efficacy of monetary policy near the zero bound is highly debated (see Eggerttson and Woodfort 2004).

destroyed, and that will, by the end of next year, amount to $5 trillion, [and] raise output by 4 per cent'(G20 2009a).[6] Put simply, this goal has not been met. The IMF estimates that the actual fiscal expansion of the G20 countries was approximately $780 billion in 2009 and $590 billion in 2010 (IMF 2009). According to another estimate, instead of a staggering 8.6 % of G20 GDP, discretionary spending is said to have amounted to $ 2 trillion (Dadush et al. 2010). On this basis the growth effect from discretionary fiscal policy is estimated to be between 0.8 and 3.2% in 2009 and 0.1 to 0.9% in 2010 (IMF 2010). The impact of fiscal policy on economic growth is notoriously difficult to estimate and rests entirely on the assumed size of multipliers. Empirical studies do not only disagree vehemently about the magnitude of multipliers, but even about the predicted sign of the variable in questions, – that is negative or positive (see Blanchard and Perotti 2002 vs. Hemming et al. 2002). The G20 objective of raising output 4% would only be met if the most optimistic assumptions about the multiplier effects of fiscal policy are taken as a base. Conversely, if the most conservative estimate was considered, crisis related expansionary spending would have led only to 0.9% of growth for the 2009-2010 period (IMF 2010).

The Size, Shape, and Sequencing of Fiscal Stimuli

During the Washington summit in 2008, country leaders pledged to 'use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability' (G20 2008). Maintaining an eye on fiscal sustainability – a concession especially to German demands[7], – this call for economic stimulus can be considered a compromise between proponents of fiscal activism and fiscal austerity. Yet, this commitment, as well as subsequent summit agreements, is vague when it comes to the form and size of stimulus measures. The only quantitative reference being made was the pledge 'to deliver the scale of sustained effort necessary to restore growth' (G20 2009). Indeed, the size and sequencing of the G20 fiscal stimuli varied considerably (see Table 1).

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[6] It is difficult to evaluate compliance with the G20 leaders' pledges to stimulate their economies. The IMF (2009) noted that a 'full progress report on implementation of fiscal stimulus packages in G20 countries to date [September 2009] is difficult, given operational challenges in reporting and limited specific information'. Only a few G20 countries reported stimulus spending systematically. Moreover, the IMF was left with the challenge to evaluate crisis-related fiscal policies without standard definitions of implementation, and especially of spending such as transfers to agencies or sub-national governments, commitment and payment stages, and stimulus measures that do not involve new or separate budget items, in addition to lags in reporting or provision.

[7] Author interview, 28.03.2011.

Table 1. Discretionary Fiscal Measures: G-20 Country Breakdown, 2008-2010

Percent of GDP, relative to 2007 baseline[1,2]

	2008	2009	2010
Argentina	0.0	1.3	...
Australia[3]	0.7	2.1	1.7
Brazil	0.0	0.4	0.2
Canada	0.0	1.5	1.3
China	0.4	3.2	2.7
France	0.0	0.7	0.7
Germany	0.0	1.5	2.0
India[3]	0.6	0.6	...
Indonesia	0.0	1.3	0.6
Italy	0.0	0.2	0.1
Japan	0.4	1.4	0.4
Korea	1.1	2.3	1.3
Mexico	0.0	1.5	...
Russia	0.0	2.3	1.6
Saudi Arabia	2.4	3.3	3.5
South Africa[3,4]	1.7	1.8	-0.6
Turkey[5]	0.0	...	...
United Kingdom	0.2	1.4	-0.1
United States[6]	1.1	2.0	1.8
G-20 PPP-GDP weighted average	0.5	1.8	1.3
EU G-20	0.1	1.0	0.8
G-20 discretionary impulse[7]	0.5	1.2	-0.5

Source: IMF staff estimates, IMF 2010

[1] Figures reflect the budgetary cost of crisis-related discretionary measures in each year compared to 2007 (baseline), based on measures announced through early March. They do not include i) “below the line” operations that involve acquisition of assets (including financial sector support) or ii) measures that were already planned for. Some figures represent IMF staff’s preliminary analysis.

[2] “...” is used for countries for which no information is available on the size of their fiscal packages.

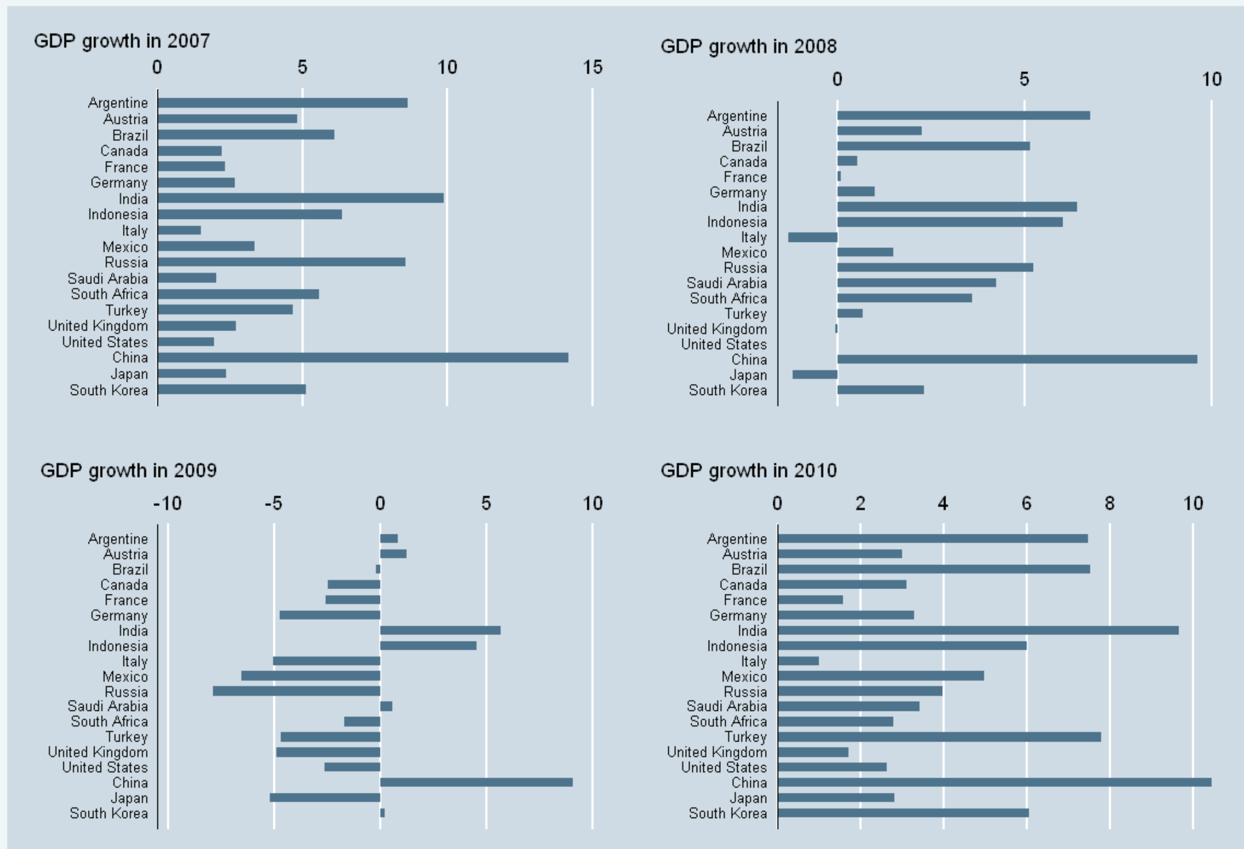
[3] Fiscal year basis.

[4] Stimulus estimates are based on the FY 200[9] 2010 budget.

[5] Measures to help alleviate crisis impact, as of end-February, include extension of regional subsidy programs, increase in workers’ severance benefits, and tax relief programs. No estimate of the fiscal cost is yet available.

[6] Excludes cost of financial system support measures (estimated at US$ 797 billion, or 5.7 percent of GDP in 2009).

[7] Change from the previous year.



The total GDP weighted average of discretionary fiscal measures between 2008-2010 for all G20 countries adds up to 3.6%, with China having the largest stimulus programme in relative terms (6.3% of GDP) and Italy the smallest (0.3% of GDP).[8] The discretionary spending has been tilted towards expenditure measures such as spending for infrastructure against revenue measures such as cuts in personal income taxes and indirect taxes. Almost half of the G20 countries have announced sizable cuts in personal income taxes, while around one-third have announced reductions in indirect taxes (IMF 2010). Whereas Brazil, Russia and the UK have focused almost exclusively on tax cuts, others, for instance Argentina, China and India, have mostly focused on spending measures (Prasad and Sorkin 2009). This heterogeneity in magnitude and content of the discretionary measures should not be seen as a direct result of the vagueness of the G20 policy objectives. Instead, the vague policy objectives are a consequence of the heterogeneous preferences of the G20 countries, which

[8] Of course, fiscal policy responses are highly contingent not only on the economic downturn experiences by the country, but also on other macroeconomic variables indicating the country's so called fiscal space. One of the key indicators is said to be the public debt to GDP rate. And indeed results of a correlation of economic stimulus programmes with the public debt of the G20 countries indicate a similar relationship (-.35). The sign of the correlation is even stronger when the size of the automatic stabilisers is added on top of the economic stimulus (-.48).

are to a large extent determined by the different degrees to which member states' economies were hit by the Great Recession (see Graph 1). Interestingly, 11 out of the 19 G20 countries declared their intentions to introduce a fiscal stimulus plan prior to the Washington summit; the commitment for coordination is hence only one ex post facto (see Table 3 in the appendix). What was sold by G20 leaders as an unprecedented entente on macroeconomic crisis management was little more than the concomitance of recession responses.[9] Instead of forging a globally coordinated economic stimulus heralding a new era of fiscal multilateralism, the G20 states merely saw the more or less simultaneous announcement of independently designed national fiscal policies (see Buiter 2010).

Protectionism

One of the main lessons from the history of the Great Depression is the necessity of institutional mechanisms to preempt a collapse of trade due to protective and retaliatory measures. It was not principally the responsibility of the G20 to fend off protectionism. However, given the potential protectionism implications of fiscal policy design, this issue was explicitly addressed in various summit meetings. During the Washington summit in 2008, G20 leaders pledged to 'refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO inconsistent measures to stimulate exports [within the next 12 months]' (G20 2008), a promise repeated both during the London and Pittsburgh summits without a time reference, and renewed until the end of 2013 at the Toronto summit (G20 2010a).

Yet, there are signs of an increase in protectionism despite the explicit commitment to fight the very same. Be it President Sarkozy's 'car wars', the Bush administration's 'Buy America Act', or China's 'Buy Chinese Edict', appeals to the 'patriotic consumer' hardly reflected a sense of multilateral crisis-mitigation. There is strong evidence for the rise of protectionism in the wake of the Great Recession (e.g. Evenett 2009, EC 2010, Gamberoni and Newfarmer 2009, Larionovo et al. 2010) and given that the commitments of the G20 Summits are not binding and without sanctions, the progressive Communiqués read at times like a diary entry of the Emperor marveling at his new clothes: 'We have successfully maintained our strong commitment to resist protectionism' (G20 2010a).

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[9] Author interview, 25.05.2011.

Beggar-thy-neighbor

As we have seen, behind concerns of countries implementing small stimuli is the fear of beggar-thy-neighbor politics. This is especially crucial for export nations such as Germany and other open economies. Aizenman and Jinjarak (2010) ran a regression analysis looking at the variation in the fiscal stimuli during 2009-2010 in 75 countries (including all G20 member states). They find higher trade openness to be associated with a lower fiscal stimulus. Similarly, Fuest et al. (2010), analyzing EU member states, find a negative correlation (-.4) between the average annual discretionary fiscal measure and the indicator for openness in 2009-10. The result of a correlation of the total G-20 stimulus measures and trade openness comes to a similar conclusion (-.46). There is hence evidence that free-riding was indeed a problem of the fiscal responses to the Great Recession despite promises of fiscal multilateralism, both in the G20 and the EU alike.

Analyzing EU Leadership

This paper seeks to gauge the EU's contribution to fiscal multilateralism by ascertaining its leadership potential in the G20. Young (1991: 281) argues that strong leadership is a 'critical determinant' of the success of international regimes. This paper (in contrast to Hayward 2008), is primarily concerned with external leadership. Yet, to analyze the leadership dynamics of the EU is by no means a clear cut exercise that distinguishes between the inter- and extra-EU levels. Instead, both levels of policy contestation are intertwined. Three potential sources of EU leadership in the G20 emerge:

a) the EU member states represented in the G20 (Germany, France, Italy, the UK, and to a lesser extend Spain[10]),
b) the EU delegation as represented by the European Commission, and
c) the EU delegation as represented by the European Council.[11]

Either EU leadership is exerted solely by the European Commission and the Council, or it takes the form of tandem leadership. The latter refers to joint leadership by one of the EU bodies together with one of the EU/G20 member states. The political economy literature on the modes of leadership can be divided into two strands; one highlighting the informational sources and one the structural roots of leadership (Ahlquist and Levi 2010). The first is concerned with agenda control and the potential to exert leadership as an 'architect of

[10] Spain has secured a standing invitation to G20 summits, giving it a de facto the fifth permanent EU seat.
[11] Since the subject of this paper is *fiscal* multilateralism, the leadership potential of the EU in the head of state configuration of the G20 is addressed. Therefore the role of the ECB delegation in the context of financial and monetary affairs during the G20 meetings of the central bank governors and finance ministers is not explored.

change'. The second identifies leadership as information transmission that is signaling via policy action.

The importance of information for group production has been first analyzed by Barnard (1938) and later studied by Arrow (1974), who claimed that information transmission affects the formation and modification of individual beliefs and the willingness of individuals to comply with leaders' demands. One can further distinguish between two sub-types of informational leadership, one potentially costly and the other one inherently cheap. The latter, known as *cheap talk*, consists of verbal statements that are not backed up by credible threats or promises (Farrell and Rabin 1996). In other words, it refers to the use of signals that do not directly affect payoffs, and which are costless to make. With no legalization of G20 policy commitments, members of the G20 never reached legally enforceable agreements. This in turn makes cheap talk highly likely since the price of defection is low. The role of a leader in this context is to manipulate information about the nature of the provision and allocation function to render coordination more attractive.[12]

The second mode of informational leadership addresses the other side of the coin: action. Leadership is about the transmission of information to followers and by the nature of this information the manipulation of their action. Therefore leaders are compelled to convince followers that this information is correct. One central way of doing so is via *leading by example* (Hermalin 1996), an aspect that has been highlighted by various debates about power in EU studies (see for example Manners 2002).

Structural accounts of leadership have analyzed how control of the agenda leads to control of the outcome. Arrow (1951) discussed how leaders who know how to set the institutional situation can manipulate outcomes to their own advantage or can influence the institutional design to their own benefits. Moreover, not only does the institutional design matter but what is also crucial is what is deliberated within the institution: in short, the agenda (Plott and Levine 1978). Successful leadership can accordingly more likely be achieved if the leader holds agenda-setting power. Technically, agenda-setting concerns the hard and soft rules of how debates and proposals come up for deliberation. More specifically, agenda-setting decides how much attention is given to an issue. This is a matter of degree rather than a matter of kind (being 'on' or 'off' the agenda, see Tallberg 2003: 5). Especially in the context

[12] For example, a policy announcement by the EU pledging a stimulus programme of 1,5 % in the framework of the European Economic Recovery Plan (EERP) can be seen by other member states a signal for a) the desirability of discretionary spending policy generally, b) an assurance that EU member states will not free ride on other states' stimulus plans and c) the probability that other states will follow suit.

of the G20 - a multilateral forum with a growing sphere of potential influence - policy space is contested and the 'uploading' and framing of a specific issue can prove crucial.

An interesting sub-category of agenda-setting and leadership concerns the case of crises. According to Schofield (2006) political leaders emerge as 'architects of change' at critical moments in time. Pivotal moments, or 'constitutional quandaries'[13] occur when a traditionally upheld belief system is put into question. In a similar vein, Widmaier et al. (2007: 747) view crises as 'socially constructed openings for change' which create space for leaders to reframe and interpret politics. Political economists have put forward a 'crisis hypothesis' according to which a severe enough crisis will lead to major reform (see for example Drazen and Grilli 1993, Olson 1982). Similar to the 'window of change' argument, a crisis is said to alter perceptions of how the world works and therefore creates awareness of a need for change not previously perceived (Harberger 1993). Facilitating reform, leaders are said to be play a key role: 'effective leaders take advantage of crisis, weak leaders do not' (Drazen 2011). Arguably, the Great Recession provided just such a 'constitutional quandary' challenging the global economic system. Discussing leaders as 'architects of change' can here be taken literally looking at the changing architecture for international policy coordination with the re-creation of the G20 as well as, more metaphorically, the (re)construction and promotion of specific economic policy ideas.

The EU's Role in the G20

Given the EU's long-standing commitment to multilateralism, did EU live up to its ambitions to contribute to effective fiscal multilateralism during the Great Recession? As discussed above, fiscal multilateralism can hardly be cast as a success story. Yet still it is useful to identify instances where the EU exerted leadership, and in so doing facilitated multilateral agreements on fiscal policy, and where it failed to do so. The following section will analyze the role of the EU in the G20 along the two categories of structural and informational leadership.

Structural Leadership

Without doubt, the largest contribution of the EU to fiscal multilateralism can be found in the Union's pivotal leadership in the reorganization of the G20. The main impulse for this reform came from the French President Sarkozy who, in his role as rotating Council president,

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[13] Which is similar to 'critical junctions' (Collier and Collier 1991) or 'tipping points' (Finnemore and Sikkink 1998).

'wanted to give his presidency an aura of global recognition'[14]. His original suggestion was to set up a G8 plus 5 summit (plus China, India, South Africa, Mexico and Brazil). Yet these five countries resented the 'guest status' that was attached to this kind of institutional reform. Crucially, the proposal to hold a crisis summit in the country constellation of the G20 appealed to emerging economies because this would a) give them at least formally equally standing to the traditional G8, and b) was a symbolic victory, – 'if the G20 was good enough to deal with our crisis then it is also good enough for your crisis'.[15] The re-creation of the G20 with a shift towards the inclusion of emerging market powers injected a multilateral impulse into internationally coordinated crisis management. At least on paper, it contradicted Kahler's prediction (1992: 707) that in 'certain issue areas, such as monetary and economic policy coordination, it is likely that great power minilateralism will continue to dominate'.

Falling back to an old institutional configuration while 'upgrading' its participants (from finance minister and central bank governors to the head of states), despite having the advantage of being relatively time efficient and comparatively convenient, was nevertheless not unproblematic. The new G20 was considerably biased in favor of EU representation and no longer reflected actual global economic power constellations. Indeed one issue that flared up from the very beginning of the G20 was that of EU over-representation (see Eichengreen 2009). During the inaugural meeting in Washington, 6 EU countries were represented at the roundtable. Spain and the Netherlands (the former was to hold the rotating EU Council presidency in 2009) had argued that it should be invited due to the size of its economy and participated as part of the French and the EU delegation respectively. Not only do EU leaders take up more than one third of the summit chairs, most of the key international civil servants present at the international gatherings were also Europeans (Dominique Strauss-Kahn, then head of the IMF; Pascal Lamy, director-general of the WTO; Mario Draghi, then chairman of the Financial Stability Board). Surprisingly, one of the most vocal advocates for abolishing EU seats is the US and not the emerging market countries. This strategy is likely to divert attention to the EU in an effort to cast it as 'the hegemonic villain'[16].

Three main reasons enabled the EU to provide structural leadership at this critical juncture as an architect of change. First, the financial and economic crisis has cast a shadow on the reputation of the US government, which was seen as one of the main culprits for the destructive creation of unfettered capitalism. As the financial meltdown had put the model of Anglo-Saxon Capitalism into question, this crisis was considered to have 'been born in the

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[14] Author interview, 12.04.2011.
[15] Ibid.
[16] Author interview, 12.4.2011.

USA, so it was natural to start dealing with its repercussions right there'[17]. The decision to hold the first G20 summit in Washington hence had symbolic significance referring, to the place of the meeting as not only the geographical but the causal point of origin. During this 'constitutional quandry' of capitalism, EU leadership presented its growth model as a valid alternative. Second, the creation of the G20 took place during a leadership vacuum. Traditionally, the US has been in a position of leadership on international cooperation (McNamara and Meunier 2002: 850). But 'over the eight years of the Bush administration the US became increasingly willing to resort to unilateralism and disengaged from multilateral organizations when its interests were compromised' (Kissack 2010: 7). Moreover in autumn 2008, President George Bush was considered a 'lame duck'[18] with the international community waiting for the president-elect. Against the backdrop of a US leadership vacuum, the leadership space was open for the EU. This changed, however, fundamentally with the strong presence of President Barak Obama in 2009. From Pittsburgh on, 'Obama was the real driving force taking ownership of the G20'[19]. Tellingly, it was not until September 2009 after the London Summit that the member states agreed to make the G20 the 'premier forum for economic policy coordination' (G20 2009b). Thirdly, the re-creation of the G20 was an instance of tandem-leadership between the European Commission and an EU member state. France's strong involvement was further bolstered by holding the rotating chair of the Presidency of the Council of the EU. This triad of legitimacy sources gave the EU delegation led jointly by Sarkozy and the European Commission President, José Manuel Barroso, more credibility in their efforts to speak for the EU as a whole and render its leadership more credible. What is more, together they combined considerable expertise in summitry. Barroso's involvement in setting up the G20 was less visible than that of the French president.[20] Yet, that should not lead to an underestimation of the role the Commission President played. Indeed interviewees both within and from inside the Commission highlighted the *joint* role of Barroso and Sarkozy.

The Mutual Assessment Process

A further vital EU contribution concerning the architecture of the G20, with implications not only for fiscal but for monetary and other macroeconomic policies more broadly is the creation of the Mutual Assessment Process (MAP). It constitutes the backbone of the initiative launched at the 2009 Pittsburgh summit: 'Framework for Strong Sustainable, and

[17] Author interview, 18.05.2011.
[18] Author interview, 12.4.2011.
[19] Author interview, 25.05.2011.
[20] For once there is no corresponding official statement as found on the French government G20 website stating that the G20 was re-established 'at France's instigation'.

Balanced Growth'. 'The MAP is essentially an attempt to export the Open Method of Coordination onto the G20 level'[21], and represented a mode of economic policy coordination where the EU felt on 'home turf'[22]. The MAP is based on both elements of surveillance and peer review that is now common practice in the EU. It was backed by all five G20/EU member states[23]. Two problems, again not unfamiliar in the context of fiscal policy coordination in the EU, remain paramount. First of all, there are huge discrepancies concerning the quality and consistency of information provided by the G20 countries for the MAP. This is true both for the accuracy as well as the detail of its content. The IMF officially stated that, when evaluating the national plans within the MAP, 'in keeping with the G20 ownership of the exercise, individual country policies were taken at face value and no judgments were made by IMF staff concerning their feasibility, timing, or effectiveness' (IMF 2010). Yet already it is clear that some of the data provided was if not outright wrong, than at least based on growth assumptions that were too optimistic (IMF 2011). Secondly, the surveillance of fiscal multilateralism is faced with a classical problem of collective action due to the absence of sanction mechanisms and the nature of the rather soft commitment to the G20 policy goals. Similar to the politicized nature of the Excessive Deficit Procedure (EDP) of the EU, the final recommendations of the MAP are highly contingent on political agreements between the states. Likewise to the EDP, G20 members have to agree on a version of the country non-specific MAP to be published. There is little reason to believe that the G20 commitments on fiscal policy will trigger any better compliance than the EU laws governing fiscal policy coordination. Arguably, by replicating EU structures in the design of the MAP, European leadership paved the way for costless and ultimately futile commitments to multilateral action that were already distinctly non-threatening to states' fiscal sovereignty. The IMF's April forecast (2011: 26) is for instance far from optimistic about the prospect for tackling macroeconomic imbalances, one of the key issues of the MAP;

> Unless fiscal adjustment starts in earnest in the United States, the exchange rate of the renminbi becomes more market-determined, currencies of other emerging surplus economies appreciate, and various European and emerging economies implement ambitious structural reforms, little progress will be made with respect to global demand rebalancing, and the recovery will stand on increasingly hollow legs over the medium term.

Informational Leadership

The gist of informational leadership is that one's action contains information. As the EU vocally advocated fiscal policy coordination on the G20 level, one of the litmus tests for the

[21] Author interview, 14.3.2011.
[22] Ibid.
[23] Author interview, 12.4.2011.

credibility of its commitment to fiscal multilateralism would be the state of fiscal policy coordination *within* the EU. At the early stages of the G20 in 2008 and 2009, the EU and its common currency union were considered a unique role-model for managing economic interdependencies through increased policy cooperation at the supranational level.[24] Although the EU's system of economic governance was never perceived as flawless, it still represented a regime of policy coordination and transfer of, or at least concessions on, national macroeconomic sovereignty unprecedented at the international level. Therefore the EU member states and the EU delegation saw themselves as a natural leader: 'Economic policy coordination? That's what we do on a day-to-day basis'[25]. Yet, the aura of experience faded due to persisting disagreements between EU member states and a patchy record of fiscal policy coordination even before the sovereign debt crisis of 2010-11 put its system of economic governance into question.

Speaking with One Voice

One of the main challenges the EU faced was to present a united, consistent position. In so doing the Commission and the Council had a bifocal leadership aim: first, to establish their respective fields of competence for the contested external leadership of the EU and, second, to use the G20 as a means to bring EU member states policy agreements in line with one another. With the Lisbon Treaty in effect, EU representation in the G20 underwent an important change. It was agreed that the rotating Presidency should give up its seat for the newly created President of the European Council. Hence from the 2010 Seoul summit on, Herman Van Rompuy and Barroso jointly represented the EU. Officially, this delegation arrangement was presented as ensuring 'full coherence, complementarity and clarity [...] in reaching our objective that the EU should speak with one voice' (Euobserver 19.3.2010). But behind the scenes this decision was by no means reached without conflict. Barroso's cabinet, without much success, 'used all the tricks in the book'[26] to achieve single representation of the Community interest at the G20 by the Commission. At the end of the day, since only some of the policies discussed in the G20 fall into the sole responsibilities of the Commission, member states insisted on a shared seat.[27] Arguably, the growing competition between both Community bodies was even more pronounced at the internal level, notably when Commission and Council both 'wanted to be in the driver's seat of reforming economic governance'[28]. To avoid confusion at the G20 level, a flexible division of

[24] Author interview, 11.4.2011.
[25] Author interview, 12.4.2011.
[26] Author interview, 23.5.2011.
[27] Author interview, 25.5.2011.
[28] Author interview, 28.3.2011.

labour was constructed according to which only one of them would attend meetings and participate in the discussions, depending on the policy issue at stake as indicated by the legal framework of the EU. Fiscal policy was a matter delegated to Barroso. Yet, the Commission was by no means unconstrained as an agent of the member states. Its delegation had to coordinate closely with the Cabinet of Van Rompuy led by Franciskus van Daele to reach a joint position for all policy issues, notwithstanding who was to represent the EU.[29] What is more, with five of its principals sitting in the same room the scope for discretion was severely limited. Especially since the Commission was only bound by a 'gentlemen's agreement' on how to represent EU interest, the five EU/G20 states were keen to keep an eye on the EU delegation.[30] In addition to the joint European Union position papers prepared in advance of the various summits in agreement with member states, the EU delegation also sought to consolidate the different positions of the Union's five country members by setting up regular meetings a few hours before the actual meetings of all G20 states in a 'vain attempt to chart the course'[31]. But 'at the end of the day these internal coordination efforts just added another layer of paper to put on old cracks'[32]. In fiscal matters the 'agreed language' was sufficiently vague to provide ample room for dissent. What is more, EU G20 states felt only partially bound by the internal agreement since the Commission was there to represent the Community interest[33].

McNamara and Meunier (2002: 850) blame the 'cacophony of European voices in multilateral settings for the unchallenged 'pre-eminence of the United States in international monetary matters, as in other realms'. Pascal Lamy (der Spiegel 19.05.2010), head of the WTO, goes one step further and sees the main problem not in the dissonance of European voices but in the fact that there are numerous voices to begin with: 'If one European takes the floor on one topic, and then another European takes the floor on the same topic, nobody listens. Nobody listens because either it's the same thing and it gets boring, or it's not the same thing and it will not influence the result at the end of the day.' Therefore he suggests that the EU member states and officials should 'at least make sure that they speak with one mouth. Not one voice – one mouth – on each topic on the agenda' (Ibid.).

The difficulties in presenting a unified front on fiscal policy issues is based on more than inter-institutional rivalry or national sovereignty concerns, but reveal deeper divisions within the EU both in terms of economic fundamentals and economic paradigms. Whereas the EU

[29] Author interview, 18.05.2011.
[30] Author interview, 24.03.2011.
[31] Author interview, 24.5.2011.
[32] Ibid.
[33] Author interview, 25.5.2011.

was relatively successful in leading on architectural matters of fiscal multilateralism, its ideational leadership, despite the EU's considerable summitry expertise and numerical advantage, was hampered by the heterogeneous positions of its member states when it came to the content of fiscal policy coordination. Indeed, it is here that informational and structural leadership interface, as the EU's compromised information leadership can be seen as a direct cause of the failure to influence the content of the G20's agenda more markedly. This is illustrated by four key fiscal policy questions discussed in the G20.

Fiscal Activism vs. Fiscal Austerity

The US delegation repeatedly called for more stimulus spending from EU countries during the G20 meetings, accusing EU countries of not doing enough to boost domestic demand.[34] In a similar vein, Olivier Blanchard, the IMF's chief economist, warned that 'if the circumstances require it, states must be ready to do more – 3% or more if necessary' (BBC 23.12.2008), thus going beyond the originally recommended 2% of GDP stimulus. Accusations that some countries – notably Germany – were spending too little money to stimulate their economies could also be heard within Europe. The consensus of European commentaries was that 'the German government's reluctance to enact a big fiscal stimulus that could spill over to its neighbors is one reason why the fight against global recession is not yielding enough results yet' (Financial Times 8.12.2008). Yet, even more importantly, with the sizes and shapes of fiscal policy responses varying largely within the EU (see ECB 2010) one cannot speak of fiscal multilateralism. Most member states engaged in discretionary spending as they saw fit. Realizing the political tides in favor of state interventionism, the Commission came forward with the European Economic Recovery Plan (EERP) which 'merely rubber-stamped the policy initiatives that member states had already in their pipelines anyway'[35]. In short, when it came to fiscal policy coordination the EU can hardly be seen to have lead by example.

Despite the broad consensus to use fiscal policy measures to counter the recession, conflicts about economic policy paradigm quickly became apparent. The remark of the German finance minister, Peer Steinbrück, who called the UK's cut in VAT 'crass Keynesian' (Newsweek 11.12.2008), was perhaps the most public example of dissent. A week later he argued that the German 'experience since the 1970s has shown that [...] stimulus programs fail to achieve the desired effect [....]. It is more likely that such large-scale stimulus programs —and tax cuts as well — would not have any effects in real time' (Steinbrück 2008). The fact

[34] Author interview, 18.5.2011.
[35] Author interview, 16.03.2011.

that the German government was not only one of the first G20 countries to announce a fiscal stimulus package, but also had the largest economic stimulus plan of the EU (both in real terms and as percentage of GDP), is often unmentioned. This is in part due to the rhetoric of the German government. Concerned with their domestic image as European figurehead of stability culture, German Chancellor Angela Merkel's cabinet did not embrace Keynesian politics openly. The economy minister, for instance, called the German crisis response 'a tailored economic growth package, not a classic stimulus program' (New York Times 5.10.2008). Arguably, it does not only matter politically whether fiscal crisis policies are in line with a policy agreement, but whether other G20 member perceived them to be so. This matters especially in the context of overcoming a collective action problem, where the incentives for defection rise with the perceived likelihood of other countries complying, hence the importance of informational leadership.

The Role of Automatic Stabilizers

The issue of automatic stabilizers[36] sparked lengthy discussions among the G20 members.[37] Paul Krugman attacked the allegedly inadequate size of European states fiscal responses to the crisis perhaps most vocally, bemoaning the EU member states' 'failure to respond effectively to the financial crisis' (New York Times 16.3. 2009). Barroso's spokesperson reacted to the remarks by pointing out the crucial role of automatic stabilizers which were 'obviously in Europe [...] more important than elsewhere in the world' (Laitenberger 2009). The EU's position was backed up by various communications of the IMF (2009). Consistent support by the IMF helped to create acceptance within the G20 for the EU's member to have a smaller discretionary stimulus than notably the USA.[38] The agreement on the EERP furthermore softened the tensions concerning the role of automatic stabilizers *within* the EU. As it was agreed to spend 1.5% of GDP *in addition* to automatic stabilizers there was little reason to further contest this non-discretionary spending item. Nevertheless, at the April 2009 G-20 London Summit, the UK joined the US in calling for larger stimulus packages, whereas Germany and France, pointing to the role of automatic stabilizers, declared existing stimulus programs sufficient (Nanto 2009).

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[36] Automatic stabilisers are features of the tax and spending system which react automatically to the economic cycle to reduce its fluctuations. In times of sluggish growth or recession tax revenues decrease and the share of national income spent by the government in benefits and on public services increases. Consequently, the budget stance in percent of GDP is likely to improve in years of high growth and low unemployment and to deteriorate during economic slowdowns. That is how the effect of automatic stabilisation in the economy is created.
[37] Author interview, 24.03.2011.
[38] Author interview, 11.4.2011.

This disagreement within the G20 was primarily one between developed countries, especially between the US and Germany.[39] Fuest et al. (2010) analyze the effectiveness of automatic stabilizers both in the US and in the EU. Although there is considerable heterogeneity within the EU, the authors confirm the view that automatic stabilizers in the EU played a considerably larger role in mitigating the Great Recession than it did in the US (for similar results see Schelkle 2011). Yet, surprisingly in the light of the controversy surrounding the automatic stabilizers, there is little evidence that member states with large automatic stabilizers implemented smaller stimulus programmes. In the G20 the contribution of automatic stabilisers on the fiscal balance is negatively related to the size of discretionary spending for the 2008-9 period with a value of -0.37. This correlation is biggest for the four EU countries (-.8), followed by the advanced economies of the G20 (-.61), vs. the developing G20 countries (-.41). These results suggest that governments with strong stimulus plans were also those who had a strong structure of automatic stabilizers in place.

Exit Strategies

It is no coincidence that the G20 addressed exit strategies at the same time as the EU did internally. The European Commission and Germany were committed to put fiscal consolidation on the G20 agenda.[40] Once more, the theme of tandem leadership emerges: the EU appears most successful in asserting leadership when the Commission is supported by at least one EU/G20 member state. During the Pittsburgh Summit (G20 2010a), high deficit countries committed themselves then to 'undertake fiscal consolidation', while at the same time promising to 'avoid any premature withdrawal of stimulus', a statement that pleased both the fiscal activism and fiscal austerity camp. Yet, who belonged to the group of G20 members with 'sustained, significant external deficits' (Ibid.) was never specified as was the meaning of 'premature'. The vagueness of these commitments, leaving ample room for interpretative latitude, reflects the conflicts between the G20 nations on the speed of fiscal consolidation. Whilst one group, led by Germany, pointed to the dangers of debt sustainability and lobbied for a quick return to fiscal prudence, another one, lead by the US, warned of the dangers of premature exit strategies for the global recovery. These differences can be found also in the time-preferences of the EU's EERP and the US's Geithner Plan. The EU officially advocated for a 3T approach, that is fiscal policy for the crisis being timely, targeted and temporary (EERP 2008). In contrast, Lawrence Summer (Financial Times 19.07.2009), Director of the White House National Economic Council, stated that 'while [he]

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[39] Automatic stabilizers are much smaller in developing countries (the contribution of automatic stabilisers on the fiscal balance for 2009 was -2.1 % of GDP for advanced G20 countries vs. -1.1 % of GDP for emerging market economies (IMF 2009)).

[40] Author interview, 24.3.2011.

had once advocated for stimulus that was timely, targeted, and temporary, our analysis of the situation the economy was facing indicated that stimulus needed to be speedy, substantial, and sustained'. It was the distinction between *temporary* and *sustained* that caused concerns for the timeframe of fiscal multilateralism in the G20. Although, mirroring the positions of the fiscal activism vs. austerity camps, the main advocates of both policy prescriptions can be found in the US and Germany respectively, the same schism runs through the EU as well.[41]

Eventually the G20 leaders in advanced economies agreed to 'at least halve' (G20 2010a) fiscal deficits by 2013 and to stabilize or reduce public debt by 2016 during the Toronto summit. The IMF (2011) is highly critical of some countries' performance in meeting these two objectives, as the medium-term consolidation plans rely on relatively optimistic growth assumptions and very few countries have thus far articulated credible plans underpinned by specific measures in key areas. If the speed of fiscal consolidation remains the same in 2012 as it was in 2011, all four eurozone G20 countries and the euro area as a whole will not meet the self-set deficit reduction target. Looking at the compliance with the consolidation programmes under the umbrella of the Stability and Growth Pact (SGP), it appears that projected consolidation progress is patchy (Ecofin 2011). However, according to one EU official, in large part due to market pressures associated with the sovereign debt crisis, EU member states are now consolidating their public finances much quicker than they would have if it was for EU agreements alone.[42] Whereas G20 countries, as well as EU member states were 'more or less in agreement about stimulating their economies in times of crisis, when it came to tightening the fiscal belt this consensus eroded'[43]. Given the lack of agreement in the G20, 'coordinated consolidation is now extremely unlikely'[44].

Imbalances

Closely linked to the underlying notion of free-riding (be it on other countries' fiscal prudence or fiscal exuberance) is the issue of internal imbalances. The appearance of account balances on the G20 agenda was another Keynesian moment reminiscent of the Bretton Woods conference of July 1944. Keynes, representing Britain, warned of the risks posed by asymmetric adjustment between surplus and deficit countries, an alert that was principally directed at the US, then the dominant surplus country (Financial Times 2.10.2010). 'Parts of the observed divergence of current accounts and competitiveness are a source of potential concern to the extent that they reflect underlying macroeconomic imbalances, which

[41] Author interview, 24.5.2011.
[42] Author interview, 23.5.2011.
[43] Author interview, 16.3.2011.
[44] Author interview, 25.5.2011.

increased the vulnerability […] to the shocks of the crisis' (European Commission 2010). Put differently, behind the resurfacing of the growing interest surrounding global imbalances is the fact that they are in part responsible for aggravating the credit boom which led to the financial crisis. The debate within the G20 focused almost entirely on the two biggest surplus countries, dubbed 'Chermany' by the media; China, with a current account surplus of $291 billion in 2010 and Germany, with a surplus of $187 billion (Financial Times 16.3.2010). Yet essentially this was a conflict on two fronts. On the one hand, it represented tensions within the eurozone with, most vocally, French policy-makers calling on Germany to take action. On the other hand, it indicated the growing imbalances between China and the US. The US delegation sought to discuss imbalances first and foremost to put pressure on China to appreciate the renminbi faster. 'Originally the issue of imbalances was a way for the US to bash China within the G20, yet for political reasons the Obama administration did not want to single out China and therefore Germany got in the line of fire as well'[45]. The question of how to deal with imbalances has on the remedy side a clear fiscal component: fiscal policy as a means to curb domestic demand and contribute to a more balanced global economy. Such unlikely agreement would reflect a new step forward in the quest for fiscal multilateralism. Not only would G20 members design individual fiscal policy to bring about national economic recovery, but the consideration of imbalances in national macroeconomic policy-making would amount to a pledge to spend money for the sake of account deficit countries (Buiter 2010).

The first mention of imbalances in the official G20 Communiqué appeared in April 2010 when finance ministers and central bank governors stated that balanced growth should not 'generate persistent and destabilizing internal or external imbalances'(G20 2010c). Yet what policy action should be undertaken to mitigate this threat was not specified. Following a push from the US government, imbalances were one of the key points of the Seoul summit.[46] G20 leaders agreed that 'persistently large imbalances [...] warrant an assessment of their nature and the root causes of impediments to adjustment as part of the MAP, recognizing the need to take into account national or regional circumstances, including large commodity producers' (G20 2010b). Crucially EU negotiators, in tandem with Germany, achieved an agreement that the eurozone should be considered as a whole for monetary and fiscal issues. This was particularly important for German negotiators as it meant that the German account surplus would not be admonished on the G20 level since the eurozone is not in surplus. Although the issue of internal imbalances is still highly debated within the EU, at least on the G20 level the European Commission reached an important agreement when other member states agreed

[45] Author interview, 12.4.2011.
[46] Ibid.

not to use the MAP as a means to reign in Germany's economically dominant position, since it promised an inter-EU process to address the issue of internal imbalances.[47] This agreement reflected the EU's underlying attitude towards the purpose and scope of the G20. As one EU official put it 'we don't need the G20 to deal with our own problems, we need the G20 so that the problems of other states don't become our own problems'[48].

The Sovereign Debt Crisis and the EU's Informational Leadership

In the eyes of many, the EU's Council of Ministers, the European Commission and the ECB 'failed to provide a timely and effective response' (Featherstone 2011: 193) to the sovereign debt crisis of 2010-11. This in turn had an impact on its informational leadership position: 'The EU can no longer dictate to less rich countries what to do, whilst being unable to get its own act together'[49]. What is more, involving the IMF in managing the sovereign debt crisis resulted in resentment on the part of many developing nations.[50] Arguably, the IMF had moderated its infamous position on fiscal consolidation that had led to fierce discussions about the appropriate policy mix for IMF programme countries and the standard fiscal austerity prescriptions by the Fund. Already in Davos, in January 2008, the former managing director of the IMF argued for a need to stimulate the economy, a call which according to the former Treasury Secretary, Larry Summers was nothing short of a revolution: 'This is the first time in 25 years that the IMF managing director has called for an increase in fiscal deficits' (Financial Times 27.01.2008). At the G20 summit in London, the G20 agreed to triple the IMF's lending capacity to $750 billion and to expand its Special Drawing Rights Allocation by an additional $250 billion. Strauss-Kahn (2009) stated that 'the global crisis is hitting emerging market and poor countries hard. The G20 leaders have sent a powerful signal that the international community is committed to support these countries'. Yet, instead, the one country that benefitted the most from this new arrangement was Greece (see Buiter and Rahbari 2010). Especially for former programme countries, such as Argentina, this led to the question of whether the IMF was giving more assistance under softer provisions to a eurozone government than it would have ever given to a developing country.[51] Not only was there a problem of communication[52], which made other G20 countries feel left out, but the sovereign debt crisis also put the agreement to treat the eurozone as a single bloc into

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[47] Author interview, 16.3.2011.
[48] Author interview, 17.3.2011.
[49] Author interview, 24.05.2011.
[50] Author interview, 12.04.2011.
[51] Author interview, 24.3.2011.
[52] One interviewee described the reaction of the Chinese delegation to the decision to grant Portugal a substantial loan under the Extended Fund Facility as follows: 'the Chinese were furious. No one had told them in advance and they were under the impression that the European considered the IMF to be *their* institution which they could use in any way they wanted' (25.5.2011).

question: ‘If we cannot maintain stability within our own monetary bloc, but need money from China and other IMF contributors, what does this mean for our line of argument?’[53]. Given that the EU’s sovereign debt crisis is still unsolved, and negotiations on the reform of its internal economic governance are ongoing, the EU’s credibility as a model for economic coordination is severely put into question. If ‘credibility is one of the key currencies in times of crisis’[54], the EU’s money experienced a sharp devaluation over the past two years.

Conclusion

This paper has explored the state of economic policy coordination during the Great Recession in the institutional context of the G20. It has also analysed the EU’s role in advancing fiscal multilateralism. The evidence suggests that no meaningful orchestration of fiscal stimulus policies during the economic crisis or of fiscal consolidation policies has been achieved by the G20 member states, whose policy-makers worked with considerably different economic realities, electoral calendars and ideational outlooks, despite numerous proclaimed commitments to this effort. The uncoordinated nature of these fiscal efforts, whose aggregate remained behind the self-set goal of $5 trillion, was hidden behind the mirage of like-mindedness of Keynesian-style expansionary fiscal policies. Broader claims can be made about the reasons for collective action failure in multilateral organisations, although a full study of this lies beyond this paper. Instead this analysis has explored the influence of the EU on facilitating fiscal policy coordination, arguing that while the EU has been in a strong position for structural leadership, its informational leadership was unconvincing. Thus, its position was weakened in terms of championing fiscal multilateralism. For both modes of leadership, the EU has been most successful when acting in tandem with one of its G20 member states.

There is a ‘widespread assumption in the literature that if the EU agreed on common positions and speaks with one voice it will have influence’ (Smith 2006). Concerning the first of the two conditions, this study has shown that this approach might in practice be less effective. EU member states agreed formally on a ‘common position’ prior to the G20 summits. Yet, this common position did not translate into a single voice. In the light of the increased need and challenges for international economic coordination, the ECB (2011) recently called for reform:

[53] Author interview, 24.05.2011.
[54] Ibid.

> To effectively influence the global debate [...], Europe is well advised to reinforce its efforts to speak with a single voice. This requires that EU member states, as a minimum, step up internal coordination processes and adhere to jointly agreed policy lines when the relevant issues are discussed in international fora.

The failure to produce a single voice in a system of mixed representation consisting of five EU member states, the Commission, the Council and (on a sub-level) the ECB, suggests a good reason to 'downsize' EU representation to a single seat. Such a change might furthermore help to improve relationships with emerging economies, whose resentment over the domination of EU seats can hardly improve the setting for collective action. If the G20 wants to remain the key forum for international economic policy cooperation, it seems unlikely that the current seat arrangement can stand up to the shifting realities of economic and political power. To agree on a single seat for the EU member states would, however, have much larger implications for the EU and its members going beyond the forging of a united position in a multilateral forum. Instead, this change would challenge its internal economic governance structure markedly. The limited influence of the EU in advancing international fiscal policy coordination can be attributed in many instances to the failure of economic policy coordination *within* the EU. Internal economic governance is the *sine qua non* for the external economic governance of the EU.

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Appendix

Table 2. G20 Fiscal Policy Commitments, 2008-2010

G20 Summit	Fiscal Policy Commitment
Washington Summit November 14-15, 2008	• use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability • refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports within next 12 months
London Summit April 1-2, 2009	• fiscal expansion amount to $5 trillion, raise output by 4 per cent • ensure long-term fiscal sustainability and price stability and • put in place credible exit strategies from the measures that need to be taken • now to support the financial sector and restore global demand • extension of Washington free trade pledge to the end of 2010
Pittsburgh Summit September 24-25, 2009	• sustain our strong policy response until a durable recovery is secured, avoid any premature withdrawal of stimulus • prepare our exit strategies, withdraw our extraordinary policy support in a cooperative and coordinated way • keep markets open and free and reaffirm the commitments made in Washington and London
Toronto Summit June 26-27, 2010	• advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016 • fiscal consolidation plans will be credible, clearly communicated, differentiated to national circumstances, and focused on measures to foster economic growth • deliver existing stimulus plans, while working to create the conditions for robust private demand • make further progress on rebalancing global demand • keep markets open and free and reaffirm the commitments made in Washington and London until the end of 2013
Seoul Summit November 11-12, 2010	• undertake macroeconomic policies, including fiscal consolidation where necessary, to ensure ongoing recovery and sustainable growth protection • resist all forms of protectionist measures. • enhance the Mutual Assessment Process (MAP) to promote external sustainability

Table 3. Announcement of First Fiscal Stimulus of G20 Members

Argentina	November 26, 2008
Australia	October 14, 2008
Brazil	November 6, 2008
Canada	January 27, 2009
China	November 9, 2008
France	November 4, 2008
Germany	October 5, 2008
India	November 19, 2008
Indonesia	December 31, 2008
Italy	November 9, 2008
Japan	October 30, 20008
Korea	November 3, 2008
Mexico	November 10, 2008
Russia	November 21, 2008
Saudi Arabia	December 24, 2008
South Africa	January 12, 2009
Spain	August 14, 2008
UK	November 11, 2008
USA	January 24, 2008
EU	November 26, 2008

Source: Author's own compilation