A Fast-Paced Ever-Changing World Requires Agile Global Governance

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Alessio Terzi argues for the creation of a revamped G8, within the G20, as a new global economic steering committee.

Challenge

During the 2008 financial crisis, the G20 was hastily elevated to ‘global economic steering committee’. In the early stages of the crisis, the G20 was an effective forum for crisis containment. As the crisis has eased, however, the G20 has lost both direction and momentum. Governments and policymakers have felt less need to act in unison and have rather refocused on their national agendas, as is their duty and primary function. However, effective global governance is needed permanently, not just in crisis times. It is desirable to have more representative and effective global governance that, among other things, is equipped to prevent crises rather than just react to them.

Proposal

As evidenced in Bruegel’s survey of G20 Sherpas (O’Neill and Terzi, 2014b), the G20 is unlikely to succeed in meeting its objectives outside crisis times, greatly due to the sheer size of its composition and the breadth of its agenda. There are too many members and rotating agenda setters in order for timely albeit important wide-reaching decisions to be taken. What the world needs, together with the current G20, is a smaller group with just as much legitimacy but an ability to act fast and make more meaningful decisions, especially when it comes to global economic matters, notably imbalances and monetary issues. The G5 group (US, Japan, France, Germany and the United Kingdom) in 1985 came together to play a key role in averting a shift towards protectionist economic policies and presiding over an orderly rebalancing of the US dollar, and then the G7 came into existence in 1987 (with the addition of Canada and Italy), and for many years, was an effective forum for dealing with major pending issues. By contrast, the G20 is an unwieldy group that, at its own Sherpas’ admission, is only likely to take decisive action when there is another crisis.

In line with the objective of invigorating global governance, the proposal is to form a new G7, or G7+ as was named in O’Neill and Terzi (2014a), in which China and India would be added, and the three euro-area countries (Germany, France and Italy) would give up their seat. The euro area itself would then become a member. China, the euro area, India, Japan and the US would be at the core of the reframed G7.

There might be a rationale to limit the membership of the new more focused, yet representative, group to these five. But the other two BRIC heavyweights, Brazil and Russia, each currently have economies larger than India’s. On balance it seems reasonable to recommend that all four BRIC countries should join Japan, the euro area, the UK, and the US as being in the core of this new revamped G8 group.

When looking at global legitimacy, in population terms the G7+ would be smaller than the G20, but much bigger than the current G7, which together would be only the eighth largest group in the world.
represents just over 10 percent of the world’s population. In terms of share of global GDP, the G7+ performs even better: with just eight key players, it would cover more than 80 percent of global output (in current US$ terms, 60% in PPP terms) at least until the end of the decade. It would also bring China directly into a smaller, more responsible group for key global monetary matters. As for the euro-area countries, the move to the proposed format would be a massive signal of their intent to ensure permanent monetary union, and fully in line with the EU Commission’s proposal to establish a single euro seat at the IMF (Commission, 2015).

In terms of trade in goods and services, the aggregate G7+ would command a world share above 50 percent, increasing in the years to come (thanks to the rising role of China). By contrast, the current G7 has been below the 50 percent mark since the early 2000s, and is fast plunging. With such numbers, one can easily imagine important trade agreements being struck in such a small setting, in which leaders can meet to exchange views openly, helping revamp trade multilateralism in the post-WTO era, and with potential significant effects on global growth.

The G7+ would encompass more than 84 percent of world total financial assets, compared to just over 70 percent for the current G7. Although less than the current G20 (94.5 percent), this is still a quite remarkable share after a 60 percent reduction in the seats (and therefore parties with a veto).

As emphasised, the proposal would be for the G7+ to exist within the current G20. Its agenda would concentrate on truly globally sensitive economic and financial matters, as it is usually economic issues and related imbalances within the countries recommended for G7+ participation that would have global consequences. Consistent with the general answers from the Sherpa survey, the G7+’s focus should be narrow but cover crucial global matters, including shared regulatory matters, too-big-to-fail problems, over-the-counter derivatives regulation, monetary policy coordination, global investment stimulus, just to mention a few.

The interaction between the G7+ and the G20 would be similar to the current structure of the Security Council within the United Nations, with the reframed G7 providing leadership and fast-paced effective decision-making at world level, coupled with a more encompassing and legitimate forum for discussion. However, while the Security Council is supposed to act in crisis times, the new G7+ would be there precisely to ensure the G20 continues to deliberate and make progress also in peace times. In this sense, the operational model is more the one of the G7 in the 1980s and early 1990s.

When it came to formal agreements that required acceptance from a broader group of important countries, the existing G20 would still play an important role and its support would be required. Other global matters that are currently discussed by the G20 could remain with this group, such as tax evasion, climate change, food security, terrorism, antimicrobial resistance: basically topics where you are only as strong as the weakest link of the chain.

The time has come for more concrete steps to improve the functioning of global economic governance while safeguarding its legitimacy. The G7+ proposal would considerably improve the functionality of the current global economic governance framework, while maintaining its representativeness and therefore legitimacy. It also offers a way for euro-area members to send a stronger message to the world about the permanence of monetary union. Waiting for another crisis as a catalyst for reform is not an option: this time must be different.


