

# The G20 after Los Cabos: Illusions of Global Economic Governance

Gabriel Goodliffe and Stéphan Sberro

The failure of the Los Cabos summit to satisfactorily address the European sovereign debt crisis and ominous world economic outlook, let alone agree on concrete measures to improve the oversight and functioning of the global economy, appears to confirm the diminishing effectiveness and relevance of the G20 as an organ of international governance since its inception in December 2008. While few accomplishments were achieved in the area of global governance during the Mexican presidency, acute collective action problems, made worse by the present economic crisis, paralysed the G20 in the lead-up to and during the Los Cabos summit. These collective action problems and the ensuing failure of global governance are attributable to the absence of leadership evident at both the global and European levels, which in turn testifies to the excessive dispersion of state economic and political power within the international system.

**Keywords:** G20, Los Cabos summit, international governance, European sovereign debt crisis

The inaugural G20 leaders' summits that unfolded in the midst of the 2008 and 2009 financial crisis, and the market-calming actions which resulted, were widely believed to herald the onset of a new stage in the evolution of international economic governance.<sup>1</sup> Particularly among liberal internationalists, there was a hope, even an expectation, that this new entity would represent the articulation of a new system of global economic governance that could replace the increasingly obsolete dispensation inherited from Bretton Woods. By expanding the cockpit of

---

*Gabriel Goodliffe* is Professor of International Relations and International Political Economy at the Instituto Tecnológico Autónomo de México (ITAM). Email: gabriel.goodliffe@itam.mx. *Stéphan Sberro* is Professor of European and Middle Eastern Studies and Jean Monnet Chair in Political Science at the Instituto Tecnológico Autónomo de México. Email: ssberro@itam.mx

<sup>1</sup> In particular, the Washington summit of December 2008, which stipulated the need for rapid counter-cyclical action to counter the recessionary effects of the autumn 2008 financial crash, and the follow-up summit in London in April 2009, in which USD 1.1 billion of reflationary spending were allocated by G20 members to the IMF to kick-start the global economy, were seen as examples of the decisive multilateral action that then raised hopes about the prospects for improved global economic governance. Kirton, "La gobernanza del G-20", 9.

global governance to include the largest emerging economies while extending representation to all the world's regions, it was thought that the G20 would be more legitimate, and hence effective, than the Bretton Woods institutions or G7/8 in discharging the obligations of global governance.<sup>2</sup> In the words of one observer, the G20 would thus constitute "a global steering committee" and, in those of another, serve as "the neurological center of a growing network of global governance".<sup>3</sup>

However, since the September 2009 Pittsburgh summit, at which it was prematurely proclaimed "the leading forum of international economic governance", the outbreak of the European sovereign debt crisis and deepening global economic slowdown have dampened the sanguine appraisals and excited predictions with which the G20 leaders' forum was initially met.<sup>4</sup> Indeed, since those opening conclaves of 2008–09, G20 summits have often degenerated into ritualised exercises in sterile debate, empty grandstanding and vacuous promise-making, bringing the organisation's effectiveness and even relevance increasingly into question.<sup>5</sup> The latest summit, held at Los Cabos, Mexico, on 18–19 June 2012, perpetuated this trend towards stalemate and inaction. Precious few concrete decisions were made and, against the backdrop of the worsening European crisis and ominous global economic prospects, this highlighted the growing ineffectuality of an organisation whose mandate is precisely to provide international economic leadership.

The purpose of this article is to illuminate and explain this failure of the Los Cabos summit to adequately address these economic problems and restore the G20 on the path of effective global governance. It is divided into two parts. The first part reviews the proceedings and accomplishments – or lack thereof – of the Los Cabos summit and situates it in the historical evolution of the G20 since its inaugural summit. Its achievements are compared to those of previous summits to illustrate why it may be considered a relative 'failure' perpetuating the trend of the G20's declining relevance since its inception. In the second part, an attempt is made to account for the G20's general failure to deliver on its promise of global governance. In so doing, both domestic and global-level explanations are advanced. The article concludes by suggesting that strong state leadership is required to transform the G20 into an effective, multilateral organisation.

---

<sup>2</sup> Postel-Vinay, *Le G20*, Ch. 3.

<sup>3</sup> G. Smith, "G20 Rapid Response: Progress Slow, but Los Cabos Keeps Innovation in Global Governance Moving Forward", *CIGI* [online], 20 June 2012, <http://www.cigionline.org/publications/2012/6/g20-rapid-response-progress-slow-los-cabos-keeps-innovation-global-governance-mo>, and Kirton, "La gobernanza del G-20", 14.

<sup>4</sup> Quoted in Postel-Vinay, *Le G20*, 80.

<sup>5</sup> J. Pisani-Ferry, "G20: Diminishing Returns", Bruegel [online], 16 May 2012, <http://www.bruegel.org/nc/blog/detail/article/777-g20-decreasing-returns/>.

### **The G20 at Los Cabos: much ado about (almost) nothing**

It is always difficult for international summits to live up to expectations. Time and again, these global conclaves are criticised for their lack of substance and paltry results, particularly when measured against the grand intentions with which they are announced. From the UN General Assembly to the summits of the Americas, these increasingly frequent meetings of national leaders have elicited considerable scepticism (not to mention continuing concerns about their democratic legitimacy and representativeness).<sup>6</sup> Yet they remain too important to be ignored by the mass media and decision-makers.

The purpose of the G20 was precisely to break with this trend and take concrete decisions in order to resolve the financial crisis that originated in the US at the end of 2008. Three and a half years on, after the seventh G20 summit in Los Cabos, it is difficult to escape the feeling that the G20 has worn badly and replicated the defects of other well publicised world fora, such as the Rio + 20 or the Conferences of Parties (COP) summits on climate change. Indeed, at Los Cabos, the G20 proved incapable of emerging from the ineffectuality that has plagued it over the past two years following its promising start in 2008 and 2009. The efforts of the Mexican presidency allowed for limited progress in a small number of areas, thereby sparing the summit from being characterised as a total failure. Overall, however, just as was the case with the preceding Cannes summit in November 2011, the prevailing sense was that almost all the issues raised remained unresolved.

The risks of a total failure that would have worsened the world economic slump remained high during the six month hiatus between the Cannes and Los Cabos summits. The three main actors, Europe, China and the US, knew that the summit was important, but seemed distracted when they convened at the Mexican resort. Europe has been battered by an unprecedented crisis that is threatening to derail not only the euro but also the viability of the European project as a whole. France's new president, François Hollande, elected less than one month before the summit, had already expressed his disagreement with the austerity policies being promulgated by the German government. Britain and Italy were poorly placed to help fashion a sounder and more coherent European position at the summit. The US was not in much better economic shape and was absorbed politically by its presidential campaign and paralyzed by congressional gridlock, while Japan has been in a lull for years. Finally, the principal motor of the world economy, China, had seen its growth slow down because of its internal problems and the declining import demand in Europe and the US, as had several of the other emerging countries in attendance.<sup>7</sup> In addition to this fraught economic outlook, the summit's host, Mexican President Felipe Calderón, was only eleven days away from a presidential

---

<sup>6</sup> On this last point, see Postel-Vinay, *Le G20*, Ch. 2, and Badie, *La diplomatie de connivence*.

<sup>7</sup> N. Roubini, "Global Economy: Reasons to be Fearful", *Guardian* [online], 19 June 2012, <http://www.guardian.co.uk/business/2012/jun/18/global-economy-perfect-storm>.

election in which his party would go down to a heavy defeat, further complicating the Mexican government's task of steering the summit.

Despite this unfortunate timing, the Mexican presidency organised tens of meetings in both economic and non-economic areas, some of them for the first time in the history of the G20.<sup>8</sup> For a self-avowedly informal structure, the G20 is in fact quite complex, possessing several different official and unofficial channels of negotiation.<sup>9</sup> At one level, the finance ministers of the member states met to discuss economic matters and expanded their competencies beyond addressing strictly financial issues and institutions to include discussions on raw materials and disaster management. For their part, the 'sherpas' representing the heads of state debated respectively on the labour and social dimensions of globalisation, food security, international development (itself divided into the three areas of medium- to long-term action planning, infrastructure development and green growth), corruption, tourism and multilateral trade. In total, preparation for the official summit involved no less than seventeen working groups, with 25 official events and meetings organised in the run-up to the summit.<sup>10</sup> Last but not least, the G20 was supplemented with several other fora of debate in order to represent and garner input from various sectoral and civil society constituencies, most notably the Business Twenty (B20) working group, in which the heads of the world's twenty largest multinational corporations were asked for their input on how to improve the world economy.<sup>11</sup>

Although the proceedings unfolded smoothly and consensus was achieved in many areas, the tangible results of the summit were meagre. The Mexican government had set six objectives for its presidency; 1) furthering economic stabilisation and structural reforms, 2) strengthening the financial system and fostering financial inclusion, 3) improving the international financial architecture, 4) enhancing food security, 5) promoting sustainable development, and 6) advancing green growth and the fight against climate change.

The second and the sixth objectives were particularly important for Mexico, which had hoped to achieve progress in two areas essential for long-term economic governance: financial inclusiveness and sustainable development.<sup>12</sup> The latter was especially dear to the Calderón administration as, building on the relative success of

---

<sup>8</sup> For example, the Mexican presidency organised the first informal meeting of foreign ministers to be held at a G20 summit, in order to coordinate the diplomatic responses to the European and global economic crises. See Mexican Presidency of the G20, "Concluye reunión informal de Ministros de Relaciones Exteriores", 20 February 2012, <http://www.g20.org/index.php/es/comunicados-de-prensa/220-concluye-reunion-informal-de-ministros-de-relaciones-exteriores>.

<sup>9</sup> Mexican Foreign Ministry, "Documento de discusión-presidencia mexicana del G-20", January 2012, <http://g20mexico.org/images/pdfs/discresp.pdf>.

<sup>10</sup> Mexican Presidency of the G20, "Concluye reunión informal de Ministros de Relaciones Exteriores", 20 February 2012.

<sup>11</sup> Perret Erhard and Álvarez Carreño, "El B-20 y su participación", 22–7.

<sup>12</sup> Kirton, "Prospects for the Los Cabos Summit", 34.

the Cancun summit on the UN Framework Convention on Climate Change that it had hosted in 2010,<sup>13</sup> progress at Los Cabos would have made it possible for Mexico to bridge the North-South divide on the issue of sustainable development, thereby enhancing the country's diplomatic prestige. Alas, nothing significant was achieved regarding this item, with only a hollow reference to climate change included in the final declaration. Far from providing a new impetus on climate change and sustainable development, the summit simply confirmed that negotiations regarding these issues have reached a dead end.<sup>14</sup>

The outcome was little better with respect to the Mexican presidency's second priority of advancing global financial inclusiveness. On this score, a vacuous commitment was issued to arrive at "innovative solutions for unlocking access. . . a call for innovations that address barriers to financial inclusion through the creation of valuable, affordable, secure and comprehensive financial services".<sup>15</sup> A more concrete incremental step was achieved regarding the third objective of the Mexican presidency, namely strengthening the world financial architecture by endorsing "recommendations and the revised F[inancial] S[tability] B[oard] Charter for placing the FSB on an enduring organizational footing, with legal personality, strengthened governance, greater financial autonomy and enhanced capacity to coordinate the development and implementation of financial regulatory policies, while maintaining strong links with the B[ank of] I[nternational] S[ettlements]".<sup>16</sup>

In reality, the Mexicans' worst fears when they assumed the G20 presidency were confirmed, as the summit was effectively hijacked by the European crisis and the leaders' meetings were almost entirely devoted to it. As a result, the long-term issues mentioned above could not be discussed in depth. Instead, the outcomes of the summit can be classified under three broad headings in order of decreasing effectiveness. The first relates to the European crisis, the second to the improvement of the global financial architecture, and the third to the outstanding issues the summit was unable to address with new, concrete steps.

With respect to the first heading, the G20 leaders admittedly achieved some progress. The increase in the IMF's bailout fund to over USD 450 billion was the only concrete decision taken at Los Cabos. Considering that previous increases had

---

<sup>13</sup> F. Calderón "The G20: Maintaining the Spirit of Cooperation", *Newsdesk publications* [online] <http://www.g8.utoronto.ca/newsdesk/cannes/g20cannes-calderon-en.html>. It was notably at the Cancun summit that the idea of a Green Fund to finance sustainable development based on green growth was first floated.

<sup>14</sup> In a similar vein, The Rio+20 Earth Summit held a few days later represented another setback for advancing the agenda of sustainable development, its watered-down communiqué equally devoid of any concrete commitment on the part of either advanced or emerging countries to address the issue. See B. Carin, "G20 Rapid Response: The G20 and Climate Change", *CIGI* [online], 20 June 2012, <http://www.cigionline.org/publications/2012/6/g20-rapid-response-g20-and-climate-change>.

<sup>15</sup> Mexican Presidency of the G20, "G-20 Leaders Declaration", 19 June 2012, 9, [http://www.presidencia.gob.mx/documentos/g20/G20\\_Leaders\\_Declaration\\_2012.pdf](http://www.presidencia.gob.mx/documentos/g20/G20_Leaders_Declaration_2012.pdf).

<sup>16</sup> Summit conclusion quoted in J. Haley, "Los Cabos Summit: Incremental Steps on the Road to Globalizing the Regulation of Capital", *CIGI* [online], 20 June 2012, <http://www.cigionline.org/blogs/new-age-of-uncertainty/los-cabos-summit-incremental-steps-road-globalizing-regulation-of-capital>.

already been agreed following the quota reform in 2010 and another round of increases were anticipated in 2014, this measure represented an emergency contingency adopted in response to the escalation of the European debt crisis and the threat it poses to the global financial system.<sup>17</sup> In a related vein, the G20 also announced a Growth and Jobs Action Plan to strengthen the recovery and improve lending by the financial markets. However, no precise commitment or deadline was given for achieving these goals.<sup>18</sup> The absence of concrete commitments was symptomatic of deep disagreements within the G20, notably with respect to the European crisis. Germany, supported by Finland and the Netherlands, remained focused on budgetary discipline and austerity, while the other EU states and G20 members sought, in the face of rising unemployment and worsening deficits in the affected countries, to push through policies to guarantee the euro and stimulate growth.

In light of these disagreements, the principal resolution related to the European debt crisis was basically declarative, committing eurozone members to “take all the necessary measures to safeguard the integrity and stability of the area, improve the functioning of financial markets and break the feedback loop between sovereigns and banks” without specifying what these measures should be.<sup>19</sup> In addition, the G20’s European members reaffirmed their will to strengthen EU integration by completing the single market and consolidating their financial balances, implementing structural reforms to improve the competitiveness of deficitary countries, and adopting policies to promote domestic demand in surplus countries. For their part, the other G20 members confirmed their commitment to support the euro area and specifically keep the Greek government from defaulting while ensuring that it respect its commitments. Finally, a long paragraph in the declaration approved many of the steps the Europeans had already taken to resolve the crisis, including the Spanish plan to recapitalise the banks, the establishment of the European Stability Mechanism, and plans to improve and Europeanise banking supervision. Following this protracted discussion of the European crisis, the declaration briefly addressed the economic crisis in the rest of the world – dedicating only one sentence each to the economic situation in the US, and China’s loose commitment to allowing the renminbi to float on foreign exchange markets.<sup>20</sup>

---

<sup>17</sup> Even this decision was no more than the approval of money that had already been earmarked for a eurozone bailout at the IMF/World Bank meetings in Washington DC in April 2012. Cf. C. Jones and R. Harding, “IMF Expects \$400bn Boost in Firepower”, *Financial Times* [online], 19 April 2012, <http://www.lexisnexis.com/hottopics/lnacademic/>.

<sup>18</sup> Office of the President of the United States, “G20 Leaders’ Declaration”, 19 June 2012, <http://www.whitehouse.gov/the-press-office/2012/06/19/g20-leaders-declaration>, 1, 2, 4, 6, 9 and 12.

<sup>19</sup> *Ibid.*, 17.

<sup>20</sup> Mexican Presidency of the G20, “G-20 Leaders Declaration”, 2, 3.

The second broad outcome of the summit has been described by the Centre for International Governance Innovation as representing an agreement on taking “incremental steps on the road to globalizing the regulation of capital”.<sup>21</sup> Here, the objective was to enhance the transparency and coherence of the international financial system by designing global policies to regulate systemically important banks and credit rating agencies. Similarly, the launch of a legal entity identifier for parties to financial transactions was planned for March 2013.

Third and finally, the summit concluded by offering general commitments on the issues of financial inclusiveness, food security, green growth and the fight against corruption. Once again, the inordinate attention demanded by the eurozone crisis precluded deeper discussion and articulation of concrete policy proposals regarding these longer-term issues.

More worrisome, however, is that despite the worsening eurozone crisis, the steps decided upon in Los Cabos have been either devolved to the member states or postponed to future summits. Given that the same thing happened in the previous three G20 summits, one could be forgiven for thinking that, following the organisation’s bright start in 2008–09, the G20 is now falling into decline.<sup>22</sup>

At its inception, the G20 was seen in some quarters as a potential replacement for the Bretton Woods and UN institutions, considered unrepresentative of the shifting dynamics of power in an increasingly multipolar world and paralyzed by deep divisions within its leading instances. Decisions taken at the London summit in April 2009 created a positive climate that was enhanced by initial signals of economic recovery, particularly in the US. During this period, the G20 appeared to constitute an effective multilateral forum for crisis management which might yield a constructive agenda for improving the functioning of the world financial system. This initial success explains why, at the subsequent summits in Toronto (June 2010) and Seoul (November 2010), the organisation’s emphasis shifted away from the tasks of crisis management towards broader, longer-term regulatory and development objectives. However, as seen, with the flaring of the eurozone crisis, this longer-term program once again took a back seat to the immediate demands of crisis management.

The Cannes summit of November 2011 consummated the G20’s reversion to this crisis management role, this time however producing only meagre results. In the wake of the Cannes and now Los Cabos summits, there is a legitimate fear that the choice of two trendy seaside resorts for its last two summits signals the G20’s regression from a new mechanism of global economic governance to another

---

<sup>21</sup> J. Haley, “Los Cabos Summit: Incremental Steps on the Road to Globalizing the Regulation of Capital”, *CIGI* [online], 20 June 2012.

<sup>22</sup> J. Pisani-Ferry, “G20: Diminishing Returns”, *Bruegel* [online], 16 May 2012, <http://www.bruegel.org/nc/blog/detail/article/777-g20-decreasing-returns/>.

glittering but ultimately ineffective forum for world leaders. By the same token, one might ask whether the G20 is not condemned to become yet another multilateral institution that justifies its role through the minimalist notion that the world would be worse off without it, while the important decisions and policies are increasingly made in *ad hoc* multilateral or bilateral settings.

In short, after Los Cabos, the G20 is still searching for an autonomous role that extends beyond the purely contingent and reactive demands of crisis management – one that will give it its own value-added in terms of governance compared to established multilateral institutions such as the G7/8, IMF, World Bank and WTO. The paradox is that the G20's capacity to move beyond this episodic and reactive crisis-fighting function will largely depend on favourably resolving the European debt crisis (a situation further complicated by the Europeans' own ambivalence towards the G20's proposals to address it). But given the gridlock seen at Los Cabos and the summits held before and since, the prospects of this happening do not appear promising.

### **The G20: anatomy of a collective action failure**

The failure of the G20 to agree on any substantive policies to resolve the eurozone crisis, let alone make progress on any of the longer-term issues of global economic governance, attests to the grave collective action problems that plague the organisation. These can be seen at three levels of analysis. At the first and broadest level, this problem is rooted in the divisions opposing 'the West and the Rest'.<sup>23</sup> This division can be conceptualised in a more concise fashion in terms of the growing rivalry between the biggest emerging economies, mainly the BRICS represented in the G20, and the advanced industrial economies.<sup>24</sup> This division can also be operationalised in terms of the differences in political regimes presented by these two sets of countries, notably the opposition between often authoritarian state-capitalist regimes on the one hand and liberal market-based democracies on the other.<sup>25</sup> The principal differences that came to the fore between these two categories of states in the lead-up to and at the Los Cabos summit included the conflict over

---

<sup>23</sup> Contrary to the implications of this opposition, the nations that make up the 'Rest' are not homogeneous in terms of economic interests, policies or institutions. Substantive regional rivalries also divide them – Brazil versus Mexico, India versus China. Nevertheless, for the purposes of the argument, the emerging economies are considered in their aggregate and reduced to the leading countries among them.

<sup>24</sup> This acronym refers to the association of Brazil, Russia, India and China that first convened in June 2009 ostensibly in response to the fallout of the 2008–09 financial crisis. In reality, it was formed to offer an alternative framework of global governance anchored by the leading emerging economies. In April 2010, the original BRIC grouping was expanded to include South Africa.

<sup>25</sup> State capitalism is taken to mean "a system in which the state functions as the leading economic actor and uses markets primarily for political gain . . . , [in which] state officials . . . make economic decisions – about strategic investments, state ownership, regulation – that resonate across global markets". Bremmer, "State Capitalism Comes of Age", 41.



IMF funding quotas and hence governing influence within the Fund, the gridlock over policies to mitigate climate change, and the differences over monetary policy – most notably the conflicting views on the renminbi-dollar exchange rate pitting the US against China.<sup>26</sup>

At a second, intermediate level, the collective action problem and ensuing paralysis of the G20 is attributable to key differences within ‘the West’ or among the advanced international economies and liberal democracies themselves. In particular, these differences are most salient between the Anglo-Saxon ‘free market’ democracies in which economic intervention and social protection are kept to a minimum, and the continental European social democracies that allow for greater economic regulation and afford their citizens broader welfare protection.<sup>27</sup> Areas of particular contentiousness between the Anglo-Saxon and European countries include the nature and extent of financial regulation, with the Americans and British wary of subjecting their financial sectors to regulations that would diminish their comparative advantages.<sup>28</sup> More broadly, the Anglo-Saxons and (some) continental Europeans, especially Germany, disagree on the approach to adopt to resolve the European sovereign debt crisis and diminish the threat it poses to the world economy.<sup>29</sup> Whereas the Anglo-Saxon and Southern European countries argue for proactive reflationary (i.e. Keynesian) fiscal and monetary policy while calling for ‘backstopping’ or mutualising the sovereign debt of distress countries in the eurozone’s periphery, Germany and its allies dismiss such solutions as wrong-headed on the grounds that they perpetuate the very irresponsible behaviours that precipitated the crisis in the first place. For the Germans, the solution necessarily passes through the restoration of economic ‘virtue’ – that is austerity – in order for the peripheral countries to bring their public finances into balance. Thus, they

---

<sup>26</sup>J. Fontanella-Khan, “BRICS Nations Threaten IMF Funding”, *FT* [online], 29 March 2012, and Harding, “Financial System: Change for the Better will Come – but not yet”, *FT* [online], 17 June 2012, both at <http://www.lexisnexis.com/hottopics/lnacademic/>, and B. Carin, “G20 Rapid Response: The G20 and Climate Change”, *CIGI* [online], 20 June 2012.

<sup>27</sup>It is important to note, however, that in the face of growing international competition and the ascendancy of neo-classical economic ideas, the gap between these states has substantially narrowed in terms of both criteria since the 1980s. See Schmidt, *The Futures of European Capitalism*.

<sup>28</sup>American and British opposition was particularly vociferous in regard to the Tobin tax, a levy on short-term capital flows, which was being pushed by Europeans, ostensibly to help fund economic development in poor countries but in fact to reduce the economically destabilising effect of capital outflows in an era of increasing financial globalisation and integration. A. Barker *et al.*, “Fresh Clashes Brew over Tobin Tax”, *FT* [online], 5 January 2012, <http://www.lexisnexis.com/hottopics/lnacademic/>.

<sup>29</sup>These disagreements came to a spectacular head at the Los Cabos summit when the president of the European Commission, Jose-Manuel Barroso, blew up at a journalist who asked him why North Americans should “risk their assets” to assist the eurozone economies. Barroso’s angry response was: “Frankly, we’re not here to receive lessons in terms of democracy or in terms of how to handle the economy. By the way, this crisis was not originated (*sic.*) in Europe. Seeing as you mention North America, this crisis originated in North America and much of our financial sector was contaminated by, how can I put it, unorthodox practices from some sectors of the financial markets.” Quoted in M. White, “G20 Summit: Barroso’s Bungling Blame Game”, *Guardian* [online], 20 June 2012, <http://www.guardian.co.uk/politics/blog/2012/jun/19/g20-summit-barroso-blame-game>.

continue categorically to refuse any form of debt mutualisation to resolve the crisis.<sup>30</sup>

Divisions over economic ideology and policies also hold at the third and most specific level of analysis of the collective action problems that plague the G20: the divisions evident within the eurozone itself, chiefly between the core or surplus states, Germany, the Netherlands and Finland, and the peripheral deficitary states of Portugal, Italy, Ireland, Greece and Spain (the so-called PIIGS), whose mounting sovereign debts put them at risk of default, thereby threatening via the effects of financial contagion to take the euro down altogether. While Germany advocates budgetary rectitude and monetary prudence, favouring balanced budgets over growth and price stability over employment,<sup>31</sup> the PIIGS – now joined by France since François Hollande’s election – advocate tackling the crisis through pro-growth reflationary policies and seek to mutualise member states’ debt. This could be done both through the issuance of eurobonds and direct purchases of distressed sovereign debt by the European Central Bank (ECB) – meaning the creditor states would assume the liabilities of debtor states – in order to definitively backstop the euro and protect it from speculative attack.<sup>32</sup>

In turn, these intra-European disagreements over economic policy reflect broader differences regarding the nature and goals of the European project. On the one

<sup>30</sup> Defenders of the German view will argue that the re-establishment of business confidence and the attraction of private investment into the deficitary countries necessarily passes through austerity and the low interest rates which it would ostensibly bring about. However, the merits of this position are increasingly open to question, as the draconian austerity programs which Berlin has forced on the Greeks, Spanish and Italians in exchange for assistance have ended up, through the fiscal shortfalls in which they have resulted, actually worsening the debt crises in these countries and leading to further rises in the interest rates on their debt. While it is true that just because one is in the minority does not necessarily mean one is wrong, it is quite remarkable to what extent Germany currently finds itself isolated not just within Europe but also within the G-20 as a result of its unconditional commitment to austerity. Indeed, the large emerging economies within the G-20, frightened by the depressing effects of austerity on their export demand, have unanimously lined up behind the United States and southern European countries in calling for Germany to adopt a pro-growth reflationary strategy to resolve the European sovereign debt crisis. For representative Anglo-Saxon critiques of the German pro-austerity view, see P. Krugman, “Europe’s Great Illusion”, *New York Times* [online], 1 July 2012, [http://www.nytimes.com/2012/07/02/opinion/krugman-europes-great-illusion.html?\\_r=1&emc=eta1](http://www.nytimes.com/2012/07/02/opinion/krugman-europes-great-illusion.html?_r=1&emc=eta1), and Tooze, “Germany’s Unsustainable Growth”, 23–30. For a representative German defence of austerity, see J. Joffe, “Mrs. Merkel’s Germany is Europe’s one Musketeer”, *Guardian* [online], 21 June 2012, <http://www.guardian.co.uk/commentisfree/2012/jun/21/merke-germany-europe-teutonic>.

<sup>31</sup> The rationale for this unwavering policy prescription is grounded in the template of ‘ordoliberalism’ that has underlain the German political economy since the end of the Second World War. Enshrining the goals of fiscal responsibility, monetary conservatism and minimal interference in the markets within a constitutionally ordained set of rules, it is this set of prescriptions that, in combination with Christian Democratic social welfare institutions, underpinned Germany’s spectacular postwar boom and continues to be lauded by its defenders as the root of the country’s continued economic competitiveness. On the doctrinal foundations of ordoliberalism and its influence over European monetary union, see Dévoluy, *L’euro est-il un échec?*

<sup>32</sup> Cf. W. Oman, “Europe’s Perfect Storm: When Possibility Meets Actuality”, *Global Policy Journal* [online], 14 November 2011, <http://www.globalpolicyjournal.com/blog/14/11/2011/europe%E2%80%99s-perfect-storm-when-possibility-meets-actuality>.

hand, states that advocate greater European federalism, such as Germany, want to deepen the mechanisms of political as well as economic integration within the EU. This would imply member states surrendering more of their state sovereignty and giving the EU ultimate control over the fashioning of economic policy. From this standpoint, only under the auspices of a fiscal union to complete monetary union and governed by the tenets of fiscal and monetary conservatism, would the Germans be willing to enter into an agreement to mutualise the sovereign debts of eurozone states and/or buy up the bonds of distressed countries through the ECB.<sup>33</sup> By contrast, a number of states led by France (and including Britain, though it is not a eurozone member), adhere to a confederal view of Europe in which EU members retain sovereign control over their political and economic competencies. Following this Gaullist conception of *l'Europe des patries*, this bloc of countries is much less enthusiastic about 'pooling' their sovereignty. Hence France's balking at the thought of entering into the straightjacket of fiscal union called for by Germany in exchange for backstopping eurozone members' sovereign debt. And thus the broader failure of the leading European states to take the ambitious decisions required to resolve the debt crisis.<sup>34</sup>

It is obvious, therefore, that the inability of the G20 to agree on concrete actions to resolve the European debt crisis at Los Cabos – let alone of the EU to do so at European summits held before and since – reflects deep disagreements about the political ramifications that a comprehensive economic solution to the crisis would have for Europe. And since there is no sign that these disagreements will be settled any time soon, Europe is likely to persist with its current strategy of 'muddling through' based on temporary fixes and prophylactic measures, thereby sustaining the risks to the euro and, by extension, to the global economy.

### **A crisis of global and European leadership**

The causes of the collective action problems adumbrated above are invariably complex. In the broadest sense, they reflect the centripetal effect of the multiple and conflicting domestic and international forces that have nullified the G20's

---

<sup>33</sup> Germany's true commitment to such federal 'deepening', at least under the present government, is subject to question, however. As one observer has pointed out, despite agreeing to the creation of a eurozone supervisory banking body as a first step to establishing a Europe-wide banking insurance scheme, Merkel stated that there would be no eurobonds "for as long as I live", thereby underscoring the limits of her commitment to expanding the EU's competencies and liabilities. W. Münchau, "The Real Victor in Brussels was Merkel", *FT* [online], 1 July 2012, <http://www.lexisnexis.com/hottopics/lnacademic/>.

<sup>34</sup> On these constitutional disagreements regarding the nature of the European project and the power of the member states as these are reflected in the current crisis, see R. Granieri, "Who Killed Europe? A Provocation", *Foreign Policy Research Institute* [online] 16 April 2012, <http://www.fpri.org/enotes/2012/201205.granieri.who-killed-europe.html>. For a historical analysis of these different conceptions of Europe, see Calleo, *Rethinking Europe's Future*, Chs. 8, 13 and 16.

effectiveness as an organ of global governance.<sup>35</sup> The hand of antagonistic economic interests, political constraints, and economic ideologies could be seen in the different positions staked out by the various summit participants. These severely impeded these state actors from reaching a consensus on how best to address the current crisis and agree on mechanisms of long-term economic governance. This inability to reach consensus was exacerbated by the severity of the crisis, which unsustainably raised the costs for individual states to make the concessions required to underwrite such collective mechanisms of governance due to the opposition of powerful economic and political constituencies within them.<sup>36</sup>

Yet, such domestically-rooted differences among states are hardly new. States have always been economically, politically and ideologically diverse, if not antagonistic. Given this truism, then, why have efforts at global governance been more successful at some times – the 19<sup>th</sup> century Concert of Europe, say, or the Bretton-Woods system in the 20<sup>th</sup> century – than at others? Some have argued that in the age of globalisation and with the rise of the emerging economies, the sheer number and diversity of states that make up the global system have made it effectively unmanageable. However, this trend towards expansion has been evident in the past as well, when the global system evolved from comprising the historical European great powers to incorporating a succession of rising powers – the US, Russia, Japan and now China – with their very different economic and political histories and institutional and cultural attributes.

A better explanation for the current lack of global governance is to be found in the present dispersion of power within the global system. Following a short stint of American predominance in the immediate aftermath of the Cold War, we currently find ourselves in a historical conjuncture in which no state or group of states is either sufficiently powerful or willing to take up the mantle, and hence incur the costs, of global economic leadership. A similar dilemma is evident in the European microcosm.

---

<sup>35</sup> In this sense, the Los Cabos summit manifested the dynamic theorized by Robert Putnam when he portrayed international economic negotiations as akin to two-level games whose outcomes depend on reconciling the often contradictory international interests posited by states (the national interest), on the one hand, and the domestic interests constraining states, on the other. See “Diplomacy and Domestic Politics”, 427–60.

<sup>36</sup> In this regard, the contradiction between the respective electorates in the peripheral and core countries of the eurozone appears to be a crucial domestic variable in explaining the collective failure to resolve the European sovereign debt crisis and dispel the threat of global depression. While electorates in countries such as Greece, Spain and Italy chafe at the draconian austerity programs that have been imposed on them by the IMF, European Commission and ECB as a condition for remaining in the euro – indeed, as the June 2012 Greek election illustrated, increasing numbers of voters in these countries are revolting against the economic and social costs of these measures – the German electorate remains overwhelmingly opposed to ‘bailing out’ the profligate countries of the south whose irresponsible spending habits it blames for causing the crisis in the first place. Thus, even if they were disposed to compromise in order to resolve the crisis, the democratic governments in both the periphery and the core of the eurozone currently appear to be too constrained by their electorates to be able to move towards the others’ position, thereby guaranteeing that the crisis will continue.

Before proceeding with the analysis, however, the concept of ‘leadership’ has to be defined, particularly in an economic sense. This refers to a situation in which the economically and politically preponderant state (or group of states) in the international system provides the public goods necessary to ensure the orderly operation and continued stability of the global economy.<sup>37</sup> This hegemonic state underwrites the institutions that are charged with overseeing the vital functions of the international economy (maintaining the openness of the trading system, safeguarding the integrity of the monetary system, ensuring the operation of global financial markets) and provides the forms of compulsion and coercion needed to sustain them. Obviously, the provision of these public goods is most essential during periods of economic crisis.

It follows that it is during periods of hegemonic leadership that the global economy functions best, a claim that is empirically confirmed by the fact that the two historical periods which saw the most rapid global economic growth, the Concert of Europe that reached its apogee from the 1850s to the 1870s and the Bretton Woods system that lasted from 1944 to 1973, coincided respectively with the high points of British and US power.<sup>38</sup> Conversely, in conjunctures in which a hegemon is lacking and when the structure of power in the international system is diffuse and no state is capable of or willing to underwrite the operation of the global economy, the latter is more prone to dysfunction and likely to fall into recession or, as in the 1930s or 1970s, outright depression. During the Great Depression, Britain lacked the power to resume its pre-World War I hegemonic role, while the US was unwilling to assume the mantle of global economic leadership. The result was a global financial crash, the breakdown of the gold standard and successive beggar-thy-neighbour tariff increases and competitive devaluations that choked global demand and plunged the international economy into the deepest depression the world has ever seen.<sup>39</sup> Likewise, in the 1970s, the US decided that the cost of providing the public goods and underwriting the institutions to sustain the operation of the global economy were no longer worth the benefits.<sup>40</sup> Thus it allowed the Bretton-Woods system that had presided over the global postwar boom to collapse, ushering in a decade of stagflation, followed since the 1980s by a pattern of rising exchange rate volatility, extreme boom and bust cycles, and increasingly frequent and severe financial crises.

These examples are particularly relevant to the purpose of this article because they provide ready historical templates for understanding the current economic situation, both globally and within Europe. At the level of the global economy, the

---

<sup>37</sup> According to Charles Kindleberger, specifically five types of public goods need to be provided by the hegemon in order to achieve this: a market for distress goods, countercyclical capital flows, exchange rate stability, a lender of last resort, and macroeconomic coordination (“Dominance and Leadership”, 247).

<sup>38</sup> Krasner, “State Power and International Trade”.

<sup>39</sup> Kindleberger, *The World in Depression*.

<sup>40</sup> Kindleberger, “Dominance and Leadership”, 248.

situation today strongly resembles the 1930s when the former hegemon was no longer powerful enough to resume its order-maintaining role and there was no replacement to take on the responsibilities of economic leadership. Like Britain in the 1930s, the US today finds itself in relative decline. Economically, it is plagued by twin budget and trade deficits, meaning it depends on the whims of its creditors while being increasingly unable to shoulder the costs of its global ambitions. Politically, the US is domestically paralyzed by partisan gridlock while it has seen its soft power degraded internationally to the point that it is no longer able to secure its interests by diplomatic means.<sup>41</sup> Meanwhile, China, the world's next probable hegemon, has not yet shown itself ready to pick up the reins of global leadership. Instead, it has turned progressively inward as it pursues the overarching imperative of domestic economic development while attempting to address the dislocating political, demographic and environmental impacts of its rapid growth. As the rising number of domestic 'incidents', growing calls for political liberalisation, and the extent of the environmental damage attest, China is likely to remain too absorbed by the domestic challenges linked to its development to assume a global leadership role in the foreseeable future.<sup>42</sup>

In short, the principal cause for the failure of global governance evidenced by the G20 was aptly resumed by Kindleberger in his depiction of a similar failure in governance over three decades before: "... the world's economic problem today is that the United States has resigned (or been discharged) as leader of the world economy, and there is no candidate willing and acceptable to take its place".<sup>43</sup>

A similar lack of leadership is also evident at the level of the European economy, where a collapse of the euro would be virtually certain to plunge the global economy into depression. In particular, Germany's unwillingness to assume the responsibilities of European economic leadership as its economic and political preponderance over the EU increases is evident in its refusal to guarantee the euro by agreeing to mutualise sovereign debt and allow the ECB to backstop troubled banks in the eurozone. This recalcitrance towards assuming the charges of leadership is reminiscent of the US's failings in both the 1930s and 1970s. In terms of its economic role and position, Germany is much like the US in the early 1970s: a surplus country that refused to adjust to the chronic economic imbalances resulting from an undervalued dollar and which, instead of revaluing its currency in order to correct these imbalances, forced the burden of adjustment on the deficitary states of the Bretton-Woods system. As Mark Blyth and Matthias Matthijs have argued, Germany today is playing the same counterproductive role

---

<sup>41</sup> On the different dimensions of the US' declining power, see Calleo, *Follies of Power*.

<sup>42</sup> Nathan, "What China Wants".

<sup>43</sup> Kindleberger, "Dominance and Leadership", 248.

within the eurozone: “[it] runs the surplus, pushes adjustment wholly onto eurozone deficit countries, and then blames them for being in debt”.<sup>44</sup> Just as the United States, by refusing to shoulder the costs of preserving its operation precipitated the collapse of the Bretton-Woods system, so Germany’s unwillingness to assume the costs of safeguarding the euro is endangering European Monetary Union.

Politically, contemporary Germany is closer to the US in the 1930s. Like the latter, it is not yet used to nor comfortable with the idea of assuming the leadership role that is commensurate with its economic predominance. Instead, like the US in the interwar period, it seeks to satisfy its domestic economic and political constituencies and to assert its own parochial ideological imperatives. Thus, just as the US’s refusal to forgive European war loans in the 1920s forced Britain and France to exact reparations from Germany and so triggered German *revanchisme* while fuelling the asset bubble that culminated in the October 1929 financial crash, Germany’s failure to guarantee the euro while imposing draconian austerity policies on peripheral countries no matter what the social and political costs, may well be setting the world economy up for a similar cataclysm. This speaks not only to a monumental failure of leadership, but also betrays a singular incapacity to grasp the lessons of history.

## Conclusion

In short, the absence of a leading power ready to take on the responsibilities of leadership at both the global and European levels can be seen as the principal reason for the increasing ineffectiveness of the G20, most recently on display at Los Cabos. Without such a state to provide – and pay for – the means of compulsion that are synonymous with global governance, individual states remain much more likely to pursue their own narrow national self-interests or to be torn between parochial domestic interests than to act in accordance with collective global goals. It is in this sense that the demotion of the United States and the reticence of China to shoulder responsibility at the global level, or the unwillingness of Germany to assume the burdens of leadership within Europe, bode so ominously for the future. Indeed, unless one or more of these states steps forward and take on the duties and costs of leadership, the chances of the G20 realising its goal of providing effective global governance remain slim.

---

<sup>44</sup> “The World Waits for Germany”, *Foreign Affairs* [online], 8 June 2012, <http://www.foreignaffairs.com/articles/137697/mark-blyth-and-matthias-matthijs/the-world-waits-for-germany>.

**References**

- Badie, B. *La diplomatie de connivence: Les dérives oligarchiques du système international*. Paris: La Découverte, 2011.
- Bremmer, I. "State Capitalism Comes of Age". *Foreign Affairs* 88, no. 3 (2009): 40–55.
- Calleo, D. *Follies of Power: America's Unipolar Fantasy*. New York: Cambridge University Press, 2009.
- Calleo, D. *Rethinking Europe's Future*. Princeton: Princeton University Press, 2001.
- Dévoluy, M. *Leuro est-il un échec?* Paris: La documentation française, 2011: 66–9.
- Kindleberger, C. *The World in Depression* rev. ed. Berkeley: University of California Press, 1986.
- Kindleberger, C. "Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides". *International Studies Quarterly* 25, no. 2 (1981): 242–54.
- Kirton, J. "Prospects for the G20 Los Cabos Summit". In *G20: The Mexico Summit*, edited by J. Kirton: 48–51. London: Newsdesk Communications Ltd., 2012.
- Kirton, J. "La gobernanza del G-20 para el nuevo mundo". *Foreign Affairs Latinoamérica* 12, no. 2 (2012): 8–21.
- Krasner, S. "State Power and the Structure of International Trade". *World Politics* 28, no. 3 (1976): 317–47.
- Nathan, A. "What China Wants". *Foreign Affairs* 90, no. 4 (2011): 153–8.
- Perret Erhard, E. and D. Álvarez Carreño. "El B-20 y su participación en la Cumbre del G-20". *Foreign Affairs Latinoamérica* 12, no. 2 (2012): 22–6.
- Postel-Vinay, K. *Le G20, laboratoire d'un monde émergent*. Paris: Presses de la Fondation nationale des sciences politiques, 2011.
- Putnam, R. "Diplomacy and Domestic Politics: The Logic of Two-level Games". *International Organization* 43, no. 3 (1988): 427–60.
- Schmidt, V. *The Futures of European Capitalism*. New York: Oxford University Press, 2002.
- Tooze, A. "Germany's Unsustainable Growth". *Foreign Affairs* 91, no. 5 (2012): 23–30.