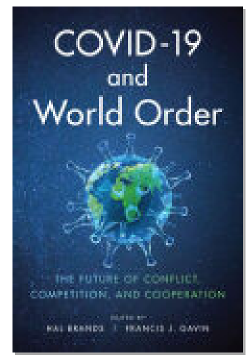
11. Prospects for the United States' Post-COVID-19 Policies: Strengthening the G20 Leaders Process



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Chapter Eleven

Prospects for the United States' Post-COVID-19 Policies

Strengthening the G20 Leaders Process

John Lipsky

The COVID-19 pandemic has confronted the international system with its second major challenge of the past fifteen years. The first challenge—the global financial crisis (GFC) of 2007–9—led to the creation of the Group of 20 Leaders Summit process.[1] The response of this new grouping to its first challenge appeared to be coherent, credible, and effective. The G20's contribution to the response to the current challenge—the coronavirus pandemic—has seemed much less so. Nonetheless, individual G20 countries' economic policy response to the pandemic has been rapid and massive, though not coordinated with other G20 partners.

What is the future of the G20 in a post-Covid-19 world? Ultimately, the US authorities, who played a critical role in the G20's formation, will have to decide whether to maintain support for the G20 leaders' self-definition as "the premier forum for international economic cooperation."[2] A critical consideration will be whether the emergence of China as a global economic power should and will influence US (and others') views regarding the future role for the exiting international institutions.

The thesis of this chapter is that the original—and unprecedented—formation of the post–World War II institutional structure was a success. Nonetheless, the system has been undergoing substantial evolution from its earliest days, in part

John Lipsky is the Peterson Distinguished Scholar at the Henry A. Kissinger Center for Global Affairs and a Senior Fellow at SAIS's Foreign Policy Institute.

reflecting problems with the institutions' original design and in part reflecting shifting challenges.

The forces that motivated formation of the G20 leaders remain relevant, and they are likely to heighten the need for international cooperation in the future. At the same time, specific adjustments are possible that would substantially enhance the G20 leaders' effectiveness, as well as that of the broader system of global governance. These include the short-term challenge of restoring global growth and the medium-term reforms to enhance the stability and effectiveness of the international financial system while avoiding new trade protection and improving the global trading system. There will be a longer-term task of coping with the unprecedented amount of debt, especially government debt, that is being accumulated in response to the pandemic as well as the unprecedented expansion of central bank balance sheets. In short, there is great need for a reinvigorated G20, but much will depend on US leadership.

Origins and Evolution of the Post–World War II Institutional Framework

The novel institutional framework of global governance established at the end of World War II was intended to prevent the factors that the framework's architects viewed as essential causes of the Great Depression and the subsequent world war. These included (1) lack of an effective forum for the discussion and adjudication of political and security issues; (2) lack of a multilateral forum for international trade, leading during the 1920s to the construction of beggar-thy-neighbor trade barriers; and (3) lack of effective international monetary and financial arrangements, beyond the fragile gold standard maintained by key central banks, which eventually collapsed.[3]

The critical post–World War II global institutions were the United Nations, to deal with political and security issues; the International Trade Organization, to be tasked with the reduction of trade barriers; and the International Monetary Fund, to insure the restoration of international financial markets that would support enlarged international trade flows. The IMF's Bretton Woods companion—the International Bank for Reconstruction and Development[4]—was intended to tap domestic financial markets, backed by member governments' guarantees, in order to provide capital to countries whose economies had been damaged in the war—this in the absence of anything resembling what are now called international capital markets. Each institution was both multilateral and treaty-based, with the goals that they would be recognized universally as legitimate and rules-based and that their decisions would carry the force of international law.

None of these institutions functioned exactly as intended. The principal flaw in the post–World War II institutional framework reflected the emergence of the Cold War. To begin with, the United Nations suffered, as it does to this day, from a congenital inability to reach decisions to act in controversial matters. As the Cold War intensified, the increasingly fraught relations between the Soviet Union and United States (and its allies) ensured that the UN could act decisively only on the relatively rare occasions of great-power consensus. Today, with the US-China relationship becoming increasingly difficult, the United Nations' effectiveness remains limited by its basic structure. By comparison, the Soviet Union's decision to create parallel economic institutions made the functioning of the General Agreement on Tariffs and Trade (GATT) and the Bretton Woods institutions smoother.

The GATT began with a relatively limited membership (twenty-three founding members). However, its key members shared a desire to lower trade barriers, especially tariffs, on a broad and sustained scale. As a result, by the end of the last multilateral agreement concluded under the GATT (the Uruguay Round that concluded in 1993), the average tariff among key members had fallen to 5%, from the initial post–World War II average rate of 22%. These liberalizations helped to produce virtually perpetual growth in international trade which outstripped the growth in domestic demand, at least until the GFC became virulent in 2008. In short, the liberalization of international trade for sixty years provided a reliable spur to world economic growth, despite organizational weaknesses of the GATT and its successor organization, the World Trade Organization (WTO).

Unlike the UN, the IMF was organized to facilitate action, even regarding controversial issues. Thus, the Executive Board's operational decisions are taken by majority vote.[5] The IMF's internal organization also promotes action, as the managing director chairs the Executive Board—and sets its agenda—as well as directs Fund staff. Voting power is apportioned according to "economic weight," leaving the members themselves to define this in negotiation. However, a quinquennial review of voting shares is mandatory under the Articles, providing the institution with a permanent mechanism that was intended to preserve the institution's legitimacy and representativeness. The organization of the World Bank is analogous to that of the IMF in that the World Bank similarly possesses a strong executive and its voting power mimics that of the Fund.

Collapse of the Bretton Woods "System"

The principal responsibility of the IMF, as stated in its constitutional Articles of Agreement, was "to promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation." In practice, the Fund was charged at the outset with maintaining the so-called dollar exchange standard, in which exchange rate stability was to be maintained by all members (except for the United States) by pegging their currencies to the US dollar, while the United States guaranteed the convertibility of the dollar to gold for official holders at a fixed dollar price. Critically, it also was "to assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions." The Articles specify that "no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions."

This was revolutionary, in the sense that when the IMF began operations, such exchange restrictions were ubiquitous rather than exceptional. By actively and effectively promoting the dismantling of payments restrictions on trade and other current transactions, the Fund played a key role in creating a system that provided increasingly ample financing to support the trade opportunities that resulted from the ongoing reduction in tariffs and in other trade barriers.[6]

However, a fatal flaw in the IMF's dollar-exchange system emerged quickly in a potentially unresolvable tension between the United States' domestic policy goals and its systemic responsibilities. Such tension arose powerfully in the late 1960s, and by 1972, the dollar-exchange system had broken down irrevocably. This "collapse of the Bretton Woods system" was viewed widely as a historic systemic failure. However, the existence in many countries of liquid parallel foreign-exchange markets implied that the dollar-exchange standard of fixed rates actually operated with much more flexibility than is understood commonly.[7]

The collapse of the dollar-exchange standard ushered in a new "non-system" for exchange rates, with each IMF member allowed to choose their own policies, including floating their exchange rate. However, contrary to the conventional benign contemporaneous expectations of leading academics and other experts, the era of generalized floating among key currencies did not give rise to "stabilizing speculation." In fact, the post-1972 period was marked by an unexpected and largely unforeseen rise in inflationary pressures, especially in the United States, and the emergence of historically unprecedented payments imbalances.

By definition, current account imbalances imply the existence of capital flows as balancing items, but the Fund's Articles of Agreement did not give the institution any authority over international capital transactions. In fact, some of the architects of the Bretton Woods framework, including John Maynard Keynes, were opposed to the creation of international capital markets on the grounds that they led inevitably to destabilizing speculation. Thus, the financing capabilities of the IMF were intended to allow the institution to help reduce international financing strains deriving from what are by today's standards exceedingly modest-sized balance of payments deficits.

A Period of Systemic Crises and Systemic Improvisation

Three large themes emerged in the period between the collapse of the Bretton Woods dollar-exchange standard and the end of the beginning of the post–Cold War era. First, the large advanced economies effectively managed economic and financial relations among themselves in a separate format from that of the Bretton Woods institutions, although their actions in principle remained compatible with their obligations under the rules-based system that they had created. At the same time, the major economy authorities still pursued trade liberalization through multilateral negotiations within the framework of the GATT.

Second, it was established de facto that the IMF had primary responsibility for organizing crisis resolution measures for developing and emerging economies, through essentially ad hoc, tripartite negotiations involving debtor governments, official funding sources led by the IMF itself, and commercial lenders. Third, one outcome of the first generation of the tripartite crisis resolution agreements that would have a substantial future impact was the creation of an increasingly liquid market for dollar-denominated bonds issued by developing economies. In other words, capital markets became much more open to international investors and borrowers.

The key events of this period included the US Federal Reserve's dramatic interest rate increases that began in 1979 under Fed Chair Paul A. Volcker and peaked in 1982. The resulting sharp advanced economy recession—with sustained high US interest rates—produced a Latin American debt crisis. One result was an emerging critical role for the IMF as the architect of tripartite "rescue packages." The US dollar's subsequent rapid rise in the early 1980s boosted the United States' current account deficit, leading to the first convening in September 1985 of the "Group of 5" finance ministers—subsequently expanded to the Group of 7[8]—that met regularly as an informal "Executive Committee" of the global economic and financial system.

In this new setup, the IMF played only a minor role in discussions among the Group of 7 about their own policies. However, the Group of 7 itself failed to exercise firm control over financial markets. For example, a public dispute between the United States and the German authorities about appropriate policies inspired the "Black Monday" stock market crash in October 1987.

The Seismic Changes and Crises of the 1990s

The decade of the 1990s opened with a series of seismic events that dramatically altered the topography and challenges of the global system. The greatest impact was felt after the progressive collapse and late 1991 dissolution of the Soviet Union, ending the Cold War and permitting entry of the former Soviet Republics and the so-called "satellite" states (along with Russia) into the Bretton Woods institutions. The fall of the Berlin Wall in late 1989 led to German reunification during the following year and the historic 1992 Maastricht Treaty on European Monetary and Economic Union. In 1991, India began to implement a significant program of trade liberalization, and in 1992, China embarked on a program of privatizations that decisively accelerated its "opening up" policies. Finally, the GATT's multilateral Uruguay Round trade agreement was concluded successfully in 1993, and soon after, the World Trade Organization superseded the GATT.

Put another way, the process of globalization suddenly—and by and large unexpectedly—entered a new phase: the Bretton Woods institutions became universal, as had been intended by their architects. Trade flows accelerated, and the patterns of trade shifted toward Asia. At the same time, private sector capital flows expanded rapidly to take advantage of the new opportunities and grew to swamp official flows in scale.

As the architects of the IMF had never anticipated the emergence of large-scale cross-border capital flows and gave the Fund no direct responsibilities over such flows, the Fund was relatively unprepared for the initial crises in this new world of large-scale cross-border capital flows in the form of marketable securities. In particular—although it was assumed commonly that the Fund had responsibility for preventing economic and financial crises—it has no facilities that could be useful in this regard, rather than one dominated by traditional bank loans.

The inability of the existing institutional framework to deal smoothly with this expansive new phase of globalization quickly became evident. First was the

"Tequila Crisis" in 1994–95, involving Mexico and other Latin American countries. Spurred by sudden capital flight from Mexico, this was, in effect, the first crisis of confidence in a world of securitized finance. Halting the rapid withdrawal of funds from Mexico and elsewhere required the ad hoc organization of large-scale financial support, supplied mainly by the United States, the IMF, and the Bank for International Settlements (which is owned by central banks) in order to prevent the crisis from spreading further.

Recognizing that the growth of international capital markets presented a new, systemic challenge, the IMF's ministerial-level International Monetary and Financial Committee adopted in their September 1997 Hong Kong meeting a resolution recommending that the Funds' Articles of Agreement be amended to give the Fund authority over capital market arrangements. The ensuing "Asian Financial Crisis" that unfolded almost immediately demonstrated the inadequacy of the existing institutional arrangements, but it also precluded consideration of such an enlargement of the Fund's authority.

The Asian crisis itself ushered in a series of other financial crises, including the commercial bank–threatening 1998 collapse of the US hedge fund LTCM and the simultaneous Russian default, the Brazil crisis of early 1999, and the Turkish banking crisis of 2000. But it also led to two important institutional innovations. First of all, it was clear that the Group of 7 no longer served as an adequate "Executive Committee" for global economic institutions. A joint Canadian-US proposal resulted in the formation of the Group of 20 countries, which met at the level of finance ministers.[9] Although this grouping held regular meetings, it never assumed operational responsibilities, and it progressively devolved into more of a talking shop and a venue for bilateral side meetings between finance ministers.

Global Payments Imbalances and the Financial Crisis

Technological changes produced a mid-1990s US productivity burst, fueling the "dot.com" bubble. Even after this bubble burst, US growth outstripped that of other advanced economies. The result was the emergence of unprecedented—and to the architects of the postwar institutions, unimaginable—payment imbalances. The heart of the concerns regarding "global imbalances" was the record US current account deficit, which peaked in 2006 at 6% of gross domestic product, while China recorded a current account surplus of nearly 10% of its GDP.

The architects of the post–World War II system never could have envisioned such massive payments imbalances, as it would not have been possible previously to obtain the necessary finance in the amounts required. These imbalances were widely seen as inherently unstable, reflecting excessively expansionary policies on the part of the US authorities, together with massive one-sided currency market intervention by the Chinese authorities acting to maintain a massively undervalued exchange rate to promote their export industries.

After Tim Adams, the US under secretary of the Treasury for international affairs, famously admonished the IMF for having been "asleep at the wheel" while these imbalances built up, the IMF's managing director, Rodrigo de Rato, initiated in 2005–6 the innovative Multilateral Consultations on Global Imbalances.[10] With the authorization of the Fund's Executive Board, Fund management organized a series of confidential meetings involving five key authorities to seek agreement on a set of mutually consistent fiscal, monetary, and structural polices that could sustain global growth while reducing payments imbalances.[11] Although they reached agreement on a set of policy programs—which were made public at the April 2007 meeting of the IMF's International Monetary and Financial Committee—the lack of commitment of the US authorities to the process was signaled clearly by their refusal to contemplate any further meetings of the group to monitor compliance or to make any needed adjustments in their policy plans.

The perceived failure of the Multilateral Consultations had an important systemic implication. Despite the conclusion of Fund staff and management as early as August 2007 that a financial crisis had become inevitable, their warnings that dramatic policy action would be needed were not taken seriously by key advanced economy authorities.[12] As the global financial crisis exploded in September 2008 with the collapse of Lehman Brothers, it was concluded that a new institution—the Group of 20 Leaders Summit process—and not the IMF, would manage the international crisis response.

The G20 Leaders Summit process was proposed formally by President George W. Bush at the IMF annual meeting in October 2008, with the inaugural set for Washington in November 2008. Eventually, the G20 Leaders declared their new grouping to be the premier forum for US international economic cooperation. Thus, the G20 Leaders—who together represented 65% of global population, 75% of global trade, and 85% of global GDP—asserted their role as directing the activities of the pre-existing multilateral institutions, at least in the area of economic and financial policies.

From the outset, the G20 stated that their first priority was "to restore global growth and to achieve needed reforms in the world's financial systems." In their April 2009 London Summit, the G20 Leaders—with the strong support of newly elected US President Barack Obama—agreed on a consistent set of expansionary fiscal and monetary policies, mandated the creation of the Financial Stability Board to address financial sector reform,[13] pledged to avoid new protectionist measures and instead to complete the WTO's Doha Development Round of multilateral trade negotiations, and agreed to provide substantial new resources for the IMF and other international financial institutions.

Thus, although the advanced economies had been slow to react to the onset of the GFC, once it arrived they quickly reached substantive agreements on concrete policy actions. G20 Leaders proceeded as if their individual countries' interests were broadly consistent with those of their G20 partners. The coherence of the G20's initiatives subsequently was considered widely to have enhanced their effectiveness and boosted confidence in their eventual success.

In contrast, the response to the coronavirus pandemic in many ways has been paradoxical. Even before the G20 Leaders held their Extraordinary Summit in March 2020, virtually all members already had undertaken fiscal and monetary measures that were larger in scale and scope than those taken in the context of the entire GFC. Yet public coordination and consultation has been far less pronounced than that in 2008–9. The Leaders Statement issued in March 2020 following their virtual summit contained no concrete policy commitments. The subsequent Communique of G20 finance ministers and Central Bank governors issued in April mainly endorsed measures that had been announced previously. G20 economies appear to be facing distinct choices and prioritizing domestic considerations over global cooperation.[14]

Policy Challenges for the G20 Leaders

An obvious issue regarding the current institutional arrangement is whether the key G20 authorities continue to view the Leaders process as their "premier forum." For example, US President Donald J. Trump has not shown any particular interest in the G20 Leaders process nor has he suggested that he views the process as an important policy-making venue.

Even beyond the views of current Leaders, it remains to be seen whether the G20 Leaders' structure—which is partial and not universal, voluntary and not treaty-based—ultimately will prove to be effective. One obvious weakness is that the G20 Leaders' current decision-making practice requires consensus—it is not able to reach decisions on controversial matters if there is any disagreement. Similar to the Soviet role in limiting the possibility for UN action, an aggressive China increasingly out of step with others in the G20 casts doubt on the future effectiveness of the group.

Central banks have been exceptionally aggressive in response to the pandemic in their support for credit markets, acquiring vast amounts of debt instruments and loans while accumulating unprecedented totals of excess bank reserves. These actions by and large have been successful in maintaining the liquidity of financial markets, while no doubt introducing significant distortions. For example, the issuance of US corporate bonds has reached record highs, as corporations have taken advantage of historically low interest rates and exceptional market liquidity, despite the fraught fundamental outlook.

The path back to financial market normality (whatever that will prove to be) has no pre-existing roadmap but no doubt will require cooperation and coordination internationally to avoid creating destabilizing market volatility. While mechanisms for consultation among central banks exist already, they will not have been utilized previously in such potentially stressful conditions.

At the same time, the scale of government debt—and, in some cases, private sector debt—will be very much outsized relative to previous experience. For example, the IMF's latest *World Economic Outlook* update anticipates a US general government deficit in 2020 of nearly 24% of GDP, bringing gross debt to more than 140% of GDP. As a result, it is possible that new venues for consultation and cooperation will be required to avoid creating new uncertainties about the management of such huge amounts.

Already, the G20 Leaders—together with key nongovernmental actors—have attempted to address the debt challenges of the poorest countries through a temporary debt service moratorium, labeled the Debt Service Suspension Initiative, or DSSI. This effort is being closely watched, not only as a potential template for future measures if the economic recovery remains weak but also as an indication of the Chinese authorities' willingness to cooperate with G20 partners in this area.[15]

Since China did not object to the endorsement of the DSSI in the G20 Ministers' Communique, they may be willing to cooperate with its G20 partners to a greater degree than has been the case previously. At this point, however, the degree of their cooperation is not yet clear, nor is the success of even this limited effort assured.

The impact of the COVID-19 crisis, while not originating in the financial sector, no doubt will have a substantial impact over the near and even medium term on official liquidity support and when that should end and insolvencies begin, especially if business failures loom in a potentially sluggish post-pandemic recovery. In such a case, financial, monetary, and fiscal policies easily could become intertwined and give rise to conflicts over the implications of decisions on these issues for other G20 economies. But so far there is little indication of any willingness to cooperate on this issue by means of the G20 architecture.

The outlook for international trade also appears fraught. First of all, the pandemic already has resulted in a sharp drop in international trade, with an unprecedented pace of the decline. The two largest economies—the United States and China—are engaged in a dispute over trade policies that has resulted in the imposition of new trade barriers, and their bilateral negotiations so far have produced only a limited agreement.[16] At the same time, the United States and the European Union appear to be at loggerheads over the taxation of digital commerce, with each side threatening to impose new sanctions.

Finally, there is a broad consensus that the WTO's own organization and processes require substantial reform, but it can't be taken for granted in the current environment that this consensus will lead to action. In any case, many of the basic issues—especially those not involving simple tariff reductions—that would be addressed in new trade agreements are not likely to be reached successfully in a highly complex multilateral framework but rather only on a bilateral or plurilateral basis.[17]

The taxation of firms operating in multiple jurisdictions has become a source of friction, especially with regard to digital commerce. This is a difficult issue that will be highly relevant, even beyond the current US-EU dispute. Allied with the issue of taxation of such commerce is the application of competition law.

The final basic item on the G20 Leaders' agenda was the reform of the international financial institutions. The London G20 Summit agreed to provide substantial new resources for the IMF and the multilateral development banks (MDBs). In Seoul, the Leaders agreed to a new distribution of IMF voting shares, in which the ten largest quotas were apportioned to the G7 countries (minus Canada) plus the BRIC countries (Brazil, Russia, India, and China). Japan retained the second-largest quota overall, while the BRIC shares totaled more than 15%, which for the first time gave them joint veto power over any amendment to the Articles of Agreement.

Moreover, it was agreed that the new quotas would be ratified by the time of the 2012 IMF annual meeting, that there would be a review of the principles for determining "economic weight," and that there would be a new round of quota adjustments on the basis of the new calculations. In any event, the United States did not ratify the new quotas until December 2015.[18]

Some Possible Approaches to Strengthen the Post-COVID-19 World Order

A fundamental current issue is whether institutional changes are needed in order to best address the systemic weaknesses exposed by the COVID shock and to make new progress on the policy reforms first put in motion by the G20 Leaders in responding to the GFC.

It seems self-evident that an open, rules-based, nondiscriminatory international system of global governance requires the support of its members. It also has come to be considered conventional wisdom that the nature of the US-China relationship, whether one of competitors or adversaries, will prove to be pivotal in establishing the terms of global governance in the coming decades. The Chinese authorities, for their part, have declared repeatedly their support for the existing multilateral system and its key institutions. What is less clear at this time, however, is the practical implication of this expression of fealty. Also uncertain are the views of the US authorities, now and in the future.

At an operational level, US officials remain engaged actively in the existing institutions. Looking forward, the establishment of a productive and predictable US-China relationship is a *sine qua non* for strengthening the institutions of global governance. Beyond that, the engagement of the US government at the highest levels in support of the process is a second requirement for progress. At the same time, it is possible to envision a series of reforms to the G20 process and to the associated multilateral framework that could enhance the system's overall effectiveness, while maintaining the G20 Leaders process as a spur to new progress.

Finally, despite widespread talk of a future "de-globalization," intensified global engagement is virtually mandated by the pressure of such forces as technology advances and the digitalization of economic activity, climate change, demographic shifts, and the associated unprecedented force of cross-border immigration, together with growing concerns about inequality.

Aligning the G20 Leaders and the Bretton Woods Institutions

Some of the traits that hamper the decision-making ability of the United Nations are shared by the G20 Leaders, in that the designation of a chair rotates annually and decisions in practice are taken by consensus. In addition, the Leaders lack a permanent staff, and there is no legal basis for their decisions. Nonetheless, in those circumstances where there is consensus, the G20 Leaders can act effectively and powerfully, and they can command the actions of the Bretton Woods institutions. In contrast, the Bretton Woods institutions possess strong executives, highly capable staffs, and an ability to act credibly even when a consensus is lacking, reflecting the majority-rule structure of their voting.

Thus, a potential avenue to strengthen the framework of global governance would be to align the country composition of the G20 Leaders with that of the IMF's International Monetary and Financial Committee (IMFC) and that of the IMF's and World Bank's Executive Boards.[19] Already at present, when a consensus exists regarding needed actions or policy initiatives, as was the case during the GFC, the G20 Leaders can act with credibility and great effectiveness. In cases where a consensus is lacking, operational decisions still can be reached credibly at the level of the Bretton Woods institutions' Executive Boards, reflecting the majority-rule principle that governs normal decision-making in these institutions.

In short, if it is in the interest of the United States to strengthen the framework of global governance, this step would make sense, and it would not require any diminution of the relative role of the US in the Bretton Woods institutions. It also would heighten the likelihood that US alliances could prove more productive.

International Monetary Fund

Over recent years, the Fund has substantially improved the variety of financial facilities that it can provide for crisis resolution. A challenge for the Fund is that it is widely held to be responsible for crisis prevention. Until now, however, it has not possessed any financing facility that could be useful in crisis prevention in the context of securitized cross-border finance.

During the GFC, the US interbank funding market was frozen temporarily, reflecting banks' uncertainties about the content of counterparty bank portfolios. Many foreign banks held US dollar assets that were financed with funds borrowed in the interbank market. When they were shut out of renewed dollar funding by the lack of interbank liquidity, the Federal Reserve provided unlimited dollar swap lines to the European Central Bank (ECB), which on-lent them to eurozone banks, thus preventing potential insolvencies.

Subsequently, the key advanced economy central banks—including the Federal Reserve, the ECB, the Bank of England, the Bank of Canada, the Swiss National Bank, and the Bank of Japan—created a network of permanent unlimited swap lines, thus limiting the illiquidity risk for their banks' international operations. The Federal Reserve also provided temporary swap lines to nine other countries' central banks, including those of Brazil, Mexico, South Korea, and Singapore.

These temporary lines were renewed in the spring of 2020, thus reducing the risks that there would be any market concerns about these banks' access to US dollar liquidity. By reducing the risks of sudden market volatility, these moves served to solidify the position of the US dollar as the dominant international reserve currency. But the question remains: What about the 174 Fund member countries that don't have access to Fed swap lines?

It has long been a principle in national financial markets that the central bank can act usefully as a lender of last resort, so long as its actions are prudent and do not give rise to unjustified moral hazard. The Fed has chosen to do so in these specific cases. The Fund, in turn, has been moving toward acting in this regard by making short-term credits available without ex post conditionality.

The newly approved Short-Term Liquidity Facility (SLF) marks the first time that the Fund has been authorized by its members to offer a true swap-like facility, although with limited eligibility. Nonetheless, with the Fund finally able to offer swap-like facilities, it should be allowed to expand the eligibility for this facility to all member countries. If so, the Fund would begin to gain credibility as being much more capable in crisis prevention.

Financial Stability Board

Like the G20 Leaders themselves, the Financial Stability Board (FSB) is a voluntary association of a rather disparate set of officials from finance ministries, central banks, regulators, supervisors, standard-setting bodies, and international institutions. Given the impetus for reform created by the global financial crisis, and given the conviction among financial market institutions themselves that reforms were needed following the GFC, the FSB has overseen significant progress in making the financial system more stable and resilient. Nonetheless, the work of the FSB is far from complete, and the G20 Leaders should make sure that it has the authority and motivation to make further progress.

The FSB relies on consensus agreement, and there are several areas where progress on reforms has been either partial, halting, or virtually nonexistent. Ultimately, the creation of the FSB (with the participation of twenty-four country authorities and thirteen institutions)—and, before it, the Financial Stability Forum (FSF)—is a reflection of the IMF's lack of authority over international capital transactions which implicitly leaves a vacuum.

If the G20 Leaders are serious about creating a level and effective playing field in financial markets, including capital markets, perhaps a long-term goal should be to develop the FSB into an international institution with broader membership, with a firm legal basis, and with independent surveillance responsibility (not just conducting peer reviews, as is its current practice).

World Trade Organization

Just as there is a clear sense that the world trading system is at a crucial point—with serious disputes brewing amid a historic decline in trade volumes—the World Trade Organization itself is facing unprecedented difficulties. Each of the WTO's three basic functions—administering trade rules, providing a dispute settlement mechanism, and serving as a venue for trade negotiations—is either under pressure or not working at present.

The issues challenging the WTO, and the world trading system, are serious and varied. The searing experience of the pandemic, including the difficulty in obtaining medical supplies, has added to dissatisfaction with the status quo. China's renewed emphasis on the role of its state enterprises and its ongoing commitment to its Belt and Road Initiative also have raised concerns about the treatment of state subsidies and nondiscrimination in contracting.

At the same time, the United States has become a disruptive force within the trading system. The current US Special Trade Representative (USTR) states that he prefers bilateral negotiations, because the United States can get a better deal that way, as it is always the biggest participant in any such negotiation. The United States has failed to make appointments to fill vacancies on the WTO's appellate tribunal, thus crippling it through lack of a quorum. Similarly, the USTR complains about the excessively procedural nature of the WTO's practice, but the United States' authorities have not offered a detailed plan for reform. Finally, the United States' phase one trade agreement with China has aspects that represent the type of trade diversion that the post–World War II work of the GATT and the WTO were intended to overcome.

In short, a pre-pandemic consensus existed that the WTO, and the trading system in general, needed serious reform and modernization. So far, however, the United States' authorities have not been at all clear about their specific goals or vision of what should replace the status quo. Thus, the US position at present seems to be "we want a better deal, but we can't say clearly what that means." Perhaps post-pandemic, the United States could start to clarify what it hopes to accomplish in this sphere and how it hopes to do it.

Final Comments

The United States, like virtually the entire world, is faced with a set of difficult post-COVID-19 policy challenges. In the short run, the principal challenges are medical—controlling the pandemic—and restoring economic activity. There is no clear roadmap to success in either sphere, but a more cooperative approach, such as that in evidence in 2008–9, is likely to be more effective in boosting confidence than uncoordinated efforts. The medium term is filled with myriad challenges, as discussed above. In this regard, the G20 Leaders have substantial unfinished business. As with the short-term challenges, failure to follow through with efforts already under way would risk creating the sense of moving backward, undermining confidence. Finally, the legacy of the pandemic is going to be an unprecedented amount of debt—for governments, for businesses, and for individuals—and of historically large central bank balance sheets. Once again, the potential interactions in addressing these issues point to a need for effective international cooperation.

The avenues for progress are clear, if difficult. The history of the post–World War II period is one of broadly successful institutional innovation and adaptation. Hopefully, this period is far from over.

NOTES

1. Henceforth, for brevity, this grouping will be referred to interchangeably as the G20 Leaders or simply the G20.
2. G20 Leaders Statement: The Pittsburgh Summit, September 24–25, 2009.
3. Maurice Obstfield and Alan M. Taylor, "International Monetary Relations: Taking Finance Seriously," *Journal of Economic Perspectives* 31, no. 3 (Summer 2017): 3–28.
4. Subsequently expanded into the World Bank Group.
5. By tradition, the IMF's Executive Board decisions are taken by consensus, although the consensus is formed in the context of an explicit understanding of what actual voting would produce in the way of a decision.
6. The IMF continues to track the exchange rate and trade regimes, and it publishes an Annual Report on Exchange Arrangements and Exchange Restrictions.
7. Carmen M. Reinhart and Kenneth S. Rogoff, "The Modern History of Exchange Rates: A Reinterpretation," *Quarterly Journal of Economics* 119, no. 1 (February 2004): 1–48.
8. The seven countries include the United States, Japan, Germany, the United Kingdom, France, Italy, and Canada.
9. The Group of 20 includes the Group of 7 countries, plus Argentina, Australia, Brazil, China, India, Indonesia, Mexico, the Russian Federation, Saudi Arabia, South Africa, South Korea, Turkey, and the European Union.

10. A detailed description of the Multilateral Consultations on Global Imbalances can be found on the IMF website.

11. This included the United States, the eurozone, China, Japan, and Saudi Arabia.

12. In January 2008, the Fund's managing director called for 2% of GDP fiscal stimulus in the advanced economies. In March 2008, the Fund's first deputy managing director warned in a speech that fiscal support was going to be required for the financial system. Other, private, warnings also were waved off.

13. The Financial Stability Board includes the members of the Financial Stability Forum plus those G20 members who were not already a member of the FSF.

14. At the same time, the degree of international cooperation on developing treatments for COVID-19 is without historic parallel.

15. Since the GFC, Chinese entities have become by far the largest lenders to low-income countries. Heretofore, the Chinese authorities had insisted that their arrangements in these cases were bilateral and that they do not divulge the terms of such lending. Moreover, they are not members of the Paris Club of official lenders, which ensures equal treatment by Club members in cases of renegotiation.

16. Disturbingly, the specifics of their partial deal appear to be at variance with the underlying principles—such as nondiscrimination and the avoidance of measures that result in trade diversion—that guided the post–World War II process of trade liberalization.

17. For example, issues such as the definition of subsidies, the protection of intellectual property, and sanitary standards in agricultural trade all are unlikely to be resolved if the WTO's 164 members must reach a consensus agreement. Moreover, defining standards and rules for access to markets in services is increasingly important but exceedingly complex.

18. In their April 2020 meeting, G20 ministers reset the timing of the agreement on the next quota adjustment—which undoubtedly will award China the second-largest vote—to December 2023.

19. Of course, such a step would require alterations either in the size and/or the composition of the G20 or else of the IMF's and World Bank's Executive Boards (and potentially the conversion of the IMFC into the IMF Ministerial Council). Representation at the IMF and World Bank Board will still require the formation of constituencies in order to guarantee universal representation. With their structure directly aligned with the Bretton Woods institutions, the G20 Leaders process would fit much more logically and coherently into the structure of global governance. For example, this would eliminate the current awkwardness of the G20 ministers meeting only hours in advance of the IMFC, even though there already is a substantial overlap in the composition of the two groups.