ISSN 1975-5163
WORKING PAPER No.452

January
2011

Global economic governance after the crisis: The G2, the G20, and global imbalances

Andrew Walter *

The views expressed herein are those of the author and do not necessarily reflect the official views of the Bank of Korea. When reporting or citing it, the author's name should always be stated explicitly.

* Reader in International Political Economy, Department of International Relations, London School of Economics and Political Science.

Institute for Monetary and Economic Research
The Bank of Korea

Global economic governance after the crisis: The G2, the G20, and global imbalances

Andrew Walter *

* Reader in International Political Economy, Department of International Relations, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, United Kingdom, email: a.walter@lse.ac.uk. This work has been completed with the financial support of the Bank of Korea.

Contents

Global economic governance after the crisis: The G2, the G20, and global imbalances

This paper argues that a China-US "G2" is neither necessary nor sufficient for the resolution of crucial global order issues such as excessive global payments imbalances. Although the bilateral payments imbalance between both countries constitutes the largest component of global imbalances, the acuteness of relative power concerns and their reverberation in domestic politics has rendered the G2 unable to address this problem effectively. Their bilateral conflict has also hampered the efforts of the G20 and the IMF on global imbalances, but these two bodies together offer much better prospects for progress in this area. Reducing global imbalances requires them to address their main origins, which lie in the domestic political constraints on national policymakers and the asymmetries of international power that have progressively delegitimized the IMF and the multilateral surveillance process. Domestic political constraints will remain important, but the latter problem is, surprisingly, less intractable. The G20 and IMF could achieve progress by (1) undertaking more ambitious reforms of IMF governance to improve the legitimacy of IMF finance and of the multilateral surveillance process, and (2) promoting a more symmetrical multicurrency reserve system with associated policy guidelines for actual and potential reserve currency issuers, and reserve accumulation guidelines among the rest of the IMF membership.

Keywords: global imbalances, exchange rates, financial crisis, United States, China, IMF, G2, G20

JEL Classifications: F33, F53

Global economic governance after the crisis: The G2, the G20, and global imbalances[1]

At their summit in Pittsburgh in September 2009, the G20 leaders "designated the G-20 to be the premier forum for our international economic cooperation." [2] This appeared to mark an historic break in the character of global economic governance: downgrading other fora (such as the G7) and subordinating others (such as the IMF and various international standard setting bodies) to the new and upgraded G20. But there is little certainty about what kind of global economic governance is emerging at the end of the first decade of the 21st century. Amidst a variety of scenarios, three main views can be distilled from the current debate.[3]

The first and probably the most prominent is that the crisis delivered a knockout blow to an already tottering, narrowly Western system of economic governance in the form of the G7 and necessitating its replacement by one reflecting the "new multipolarity."[4] In this view, the G20 is the body most capable of providing a reasonable balance between representativeness and efficiency (Carin et al. 2010; Thakur 2010). But doubts have been growing over the G20's capacity to achieve sufficient consensus to maintain its effectiveness beyond the recent crisis.

The second view is that we are heading inexorably towards an even narrower form of global economic governance than the G7, most likely a China-US "G2".[5] China is widely seen as the most important of the non-Western emerging powers, as the major beneficiary of the crisis, and as the country other than the United States of most consequence for global economic governance (see chart 1). Some even project China as a new or potential global hegemon in the making, poised to replace a

---

[1] I am grateful to the Bank of Korea for its financial support in this research and to Eric Helleiner and Hyoung-kyu Chey for helpful comments on a previous version of this paper. Any remaining errors of fact or judgement are my own.

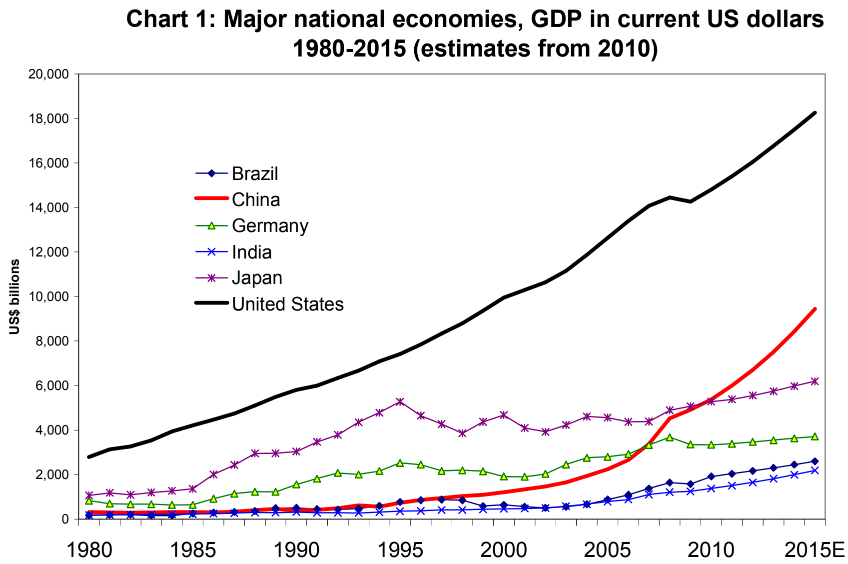
[2] G20 leaders' statement, Pittsburgh Summit, 24-25 September 2009.

[3] Other possibilities range from the minilateral (such as a G3 composed of US-Europe-China, or US-China-Japan – see Funabashi 2009) to the more global (such as the view of the Global Governance Group (3G), led by Singapore, that the G20 is too narrow and unrepresentative a body and that the United Nations is the only legitimate locus of global economic governance). I focus here on what seem the most plausible outcomes.

[4] On the emergence of the new multipolarity, see Dadush and Stancil (2010) and Goldman Sachs (2009). For pre-crisis assessments of this trend, see Goldman Sachs (2003) and Hoge (2004).

[5] Fred Bergsten's (2008) G2 proposal has been supported by American foreign policy notables such as Henry Kissinger and Zbigniew Brzezinski.

declining United States (Halper 2010; Jacques 2010).[6] The size and technological lead of the US economy renders this view implausible for decades to come, but in the interim a G2-based system might provide a foundation for addressing a number of important global order problems.



Source: IMF, World Economic Outlook Database, April 2010 (estimates after 2009).

A third, hybrid view sees a China-US G2 as a necessary prerequisite for effective multilateralism in the G20 and elsewhere. This position seems to enjoy some support in Washington and (less openly) in Beijing. For example, Hank Paulson, former US Treasury Secretary, recently argued that "the strength of the relationship between the U.S. and China will be critical to the functioning of the G20 and global cooperation" (Paulson 2010: 450). The Obama administration has made similar claims in justifying an upgraded bilateral "Strategic and Economic Dialogue" (S&ED).[7] And although the Chinese leadership has rejected the idea of an explicit G2 on the grounds that "multipolarization and multilateralism represent the larger trend and the will of the people,"[8] it has consistently accepted the US offer of a steadily expanding and

[6] A significant section of public opinion in many countries shares this view, including a majority in China and pluralities in a number of America's main allies. See Pew Research Center, "13 of 25 – China will be the World's Top Superpower," http://pewresearch.org/databank/dailynumber/?NumberID=832, 2010 (no date), accessed 28 September 2010.

[7] See Secretary of State Hillary Clinton and Secretary of the Treasury Timothy Geithner, "A New Strategic and Economic Dialogue with China," *The Wall Street Journal*, 27 July 2009.

[8] "Wen rules out 'G2' proposal," *The Global Times*, 22 May 2009.

upgraded bilateral framework alongside its more prominent role in the G20. According to Geoffrey Garrett, "what the *de facto* G2 do, together, independently or in conflict, will increasingly define the global bounds of the possible" (Garrett 2010: 29).

This article accepts the premise that we are in a fluid and hybrid world in which global economic governance takes multiple forms. But it argues that a China-US G2 is a fragile and problematic foundation for global economic governance that it is neither necessary nor sufficient to resolve important global order challenges. Nor is it a necessary component of an effective G20 process. On the contrary, the increasingly bilateral focus of many important global issues, from climate change to global imbalances, has more often been an obstacle to their effective resolution.[9]

I make this argument by focusing on one crucial area of global economic governance: the problem of global current account imbalances and its relationship to international monetary reform. The recent crisis has underlined its importance and probable close connection to global financial stability (Brender and Pisani 2010; Obstfeld and Rogoff 2009). Thus, if the G2 cannot resolve the problem of global imbalances, this will have implications for the effectiveness of global economic governance generally.[10] Global imbalances might also appear initially to be a most likely case for a G2 solution, since China and the United States are the world's major surplus and deficit countries respectively and because other major actors have often seen it as essentially a "bilateral" China-US problem (Ahearne 2006). By comparison, financial regulatory reform is typically seen as less amenable to resolution in a G2 context given the need to achieve a level regulatory playing field over a large number of jurisdictions and China's lesser importance in this area. But I argue that one key element of an effective resolution of the global imbalances problem is an agreement by reserve centre countries and regions to accept mutually binding policy constraints – an agreement that cannot be achieved within the G2 context and which must logically include the Eurozone, the United Kingdom, Japan and other potential reserve centres. In fact, I suggest, resolving global imbalances requires at least as broad an international consensus as the promotion of financial stability.

The rest of this paper is organised as follows. Section 1 provides a brief overview of the failure to resolve the problem of global imbalances before the global crisis of 2008. Section 2 assesses the inconclusive efforts to address these imbalances

[9] For a more detailed and wide-ranging discussion of these and other global order issues, see Foot and Walter (2011).

[10] Climate protection may be an even more important and formidable test for both forms of global economic governance, but given its broader dimensions it is left aside here. For an analysis of these and other areas of global governance, see Foot and Walter (forthcoming 2011).

since 2008. Section 3 asks what explains this persistent failure, emphasizing the role of domestic and international political factors. The conclusion considers what should be done to address this problem in the light of this analysis and draws out the implications for global economic governance generally.

Global imbalances and adjustment responsibilities before the crisis

The problem of global current account imbalances goes back at least to the restored gold standard of the 1920s and perhaps earlier.[11] After World War I, Britain and Germany ran external deficits and saw the policies of the major surplus countries, France and the United States, as unfair and destabilizing. In particular, the systematic sterilization of reserve accumulation by the French and American monetary authorities imparted a strongly deflationary bias to the gold standard that fostered its eventual collapse and the Great Depression that followed (Eichengreen 1992; Eichengreen and Irwin 2009; Irwin 2010).

These events were a crucial part of the learning experience in the wartime international monetary negotiations in the early 1940s and the Bretton Woods agreement in 1944. Keynes was especially keen to remove the natural asymmetry in the system that placed the burden of adjustment on deficit countries losing monetary reserves, the root cause of the deflationary bias. His solution was a rules-based regime that would allocate adjustment responsibilities symmetrically between deficit and surplus payments countries, with sanctions on surplus countries that refused to accept macroeconomic expansion and/or real exchange rate appreciation.[12] As is well known, US negotiators, constrained by Congress and by the expectation that the United States would remain indefinitely the largest surplus country, could not accept Keynes's more radical proposal. They did, however, agree to the general principle (if not to specific rules) that adjustment responsibilities ought to be broadly symmetrical for deficit and surplus countries, and offered the famous "scarce currency clause" that gave some hope to the British side that the Americans understood that they needed to behave differently (Boughton 2002; Gardner 1980; James 1996).

Driven by the new strategic imperatives of the emerging Cold War, the United States did in fact behave as a much more responsible current account surplus country

---

[11] For an argument that they were an important problem even before World War I, see de Cecco (1974).

[12] Real exchange rate appreciation could come about through a revaluation of the nominal exchange rate peg against gold and/or through higher rates of domestic wage and price inflation (requiring non-sterilized reserve accumulation).

from mid-1947: exporting America's surplus savings through Marshall Aid and other foreign assistance programmes and tolerating large devaluations and discriminatory exchange and trade restrictions by European and East Asian allies. But this was a temporary and fortuitous resolution of the postwar imbalances problem rather than a long term solution. In particular, it avoided the question of what should be done to strengthen the multilateral "surveillance" framework based upon the International Monetary Fund (IMF).

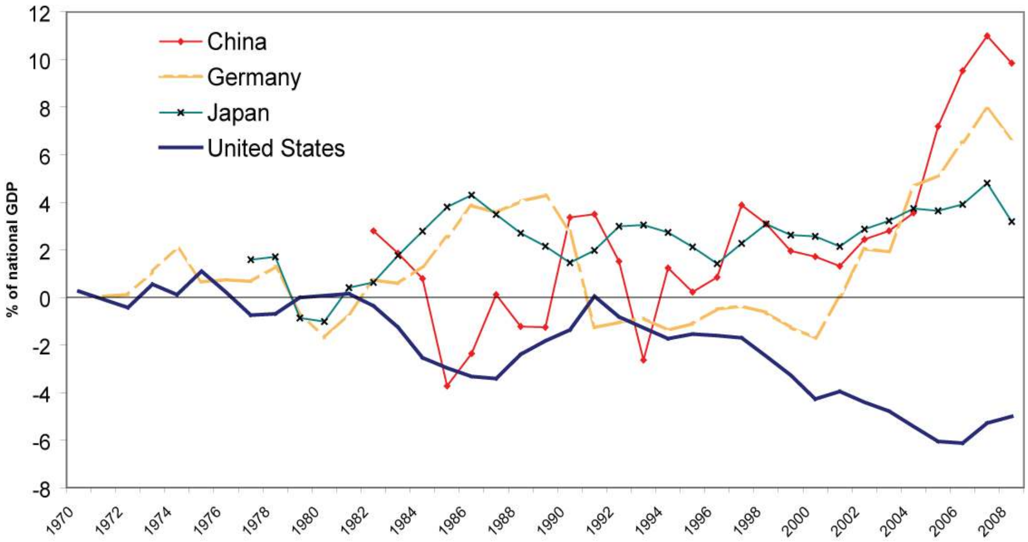
IMF surveillance of the system of pegged exchange rates had been intended to promote stability by, when necessary, advising governments when par value changes were required to correct "fundamental disequilibria" in international payments. Although IMF advice was in principle meant to apply symmetrically to countries running either sustained surpluses or deficits, the IMF's enforcement capacity was very weak. The United States had resolved its own surplus payments problem outside of the Bretton Woods institutions after 1947, and Congress would never have permitted multilateral oversight over US fiscal and monetary policy choices (Boughton 2002; Gardner 1980). Nor did Britain or most other countries wish to subject their own macroeconomic policies to serious multilateral constraint – as the European devaluations of 1948-9 demonstrated. The result of these shared preferences was that IMF powers over member countries' macroeconomic policies were effectively restricted to those that borrowed from it.

Thus, the Bretton Woods monetary regime failed to clarify the allocation of adjustment responsibilities along two crucial dimensions, with important long term consequences. First, despite Keynes's principle that adjustment responsibility should be symmetric between deficit and surplus payments countries, the rules were vague and there was very little the IMF could do to discipline large surplus countries.[13] Second, the US and British wartime negotiators had little interest in specifying the particular policy responsibilities of reserve currency countries (James 1996: 183). Because reserve centre countries also had a tendency to run large external deficits under the Bretton Woods system (first Britain, and eventually the United States too) and enjoyed substantial power within the IMF, there was little that the Fund could do to discipline them either. The result of this failure was an ongoing and increasingly acrimonious dispute between surplus and deficit countries over who should accept responsibility for growing payments imbalances.

[13] The scarce currency clause was never invoked during the postwar years of "dollar shortage" or thereafter.

Over the course of the 1960s, the steady deterioration of the US current account and the emergence of West Germany and The Netherlands as the main surplus countries prompted US authorities to try to rebalance the distribution of adjustment responsibilities within the international monetary system. These efforts continued in the 1970s and 1980s, when the focus was on West Germany and a new large surplus country, Japan. Much more recently, China emerged as the main surplus country and thus target of US pressure (chart 2).

Chart 2: Current account balances as % of national GDP, major countries, 1970-2009



Source: World Bank, World Development Statistics database.

The US strategy had four main prongs: the attempted use and strengthening of the IMF surveillance mechanism, the introduction of the Special Drawing Right (SDR) in the late 1960s as a new international reserve asset, bilateral and multilateral negotiations with surplus countries, and unilateral actions (mostly involving the threat, and sometimes the actual use, of targeted trade policy sanctions). Singly and in combination, these failed to remove the growing imbalances that contributed to the eventual breakdown of the pegged exchange rate system between the major countries in the early 1970s. The US did manage to force some adjustment by surplus countries and to delay policy adjustment on its own part, but this reduced its ability to persuade surplus countries of the rightness of its stance and also came at the expense of the perceived legitimacy of multilateral surveillance itself.

The first tactic, involving the use of the IMF surveillance mechanism, was substantially hampered by the earlier decisions that limited the Fund's effective authority over non-borrowing members. Over 1972-4, negotiations within the so-called Committee of Twenty of the IMF saw the US government arguing for stricter constraints on surplus country reserve accumulation. Other countries, by contrast, were primarily interested in placing greater constraints on the United States as the reserve centre country (Williamson 1977). This argument produced a conspicuous failure to agree on either. In the wake of this failure, the United States (with France) promoted the Second Amendment to the Fund's Articles of Agreement in 1977, which in the revised Article IV.3(b) required the Fund to "exercise firm surveillance over the exchange rate policies of members" and obliged member countries to "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members."[14]

This reform was seen by many as one-sided because it reinforced the focus of surveillance on exchange rate policies but imposed no new constraints on US monetary and fiscal policies (James 1996: 272-3). Similarly, US support for the SDR in the late 1960s effectively undermined French arguments for the enhancement of the role of gold as a reserve asset, which contributed to the erosion of the gold convertibility constraint facing US policymakers (*Ibid.*, 165-174). Later, Nixon's refusal to restore the gold convertibility of the dollar in the Smithsonian negotiations of late 1971 left the US government facing very few external constraints at all.

At the same time, the new IMF currency manipulation clause also failed to significantly enhance the effectiveness of IMF surveillance over major surplus countries (IEO 2007: 35).[15] Nearly three decades later, growing frustration with China's exchange rate policy led the US to seek a further refinement to the surveillance rules. The resulting *Decision on Bilateral Surveillance over Members' Policies* of 2007 specified that the Fund should focus on the extent to which each member country's policies were consistent with "external stability", meaning "a balance of payments position that does not, and is not likely to, give rise to disruptive

[14] IMF, "Surveillance Over Exchange Rate Policies," Decision No. 5392-(77/63), 29 April 1977: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=5392-(77/63).

[15] Although no member country has been declared to be in breach of these obligations, IMF consultations were held with Korea and Sweden in the 1990s after US and German complaints respectively of currency manipulation (Sanford 2006: 41).

exchange rate movements" (IMF 2007: I.A.4). The Decision elaborated that "exchange rate policies will always be the subject of the Fund's bilateral surveillance with respect to each member, as will monetary, fiscal, and financial sector policies" (*Ibid*: I.A.5). However, it was primarily exchange rate obligations that were tightened; in fact, the Decision explicitly stated that "the Fund will **not** require a member that is complying with Article IV, Sections 1(i) and (ii) to change its domestic policies in the interests of external stability" (*Ibid*: I.A.6).[16] As for exchange rate obligations, the Decision specified that a member would be "acting inconsistently with Article IV, Section 1 (iii)," if the Fund determined it was both engaging in policies that are targeted at – and actually affect – the level of the exchange rate, which could mean either causing the exchange rate to move or preventing it from moving; and doing so "for the purpose of securing fundamental exchange rate misalignment in the form of an undervalued exchange rate" in order "to increase net exports" (*Ibid*: Annex I.2.b).

The US Treasury (2009: Appendix 2) claimed that "[t]he 2007 Decision restored exchange rate surveillance's position at the core of the IMF's mandate." Beijing's view, unsurprisingly, was very different, seeing the Decision as targeted at and stigmatizing China and in an unusual step it voted against the proposal.[17] As I discuss later, this dispute between Beijing and Washington over the IMF surveillance regime was part of a broader process of politicization in China-US bilateral relations that has worsened global imbalances and their prospects for resolution.

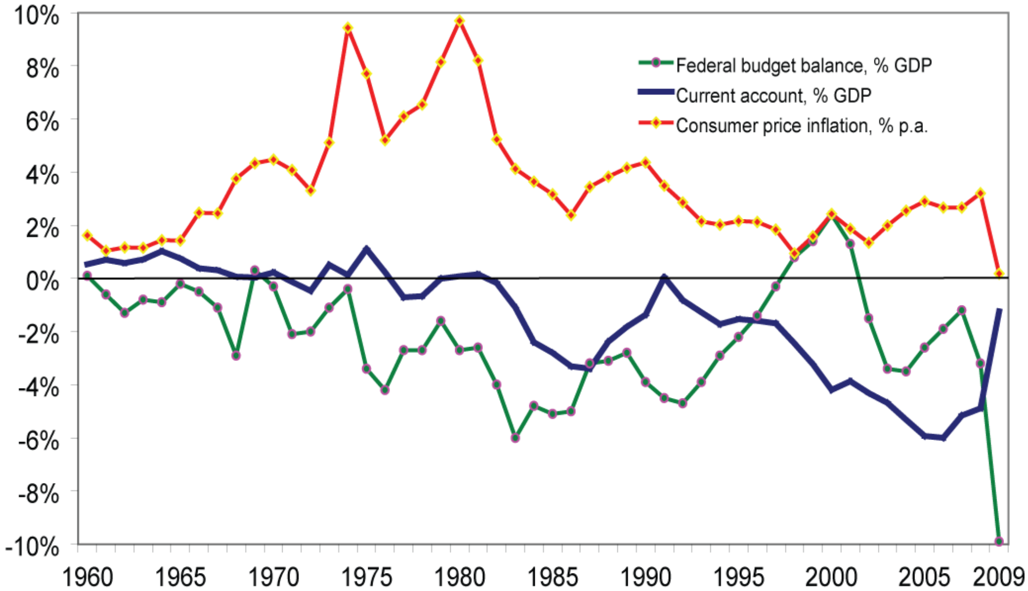
The failure of IMF surveillance to produce sufficient change in surplus country policies prompted the US to initiate a series of bilateral and multilateral negotiations from the 1960s. These were initially conducted with US allies in narrow groupings outside of the IMF (the OECD's Working Party 3, and later the G5/7), further eroding the Fund's surveillance function. These negotiations followed a similar script: the US government demanded that the surplus countries accept either domestic macroeconomic expansion, real exchange rate appreciation, or both, and the surplus countries responded that the United States should reduce its growing fiscal deficits and tighten its monetary policy (chart 3). But while some agreements were reached (in 1961, 1969 and 1971 on modest par value revaluations by surplus countries; at Bonn in 1978, New York in 1985 and Paris in 1987 on coordinated exchange rate intervention), there was no agreement on the underlying principles of adjustment responsibility. For the most part, both sides talked past one another, and the surplus

[16] Author's emphasis added. Article IV.1 requires members to foster (i) "orderly economic growth with reasonable price stability" and (ii) "orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions."

[17] On this controversy, see Goldstein and Lardy (2007) and Mussa (2007).

countries felt confirmed in their view that they were expected to make the main concessions (Funabashi 1989; Webb 1995). Similar examples can be found in the more recent failed multilateral discussions on global imbalances, held under the auspices of the IMF over 2006-7, and the "G7-plus" negotiations of the mid-2000s, when China was invited to G7 meetings and urged to accept renminbi appreciation as its external surpluses grew rapidly.

Chart 3: US federal budget balance, current account, and consumer price inflation, annual levels, 1960-2009



Source: Economic Report of the President; US Bureau of Economic Analysis, Department of Commerce.

Bilateral negotiations offered the United States some obvious advantages, but even when modestly successful in obtaining temporary policy concessions by surplus countries, they failed to produce a lasting consensus on adjustment responsibilities. Bilateral tactics were sometimes effective in dealing with a politically subordinate Japan in the 1980s, but they were less effective with Germany and especially with China during the 2000s. The George W. Bush administration raised the problem of China's rising surplus and the undervalued renminbi bilaterally from 2005 and this probably contributed to China's decision in mid-2005 to accept gradual renminbi appreciation against the dollar until mid-2008 (Taylor 2007: 291–300). But bilateralism has only increased surplus country resentment at US tactics and reinforced their view that the primary problem was America's unwillingness to accept international adjustment responsibilities.

The periodic US tendency to resort to the threat or actual use of unilateral sanctions against surplus countries has further enhanced this perception. The Nixon administration was the first to use such tactics extensively in placing a temporary 10% surcharge on imports (Gowa 1983). Treasury Secretary Blumenthal followed in 1978 by openly "talking down" the dollar in the foreign exchange markets. Since the 1980s, Congress frequently threatened first Japan and later China with targeted protection unless they ceased their "mercantilist" policies. In 1988, the Omnibus Trade and Competitiveness Act formalized unilateralism to strengthen the backbone and the negotiating hand of the executive branch when dealing with recalcitrant surplus countries.[18] Since the early 2000s, the biannual reports by Treasury to Congress required under this act have added an additional complication to the evolving China-US relationship.

In mid-2005, China agreed to modest nominal currency appreciation, but a growing domestic inflation problem and an emerging multilateral consensus on the need for renminbi adjustment suggests this was not merely a product of US pressure. Indeed, such pressure has been increasingly resented in Beijing and interpreted as an attempt to shift adjustment costs to others and to ignore China's pressing domestic stability concerns.[19] Some in China also saw demands for renminbi appreciation as part of a general conspiracy to "keep China down"; the leadership often argued this meant that external demands were counterproductive.[20]

For all of these reasons, US negotiating tactics have produced some temporary victories over surplus countries (Walter 1993; Webb 1995), but they failed to persuade these countries that they should accept the Keynesian rationale for symmetric responsibilities in order to promote global monetary and financial stability. One indication of this failure is that in real terms, the values of the currencies of the major surplus countries have barely changed in the two decades since 1990 (chart 4). Put differently, the US tendency to utilize hard rather than soft power in international

---

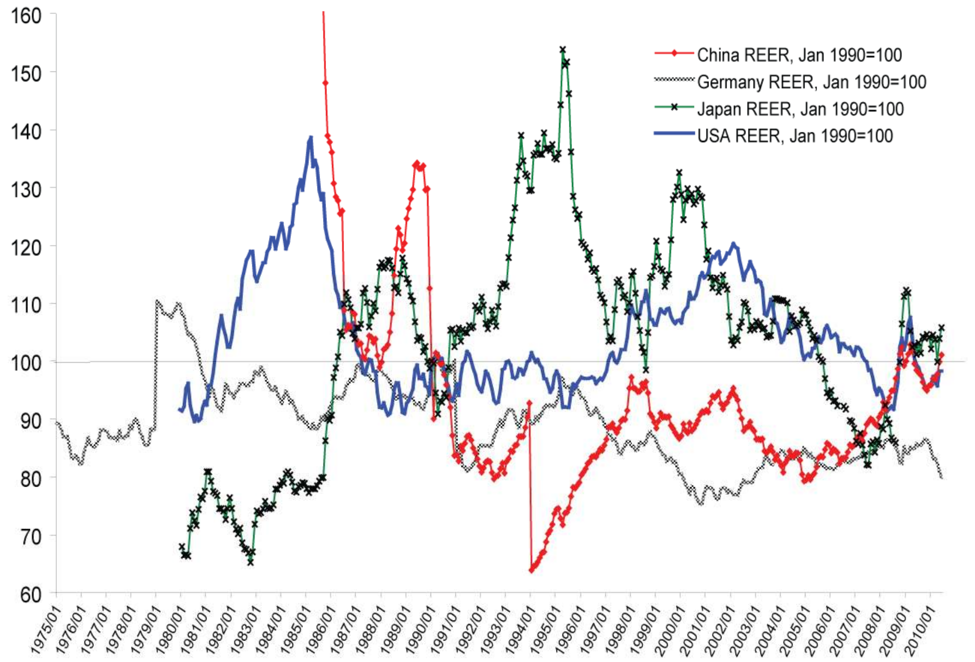
[18] Under this Act, the Treasury must report biannually to Congress on the actions it is taking in respect of those countries guilty of currency manipulation, defined similarly to the IMF's Second Amendment (22 U.S.C. 5304, section 3004). Taiwan and Korea were cited in these reports for currency manipulation in 1988, and China virtually continuously from 1991 to 1994 (Frankel and Wei 2007; Lardy 1994: 86-90).

[19] "Central Bank Rejects IMF Yuan Advice," *China Daily*, 16 April 2007. See also IMF (2004: 3; 2006: 20); Yu (2006: 11).

[20] "Wen Rails at 'Unfair' Renminbi Pressure," *FT.com*, 30 November 2009.

negotiations over adjustment responsibilities undermined rather than served to build a global consensus on international monetary reform.

Chart 4: Real effective exchange rate indices, major countries (January 1990=100)



Source: IMF, International Financial Statistics database (monthly CPI-based estimates). Note that before 1985, China's estimated REER index was much higher than 160.

This also rebounded negatively on the legitimacy of IMF surveillance, since the IMF was so often seen as acting at Washington's behest. The most dramatic example of this was in the case of China, when Beijing eventually took the dramatic step of withdrawing from annual bilateral surveillance consultations with the IMF over 2007-8. That this occurred at the very peak of global imbalances before the recent crisis underlined the extent of the failure of attempts to deal with this problem since 1944.

Global imbalances since the crisis

Crises are painful, but they also present opportunities for change. Has the global crisis of 2008-9 produced any progress on these issues? There were some early indications of an emerging new consensus on the allocation of adjustment responsibilities between the major countries. Notably, at the third leaders' summit in Pittsburgh in 2009, the G20 agreed a new "Framework for Strong, Sustainable and Balanced Growth," to include as one of its objectives the promotion of "more balanced current accounts." To this end, "G-20 members with sustained, significant external deficits pledge[d] to undertake policies to support private savings and undertake fiscal consolidation while maintaining open markets and strengthening export sectors. Equally, "G-20 members with sustained, significant external surpluses pledge[d] to strengthen domestic sources of growth."[21] The G20 also committed itself to a "mutual assessment process" (MAP), assisted by the IMF, to ensure the compatibility of national macroeconomic policies. Encouragingly, finance ministers agreed that such peer assessment should address "all salient policy commitments as well as projections for key economic variables" (IMF 2009: 3).

The Pittsburgh agreement also implied a possible new attitude on the part of the US and Chinese governments. Just before his bilateral meeting with Hu Jintao in November 2009, President Obama acknowledged that achieving the Pittsburgh objectives would mean "in the United States… saving more and spending less, reforming our financial system and reducing our long-term deficit."[22] A few days later, the US and Chinese leaders also agreed language that seemed to imply a newfound acceptance of symmetric adjustment responsibilities by the G2, by then representing the major deficit and surplus countries:

> China will continue to implement the policies to adjust economic structure [sic] raise household incomes, expand domestic demand to increase contribution of consumption to GDP growth and reform its social security system. The United States will take measures to increase national saving as a share of GDP and promote sustainable non-inflationary growth. To achieve this, the United States is committed to returning the federal budget deficit to a sustainable path and pursuing measures to encourage private saving. Both sides will also pursue forward-looking monetary policies with due regard for the ramifications of those policies for the international economy.[23]

---

[21] G20 leaders' statement, Pittsburgh Summit, 24-25 September 2009.

[22] Remarks by President Barack Obama at Suntory Hall, Tokyo, Japan, 14 November 2009.

[23] "US–China Joint Statement," 17 November 2009, Beijing, http://beijing.usembassy-china.org.cn/111709.html, accessed 5 October 2010.

Published IMF surveillance of its most powerful members has also been more robust since 2008. One IMF report for the G20 Toronto summit stated that "credible fiscal consolidation over the medium term, underpinned by high-quality measures of sufficient magnitude, should be a top priority in ***advanced deficit*** economies," and in "***emerging surplus*** economies, policy should aim at enhancing social safety nets, reforming corporate governance, and developing financial markets, supported by greater exchange rate flexibility to facilitate a rebalancing of demand towards domestic sources" (IMF 2010b: 3, emphasis in original). It also argued that the US fiscal deficit should be reduced by three percentage points (over five years) more than projected by the Obama administration (*Ibid*: 8).

Unfortunately, however, there has been considerable backtracking since the Pittsburgh commitments and growing indications that these initial signs of a new consensus may have been illusory. Growing political polarization in the United States has reduced prospects there for a domestic consensus on how to achieve medium term fiscal consolidation (IMF 2010c). Continued deleveraging and the associated slow economic recovery led to a second round of quantitative easing by the US Federal Reserve, as well as growing demands on the government to adopt the traditional tactic of demanding that surplus countries accept more of the burden of adjustment. In October 2010, US Treasury Secretary Geithner argued that "the IMF must strengthen its surveillance of exchange-rate policies and reserve accumulation practices."[24] To many members of Congress, not least in his own Democratic Party, this sounded far too soft on China. Calls for unilateral trade sanctions against Beijing reached a new peak in autumn 2010.[25]

In response, China's rhetoric has become increasingly strident. Only a month after the November 2009 bilateral summit, Wen Jiabao stated that "we will not yield to any pressure of any form forcing us to appreciate."[26] By October 2010, this external pressure had mounted considerably, but Wen claimed that forcing revaluation on China could lead to domestic "social and political turbulence [that] would be a disaster for the world."[27] Although Beijing announced that it would enhance the flexibility of the renminbi just before the Toronto leader's summit in June 2010, very

---

[24] "Currency Battle Lines Drawn," *FT.com*, 10 October 2010.

[25] See, for example, C. Fred Bergsten, "We Can Fight Fire With Fire on the Renminbi," *FT.com*, 3 October 2010. In September 2010, the House of Representatives passed legislation (H.R. 2378) to permit the imposition of countervailing duties on Chinese imports sufficient to counteract the renminbi's estimated undervaluation ("US Congress Backs Action on Renminbi," *FT.com*, 29 September 2010).

[26] "Wen Dismisses Currency Pressure," *FT.com*, 27 December 2009.

[27] "Wen Warns Against Renminbi Pressure," *FT.com*, 6 October 2010.

little real appreciation had occurred by late 2010. Chinese officials increasingly responded to US demands by arguing that it was America's own extremely loose monetary and fiscal policies that were destabilizing the world economy.[28]

In this context, it is not surprising that some important new initiatives have had limited traction. US Treasury Secretary Geithner proposed a new limit of four percent of GDP for current account imbalances at the G20 finance ministers and central bank governors meeting in Gyeongju in Korea in October 2010.[29] This proposal has many merits: it addresses the problem of current account imbalances directly and encompasses a range of contributing policies besides the exchange rate;[30] it is ostensibly symmetrical between surplus and deficit countries, implying US willingness to accept external constraints on its policy choices; the target would be measurable and transparent; and it is consistent with the stated Chinese policy of achieving a balanced current account position over the medium term. Effectively, it attempts to clarify what constitutes a "fundamental disequilibrium" in the balance of payments, something left undefined since the Bretton Woods negotiations of 1944 (Truman 2010: 30-31). For all of these reasons, perhaps, Chinese officials appeared initially to be receptive to this US proposal.[31]

But governments in Germany and Japan proved strongly opposed to numerical targets and the idea that pressure would be brought to bear on surplus countries breaching the four percent limit. China then shifted to this surplus country grouping. The result at Seoul in November 2010 was a generic G20 leaders' pledge to move toward "more market determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamentals, and refraining from competitive devaluation of currencies."[32] The task of developing indicative current account guidelines was assigned to G20 finance ministers and central bank governors in the first half of 2011:

---

[28] "Currency Battle Lines Drawn," *FT.com*, 10 October 2010.

[29] "US Pushes Plan on Exchange Rates," *FT.com*, 22 October 2010.

[30] It thus avoids the major problem noted above that exchange rate appreciations in surplus countries have uncertain effects on current account outcomes, depending on accompanying policies.

[31] Yi Gang, deputy governor of the PBOC, stated at the annual IMF meeting in October 2010 that China's goal was to reduce its current account surplus to below 4% of GDP over 3-5 years ("China to Cut Current Account Surplus Through Gradual Adjustment, Yi Says," *Bloomberg.com*, 9 October 2010; "Fumbling Toward A Truce," *The Economist*, 16 October 2010, p.88.).

[32] The G20 Seoul Summit Leaders' Declaration, 11-12 November 2010.

> Persistently large imbalances, assessed against indicative guidelines to be agreed by our Finance Ministers and Central Bank Governors, warrant an assessment of their nature and the root causes of impediments to adjustment as part of the MAP, recognizing the need to take into account national or regional circumstances, including large commodity producers. These indicative guidelines composed of a range of indicators would serve as a mechanism to facilitate timely identification of large imbalances that require preventive and corrective actions to be taken.[33]

Nor, finally, has there been much sign of a new US willingness to accept additional policy responsibilities as the main reserve centre country. The United States has strongly defended its right to use unorthodox monetary policy to promote economic recovery at home. In its own specific policy commitments under the MAP, the US government merely reiterated its intention to use fiscal and monetary policy to promote strong economic recovery with stable inflation, medium term fiscal sustainability, and a freely floating exchange rate; it also refrained from committing itself to a current deficit of no more than four percent of GDP (G20 2010). It pointed out that US deflation would be bad for all countries and that its monetary expansion will only be inflationary for those countries who, like China, continue to resist currency appreciation. G20 leaders at Seoul did mention reserve currency countries in their statement, but the language was vague in the extreme:

> Advanced economies, including those with reserve currencies, will be vigilant against excess volatility and disorderly movements in exchange rates.[34]

Why are global imbalances so persistent?

What explains this long run failure to address effectively the problem of global payments imbalances? I discuss three main possible reasons: a limited technical consensus among economists about the causes of and solutions to imbalances; the high degree of domestic sensitivity of policies that probably contribute most to global imbalances; and international power imbalances and associated legitimacy dilemmas. Among these, I argue that the latter two political factors are most important.

It seems likely that the consensus among economists on the global imbalances problem has hampered the ability of governments and international institutions to reach consensus in the past. Many begin by arguing that global imbalances are a product of sustained cross-country differences in savings-investment balances. But

[33] The G20 Seoul Summit Leaders' Declaration, 11-12 November 2010.
[34] The G20 Seoul Summit Leaders' Declaration, 11-12 November 2010.

there are large differences in the relative emphasis on real exchange rate changes and other policy responses as appropriate solutions. Some economists are very sceptical that real exchange rate changes can do much to resolve the problem (e.g. McKinnon 2010). Others believe that real exchange rate changes can be effective as long as they are not offset by other policy adjustments.[35] Yet others appear to believe that large exchange rate changes can eliminate the major part of unsustainable imbalances.[36]

Although there is considerable residual disagreement about appropriate policy responses to the problem, however, there does appear to be a growing technical consensus on the kind of policies required to reduce global imbalances. The IMF has undertaken important new work since the crisis and has identified a series of appropriate policy changes in deficit and surplus countries.[37] Their conclusion is clear enough: the required policy response is complex and requires adjustment on all sides, but there is a growing technical consensus on what is needed. Even before the crisis, most economists would have accepted that US fiscal and taxation policies on the one hand and Chinese exchange rate, energy, corporate taxation and financial policies were all contributors to global imbalances. Thus, it seems unlikely that the persistence of this problem is due to a lack of agreement about its origins and appropriate solutions.

The second reason for the persistence of global imbalances is more compelling. We know, more or less, what is required of the major countries to address this problem, but the implied policy changes have generally been too politically costly for incumbent governments to undertake. On the US side, the inability of both political parties and successive Presidents to achieve a lasting reduction in the fiscal deficit has been one cause of falling national savings since the 1960s (the Clinton years were exceptional). The other main cause lies in the private sector: the growing divergence of household savings and consumption since the early 1980s is dramatic (charts 5 and 6). The causes of this trend are much debated and perhaps deeply sociological (Frank 1999). A complex combination of financial innovation and rising consumer access to credit, tax incentives favouring borrowing (notably mortgage interest deductibility) and stagnating median real household incomes is likely to have played a role (Rajan 2010). In short, demanding that foreign governments accept

---

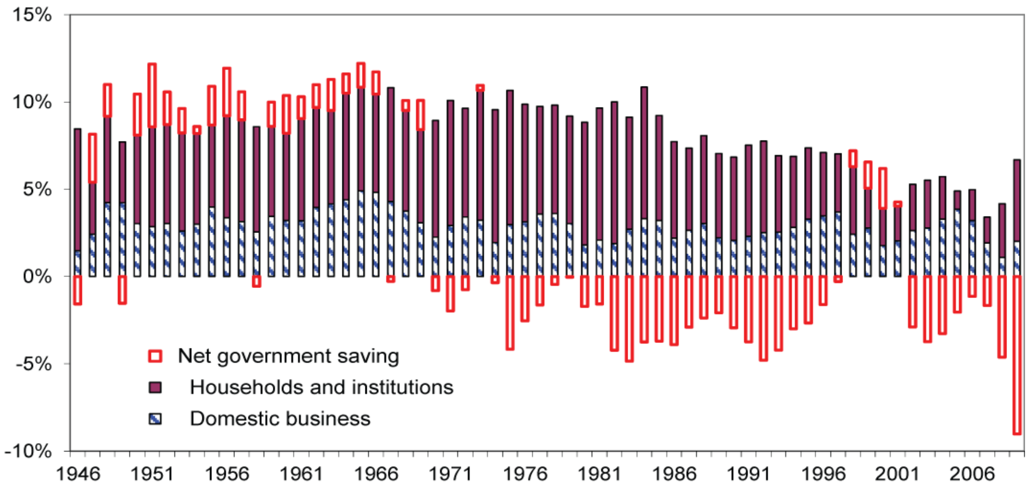
35 See Michael Pettis, "What happens if the RMB is forced to revalue?" http://mpettis.com/2010/10/what-happens-if-the-rmb-is-forced-to-revalue/, 6 October 2010, accessed 9 October 2010.

36 See C. Fred Bergsten, "We Can Fight Fire with Fire on the Renminbi," *FT.com*, 3 October 2010.

37 See Blanchard (2010); IMF (2010a, 2010d).

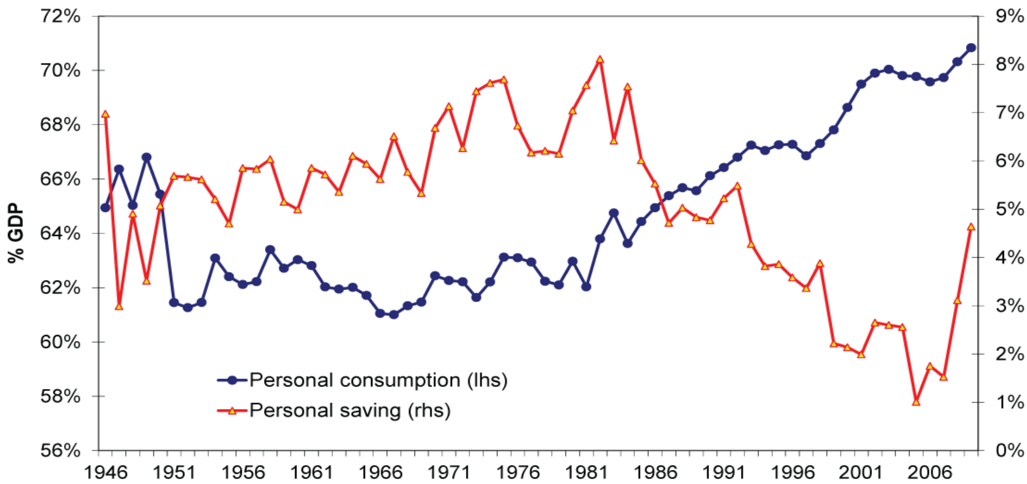
exchange rate appreciation has been easier for US politicians than raising taxes, reducing subsidies to home owners, and controlling public spending on health and other entitlement programmes.

Chart 5: US net savings by sector, 1946-2009, % GDP



Source: US Bureau of Economic Analysis, Department of Commerce, National Economic Accounts.

Chart 6: US personal consumption and saving 1946-2009, % GDP



Source: US Bureau of Economic Analysis, Department of Commerce, National Economic Accounts.

Similar considerations apply to the major surplus countries. The strong attachment to export-led growth and to policies that have boosted business investment and repressed consumption in these countries have had enduring consequences (Rajan 2010: chapter 2). Such policies have understandable attractions for the government of a poor country such as China, which has achieved consistently rapid growth whilst avoiding current account deficits, large private capital inflows, and serious financial crises (Rodrik 2008; World Bank 2008: 24-5). But an undervalued exchange rate is only one part of China's growth story; so too are repressed interest rates (which transfer wealth from consumers to firms and governments) and artificially low energy and other production costs.

The deep political sensitivity of these contributing policies has in fact long been recognized in the post-1944 international monetary regime. A central implicit norm of the Bretton Woods system was that beggar-thy-neighbour exchange rate policy should be constrained, but that domestic fiscal and monetary policy choices were largely matters of national sovereignty and should remain off the table. This norm remained largely intact throughout the G7 era and since, helping to explain the very intermittent and modest successes of macroeconomic policy coordination (Sobel and Stedman 2006). The trend towards more independent central banks since the 1980s reflected an attempt on the part of governments to depoliticize monetary policies, but it reinforced the already strong tendency towards the *national* orientation of monetary policy. Even in relatively highly integrated regional systems such as Europe, large elements of national policy discretion remain and the ability of peers and central institutions to sanction departures from fixed "rules" such as the Maastricht convergence criteria has been weak. The crisis of 2008-9 has only underlined the domestic political sensitivity of monetary and fiscal policies and the desire of incumbent governments to avoid external constraints on these policies. Unsurprisingly, the G20 MAP commitments often simply restate existing national policy objectives.

Finally, large international power asymmetries have also contributed to the persistence of global payments imbalances. I have already argued that the strong perception on the part of surplus countries that the United States has demanded much more of them than of itself has contributed to their growing disaffection with the multilateral process. This process and its rules have increasingly been seen as driven by a US determination to use all means at its disposal to delay its own adjustment and to deflect the costs onto others. This can be seen in China's withdrawal from bilateral surveillance consultations with the IMF over 2007-8, as well as in the increasingly strident position of Germany and China that they have the virtue of thrift on their side.

Officials in both countries have increasingly voiced the opinion that a profligate United States has relied on the savings of countries that are willing to save, work hard and prosper. They interpret additional monetary easing by the US Fed as an attempt to use the "dollar weapon" to force other countries to accept adjustment costs in the form of currency appreciation or domestic inflation.[38] German finance minister Schäuble described this policy as "clueless" and a Chinese foreign ministry official dismissed US calls for the adoption of numerical current account targets as "missing the point," arguing that US monetary policy was much more destabilizing.[39] China's Vice-Minister of Finance urged the United States to "realize its responsibility and obligation as a major currency issuing country," a position that has become an important theme in official Chinese economic diplomacy.[40]

It is therefore clear that the perceived illegitimacy of US policy has reduced its ability – and, correspondingly, the ability of other countries in Europe and the emerging world that have also suffered from the policies of the major surplus countries – to persuade China, Germany and Japan to share the burden of adjustment. The US reliance on hard power against surplus countries has failed to build a consensus on a more symmetrical international adjustment regime.

Global imbalances have therefore persisted primarily because the policies that produce them have deep roots in the domestic political economies of the major countries, and because international power asymmetries have provided incentives to shift adjustment costs to others. This has helped to undermine the legitimacy of the multilateral surveillance process and the Keynesian norms of symmetrical adjustment responsibilities associated with its early phase. With the rise of China as the world's main surplus country, the debate has become even more contentious as imbalances have grown and become more dysfunctional in economic welfare terms. The large gap in mutual understanding between China and the United States on this question has worsened rather than improved over time. Furthermore, as the question of the relative position of China and the United States within the global order has become more salient, this has increased the contentiousness of this and other issues on both sides (Foot and Walter 2011). The idea that the US is trying to do to China what it

---

[38] "US Fed to Pump in Extra $600bn," *FT.com*, 3 November 2010; Yao Yang, "China Can Afford to Stand Firm in Seoul," *FT.com*, 9 November 2010. Even Alan Greenspan, former Chairman of the US Fed, said that the policy was aimed at achieving dollar devaluation ("The Eurozone's Stark Lessons for the G20," *FT.com*, 10 November 2010).

[39] "China Tees Up G20 Showdown with US," *FT.com*, 5 November 2010.

[40] "China Shows Concern, Questions over U.S. New Monetary Policy," PRC embassy in the United States, 8 November 2010. For similar statements, see PBOC (2009: 15, 86).

supposedly did to Japan in the late 1980s may be mistaken, but it is a precedent some in China take seriously.[41] Too many in both countries lay the blame for global imbalances firmly on the other side of the bilateral relationship for the G2 to be an effective means to resolve this persistent problem.

Conclusion: global governance and global imbalances

Two conclusions can be drawn from my argument that domestic politics and international power asymmetries have contributed powerfully to the long run persistence of global payments imbalances. First, it is unrealistic in the foreseeable future to expect US policymakers to accept special *global* responsibilities as the reserve centre country. From the American perspective, it is just another "normal" country trying to maximize domestic growth and employment in very difficult economic circumstances. US policymakers are as constrained by domestic politics as much as any of their peers, perhaps more than most. Second, an international agreement that requires the major countries to limit their current account imbalances is politically unlikely and, even if adopted, may not be effective because the policies contributing to global imbalances are mainly shaped by domestic political economies. In the light of these conclusions what, if anything, can be done about global imbalances?

One answer is: not very much. We cannot abolish domestic politics. This means that we cannot expect the governments of major countries and regions to accept policy adjustments that they do not see as in their political interest.

International power asymmetries also look intractable, but in fact more can be done to address this source of global imbalances than might initially be supposed. The demonstrated instability of the global financial system has combined with the perceived illegitimacy of official sources of finance (the IMF) to produce a growing precautionary demand for national monetary reserves (Obstfeld, Shambaugh and Taylor 2010; Wolf 2008). On the supply side, the role of one country's currency (the US dollar) remains paramount, helping to produce a growing US external deficit with the emerging world. One possible response is to try to modify the supply side of this equation by promoting an international monetary system based upon the SDR or some other global fiduciary asset issued by (say) the IMF.[42] But while the prospects for

[41] "Steep Path to a Modern-Day Plaza Accord," *FT.com*, 16 September 2010. See also McKinnon (2010) and Yu (2006).

[42] See Helleiner (forthcoming), Stiglitz (2010). There are always some who argue that an alternative is a

modestly enhancing the role of the SDR might be better today than in the past, the domestic political obstacles to a supranational monetary solution remain fundamental.

A more realistic approach that is compatible with the continuing primacy of domestic politics is to focus reform efforts on the fundamental reform of the international financial institutions, above all the IMF, as the main source of precautionary and emergency finance. The envisaged reforms to the governance of the IMF to date have been far too modest and do not sufficiently enhance the legitimacy of the IMF in the eyes of emerging countries. Here, European attempts to preserve their dominant position have been at least as much an obstacle to deeper reform as the United States (Truman 2010; Woods 2010). The composition of the G20 better reflects the growing importance and voice of the major emerging countries in the global political economy, but even it over-represents Europe. The European Union needs to accept that a more progressive approach to its representation in global economic institutions can play an important part in reducing the perceived international power asymmetries that contribute to global imbalances.

A second plank of reform that also fits better with the continuing primacy of domestic politics is the active promotion of a multicurrency reserve system that gradually replaces the present quasi-monopoly position of the US dollar (Eichengreen 2010; IMF 2010a). Many worry about the stability of such a system and point to the interwar period as a negative example, but a multicurrency reserve currency system has the distinct advantage that it works with rather than against the grain of both international and domestic politics. It would be more consistent with a world in which emerging countries such as China, India, Brazil and others have greater weight and voice in key global institutions. But it would also require them to accept more responsibility in return, including limits on their reserve accumulation. It is also consistent with existing domestic policy objectives in important countries. China has signalled that it intends to continue its gradual liberalization of the renminbi, and the euro already plays a substantial international role. Reforming and deepening the domestic and regional bond markets in Asia and Europe, a necessary precondition of a greater reserve role for their currencies, is also consistent with their own self-interest. All actual or potential reserve currency issuers (including but not limited to the United States, Europe, and China) also have a significant interest in accepting some degree of mutual constraint in order to ensure the stability of such a system. The United States, although it may have more to lose because a multicurrency system would constrain it

return to a "politically neutral" international gold standard, but they overlook that any credible commitment to a fixed exchange rate with gold is incompatible with democratic governance and political commitments to economic stabilization (Walter and Sen 2009: chapter 4).

more than at present, also has an interest in ensuring there is no rapid switch from dollars into alternative reserve assets.

The obvious difficulty is that a truly multicurrency reserve system is a medium to long term project. But the global power hierarchy has been changing rapidly, and preparation for a multicurrency system could help to promote a new consensus on some needed reforms to the current hierarchical international monetary system. The specifics of these reforms go beyond the scope of this paper, but at a minimum, in addition to agreed guidelines on appropriate levels of reserve holdings, there should also be a discussion on developing symmetric policy guidelines for all actual and potential reserve centres – including the full range of macroeconomic, trade, capital account, and financial regulatory policies that are consistent with monetary and financial stability (Strauss-Kahn 2010).

Most important for my argument, it is crucial that such discussions are conducted in a much wider forum than in the G2. This is for two main reasons. First, the issue goes well beyond China and the United States to include at least the Eurozone, the United Kingdom and Japan, as well as other countries with potentially important currencies. A negotiation of rules concerning the reserve system makes no sense without Europe or Japan. As yet, the renminbi's role is only a potential one, but China already has a crucial stake in this debate given its over-reliance on dollar reserves – and it would be in the US interest to obtain China's agreement to a broad set of principles on reserve centre policies in advance of the emergence of a more globally important renminbi.

Second, the issue is, as we have seen, far too politicized in the context of China-US relations, which is itself constrained by the political and strategic distrust that still infuses the China-US relationship. This compounds the tendency in both countries to see the other as the main problem and source of imbalances. We should welcome the willingness of both sides to formalize and upgrade their bilateral relationship recent years, but it would be a serious mistake to believe that effective global economic governance can be built upon it. This would not be in the long term self-interest of either China or the United States, let alone the rest of the world.

The proper place for this discussion is thus in a wider multilateral forum, one that is not seen (as was the old IMF and G7) to be dominated by the United States and its main European allies. Here, the need to reform the governance of the IMF and the promotion of a more symmetrical multicurrency reserve system dovetail. Formally, responsibility must lie with the IMF and its membership, though the G20, despite its imperfections, comprises the key players. A reformed IMF is a basic prerequisite, since a Fund that is not seen as sufficiently responsive to the concerns of emerging countries will only reinforce the latter's determination to self-insure via continued reserve accumulation. It may be that China's insistence on IMF governance reform as a prerequisite for permitting it greater authority over national policies is disingenuous, but this opening needs to be pursued.[43] If China concedes this point within a multilateral framework that it perceives to be reasonably legitimate, the pressure on the United States to make similar concessions would rise. This may be too much to hope for, but given the likely results of inaction, it is worth trying.

[43] "Premier Wen Jiabao Meets IMF Chief," 14 February 2008, http://www.china-embassy.org/eng/gyzg/t407374.htm, accessed 6 October 2010.

<u>Bibliography</u>

Ahearne, Alan, ed. 2006. *European and Asian Perspectives on Global Imbalances.* Brussels: Asia Europe Economic Forum.

Bergsten, C. Fred. 2008. "A Partnership of Equals: How Washington Should Respond to China's Economic Challenge." *Foreign Affairs*, July-August, 57-69.

Blanchard, Olivier. 2010. "The Two Rebalancing Acts." *iMFdirect*, 6 October.

Boughton, James M. 2002. "Why White, Not Keynes? Inventing the Postwar International Monetary System." *IMF Working Paper*, WP/02/52, March.

Brender, Anton and Florence Pisani. 2010. *Global Imbalances and the Collapse of Globalised Finance.* Brussels: Centre for European Policy Studies.

Carin, Barry, Paul Heinbecker, Gordon Smith, and Ramesh Thakur. 2010. "Making the G20 Summit Process Work: Some Proposals for Improving Effectiveness and Legitimacy." *CIGI G20 Papers,* No. 2, The Centre for International Governance Innovation, June.

Dadush, Uri and Bennett Stancil. 2010. *The World Order in 2050*. Washington, D.C.: Carnegie Endowment for International Peace, April.

De Cecco, Marcello. 1974. *Money and Empire: The International Gold Standard, 1890-1914* (Oxford: Blackwell).

Eichengreen, Barry J. 1992. *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939*. Oxford: Oxford University Press.

Eichengreen, Barry J. 2010. "Managing a Multiple Reserve Currency World." Paper prepared for Asian Development Bank project on "The Future of the Global Reserve System – An Asian Perspective," Asian Development Bank, June.

Eichengreen, Barry J. and Douglas A. Irwin. 2009. "The Slide to Protectionism in the Great Depression: Who Succumbed and Why?" *NBER Working Paper*, No. 15142, July.

Foot, Rosemary and Andrew Walter (2011). *China, the United States, and Global Order.* Cambridge: Cambridge University Press.

Frank, Robert H. 1999. *Luxury Fever: Money and Happiness in an Era of Excess.* New York: Free Press.

Frankel, Jeffrey A. and Shang-Jin Wei. 2007. "Assessing China's Exchange Rate

Regime." *Economic Policy* 22 (51), 575–627.

Funabashi, Yoichi. 1989. *Managing the Dollar: From the Plaza to the Louvre.* Washington, DC: Institute for International Economics.

Funabashi, Yoichi. 2009. "Forget Bretton Woods 2: The Role for US-China-Japan Trilateralism." *Washington Quarterly* 32 (2), 7-25.

G20. 2010. "Table: Policy Commitments by G20 Members." G20 Seoul Summit, November.

Gardner, Richard N. 1980. *Sterling-Dollar Diplomacy in Current Perspective*. New York: Columbia University Press, 3rd edition.

Garrett, Geoffrey. 2010. "G2 in G20: China, the United States and the World after the Global Financial Crisis." *Global Policy* 1 (1), 29-39.

Goldman Sachs. 2003. "Dreaming with the BRICs." *Global Economics Paper* 99, 1 October.

Goldman Sachs. 2009. "The Long-Term Outlook for the BRICs and N-11 Post Crisis." *Global Economics Paper* 192, 4 December.

Goldstein, Morris and Nicholas Lardy. 2007. "China's Exchange Rate Policy: An Overview of Some Key Issues." Paper presented at the Conference on China's Exchange Rate Policy, Peterson Institute for International Economics, Washington, DC, 19 October.

Gowa, Joanne. 1983. *Closing the Gold Window: Domestic Politics and the End of Bretton Woods.* Ithaca, NY: Cornell University Press.

Halper, Stefan. 2010. *The Beijing Consensus*. New York: Basic Books.

Helleiner, Eric. forthcoming. "The New Politics of Global Reserve Reform." *Journal of Globalization and Development*. Forthcoming.

Hoge, James F. 2004. "A Global Power Shift in the Making: Is the United States Ready?" *Foreign Affairs* 38 (4), July/August, 2-7.

IEO [Independent Evaluation Office, IMF]. 2007. *Report on the Evaluation of the IMF Exchange Rate Policy Advice, 1999–2005.* Washington, DC: IEO, SM/07/132, 18 April.

IMF [International Monetary Fund]. 2004. "People's Republic of China: 2004 Article IV Consultation – Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion." *Country Report* No. 04/351, 5

November.

———2006. “People’s Republic of China: 2006 Article IV Consultation – Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion.” Washington, DC: IMF, October.

———2007. “IMF Executive Board Adopts New Decision on Bilateral Surveillance Over Members' Policies.” Public Information Notice, No. 07/69, 21 June.

———2009. “The G-20 Mutual Assessment Process and the Role of the Fund.” Prepared by the Strategy, Policy, and Review Department and the Legal Department, 2 December.

———2010a. *Reserve Accumulation and International Monetary Stability*. Washington, D.C.: IMF, 13 April.

———2010b. *G-20 Mutual Assessment Process—Alternative Policy Scenarios*. Washington, D.C.: IMF, June.

———2010c. *United States: 2010 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion*. Washington, D.C.: IMF Country Report No. 10/249, July.

———2010d. *G-20 Mutual Assessment Process—IMF Staff Assessment of G-20 Policies*. Washington, D.C.: IMF, November.

Irwin, Douglas A. 2010. “Did France Cause the Great Depression?” *NBER Working Paper*, No. 16350, September.

Jacques, Martin. 2010. *When China Rules The World: The Rise of the Middle Kingdom and the End of the Western World.* London: Allen Lane.

James, Harold. 1996. *International Monetary Cooperation Since Bretton Woods.* Washington, DC: Oxford University Press.

Lardy, Nicholas. 1994. *China in the World Economy.* Washington, DC: Institute for International Economics.

McKinnon, Ronald I. 2010. “Why Exchange Rate Changes Will Not Correct Global Imbalances.” *Policy Brief*, Stanford Institute for Policy Research, June.

Mussa, Michael. 2007. “IMF Surveillance over China’s Exchange Rate Policy.” Paper presented at the Conference on China’s Exchange Rate Policy, Peterson Institute for International Economics, Washington, DC, 19 October.

Obstfeld, Maurice and Kenneth Rogoff. 2009. “Global Imbalances and the Financial

Crisis: Products of Common Causes." *CEPR Working Paper*, No. 7606, December.

Obstfeld, Maurice, Jay C. Shambaugh and Alan M. Taylor. 2010. "Financial Stability, the Trilemma and International Reserves." *American Economic Journal: Macroeconomics* 2 (2): 57-94.

Paulson, Hank. 2010. *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System*. London: Headline.

Rajan, Raghuram G. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*. Princeton: Princeton University Press.

Rodrik, Dani. 2008. "The Real Exchange Rate and Economic Growth." *Brookings Papers on Economic Activity: 2*, 365–412.

Sanford, Jonathan E. 2006. *China, the United States and the IMF: Negotiating Exchange Rate Adjustment.* Washington, DC: Congressional Research Service, April.

Sobel, Mark and Louellen Stedman. 2006. "The Evolution of the G7 and Economic Policy Coordination." *Department of the Treasury, Office of International Affairs Occasional Paper*, No. 3, July.

Stiglitz, Joseph E. 2010. "Towards a New Global Reserve System." Paper prepared for Asian Development Bank project on "The Future of the Global Reserve System – An Asian Perspective," Asian Development Bank, June.

Strauss-Kahn, Dominique. 2010. "Concluding Remarks." Speech at the High-Level Conference on the International Monetary System, Zurich, 11 May.

Taylor, John B. 2007. *Global Financial Warriors: The Untold Story of International Finance in the Post-9/11 World.* New York: W. W. Norton.

Thakur, Ramesh. 2010. *The North-South Divide, Global Governance and the G20*. Wellington: New Zealand Institute of International Affairs.

Truman, Edwin M. 2010. "The G-20 and International Financial Institution Governance." *Peterson Institute Working Paper*, WP 10-13, September.

US Treasury. 2009. *Report to Congress on International Economic and Exchange Rate Policies.* Washington, DC: Department of Treasury, October.

Walter, Andrew. 1993. *World Power and World Money: The Role of Hegemony and International Monetary Order.* New York: St Martin's Press/Harvester Wheatsheaf.

———2006. “Leadership Begins at Home: Domestic Sources of International Monetary Power.” *In:* David M. Andrews (ed.) *International Monetary Power.* Ithaca, NY: Cornell University Press, 51–71.

Webb, Michael C. 1995. *The Political Economy of Policy Coordination.* Ithaca, NY: Cornell University Press.

Williamson, John. 1977. *The Failure of World Monetary Reform, 1971-74* (New York: New York University Press).

Wolf, Martin. 2008. *Fixing Global Finance.* Baltimore: Johns Hopkins University Press.

Woods, Ngaire. 2010. “Global Financial Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?” *Global Policy* 1 (1), 51-63.

World Bank. 2008. *Commission on Growth and Development.* Washington, D.C.: World Bank.

Yu Yongding. 2006. “Global Imbalances: China’s Perspective.” Paper prepared for conference on European and Asian Perspectives on Global Imbalances, Beijing, 12-14 July.

< Abstract in Korean >

Andrew Walter*

본 연구는 글로벌 불균형이 지속되고 있는 원인에 대한 분석을 근거로 최근 세계 금융위기 이후 글로벌 경제 거버넌스(global economic governance)가 G2 보다 G20 중심으로 운영되는 것이 바람직하다고 주장한다. 글로벌 불균형의 해결이 지연되고 있는 것은 주로 정치적 이유(국내 정치적 문제에 의한 국제수지 균형을 위한 국내 거시경제 조정의 어려움 및 기존 다자간감시제도의 정당성[legitimacy] 부족 등) 때문이다. 따라서 글로벌 불균형 해결을 위해서는 이러한 정치적 현실을 개선할 수 있는 조치가 필요하다. 구체적 방안으로, IMF 거버넌스 제도 개혁과 중·장기적으로 복수준비통화체제(multicurrency reserve system) 수립이 요구된다. IMF 거버넌스 제도는 세계경제에서 신흥시장국의 증가된 중요도를 반영할 수 있는 방향으로 개혁되어야 하며, 이는 신흥시장국으로 하여금 예비적 동기에 의한 외환보유고 적립을 완화하도록 하기 위한 전제조건이다. 한편 복수준비통화체제는 준비통화발행국들에 대한 구속력 있는 가이드라인 및 외환보유액 적립에 관한 가이드라인에 대한 협의를 바탕으로 운영되는 것이 바람직하다. 복수준비통화체제가 수립될 경우 중국 등과 같은 신흥시장국의 증가된 영향력을 반영할 수 있으며 동시에 이들 국가의 외환보유액 적립을 완화할 수 있다. 또한 동 체제는 위안화 국제화를 추진하는 중국의 국내정치 목표를 반영하는 등 글로벌 불균형을 둘러싼 국내·국제정치 상황과 부합한다. 이러한 조치들을 실행하기 위해서는 유로존, 영국, 일본 뿐 아니라 주요 신흥시장국 등 여러 국가와의 협의가 필요하다는 점에서 협소한 G2 보다 다수의 회원국들로 구성된 정당성 높은 G20와 같은 체제가 더욱 효과적으로 판단된다. 더욱이 현재 과도하게 정치화되어 있는 중·미 관계에 기반한 G2 보다 광범위한 회원국을 포함하는 G20가 이러한 조치 수행에 효과적일 것으로 여겨진다.

* London School of Economics and Political Science 국제관계학과 교수

본고는 한국은행 금융경제연구원의 외부연구용역사업의 일환으로 작성되었습니다. 연구내용은 집필자의 개인의견이며 한국은행의 공식견해와는 무관합니다. 따라서 본 논문의 내용을 보도하거나 인용할 경우에는 집필자명을 반드시 명시하여 주시기 바랍니다.

금융경제연구 발간목록

301 조세 종류별 후생효과 분석(2007.5) 박성욱

302 국내 기업의 해외직접투자 결정 요인
- 기업경영 관련 여건을 중심으로(2007.6) 전봉걸·권철우

303 해외직접투자와 국내투자의 관계 분석(2007.6) 김현정

304 출산율저하가 인적투자 및 금융시장에 미치는 영향(2007.7) 김기호·유경원

305 상호저축은행의 효율성 및 건전성 분석(2007.8) 정형권

306 최근 통화량의 변동요인 분석
- 주택가격을 고려한 통화수요함수 추정(2007.8) 유병학

307 여성의 출산과 경제활동참가 결정요인 분석(2007.8) 김우영

308 비용상승 충격의 불확실성과 통화정책(2007.9) 정규일

309 2007년 한국은행 국제컨퍼런스 결과
- Monetary Policy Communication and Credibility
in a Financially Globalized World(2007.9) 한국은행 금융경제연구원

310 금융기관 해외투자 확대정책의 경제적 효과 분석(2007.9) 강종구

311 외환위기 전후 원·달러 환율의 변동요인 비교분석(2007.10) 김윤영

312 가계의 교육비와 저축간 관계 분석(2007.10) 유경원

313 The Political Economy of East Asian Financial Cooperation
- The Chiang Mai Initiative(2007.10) Hyoung-kyu Chey

314 Forecasting Output Growth and Inflation
- How to Use Information in the Yield Curve(2007.10)
Huiyu Huang·Tae-Hwy Lee·Canlin Li

315 How Much Inflation is Necessary to Grease the Wheels?(2007.12)
Jinil Kim·Francisco J. Ruge-Murcia

316 선진적 금융세계화를 위한 전제조건 분석(2008.1) 김희식

317 물적·인적자본의 한계생산성 분석(2008.1) 박성욱

318 중국의 금융개혁과 은행산업 생산성변화(2008.1) 오대원

319 개방경제하에서의 최적 통화정책(2008.1) 정용승

320 외국인 직접투자의 현황과 과제(2008.1) 홍재범

321 Explaining the Cyclical Behavior of the Korean Labor Market(2008.2) Weh-Sol Moon

322 Inventory, Factor-Hoarding and the Dynamic Response to Monetary Shocks(2008.2) Kwang Hwan Kim

323 원/달러 무위험 금리차의 특성에 관한 연구(2008.2) 송치영

324 Total Factor Productivity by 72 Industries in Korea and International Comparison(2008.2) Hak K. Pyo·Hyunbae Chun·Keun Hee Rhee

325 Market Services Productivity in Korea: An International Comparison(2008.2) Hyun Jeong Kim

326 A Political Economic Critique on the Theory of Optimum Currency Areas and the Implications for East Asia(2008.3) Hyoung-kyu Chey

327 The Growth and Determinants of Vertical Trade in Korea(2008.3) Young Kyung Suh

328 제조업 업종별 특성과 수출경쟁력(2008.3) 권철우·전봉걸

329 Competition in the Credit Rating Industry(2008.3) 이인호

330 Non-Interest Income of Commercial Banks: Evidence from OECD Countries(2008.3) Joon-Ho Hahm

331 An Assessment of the New Keynesian Phillips Curve in the Korean Economy(2008.3) Bae-Geun Kim·Byung Kwun Ahn

332 미 달러화 환율의 장단기 결정요인 분석(2008.4) 김윤영

333 중국 제조업의 효율성 변화와 시사점(2008.4) 오대원

334 사교육투자의 효율성 분석(2008.4) 이찬영

335 외환거래 확대의 시장안정효과 분석(2008.5) 김희식

336 Do Capital Adequacy Requirements Really Matter(2008.5) Junhan Kim

337 물가안정목표제하에서 자산가격 변동과 경제안정(2008.5) 김양우·우준명

338	기혼여성의 맞벌이 결정요인 분석(2008.6)	김우영
339	제조업과 서비스업간 기술진보 확산효과 분석(2008.8)	박성욱
340	The Cost Channel Effect of Monetary Policy in Korea(2008.8)	Myung-Soo Yie
341	해외 공급충격과 개방경제의 최적 금리준칙(2008.8)	김근영
342	고용보호제도 변화가 노동시장에 미치는 영향 분석(2008.8)	문외솔
343	장·단기 금리격차의 생산갭 예측력 분석(2008.9)	이명수
344	고용구조의 변화와 학력별 임금격차(2008.9)	김우영
345	임금근로자의 하향취업 행태 분석(2008.9)	이찬영
346	Estimation of Hybrid Phillips Curve in Korea(2008.9)	Woong Kim
347	Can the European Monetary System Be a Model for East Asian MonetaryCooperation?(2008.10)	Hyoung-kyu Chey
348	주택 가격지수 산정 - 서울 아파트 실거래가격을 이용한 실증연구(2008.10)	KAIST 금융공학연구센터
349	2008년 한국은행 국제컨퍼런스 결과 - Recognizing and Coping with Macroeconomic Model Uncertainty in Designing Monetary Policy(2008.10)	한국은행 금융경제연구원
350	소비자물가에 대한 유가 및 환율충격의 비대칭성·비선형성 분석(2008.11)	김기호·윤성훈
351	불완전 환율전가하에서 환율이 상품수지에 미치는 영향(2008.11)	윤성훈·김귀정
352	Inflation Volatility and Stock Returns: Some International Evidence(2008.11)	Ky-hyang Yuhn·Sang Bong Kim
353	외환시장압력과 국외부문 통화공급 변동의 관계 분석(2008.11)	김용복
354	통화적 물가결정이론으로 본 장기균형물가와 인플레이션(2008.11)	김배근
355	물가 · 성장간 관계변화 분석(2008.11)	송승주

356 The Impact of Foreign Bank Penetration on the Transmission of Monetary Policy in Emerging Economies: Evidence from Bank-level Data(2009.1)
Ji Wu·Alina C. Luca·Bang Nam Jeon

357 국가별 금리차의 요인분해(2009.1) 유복근

358 글로벌 구조 VAR 모형을 이용한 해외충격의 파급효과 분석(2009.1)
김윤영·박준용

359 통화옵션을 이용한 미래 원/달러 환율의 위험중립 확률분포 추정(2009.1)
이승환

360 통화정책과 주식수익률의 관계에 대한 실증분석과 시사점: 한국의 경우(2009.2)
이상규·김양우·우준명

361 기업의 자금조달 수단과 대출경로(2009.2) 김준한·이명수

362 지적재산 보호와 경제성장(2009.2) 박성욱

363 Opening to Capital Flows and Implications from Korea(2009.2)
Kyungsoo Kim, Byoung-Ki Kim and Young Kyung Suh

364 최근 고용여건 변화와 청년실업 해소방안(2009.2) 박강우·홍승제

365 Market Structure, Bargaining, and Covered Interest Rate Parity(2009.2)
Byoung-Ki Kim

366 한국노동패널자료를 이용한 가계부채 분석(2009.2) 김현정·김우영·김기호

367 우리나라 기업의 가격결정행태 분석(2009.2) 김웅·홍승제

368 The Impact of Affinity on International Economic Integration: The Case of Japanese Foreign Direct Investment(2009.3) Hyoung-kyu Chey

369 한국경제의 구조변화와 생산성: Baumol 효과를 중심으로(2009.3) 오완근

370 제조업과 서비스업의 기술진보 격차가 고용에 미치는 영향(2009.3) 김배근

371 The Estimation of Capital Stocks, Total Factor Productivity and Potential GDP(2009.3) Hak K. Pyo·Sunyoung Jung

372 Does the Liquidity Effect Guarantee a Positive Term Premium?(2009.3)
Kyuil Chung

373 개별가격변동과 통화정책(2009.3) 박강우

374 우리나라에서의 디플레이션 발생 위험 평가(2009.3) 김웅

375 Labor Market Frictions and Wage Contracts(2009.3) 문외솔

376 채무 만기연장에 관한 게임이론적 분석(2009.3) 정형권

377 개인저축률과 거시경제변수간 관계분석(2009.3) 송승주

378 환율변동이 실물경제에 미치는 영향(2009.4) 김용복·곽법준

379 가계재무구조와 사교육비 지출 행태(2009.4) 이찬영

380 가계부채의 결정요인 분석(2009.4) 김우영·김현정

381 Are Structural Parameters of DSGE Models Stable in Korea?(2009.4) Jiho Lee

382 Double Drain, Risk of Recession and Monetary Policy in Small Open Economies(2009.5) Geun-Young Kim

383 A Way Forward for Asian Bond Market Development(2009.5) Hong Bum Jang·Suk Hyun

384 개방경제의 실질소득지표에 대한 연구(2009.6) 김배근

385 실물·금융변수와 주택가격간 동태적 상관관계 분석(2009.6) 손종칠

386 은행의 비이자영업 확대와 시스템 위험(2009.6) 김기호·윤성훈

387 2009년 한국은행 국제컨퍼런스 결과 - The Credit Crisis: Theoretical Perspectives and Policy Implications(2009.6) 한국은행 금융경제연구원

388 낙인효과(stigma effect)와 자본이동성이 국채 CDS 프리미엄에 미치는 영향(2009.7) 김용복

389 Comparative Advantage and Labor Market Dynamics(2009.7) Weh-Sol Moon

390 투자자의 시장심리를 반영한 자산가격 변동요인 분석(2009.8) 김윤영·이진수

391 주가와 재무구조 정보를 이용한 기업부문 신용리스크 측정(2009.8) 이승환

392 직접투자 유출입이 경기동조화에 미치는 영향(2009.8) 황광명

393 은행부문의 통화불일치 평가와 발생요인 분석(2009.8) 서영경·김근영

394 Covered Interest Rate Parity: A Model of Cournot Competition and Bargaining with Outside Option(2009.9) Byoung-Ki Kim

395 The Determinants of Informal Sector and Their Effects on the Economy: the Case of Korea(2009.9) Donghun Joo

396 산업간 지식전파효과 분석 : 사업서비스를 중심으로(2009.9) 김현정

397 우리나라 노동시장의 이력현상 분석(2009.9) 김웅

398 다부문 경제성장모형에 의한 수출주도형 성장전략 평가(2009.9) 김배근

399 최적필터(optimal filter)를 이용한 우리나라 주가지수의 확률변동성 및 점프 추출(2009.9) 윤재호

400 사회후생 극대화를 위한 국가채무 수준에 대한 연구(2009.10) 임진

401 중고령자의 은퇴결정요인 분석(2009.10) 손종칠

402 금융 시스템리스크를 감안한 금융기관 자기자본 규제정책(2009.10) 서상원

403 Financial Integration in East Asia: Evidence from Stock Prices(2009.10) Xiaodan Zhao·Yoonbai Kim

404 'Sleeping with the Enemy' or 'An Ounce of Prevention': Sovereign Wealth Fund Investments and Market Destabilization(2009.10) April Knill·Bong-Soo Lee·Nathan Mauck

405 Fluctuations in Exchange Rates and the Carry Trade(2009.10) Kyuil Chung·Òscar Jordà

406 실물경기변동모형에 의한 경기침체 요인분석(2009.11) 송승주

407 1930년대 세계대공황과 2008년 위기(2009.11) 양동휴

408 국내외 금융시장의 연계성 변화 분석 : 외환위기와 글로벌 금융위기 기간을 중심으로(2009.11) 유복근·최경욱

409 Global Economic Recession and East Asia: How Has Korea Managed the Crisis and What Has It Learned?(2009.11) Yung-Chul Park

410 가구패널자료 접속을 통한 가계의 유동성제약 변화 연구(2009.11) 김기호

411 자본유출입의 경기순응성과 파급경로(2009.12) 송치영·김근영

432 인구 고령화와 금융자산선택: 미시자료 분석을 중심으로(2010.8) 이상호

433 창립 60주년 기념 한국은행 국제컨퍼런스 결과
– The Changing Role of Central Banks(2010.8) 한국은행 금융경제연구원

434 은행 예대금리 행태 분석(2010.8) 윤재호

435 Managing Openness: Lessons from the Crisis for Emerging Markets(2010.10)
Barry Eichengreen

436 환율동학에 대한 기대와 통화정책의 유효성(2010.10) 김근영

437 Wage Inequality and the Efficiency of Workers in Korea, 1965 – 2007(2010.10)
곽승영

438 은행의 레버리지 행태와 유동성 창출(2010.10) 이승환

439 Theories of International Currencies and the Future of the World Monetary Order(2010.11) Hyoung-kyu Chey

440 Regional Economic Disparity, Financial Disparity, and National Economic Growth: Evidence from China(2010.11) J. Peng, Bong-Soo Lee, G. Li and J. He

441 인플레이션 타게팅에 관한 최근 논의(2010.11) 김병기, 송승주

442 An Empirical Evaluation of Two Financial Accelerator Mechanisms: the Balance Sheets Effects of the Bank versus Those of the Firm(2010.11) Donghun Joo

443 유동성위험과 금융규제간의 관계분석(2010.11) 강종구

444 외환보유액이 단기외채 유입에 미치는 영향(2010.11) 김승원

445 저출산·인구고령화의 원인에 관한 연구:
결혼결정의 경제적 요인을 중심으로(2010.11) 이상호, 이상헌

446 우리나라 GDP 성장률과 인플레이션율의 특징(2010.12) 오금화

447 국가간 포트폴리오 투자와 은행대출을 중심으로 살펴 본 글로벌 불균형의 현황과 관제(2010.12) 이현훈

448 International Policy Coordination Mechanism with respect to the Moral Hazards of Financial Intermediaries(2010.12) 김영한

449 Free Trade Agreements and Foreign Direct Investment: The Role of Endogeneity and Dynamics(2010.12) 이준수

* 금융경제연구 제1～200호의 발간목록은 제320호 이전 책자를, 제201～300호의 발간목록은 제421호 이전 책자를 참고하십시오.