Policy Watch

G20 Growth Targets: Help or Hubris?

Mike Callaghan*
Lowy Institute for International Policy

Notwithstanding much rhetoric from the G20, the global economy remains subpar. The new element at the 2014 Brisbane Summit was the adoption of a growth objective—lifting output by 2.1 percent in 2018. Will this be a game changer? The key is whether the policy measures tabled in Brisbane are implemented. The monitoring of progress in implementing the commitments will be central to G20 credibility. In particular, the reports presented by the IMF and OECD in 2015 must be robust, comprehensive, and transparent. But the G20 has to avoid being trapped and its credibility severely dented with false precision over the growth target. The estimates are uncertain and the country growth strategies have to be dynamic and respond to new challenges.

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

Introduction

The G20 is acknowledged as helping to avert a deeper economic decline in the wake of the global financial crisis in 2008. However, its record in contributing to a stronger global recovery has been found essential more recently. Notwithstanding much rhetoric at successive summits about the commitment of G20 leaders to achieving stronger growth, the actual economic performance of the global economy over the past six years has been subpar.

In an effort to reverse this trend, at the Brisbane G20 Summit in November 2014, leaders endorsed a growth target and claimed that, if fully implemented, the policy commitments they tabled would lift their collective Gross Domestic Product by an extra 2.1 percent by 2018.

This article examines the pros and cons of the Brisbane G20 growth agenda and in particular whether it will prove to be a game changer in strengthening global economic outcomes and giving new life to the collective actions of the G20.

Strengthening Growth Has Always Been the G20's Top Priority

A key theme of the Australian G20 presidency in 2014 was to promote economic growth and employment outcomes (Australia's G20 Presidency 2013). This is not a new priority for the G20.

At the first G20 leaders' meeting in Washington in November 2008, leaders stated "we are determined to enhance our cooperation and work together to restore global growth" (G20 Leaders 2008). A similar commitment was made at each successive leader's summit. At the St. Petersburg Summit in 2013, leaders said "our most urgent need is to increase the momentum of

*Send correspondence to Mike Callaghan, Economic consultant and non-resident fellow, Lowy Institute for International Policy. Tel: +61262884711, Fax: +61282389150, Email: mikecallaghan@msn.com.

© The Author 2015. Published by Oxford University Press on behalf of Munk School and Rotman School of Management. All rights reserved.
For permissions, please e-mail: journals.permissions@oup.com
doi: 10.1093/global/guv002 Advance Access publication 16 June 2015

the global recovery, generate higher jobs, while strengthening the foundations for long-term growth" (G20 Leaders 2013). The same sentiment was expressed at the Brisbane Summit with the opening sentence of the leaders communiqué stating: "raising global growth to deliver better living standards and quality jobs for people across the world is our highest priority" (G20 Leaders 2014).

At the Pittsburgh Summit in 2009, the G20 launched the Framework for Strong, Sustainable and Balanced Growth (Framework) with the aim of delivering better growth outcomes. The G20 also agreed to a Mutual Assessment Process (MAP) that it hoped would underpin this Framework.[1] The Framework was a compact where G20 members would agree on shared policy objectives, set out medium-term policy measures, and then through the MAP, the G20 would review progress in meeting these objectives and the need for additional policy action. It was an ambitious exercise which recognized that while each G20 members' primary responsibility was for the sound management of their own economy, they also have responsibility "to the community of nations to assure the overall health of the global economy" (G20 Leaders 2009).

Notwithstanding the introduction of the Framework and repeated statements by leaders that restoring global growth is their top priority, the G20 acknowledged in Brisbane that global growth is fragile and uneven and "the G20 still faces challenges to achieving its objective of strong, sustainable and balanced growth" (G20 Research Group 2014). Moreover, since April 2011, the International Monetary Fund (IMF) has repeatedly revised down its forecasts for global growth by a sizeable amount as the recovery continued to disappoint.

The evidence to date suggests that the G20 Framework and the MAP are not working, although it is not clear what would be the shape of the global economy in their absence. One of the deficiencies of the Framework and MAP was that their structure, operations, and purpose were never sufficiently defined when they were launched. In particular, what constitutes "strong, sustainable and balanced growth" was not established. The Framework evolved on the basis of treating strong, sustainable, and balanced growth as three separate objectives rather than one objective with three components. As such, the interconnections between policies and objectives were not sufficiently recognized.

What constitutes balanced growth was particularly vague. The IMF interpreted balanced growth as being broad-based growth across G20 members. At a broader level, balanced growth could be interpreted as the need to ensure that all the citizens are benefited. This would encompass narrowing the development gap between countries and improving income inequality within countries. There has, however, been an increasing tendency to see balanced growth as the reduction in current account imbalances. The focus of the MAP at the Seoul Summit in 2010 was very much on reducing external imbalances. In the lead-up to the Seoul Summit, the U.S. Secretary to the Treasury, Tim Geithner, essentially proposed a cap be placed on the size of current account deficits and surpluses. While Secretary Geithner did not mention a figure, it was widely believed the cap would be 4 percent of GDP and this was formally proposed by Korea as the G20 chair. This was a

[1] *The MAP is a country-led surveillance process whereby the members of the G20 assess whether the policy commitments that they have made are being implemented and are on track to achieving the objective of strong, sustainable, and balanced growth.*

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

controversial proposal which was opposed by many countries, including China and Germany. The compromise was an agreement to develop indicative indicators "to identify members with imbalances that required further assessment" (G20 Leaders 2010). Harrid Faruqee and Krishna Srinivasan from the IMF have observed that the shift in the MAP away from shared growth objectives to a focus on external sustainability may have "derailed fledging buy-in by key surplus countries" (Farugee and Srinvasan 2012).

As part of the Framework and MAP process, each G20 summit produced an action plan which, in the words of the Seoul Summit Leaders Declaration, delivers "comprehensive, and cooperative and country-specific policy actions to move closer to our shared objectives" (G20 Leaders 2010). A major problem with these action plans, in addition to the issue of whether the commitments made were implemented, was that they did not cover all the priority reforms needed for countries to strengthen their growth performance. For example, a report by the Organisation for Economic Cooperation and Development (OECD) and the World Bank notes that there was limited overlap in the reforms contained in the St Petersburg Action Plan with the top five country-specific policy priorities outlined by the OECD in its *Going for Growth* exercise (OECD and The World Bank 2013).

One of the stated strength of the Framework and MAP process was that it was a country-led, peer-review process. The expectation was that this would result in greater buy-in by countries and would be more effective than IMF surveillance, which largely involves the IMF providing policy recommendations to fund members. However, there is little evidence to suggest that the Framework and peer-review process has actually influenced the policy choices of countries. The assessment by Jonathan Ostry and Atish Ghosh from the IMF is negative. In fact they note: "While it is too soon to make a definitive assessment, evidence to date does not suggest that any of the large countries have made significant adjustments to their economic policies in response to peer pressure under the MAP" (Ostry and Ghosh 2013). The former First Deputy Managing Director at the IMF is also sceptical as to the impact of the MAP when he notes "it is hard to say with certainty that any G20 member has altered its policy plans in the interest of achieving greater policy coherence—and therefore effectiveness—with its G20 partners" (Callaghan 2014).

Is the Brisbane Action Plan Different?

A new component of the G20 growth agenda in 2014 was that at the start of the year members set a "target" by how much they would increase their collective GDP in five years and over the course of the year they identified growth strategies that would, if implemented, achieve that target.

The growth "target" was adopted at the meeting of G20 finance ministers and central bank governors in Sydney on February 22–23, 2015. Specifically the "Sydney Declaration" stated:

> We will develop ambitious but realistic policies with the aim to lift our collective GDP by more than 2 per cent above the trajectory implied by current policies over the coming 5 years. This is over US$2 trillion more in real terms and will lead to significant additional jobs. To achieve this we will take concrete actions across the G20, including to increase investment, lift employment and participation, enhance trade and promote competition, in addition to macroeconomic policies. These actions will form the basis of our comprehensive growth strategies and the Brisbane Action Plan. (G20 Leaders 2014)

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

In commenting on the outcome from the Sydney meeting, the Australian treasurer, Joe Hockey, said that when Australia started its G20 presidency, the global economy was in a mediocre state with the IMF downgrading its global outlook six consecutive times over the past few years (Hockey 2014). Mr Hockey said that something had to be done to decisively shake off the legacies of the crisis. The adoption of the "ambitious but achievable" growth target was portrayed as the "game changer."

The additional 2 percent growth target is based on model simulations undertaken by the IMF, OECD, and World Bank. These organizations prepared a paper for the February 2014 G20 Finance Ministers and Central Bank Governors' meeting, which identified that if each G20 member corrected specific policy gaps, their GDP would increase by about 2.25 percent (or US$2.25 trillion) by 2018. This is relative to the IMF's projections for global growth made in October 2013.

The concept of identifying what could be achieved by adopting alternative policies is not new to the G20 process. In 2010, the IMF presented a report to the G20 on two alternative policy scenarios, an upside case and then a downside case (IMF 2010). The upside scenario identified that by pursuing more ambitious policy reforms, global GDP would be higher relative to the G20 baseline by 2.50 percent over five years, representing an increase in global output of over US$1.50 trillion. Moreover, it was assessed that global employment would rise by thirty million jobs and thirty-three million people would be lifted from poverty.

The 2010 Toronto G20 leaders' Declaration refers to this research from the IMF and the gains that could be achieved if members adopted more ambitious policies. Leaders committed to work together to achieve these outcomes. A specific growth target was discussed but was not adopted because of concern that failure to deliver would damage G20 credibility. Dishearteningly, if a specific target for stronger global growth had been set at the Toronto G20 Summit, it would have been breached every year since 2010.

Some Advantages of a Growth Target

A consequence of adopting a growth target at the beginning of 2014 was that it gave a focus to the G20 activities over the course of the year. A linking theme for the various G20 agenda items was the contribution they could make to lifting growth. This introduced a much needed coherent narrative for the G20, helping to counter previous criticisms that the G20 was pursuing disparate and unrelated agenda items. The introduction of a specific growth target provided a more tangible expression as to what the G20 was seeking to achieve.

The specific actions that countries would take to strengthen growth were not publically announced until the Leaders' Summit in Brisbane. However, the impression was given that the process put pressure on members to commit to additional policy reforms that they would not have embraced in the absence of the G20 Summit. For example, following the meeting of G20 Finance Ministers and Central Bank Governors in April 2014, the Australian treasurer criticized other G20 members for not doing enough to increase global growth. Mr Hockey said:

> There was a very frank discussion about the fact that they need to be new and real commitments. It's not enough for some countries to just re-heat previous

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

announcements. You need to actually do the heavy lifting. The proposals put forward by nations so far have been unacceptable and they only meet 10 per cent of our goal. (*ABC News* 2014)

At their meeting in September 2014, G20 Finance Ministers reported that they had developed a set of new measures that will facilitate growth. A "preliminary analysis by IMF-OECD indicates these measures will lift our collective GDP by an additional 1.8 per cent through to 2018" (G20 Leaders 2014). The Australian treasurer reported that more than nine-hundred initiatives had been put forward by G20 members to lift growth in their countries and that he had spent a large amount of time on the phone to various finance ministers encouraging them to renew their efforts (Massola and Hutchens 2014). He also stated that "we are 90 per cent of the way there. That's why we will intensify our efforts to find the final 10 per cent before the Brisbane Summit in November" (Massola and Hutchens 2014). The Australian Prime Minister Abbott reported that the Brisbane Action Plan contains over eight hundred separate reform measures and further suggested:

. . . if we do all that we have committed to doing, the IMF and the OECD tell us that our Gross Domestic Product will be, as I say, 2.1 per cent higher than it would otherwise be. (Abbott 2014)

As noted, the impression was that the process resulted in countries extending their efforts to increase growth. Zia Qureshi from the World Bank observed that the G20 growth strategies benefited from an extensive process of discussion and peer review within the G20, supported by technical assessments prepared by international organizations. If this process did have a significant impact on individual countries economic policies, it would represent one of the most successful instances of multilateral economic surveillance. The comments by the Governor of the Reserve Bank of Australia, Glenn Stevens, suggests that this may have been the case, noting "when the promises that were offered up at the halfway point only amounted to half of the 2 per cent, people did not go back and say, you know, 'what more could we do?' They did actually work harder at coming up with a set of proposed changes that go a bit beyond what they were going to do" (Stevens 2014). As Governor Stevens suggests, countries appear to have committed to policies that they would not have done so in the absence of the G20 growth target.

Another advantage of the approach to pursuing the 2 percent growth target was that it helped shift the debate within the G20 toward the structural reforms required to increase potential growth. The IMF paper submitted to the February 2014 meeting of G20 Finance Ministers noted that while negative output gaps in some countries suggested that demand shortfall remained the binding constraint to growth, potential output had been damaged in many countries as a result of the global financial crisis (IMF 2014). As a result of this permanent output loss, going forward the G20 was on a lower potential growth path than precrisis. It was emphasized by the IMF that structural reforms were required to increase potential growth rates.

The development of growth strategies over the course of 2014 did focus on structural reforms, while acknowledging the importance of supporting macroeconomic policies, including sustainable fiscal positions. The Australian chair focused the policy discussions on a number of key

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

structural elements of the growth agenda, namely: investment and infrastructure, employment, competition, and business environment and trade.

The development of the growth agenda over the course of 2014 represented a change in the nature of the discussions compared with those that had previously taken place as part of the Framework and MAP. Following the launch of the MAP, discussions centered on shifting demand, both internally and externally, so that deficit and surplus countries could adjust imbalances relatively smoothly and avoid a 'hole in demand 'if the deficit countries acted unilaterally. The aim was to "rebalance" growth. With global growth appearing to strengthen in 2010, more attention turned to the need for medium-term fiscal consolidation, although countries divided over whether the emphasis should be placed on fiscal consolidation or fiscal policy continuing to support domestic demand—the "austerity versus growth" debate.

The emphasis in 2014 placed on structural reforms and increasing investment was a much needed advance within the G20. While appropriate macroeconomic policy settings are essential to support growth in the medium-term, strong and sustainable growth ultimately depends on productivity enhancing structural reforms and investments. Moreover appropriately targeted investments, particularly in infrastructure, can support growth in the short run while increasing an economy's medium-term growth potential.

Will the G20 Achieve its Growth Target?

The benefits that have been noted from the adoption of a specific growth target—providing a unifying theme to the G20 agenda, improving its ability to communicate what it is seeking to achieve and enhancing the nature of the discussions within the G20—will only be significant if they contribute to increasing global economic and employment outcomes beyond what they would have otherwise been.

The G20's growth challenge has increased since the adoption of the growth target in February 2014. The G20 commitment is to increase collective GDP relative to the projections contained in the IMF's forecasts in its October 2013 World Economic Outlook. Over the course of 2014 the IMF and other international institutions have lowered their growth forecasts compared with the baseline underpinning the Sydney Declaration. The trend has continued into 2015 with the World Bank lowering its forecast for growth in the global economy in 2015 from 3.4 percent to 3 percent. Since the G20 adopted its growth target, the collective growth of G20 members has weakened rather than strengthened. This means that their collective growth will have to be significantly higher over the coming years to meet the target of increasing their collective GDP by over US$2 trillion by 2018.

Whether the G20 achieves its growth target will depend first on whether countries identify and embark on the required policies to lift growth and second, whether they actually implement those policies.

Does the Brisbane Action Plan Live Up To Hype and Contain the Right Policies?

In the lead up to the Brisbane Summit, the measure of success over the growth agenda appeared to be on whether G20 members would identify

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

the new policies that would meet the assessment of the IMF and OECD that, if implemented, would lead collective growth of the G20 to rise by an additional 2 percent by 2018. For example, the IMF Managing Director, Christine Lagarde, said at the time of the G20 Finance Minister's meeting in September 2014 that she was confident that the G20 would "achieve" its growth target by the Brisbane Summit (Taylor and Phillips 2014). Further Lagarde suggested, "The fact that the finance ministers have achieved a global commitment of 1.8 [percentage point] of additional growth by the baseline is a strong indication that they will hit the 2 [percentage point] target." She went on to say "I can't see how by being 10 percent away from the target they would arrive at the Brisbane leader's summit without having reached the 2 [percentage point] target."

The G20 did not achieve its growth target at the Brisbane Summit. Success will depend on whether there is a significant increase in economic growth in G20 countries in the next few years. This in turn will depend on whether countries implement the policies necessary to lift growth. However, a positive first step is for countries to commit to implement these policies. To the extent that this was achieved at the Brisbane Summit, it would be a significant advance over previous summits.

The assessment by the IMF and World Bank that the growth strategies submitted by G20 members as part of the Brisbane Action Plan would raise G20 GDP by 2.1 percent by 2018 if fully implemented is a positive endorsement that countries have identified the right policy measures. However, the assessment by the international organizations is heavily qualified when they note "the high degree of uncertainty entailed in quantifying the impact of members policies" (IMF and OECD 2014). It is somewhat ironic that after noting the significant uncertainty involved in the quantification of the impact of member policies, the international organizations are precise with their estimate that G20 GDP growth will be raised by 2.1 percent in 2018 if all members' commitments are fully implemented.

The IMF and OECD have provided little background information on the basis of their assessments in quantifying the impact of G20 growth strategies. They note that only policies that are new since the St. Petersburg Summit and have a significant impact on GDP are included in the quantification (IMF and OECD 2014). There is no detail as to what specific policies were included in the estimation, nor the growth impact on individual countries. The IMF and OECD only note that product market reforms aimed at increasing productivity are the largest contributors to raising GDP, followed by infrastructure investment and labor market reforms.

The Brisbane Action Plan states that around one-quarter of the estimated 2.1 percent in GDP comes from positive spillovers from the simultaneous implementation of all policies by G20 members. Given the magnitude of the implementation challenge facing each G20 member, the prospect of simultaneous implementation of all commitments would suggest that achieving this aspect of growth estimation may be the most problematic.

If there is no simultaneous implementation of commitments, then the full extent of the positive spillovers assumed in the estimation by the IMF and OECD will not be realized and the growth in G20 GDP will be less than 2 percent by 2018. Given that it is extremely unlikely that there will be simultaneous and full implementation, then additional policy commitments should have been sought to provide a buffer so that there is greater prospect that a 2 percent increase in GDP will be achieved. Alternatively, the

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

inclusion of an unlikely assumption involving simultaneous implementation of commitments suggests that the 2 percent objective should be viewed more as an aspirational goal rather than a hard target.

As part of the Brisbane Action Plan, each G20 member has released a comprehensive growth strategy. While these documents have been complied using the same template, they vary in length and detail, particularly in terms of details as to new policy commitments. The longest growth strategies are those submitted by China and India at fifty pages, with the shortest from the United States at sixteen pages.

One of the features highlighted in the development and presentation of the Brisbane Action Plan was the number of policy commitments submitted by G20 members. The IMF and World Bank paper quantifying the impact of the growth strategies notes that there are close to thousand individual structural policy commitments, of which more than eight hundred are new.

There is significant variation in each country's treatment of its policy commitments in their growth strategies. Some countries provided detailed outlines of specific measures, both major and minor, whereas others have a general statement of proposed policy action in a broad area with limited detail on specific measures. While countries are using the same template to list new policy measures which calls on countries to provide details on "implementation path and expected date of implementation" along with "what indicator'(s) will be used to measure progress?", the responses vary significantly and on the whole there is limited information on implementation paths and very general descriptions on indicators of progress. There is also significant variation between countries in the way they identify whether the policy measures are new. Some countries explicitly state that the measures are new since the St. Petersburg Summit. In other cases, countries acknowledge that the policy is a continuation of an existing reform, but in many instances there is no indication as to whether the measure can be classified as being a new initiative at all. The variation in the degree of specificity by which policy measures have been described has compounded the task of quantifying the growth impact of the growth strategies outlined at Brisbane (Qureshi 2014).

Notwithstanding the variations and shortcomings in the way countries have outlined their policy commitments, the Brisbane Action Plan and accompanying documentation is still an improvement compared with similar material released at past summits. This is not only because there is an increase in the number of commitments, but also in terms of identifying the key policy steps necessary to increase growth. As noted previously, the OECD and World Bank have reported that there was limited overlap in the reforms contained in the St. Petersburg commitments with the country-specific policy priorities outlined by the OECD in its *Going for Growth* exercise (OECD and The World Bank 2013). In contrast, there appears to be a stronger alignment between the policy commitments covered in the Brisbane Action Plan with the main policy recommendations that have been recommended for each G20 member in IMF Article IV reports and the OECD's *Going for Growth* exercise.[2]

[2]*Under Article IV of the IMF's Articles of Agreement, IMF members have to undertake regular consultations regarding their economic and financial policies. This usually involves an annual visit to each member by an IMF staff team and the preparation of a staff report which contains assessments and policy recommendations. This report is discussed by the IMF Executive Board.*

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

However, there are a number of instances where the commitments in the Brisbane Action Plan come up short compared with the policies recommended by the international organizations. An example is the commitment for increased public infrastructure investment in Germany. The German growth strategy presented at the Brisbane Summit identifies that one of the key commitments is the provision of €5 billion additional investment in public transport infrastructure over the next four years. In addition, it notes that in the next budget there will be an additional €10 billion in infrastructure spending in 2016–2018. However in the 2014 German Article IV report, the IMF calls for an increase in public infrastructure spending in Germany of 0.5 percent of GDP per year over four years—this equates to over €50 billion in extra spending in addition to the €5 billion set aside for transport in the government's economic program (IMF 2014).

The IMF and the OECD have not released a qualitative assessment of the policy commitments G20 members presented at the Brisbane Summit. However, the World Bank did release an assessment of the growth strategies submitted by the ten members of the G20 that are the large emerging market states.[3] While the World Bank comments are on the strategies of these emerging markets, they are broadly applicable to the growth strategies presented by all G20 members.

The World Bank's overall assessment of the strengths and weaknesses of the growth strategies submitted by emerging markets was as follows:

- Infrastructure: The strategies are in general stronger on increasing investment levels and boosting finance but weaker on ensuring the quality and effectiveness of investment.
- Employment: The strategies are relatively stronger on active labor market policies, vocational training, and improving participation of target groups such as women and youth, but they need to be complemented by deeper reforms of laws to improve labor flexibility and job formality—supported by well-designed and targeted safety nets.
- Competition/Business Environment: The strategies are generally stronger in reducing the cost and complexity of doing business and improving the logistics to increase competitiveness but weaker on boosting competition. The Bank also states that areas needing attention include strengthening competition policy, enhancing competition in service and network industries, and implementing legal and institutional reforms.
- Trade: The strategies typically have a strong focus on trade facilitation and actions to boost exports. What is required is more attention on liberalizing imports, integration into global value chains, liberalization of services trade and beyond individual country measures, more collective G20 action on the trade agenda.

As noted, these comments can be broadly applied to the growth strategies of all G20 members, including the observation that the promotion of inclusive growth is not sufficiently integrated into the growth strategies.

[3]*The G20 emerging market economies are: Argentina, Brazil, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, and Turkey.*

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

Will the G20 Growth Strategies Be Implemented?—Focusing on National Policy

Whether the G20 will achieve its growth target will ultimately depend on whether countries implement their growth strategies. As G20 leaders noted in the Brisbane Action Plan, "We will only achieve our collective ambition of lifting G20 GDP by more than 2 per cent once all our reforms are fully implemented." However, many of the reforms identified, particularly those associated with liberalizing product and labor markets, are controversial. Each country will have to win its own domestic political battles to have the reforms accepted and implemented.

The implementation challenge is no more evident than in the case of the G20 chair in 2014—Australia. The growth strategy it presented at Brisbane is largely an outline of the measures contained in the federal government's 2014–2015 Budget, which was presented in May 2014. However, many of these measures have proved controversial and have been blocked or rejected by the upper house of the Australian parliament—where the government does not have a majority.

The difficulty that the U.S. administration has in getting proposals though the Congress is also a major issue in terms of whether the United States will implement the policy commitments it presented at the Brisbane Summit. For example, a key element of the U.S. growth strategy is the proposal for the federal government to increase investment in surface transportation by U.S.$302 billion over four years. The U.S. growth strategy notes that the new investment and proposed changes to tax laws to facilitate greater private sector investment must be approved by Congress. However, President Obama has acknowledged that it is unlikely that the Republican controlled Congress will pass the administration's infrastructure bill (Lee 2014).

The monitoring of progress toward achieving the G20 growth target will be important in terms of putting pressure on countries to implement their commitments. As leaders noted in the Brisbane Action Plan, "We will monitor and hold each other to account for the implementation of our comprehensive growth strategies." The Action Plan states that a "robust peer review process" will be the core of accountability assessments. However, the international organizations, led by the IMF and OECD, have also been commissioned to estimate the impact of country measures on GDP through to 2018 and to regularly assess remaining policy gaps.

The concept of accountability based on peer review is good in theory, however, it has not been particularly effective in practice. The Accountability Assessment Report released at the Brisbane Summit basically says that all G20 countries have made progress toward implementing their St. Petersburg commitments. Such reports will be effective in encouraging the implementation of commitments if they are frank and impartial in identifying shortcomings by countries and they receive publicity in each country. G20 leaders are not accountable to each other for the implementation of their commitments; they are ultimately accountable to their citizens as to whether they are implementing the policies required to lift growth. As such it is important that progress reports on whether countries are implementing their commitments, is widely publicized in each G20 country.

The robustness of the monitoring reports by the international organizations will be central to strengthening the accountability of the G20. The international organizations have the required technical capability to provide

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

such assessments, as well as being seen as an objective. The accountability assessment process outlined at the Brisbane Summit notes that to improve ownership, the international organizations will further develop discussions with G20 members to ensure that there is a clear understanding of the assessment methodology. These discussions should ensure that there is a comprehensive, and transparent, outline of each member's commitments. In addition, the gaps and lack of detail in the growth strategies released at the Brisbane Summit should be rectified. The outcome of these discussions should be made public.

The G20 growth strategies have to be dynamic exercises, responding to the challenges and risks to the global economy that will inevitably rise. For example, the continuing plunge in the oil price since the Brisbane Summit is an overall positive for the global economy, but raises particular policy challenges for some countries, such as oil and energy exporters. Cheaper oil is contributing to a further decline in inflation expectations in the euro area, increasing the risk of deflation. This needs to be factored into the euro area's growth strategy.

In response to concerns over deflation and in an effort to help jump-start the economies of the eurozone, the European Central Bank (ECB) has commenced a program of 'quantitative easing' (QE) totaling some €1.10 trillion. This is similar to the QE programs undertaken in the United States, UK, and Japan where the central banks purchase government securities. In the United States and UK, the QE program increased liquidity and pushed up asset prices, thus stimulating expenditure by increasing wealth and lowering borrowing costs. These transmission mechanisms may not be as strong in the eurozone, given that securities markets are comparatively smaller. In addition, European banks are highly risk adverse and a reduction in borrowing costs may not significantly boost loan demand. The main impact may be through the exchange rate with a reduction in the euro. This will, however have a significant impact on non-eurozone countries such as Denmark and Switzerland, which have reduced their main exchange rates into negative territory in an effort to reduce capital inflow and upward pressure on their exchange rates.

The EU's growth strategy will need to be updated to take into account the introduction of the ECB's QE program. It will be particularly important to ensure that the introduction of QE does not lead in any weakening of the effort to implement product and labor market reforms in Europe along with boosting public infrastructure spending. Similarly, the growth strategies of all countries will have to respond to the challenge of increasingly divergent monetary policy settings in the major economies and resulting volatility in capital flows and exchange rates. As noted, the G20 growth strategies have to be dynamic, as does the monitoring process of the implementation of country commitments.

The first test as to whether the growth targets adopted by the G20 at the Brisbane Summit represents a more effective approach by G20 countries to boost global growth will be the robustness and transparency of the reports presented in 2015 by the international organizations on the progress by G20 members in implementing their commitments. If these reports are frank and even-handed in their assessments, and importantly are made public and highlighted by G20 countries, then there is a greater chance that this process will have some impact in encouraging countries to implement the policy commitments made at summits.

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

Final Remarks

The G20 has strengthened its growth agenda in 2014, notwithstanding that there has not yet been a corresponding pick up in the pace of global economic growth. The adoption of a growth target helped focus the work of the G20 and provide a narrative to inform the public about the G20's objectives. Furthermore, the process of compiling policy measures to achieve the growth target has resulted in an increase in the number of policy commitments. Significantly, some countries appear to have expanded their policy commitments as a result of the G20 process.

The individual growth strategies released as part of the Brisbane Action Plan are variable in terms of coverage and detail. There is, nevertheless, better alignment between the commitments countries have made and the policies that have been identified by the international organizations as necessary to increase growth. However, the degree of ambition of the policy commitments needs to be strengthened in many cases.

For growth to strengthen, the policy commitments have to be implemented. Policy implementation goes to the core as to whether the Brisbane Action Plan will contribute to a stronger global economy. For many countries, implementation of their policy commitments will require winning domestic political battles over contentious reforms. In addition, countries will have to continue to adjust policy settings to deal with new risks and challenges.

The monitoring of country commitments and progress toward achieving growth objectives is central to G20 credibility. The first progress reports presented by the IMF and OECD in 2015 must be robust, comprehensive, and transparent. They will set the tone for future implementation reports. While there is a limit to which commitments made at international summits can help countries implement needed domestic policy reforms, the pressure that comes from the public release of monitoring reports will be most effective in enhancing the prospects of countries implementing policy commitments.

The adoption of a growth target has been useful. But the G20 needs to avoid being trapped with false precision over whether announced policy reforms will achieve the target and the loss of credibility if the target is not met. The estimates that the policy commitments tabled at Brisbane will lift G20 GDP growth by an additional 2.1 percent in 2018 is subject to a high degree of uncertainty. Moreover, it is not possible to calibrate policies across many countries to achieve a specific growth target. The monitoring reports should not get sidetracked by the accuracy of estimates of the growth impact of country commitments but focus on the extent to which policy measures are contributing to stronger economic and employment growth, and if not, what additional policy steps are needed.

Ultimately, the effectiveness and credibility of the G20 will not be judged by its targets or action plans. It will depend on the extent to which there is a meaningful improvement in global economic outcomes.

Works Cited

Abbott, T. 2014. *Press Conference, Brisbane*. Retrieved from Prime Minister of Australia. https://www.pm.gov.au/media/2014-11-17/press-conference-brisbane (accessed January 10, 2015).

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

ABC News, "G20 nations not meeting pledge to boost economic growth, Joe Hockey says," April 14, 2014. http://www.abc.net.au/news/2014-04-13/g20-nations-not-meeting-pledge-to-boost-economic-growth-hockey/5386740 (accessed January 11, 2015)

Australia's G20 Presidency. 2013. *G20 2014: Overview of Australia's Presidency*. https://g20.org/wp-content/uploads/2014/12/G20Australia2014conceptpaper.pdf (accessed January 11, 2015)

Callaghan, M. 2014. *G20 Brisbane Summit Form Guide: What will make the Summit a success?* Lowy Institute for International Policy. http://m.lowyinstitute.org/publications/g20-brisbane-summit (accessed January 11, 2015)

Farugee, H., and K. Srinvasan. 2012. The G20 mutual assessment process – A perspective from IMF staff. *Oxford Review of Economic Policy* 28 (3): 493–511.

G20 Leaders. 2008. *Declaration of the summit on financial markets and the world economy*, G20 Research Group. http://www.g20.utoronto.ca/2008/2008declaration1115.html (accessed January 14, 2015)

G20 Leaders. 2009. *G20 Leaders' statement: The Pittsburgh Summit*, G20 Research Group. http://www.g20.utoronto.ca/2009/2009communique0925.html (accessed January 14, 2015)

G20 Leaders. 2010. *The G20 Seoul Summit Leaders' Declaration*, G20 Research Group. http://www.g20.utoronto.ca/2010/g20seoul.html (accessed January 12, 2015)

G20 Leaders. 2013. *Russia G20 Leaders' Declaration*, G20 Research Group. http://www.g20.utoronto.ca/2013/2013-0906-declaration.html (accessed January 14, 2015)

G20 Leaders. 2014. *Australia G20 Leaders' Communique*, G20 Research Group. http://www.g20.utoronto.ca/2014/2014-1116-communique.html (accessed January 15, 2015)

G20 Leaders. 2014. *Meeting of G20 Finance Ministers and Central Bank Governors*, G20 Research Group. http://www.g20.utoronto.ca/2014/2014-0921-finance.html

G20 Leaders. 2014. *Meeting of the G20 Finance Ministers and Central Bank Governors*, G20 Research Group. http://www.g20.utoronto.ca/2014/2014-0223-finance.html

G20 Research Group. 2014. *The Brisbane accountability assessment*. http://www.g20.utoronto.ca/2014/2014_accountability_assessment_report.pdf (accessed January 14, 2015)

Hockey, H. J. 2014. *ANZ economic leadership lunch, Melbourne*. http://www.joehockey.com/media/speeches/details.aspx?s=139 (accessed January 16, 2015)

IMF and OECD. 2014. *Quantifying the impact of G20 member growth strategies*, G20 Research Group. http://www.g20.utoronto.ca/2014/quantifying_impact_g20_members_growth_strategies.pdf (accessed January 17, 2015)

IMF. 2010. *IMF G20 mutual assessment process – Alternative policy scenarios*. Retrieved from Prepared for G20 Toronto Summit.

IMF. 2014. *Germany: 2014 Article IV consultation – Staff report*. https://www.imf.org/external/pubs/ft/scr/2014/cr14216.pdf (accessed January 17, 2015)

IMF. 2014. *Macroeconomic and reform priorities*. https://g20.org/wp-content/uploads/2014/12/G-20%20Macroeconomic%20Reform%20Priorities%20Report%20Feb%2012%202014.pdf (accessed January 16, 2015)

Lee, H. 2014. *Obama to CEOs: Infrastructure investment will boost economy*. http://www.cnbc.com/id/102235965# (accessed January 17, 2015)

Massola, J., and G. Hutchens, "Hockey Hails Progress on G20 Targets for Job Growth," *The Sydney Morning Herald*, September 21, 2014. http://www.smh.com.au/federal-politics/political-news/hockey-hails-progress-on-g20-targets-for-job-growth-20140921-10jxgm.html (accessed January 16, 2015)

OECD and The World Bank. 2013. *Pursuing strong, sustainable and balanced growth: A note on G20 structural reform commitments*. http://www.oecd.org/g20/topics/framework-strong-sustainable-balanced-growth/OECD-WB-Evaluation-G20-structural-policy-commitments-2013.pdf (accessed January 18, 2015)

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020

Ostry, J., and A. Ghosh. 2013. *IMF discussion note: Obstacles to international policy coordination, and how to overcome them.* Washington, DC: International Monetary Fund.

Qureshi, Z. 2014. *Let's talk development: G20 growth strategies*, The World Bank. http://blogs.worldbank.org/developmenttalk/g20-growth-strategies (accessed January 16, 2015)

Stevens, G. 2014. *Glenn Stevens interview,* Australian Financial Review. www.afr.com/p/national/glenn_stevens_interview_the_full_FilihZ41I8IrOIs4Yh6D8wK (accessed January 18, 2015)

Taylor, M., and J. Phillips, 2014 "IMF's Lagarde: Confident G-20 Will Achieve Target By Next Summit, CNBC, September 21, 2014. http://www.cnbc.com/id/102019141# (accessed January 16, 2015)

Downloaded from https://academic.oup.com/globalsummitry/article-abstract/1/1/27/608566 by guest on 16 June 2020