October 2009
N°1

THE PITTSBURGH G20 SUMMIT: MIXED RESULTS FOR EUROPE

The Pittsburgh Summit was the third G20 summit since the onset of the economic and financial crisis (following on from Washington in November 2008 and London in April 2009), and was aimed at producing a concrete supervisory framework for financial market activity and a joint strategy for economic and financial recovery.

The Europeans already had a head start:

- The G20 was a format that they had wanted;
- Europe already traditionally held a certain advantage in terms of regulation, being likened, for better[1] or worse[2], to a soft power, i.e. one based on rules and norms;
- Politically, Nicolas Sarkozy[3] and Angela Merkel had stated that a new global regulatory framework was one of their priorities;
- The Europeans leaders had prepared carefully for Pittsburgh. For the first time, the EU Heads of State or Government had held an informal meeting prior to the G20 summit (on 17 September 2009) with a view to producing and adopting a common message. The President of the European Commission, José Manuel Barroso, gave his support – and that of the future Commission – to a coherent European approach;
- The Europeans were over-represented. Europe's involvement in the G20 meeting was even interpreted by the Financial Times as an expression of the hegemonic will of the 'Old World'.

The United States was more interested in coordinating recovery policies, interest rate policies, trade and exchange rate imbalances.

China's position was one of reiterating its concern with regard to monetary issues and, as the aspiring representative of the emerging economies, it wanted to warn against any return to disguised forms of protectionism or import quotas. Issues concerning financial regulation were of less interest insofar as the leaders felt that toxic assets and bad regulation were matters, first and foremost, for the national supervisory authorities of the United States, Germany and, to a lesser extent, Japan.

The emerging economies, headed by China, intended to reject any financial commitments on climate change and instead seek more weight in the IMF's decision-making processes.

The summit was therefore going to be hard pushed to achieve anything other than fairly general commitments. A comparison of the Europeans' expectations, as expressed during their informal meeting in September, and the agreements obtained at Pittsburgh a week later forces one to put the level of European influence into perspective.

European expectations of the Pittsburgh G20 Summit

European expectations, as expressed on 17 September, largely reflected the content of a letter dated 2 September 2009, co-signed by Nicolas Sarkozy, Angela Merkel and Gordon Brown and sent to the Swedish Prime Minister, Fredrik Reinfeld.

The letter of the 'Three'

This letter, which picked up on the agreement made between the German Chancellor and the French President during the latter's trip to Berlin on 1 September, focused solely on financial aspects and covered part of the agenda announced for the Pittsburgh Summit at the G20 meeting in London.

The 'Three' called for:

(1) Ways of limiting the variable remunerations paid by banks to be considered;

1. Zaiki Laïdi, La norme sans la force. L'énigme de la puissance européenne, Paris: Presses de Sciences Po, 2005.
2. Robert Kagan, La Puissance et la Faiblesse, Paris: Plon, 2003.
3. See, for example, his speech given at Nîmes on 5 May 2009.

(2) A list of countermeasures to be adopted that could be implemented for jurisdictions that fail to implement effectively international standards for tax transparency;

(3) A reform of global governance, via a reform of the governance of the international financial institutions but also by adopting a Charter for Sustainable Economic Activity.

The informal meeting of the 'Twenty-seven'

The main aim of this meeting was, according to the Swedish Finance Minister, to 'bring about change by flexing our muscles and showing our teeth, not simply by setting out principles or recommendations. In this way we can put pressure on the other side of the Atlantic within the context of the G20'[4].

In formal terms, this unity resulted in a text that was adopted by mutual agreement.

In substance, the document focuses firstly on macroeconomic strategy aimed at bringing about a recovery from the crisis.

Europe calls for a Charter for Sustainable Economic Activity that will reaffirm principles of responsibility, sustainability and transparency[5]. This is a question of preventing Europe's main trading partners from prematurely implementing restrictive fiscal measures that, in an open economy, would have recessionary consequences for European exporters (i.e. a decline in demand).

On a financial level, Europe recommends that the G20:

1. express its attachment to a globally-coordinated system of macroprudential supervision, based on close cooperation between the IMF, FSB and the supervisory authorities, and with effective exchange of information;

2. adopt the Basel II capital framework (closing existing loopholes);

3. support the production of a single set of global accounting standards as soon as possible;

4. declare itself in favour of enhancing the oversight of financial institutions and improving their sound cross-border supervision;

5. adopt binding rules for the financial sector on variable remunerations and bonuses, as well as dissuasive measures aimed at curbing high-risk economic activities (implementing the commitments made in London).

In terms of global governance, the EU wants the G20 to contribute to enhancing the financial resources of the international financial institutions. In particular, the EU proposes that the G20 draw up roadmaps to reform the IMF's governing structures.

Finally, the EU invites the G20 to take a common position on the environment and energy, namely:

1 to support the adoption of a post-Kyoto agreement by approving the principle of shared efforts aimed at financing the fight against climate change;

2. to affirm its will to improve energy security by increasing oil and gas market transparency.

The outcome of the Pittsburgh G20 Summit

Global macroeconomic coordination of scant liberal persuasion

In substance, the G20 introduces (minimal) macroeconomic coordination instead and in place of the sole play of the market. This coordination is based on principles that some in Europe would feel at home with: economic openness, a return to economic equilibrium, the pursuit of structural reforms.

What will become of the bad students? The result is a commitment on the part of every G20 member to implement sustainable economic policies, i.e. policies characterised by price stability and the pursuit of structural reforms. This 'framework for strong, sustainable and balanced growth' will rely on the setting

4 'L'Europe unie sur les bonus des banquiers', Le Figaro, 3 September 2009.
5 Point 3 of the text adopted by mutual agreement of the Heads of State or Government, during the informal meeting of 17 September 2009.

out of joint objectives, on each member adopting a medium-term macroeconomic framework and on progress assessed together, in addition to coordination (in the form of information exchange) between the different G20 members in order to ensure that their fiscal, monetary, trade and structural policies are collectively consistent. The framework anticipates in particular a return to greater balance of payments equilibrium[6], without specifying the means of implementing it . These principles, which are not, for the moment, particularly demanding, although their practical implementation can only be envisaged with some difficulty, mark a break with the free play of the market and give the states a role of overall economic coordination that they do not necessarily have in all countries.

Partial success for financial regulation

En second lieu, le G20 aborde la question du **renforcement du système international de régulation financière.**

Secondly, the G20 addressed the issue of enhancing the international system of financial regulation.

Apart from a certain European satisfaction with regard to progress in the FSB's work and the first measures taken with regard to careful supervision, credit agencies and hedge funds, the G20 called in particular for:

1. continued reform of the way in which the banking sector is regulated. In particular, 'all firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards'. One can clearly see European demands echoed in this. It should also be noted that on 17 June 2009 the Obama Administration adopted a plan – currently being discussed in Congress – aimed at distinguishing Tier 1 Financial Holding Companies, namely those presenting a significant systemic risk, from other kinds of companies;

2. international rules on the quantity and quality of banking capital, to be adopted by the end of 2010, on the basis of the Basel II framework; a supplementary (leverage) ratio will be added for capital calculations;

3. crisis management groups responsible for monitoring the situation of transnational banking institutions to be created amongst the supervisory and regulatory authorities;

4. a single system of international accounting standards to be adopted (under the impetus of the IASB in particular);

5. the fight against tax havens to be pursued, noting the possibility of taking, from March 2010 onwards, 'countermeasures' against tax havens that refuse to observe information exchange and transparency obligations. For its part, China managed to avoid Hong Kong being included on the list of the OECD's tax havens;

6. traders' bonuses to be controlled. The principles agreed at Pittsburgh largely pick up on those applied in France, namely: no guaranteed bonuses beyond one year; deferred payment over three years; introduction of 'surcharges' in case of sub-standard performance on the part of a trader. It will be the responsibility of the national regulatory authorities to verify these good practices, and they will be able to impose sanctions if they so wish.

Emerging countries heard in the IMF reform

The G20 set out the principles for modernising the international financial institutions. Governance of the IMF, particularly the new distribution key for quotas (a review of which must be completed by January 2011), will need to reflect the relative weight of members in the global economy. The shares of under-represented countries will need to be increased by at least 5% and those of the over-represented countries reduced accordingly (with the exception of the poorest countries, whose shares will be retained). The G20 also wishes to see the issue of the size and composition of the IMF's Executive Board considered, along with the role of the Fund's governors and, more generally, the diversity of the staff working at the IMF.

Failure on post-Kyoto

The G20 jointly, and its members individually, undertook to increase the transparency of energy markets by calling on the authorities in question (the IEA and OPEC in

6 The information exchange and consultation process will take place in the context of meetings of the G20 Finance Ministers and Central Bank Governors from November 2009 (concrete production of framework). The IMF will need to provide technical support. The structural component of this framework focuses on employment policies. The G20 ministers responsible for these policies will need to meet on this issue at the start of 2010.

particular) to publish complete, accurate and timely data on oil production, consumption, refining and stock levels. With regard to the post-Kyoto negotiations, the results obtained by the Pittsburgh G20 are far removed from those obtained by the G8 in L'Aquila. Despite acknowledging the dangers and the need for action, no specific commitments were forthcoming[7].

Franck DEBIÉ

7 Unlike at L'Aquila, where the Heads of State or Government undertook to reduce total greenhouse gas emissions by 50% by 2050, and that the developed countries would reduce their total joint emissions by 80%.