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Comment Charles Bean

First let me say how much I enjoyed reading Barry's chapter on the history of international economic policy coordination, spanning more than 150 years of trying and—rather more often than not—failing. Barry's knowledge of this territory is unparalleled among economic historians and the broad historical sweep is masterly, as we have come to expect from him.

I cannot claim to be an expert in this field, still less to have been on the scene at most of the attempts at coordination that he discusses, so I do not propose to critique his portrayal of each and every episode. Instead, as some-

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one presently engaged in contemporary efforts to coordinate policies in a number of forums, I thought I should offer a perspective on those efforts in the light of Barry's analysis. By way of explanation, I should perhaps explain that one of my responsibilities as deputy governor is to represent the Bank of England at various international meetings, including G7, G20, and Eco-Fin, either as the bank's nominated deputy or sometimes in the place of the governor. I should perhaps also explain that it is the deputies who do most of the grunt work leading up to meetings of G7 and G20 finance ministers and central bank governors.

Barry lists four factors that he believes facilitate coordination: if the subject matter is technical, if coordination is institutionalized, if it helps to preserve an existing regime, and if the players share a broad comity. I broadly agree with this list and will illustrate their role in different aspects of recent experience. But I shall have some additional factors to add as well. In particular, strong personal links and trust between the participants is extremely valuable when seeking a coordinated response. And difficult or unthinkable decisions become feasible when the situation becomes critical: as Samuel Johnson observed, nothing focuses the mind like a hanging.

Let me start with the G20 process. I label it as a "process" deliberately, because I think it is right to see it as one of ongoing development, rather than a series of isolated meetings, which is how the press often portray it. Although the G20 first met in 1999, I think it is fair to say that, prior to the crisis, attention was still focused on the G7 as the premier forum for economic policy coordination, despite the absence of China and other key emerging economies. But the G20 came into its own after the collapse of Lehman's, when the seizure in financial markets prompted a broad, sharp, and synchronized slowdown across the global economy. The G20 has been at the center of international policy coordination efforts since.

Broadly speaking, one can identify three distinct work streams within the G20 process over the past three years, directed at both crisis management and crisis prevention. They are, respectively: the macroeconomic policy response; the expansion of IMF lending capacity, refinement of its lending facilities, and improvements in its governance; and a thorough recasting of financial regulation.

Starting with macroeconomic policies, the appropriate stance of economic policies in early 2009 was reasonably clear. With the threat of a serious and sustained global slump, expansionary fiscal and monetary policies were the order of the day across the membership, almost without exception. It was consequently not too difficult for participants at the G20 meetings in London that spring to adopt a generally expansionary fiscal stance.

Matters have become more contentious since. As we all know, the crisis took place against the background of unsustainable current account imbalances, in which capital flowed "uphill" from the emerging economies, especially China, into the United States and some other advanced economies. In one interpretation, these were the result of mercantilist policies in China

aimed at facilitating rapid development, coupled with underdeveloped domestic financial markets that encouraged excessive saving. In another interpretation, the imbalances reflected excessively expansionary policies in the United States, which exploited the "exorbitant privilege" of being able to borrow large amounts in its own currency. Either way, the imbalances provided the fuel for the excessive expansion in credit in the United States and other advanced economies that preceded the crisis.

Correcting those imbalances, as well as identifying the appropriate rate of fiscal consolidation in different countries, raises difficult questions about who bears the burden of adjustment. It is much easier to agree upon coordinated actions when all are pulling in the same direction and all stand to gain, than when there is pain to be shared. Standard economic analysis of policy externalities and the gains from cooperation do not suggest a distinction, but regret theory suggests that losses may matter more than gains of an equivalent absolute magnitude.

The G20 Framework for Strong, Sustainable, and Balanced Growth, and the associated Mutual Assessment Process, is an attempt to make progress on this issue, where the earlier IMF-led Multilateral Consultation Process in 2006 failed. This G20 framework has the advantage of taking place after a major crisis that nobody wants to repeat, which has raised members' commitment to the process. But it is also subtly different from the earlier IMF-led process in that it is owned by the G20 members, with the IMF merely acting as a facilitator. Peer pressure is supposed to be the mechanism to encourage compliance.

Nevertheless, progress in rebalancing has so far been distinctly limited, with discussions bogged down in rather pointless technical details for much of the past year. There is general agreement on the broad direction of travel, but divergent views of the appropriate speed and distribution of adjustment.

All this helps to illustrate the difficulty of agreeing on a satisfactory distribution of the burden of adjustment between surplus and deficit countries, a problem that recurs time and again in history, as Barry documents so clearly. In passing, I might also note that it is central to the resolution of the euro area's present sovereign debt problems. My own view is that a satisfactory outcome requires a surplus country to be able to see itself becoming a deficit country in the not-too-distant future—in effect replicating a Rawlsian state of primeval ignorance about their economic position.

Progress on issues associated with the International Monetary System in the G20 has been somewhat mixed. In a crisis setting, it proved relatively easy to agree to an expansion of the IMF's resources, though it has taken rather longer to enact. And there have been useful changes to the IMF's lending armory, with the development of the Flexible and Precautionary Credit Lines, which focus on crisis prevention rather than crisis management. But there has been less progress in addressing the more fundamental flaws in the International Monetary System associated with the asymmetry of the bur-

den of adjustment. Much effort has instead been expended on negotiating a relatively modest change in quota shares, the archetypal zero-sum game.

The G20 has, in my view, been at its most effective in progressing the reform of financial regulation. In accordance with the first of Barry's principles, that is because the task has been devolved to the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), and similar technical bodies. But I do not believe that progress in agreeing to new capital standards and the like would have been as swift without the political direction given by the G20 and the setting of attendant deadlines, often associated with future Leaders' Summits. That has acted as a commitment device for the technicians and limited the amount of haggling in favor of national interests.

At the end of his chapter, Barry is somewhat critical of the issues that have been left unaddressed, such as the cross-border resolution of failing financial institutions, and the regulation of shadow banking. I think this is to miss the progressive nature of the reform agenda. The G20 have been careful not to overburden the FSB, BCBS, and so forth, with an excessive workload that lacks effective deadlines. Instead, they have prioritized two or three things to be the focus of each year's work. As it happens, issues such as cross-border resolution and shadow banking, though technically difficult to deal with, are indeed on the current work program at the behest of the G20. Whatever one may think of the regulatory proposals themselves, the process followed since the crisis seems to me to have been remarkably effective.

While the G20 may have moved to center stage as a result of the Great Contraction, there is an important omission in Barry's narrative regarding the role of the G7 in the immediate response to the financial collapse precipitated by Lehman's demise three years ago today.

To begin with, in late September and early October 2008, the G7 central banks, together with the Swiss National Bank, made several announcements of coordinated expansions in liquidity provision. Then, on Wednesday, October 8, together with the Swedish Riksbank, these central banks announced a simultaneous reduction in their policy rates of 0.5 percent. Alongside the announcement of extra liquidity provision, this provides a good example of the speed with which central banks can implement coordinated actions when circumstances require them. Such actions are underpinned both by the strong institutional connections between central banks, particularly through the regular bimonthly meetings of governors and senior bank officials under the auspices of the Bank for International Settlements, and by the strong personal bonds forged there and in similar forums.

Two days later, on October 10, there was an even more notable intervention by G7 finance ministers and central bank governors as a result of a meeting that took place in the margins of the IMF annual convocation in Washington. In my view, this was one of the most significant meetings ever of the G7.

At that meeting, G7 principals threw away a vapid draft communiqué produced earlier by their deputies and, working off a blueprint provided by Chairman Bernanke and prompted by some of the actions announced in the United Kingdom earlier that week, announced in a terse statement, a five-point plan to stabilize the situation. That plan comprised: a pledge to prevent further failures of systemically important banks; continued abundant liquidity provision by central banks; recapitalization of banking systems, if necessary, by the taxpayer; strengthening of depositor protection; and increased transparency of bank losses. Not only did they announce such a plan, they also implemented it in the following days and weeks. Those actions played a central role in preventing a collapse of the financial system. But the crisis and the closeness of the participants helped to make it possible.

In conclusion, I want to make a rather obvious point that connects with the last of Barry's four principles. Coordination is easier in smaller groups, with relatively strong mutual understanding and trust, together with shared interests. At G7 meetings, there are only about twenty people around the table. The G20, though more representative, lacks the same degree of homogeneity of interest. And in a typical G20 meeting, there are more than sixty people around the table, with the same amount sitting behind them. This is not the sort of environment that encourages frank interchange and decisive decision making. As a consequence, maintaining the G20's new-found status as the premier forum for economic cooperation once the crisis recedes into history is likely to be a challenge.

Comment Gerardo della Paolera

In Eichengreen's chapter, the first question he addresses is whether international monetary and financial cooperation—with a substantive impact on actual economic affairs—has had a regular occurrence throughout our most recent macroeconomic history. To answer that question we have to first ask when, if at all, the global economy has experienced a cooperative international monetary and financial regime. Was cooperation present during the Gold Standard era? Or during the dollar-gold exchange standard regime best known as the Bretton Woods regime? Of course, the author also masterfully describes the problematic international political economy realities during the interwar period. This is probably the most vivid example of a time of generalized leadership failure to assess the economic benefits to cooperation, so as to avoid an economic abyss—something that was appar-

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