48

AICGSPOLICY**REPORT**

SAME ECONOMIC NIGHTMARES, DIFFERENT SOLUTIONS: TRANSATLANTIC APPROACHES TO INTERNATIONAL MACROECONOMIC POLICYMAKING IN THE FACE OF THE CRISIS

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AMERICAN INSTITUTE FOR CONTEMPORARY GERMAN STUDIES THE JOHNS HOPKINS UNIVERSITY

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TABLE OF CONTENTS

FOREWORD

Since 2008, the global economic crisis has dominated discussions across the Atlantic as leaders in the United States and European Union implement policies to lead their economies out of upheaval. Both the U.S. and EU—and within the EU, Germany—are looked to for leadership even as they face high unemployment, deficits, and discord at home. To cope, international fora such as the G20 and the International Monetary Fund (IMF) are becoming important venues for crafting international macroeconomic policy.

Some have questioned whether the transatlantic alliance will continue to play a crucial role for the world economy in light of its ongoing crises and growing importance of emerging countries. This Policy Report argues that transatlantic cooperation is still essential and must be expanded, despite current differences in policy. The authors address the differences in the American and European policy responses to the economic crisis, discussing how the current upheaval in the eurozone affects policies within the EU, between the U.S. and EU, and EU positions in international meetings. By addressing the role of the G20 and IMF lending reform, the authors demonstrate that, if we are to reach some form of consensus in the coming years, then transatlantic cooperation will be essential.

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01 SUMMARY OF MAIN FINDINGS

SUMMARY OF MAIN FINDINGS

■ The global economy is facing turbulent times: The triple crisis in the eurozone and the danger of a double dip recession in the United States have made clear that the major risks for the global economy are currently located in the North Atlantic region. As such, there is increasing pressure on the transatlantic partners to solve their immediate economic problems, and calls for more international macroeconomic cooperation have increased. The most important venues for debates on international macroeconomic policymaking are the G20 and the IMF.

■ This Policy Report analyzes the transatlantic positions, roles, and relations in three "hot topics" of international macroeconomic policymaking. The issues range from immediate rescue measures after the initial financial crisis to more long-term macroeconomic challenges, such as global imbalances and the reform of the international monetary system.

■ At the onset of the crisis, the transatlantic partners were united in their efforts to fight a global recession and to restore confidence in the markets in the context of the G20. Yet, over time, the United States and European countries have drifted apart in their macroeconomic policy strategies. The main chasm lies between prioritizing policy measures that focus on demand growth versus those that focus on stability as a means to restore confidence to make the world economy more stable in the long-run.

■ The U.S. administration—driven by the upcoming presidential election in 2012—is mainly interested in boosting demand at home and abroad and is thus opposed to fiscal austerity measures. A related interest lies in reducing the large global current account imbalances and in revaluing currencies such as the Chinese renminbi to improve U.S. competitiveness.

■ Germany, in contrast, perceives public debt as the main challenge of the present crisis and is generally in favor of market-based approaches to curbing volatility. As a consequence, it does not support further stimulus initiatives and is reluctant to "bail out" countries with unsound finances through global systemic insurance mechanisms or further IMF credit lines.

■ France has lately shared Germany's policy stance toward fiscal consolidation because of its own worsened fiscal position. Yet, it is generally much more supportive of "grand reform schemes" in international macroeconomic policymaking, such as the reform of the international monetary system, and the creation of insurance mechanisms against volatility and contagion.

■ The European countries differ in their views on the "hot topics" of international macroeconomic policymaking. Despite a high degree of procedural coordination among EU and especially eurozone members, countries still pursue their national interests in macroeconomic and financial issues. They are often not willing to sacrifice their positions in favor of a common European view, making transatlantic cooperation yet more cumbersome.

■ Despite the increasing importance of emerging countries in global economic governance, the transatlantic partnership is still crucial to the world economy. Transatlantic cooperation on macroeconomic policy therefore needs to be increased, for example by establishing a regular transatlantic macroeconomic dialogue at the highest political level.

02

TRANSATLANTIC MACROECONOMIC POLICYMAKING

SETTING THE SCENE FOR TRANSATLANTIC MACROECONOMIC POLICYMAKING

The Global Economy at Risk: A Troubled Europe Meets a Flagging U.S. Economy

2011 has been a year of discontent for Europe. Bad news is coming thick and fast about what now appears to be a triple crisis—a crisis of sovereign debt, a financial crisis, and a political crisis about the European project. The potential bankruptcy and the political and economic upheaval of the eurozone member Greece are worrying the markets as much as policymakers. With Italy's fragile economic and political situation, the downgrade of Spanish bonds and threats by the big rating agencies to revoke the AAA rating of eurozone members, the sovereign debt crisis has reached the core of the eurozone. Economic confidence in Europe is dented, and prospects of low growth in many European economies could further draw down public and private finances in the near future.[1]

The deteriorating sovereign situation and the confidence shock have put the financial sector under renewed stress: European banks have suffered from the major stock market decline in the second half of 2011 and are, again, less willing to lend to each other. With the prospect of a Greek default (and potentially of other eurozone countries), it has become obvious that many European financial institutes will need a major recapitalization.[2]

Last but not least, the crisis has an acutely political dimension. The governance system and the rules and institutions of the European Monetary Union are being put to the most important test to date. European policymakers have been in crisis mode for months and have initiated an unprecedented amount of crisis summits and reform initiatives at the European level—often in the face of high political controversy and imminent political stalemate. The crisis has even taken a toll on national European governments. The euro crisis and the rocky path toward ratifying European rescue measures has—directly or indirectly—brought down the governments of Ireland (February 2011); Portugal (June 2011); Slovakia (October 2011); and Greece, Italy, and Spain (November 2011).

Despite some cautious signs of recovery,[3] the economy of the United States is also in a fragile state, facing high and persistent deficits and an increasing debt ratio. The deal on lifting the U.S. debt ceiling that was struck at the last minute between the administration of President Barack Obama and the U.S. Congress in the summer of 2011 was only a temporary solution. The bipartisan congressional super committee that was mandated to agree on a $1.2 trillion deficit reduction package by late November 2011 failed to reach an understanding—with, as yet, unknown implications for overall U.S. fiscal policy. In its 2011 World Economic Outlook (WEO), the International Monetary Fund (IMF) therefore concluded that: "There is a serious risk that hasty fiscal cutbacks will further weaken the outlook without providing the long-term reforms required to reduce debt to more sustainable levels."[4] Moreover, the political standoff raised uncertainty about the U.S. economic policymaking capacity—uncertainty that will only increase in the run-up to the 2012 presidential elections, in which cross-party bargains and new policy initiatives will become less likely as the campaign proceeds. With continuing negative news from the housing market[5] and high levels of unemployment (around 9 percent in late 2011), the United States is—in purely economic terms—in worse shape than many of the big eurozone countries.[6]

The danger of a European credit crunch and protracted rates of low growth have increased the possibility of a spill-over of the crisis beyond Europe. The outgoing president of the European Central Bank (ECB) Jean-Claude Trichet therefore warned in one of his last public appearances of the "systemic dimension" of the crisis.[7] The IMF has classified the sovereign debt crisis in the eurozone, together with the fragile banking system, as currently the single most important risk for the global economy.[8] And according to Martin Wolf, the influential economics commentator of the *Financial Times*, the worsened euro crisis could even be the "epicenter of an aftershock of the global financial crisis that could prove even more destructive than the initial earthquake."[9] Similarly, a fragile American economy implicates the global economy negatively. Next to the crisis in the eurozone, the IMF considers a flagging U.S. economy the second biggest downside risk to global growth. The Fund thus concludes in its 2011 WEO report: "Either one of these eventualities would have severe repercussions for global growth."[10]

Your Currency, But Our Problem, Too: Transatlantic Interdependencies

Given the high degree of interdependence between the European and U.S. economies, the United States is especially affected by the euro crisis: U.S. export in goods to the European Union stands around 19 percent of total goods exported; over $410 billion in goods and services exports went to the EU in 2010.[11] Moreover, U.S. companies are engaged in Europe with over $1.4 trillion in foreign direct investment.[12] A European economy in recession—with lower business and consumer confidence—would thus damage the U.S. economic recovery. Yet, financial interdependence outstrips the transmission channels of the real economy: U.S. banks are exposed in the order of $2.7 trillion in loans and other commitments to eurozone governments, banks, and corporations (largely in France and Germany), which amount to almost 30 percent of total U.S. exposure to foreign counterparts.[13] Thus, a financial crisis in Europe would hit the U.S. financial sector decisively. The combined effect of the different transatlantic economic channels threatens to push the already suffering U.S. economy back into recession.

The United States is not only bound to Europe's fate in pure economic terms, but also politically: Barack Obama's chances of re-election in 2012 are diminishing with the worsening of the U.S. economy. "The biggest danger that the president faces is that a black economic cloud will drift across the Atlantic over the next year and explode like a thunder-clap over the U.S.," as Gideon Rachman of the *Financial Times* wrote in an op-ed.[14] Public statements about the severity of the European crisis by the U.S. president, as well as frequent mentions of Europe on the campaign trail, suggest that the U.S. administration is keenly aware of the economic and political threat that Europe represents.[15]

Similarly, Europe would be strongly affected by an American recession. Lower U.S. growth and weaker demand will hurt the already-struggling European economy—especially export-oriented countries like Germany who have been the economic backbone of the eurozone. Moreover, a financially and fiscally frail United States is less likely to agree to further international rescue measures for the eurozone—either bilaterally or through increased IMF resources. The German finance minister Wolfgang Schäuble is "convinced that we Europeans need a strong United States. Any problem in the United States is not in our interests."[16]

The transatlantic partnership is facing a dilemma: Both sides acknowledge that they cannot "go it alone." Being at the center of regime formation, maintenance, and change of the global economy, the transatlantic partners are (still) key players in international macroeconomic policymaking and governance. Thus, Obama assured European publics that, "the U.S. will continue to support our European partners as they work to resolve this crisis."[17] Likewise, the German chancellor Angela Merkel stated: "What's important here is that America and Europe are in proper communication, because that's how we're going to get results we need, rather than just directing critical remarks at each other."[18]

Yet, distrust and frustration across the Atlantic is evident. The U.S. administration has increased the pressure on European governments to find a comprehensive solution to the euro crisis—both bilaterally and in the context of international summits. For instance, in September 2011, U.S. treasury secretary

Timothy Geithner warned that Europe would see a number of sovereign defaults if it did not take drastic measures, including a considerable increase in the firepower of the European Financial Stability Fund (EFSF) and a broad recapitalization of European banks.[19] Lawrence Summers, former U.S. treasury secretary and former Director of the U.S. National Economic Council, joined Geithner's demands for recapitalization and a reversal of Europe's macroeconomic policy stance. Pointing to the dangers for the world economy, Europe was inconsiderate in its "continuation of the grudging incrementalism," doing too little too reluctantly to create a solid basis to solve the problem in a sustainable fashion.[20]

Given the current U.S. administration's political woes in the face of a fragile economy, a (partial) blame shift toward Europe is domestically opportune. However, there are also genuine differences between the transatlantic partners: differences in the analysis of the challenges, and differences in the measures that are thought necessary to solve the crisis in the short run and to stabilize the global economic growth in the long run. First, while European politicians and commentators generally share the U.S.' view of severity and urgency in solving the euro crisis, they refer to the set-up of European decision-making that involves seventeen sovereign countries in the eurozone—or even twenty-seven on issues concerning the entire EU. Each country has its own individual debates and ratification procedures, which makes political processes at the European level necessarily more drawn-out and complex. Moreover, "big bazooka" solutions as promoted by the United States[21] are contrary to the previous pattern of European integration. Schäuble maintained that "there are some [...] who are now calling for the supposed structural faults in the European Monetary Union to be corrected once and for all by building up the fiscal and political union. That is an approach that does not reflect the genesis of European integration. Europe moves forward one step at a time. And it will do so in future as well."[22] Second, the transatlantic partners also diverge on macroeconomic policy strategies. Especially the German government, who is the key European driver in the current crisis management, believes that Europe cannot simply spend its way out of the debt crisis.

"Hot Topics" in International Macroeconomic Policymaking

Many policymakers and scholars have considered macroeconomic policies—including fiscal and monetary stances, exchange rate, and foreign reserve policies—as one of the main causes of the crisis and as an impediment to growth. At the same time, macroeconomic policy and effective international economic cooperation have been "revived" as a tool to solve the crisis in the short run and to devise strategies for long run growth.

International organizations and fora play an important role in international macroeconomic policymaking. They serve as a negotiation platform by bringing together different national and international actors on a regular basis. Furthermore, they facilitate international interaction by brokering and providing information and knowledge. International organizations and fora can also serve as agenda-setters; and, lastly, they create, monitor, and implement international rules.[23] The Group of Twenty (G20) and the IMF are the most important venues for international macroeconomic policymaking. Their meetings and summits set the international agenda and structure the timeframe of the debates.

G20: PREMIER FORUM FOR INTERNATIONAL ECONOMIC COORDINATION

The G20 is an informal club with a self-selected membership of twenty "systemically important" industrialized and emerging economies.[24] Started in 1999 as a technical forum of finance ministers and central bank governors, the financial crisis lifted the group to the level of heads of states and government and brought it to the public limelight of global economic governance. The first leaders' summit was held in Washington, DC, in November 2008 in order to find a concerted response to the financial crisis. The goal was to understand the underlying causes and cures for the crisis. As a result, the G20 developed a plan with forty-seven short and medium-term action points to be developed and implemented subsequently. The second summit in London in April 2009 increased economic cooperation among G20 countries. They pledged $1.1 trillion to the IMF and other multilateral organizations and continued to work on the macroeconomic and regulatory reform tasks set out in Washington.

So far, the upgraded G20 has served predominantly as a crisis manager by providing a platform of exchange and coordination at the highest political level. Its members have put the "collective political will" behind their economic agenda[25] and have given coordinated political signals in times of grave risks. Yet, until now, the G20 has not been in a position to establish itself as a long-term steering committee beyond crisis management—something the G20 leaders intended for the group when they declared it to be the "premier forum for international economic coordination"[26] at the third summit in Pittsburgh in September 2009. That the G20 moved back to its role at the center of crisis management became again apparent at the G20 summit in Cannes when the majority of the meeting was dedicated to the ongoing euro crisis, and members did not achieve substantive agreements on long-term challenges, such as global imbalances or the reform of the international monetary system.

IMF: THE "COMEBACK KID" OF THE CRISIS

The IMF was founded in 1944 and has almost universal membership. It deals with macroeconomic topics such as international currency cooperation and exchange rate stability and helps members with balance of payments problems. Since the 1990s, it has also been engaged in questions of financial stability. The Fund's main tools are policy surveillance and (conditional) lending. Before the recent crisis, the IMF was in a desolate state regarding its financial situation and its acceptance and overall role. First, the Fund was accused of pursuing detrimental lending practices, especially in the Asian crisis in the late 1990s. The lower credibility was also one of the reasons why credit activity dropped in the years prior to the recent financial crisis: Many emerging countries that were formerly the main customers of the IMF served their loans ahead of schedule and looked for unilateral or regional crisis insurance schemes.[27] Moreover, the IMF was criticized for its inadequate crisis warning system, which did not foresee—let aloneprevent—the current financial crisis. In sum, the IMF had "lost its way,"[28] and some U.S. commentators went as far as demanding the shut-down of the IMF.

The financial crisis led to a substantial increase in reputation and influence of the IMF. The Fund actively participated in international crisis management by providing liquidity through new credit lines, expertise, and information. Furthermore, its preventive mandate was strengthened: In the context of the "Framework for Strong, Sustainable, and Balanced Growth," the G20 mandated the IMF in 2009 to accompany the mutual assessment process of their macroeconomic policies analytically and to monitor the consistency between national political measures. Moreover, the financial dimension of IMF surveillance was enhanced. The previously voluntary Financial Sector Assessment Programs were made mandatory for twenty-five countries with systemically important financial sectors—including the United States. Together with the Financial Stability Board, the IMF was also mandated to establish a new early warning system in order to detect vulnerabilities in the area of macroeconomic and financial policy.[29] The IMF is clearly the winner of the crisis among the multilateral organizations. It is (again) the "principal institution to deal with macroeconomic issues" in global economic governance and to help manage the current crisis.[30]

Structure of the Subsequent Analysis

Against this background, part II of this Policy Report compares and contrasts the preferences and approaches of European and U.S. governments with regard to key debates in international macroeconomic policymaking in the face of the crisis. What positions and roles did the United States and European countries assume in the international discussions? And how was the transatlantic relationship impacted? The Report focuses on three important topics: 1.) short-term recovery and long-term growth strategies; 2.) global imbalances and surveillance; and 3.) the reform of the international monetary system.

The following analysis covers the time span between the first culmination of the crisis in fall 2008—including the collapse of the investment bank Lehman Brothers and the first summit of the G20 in Washington in November 2008—up to the "second Lehman moment"[31] in the second half of 2011—

including the euro sovereign crisis and the marathon of European and international summits. Germany and France stand at the center of the European side of the transatlantic analysis, given their dominance in economic terms and the political leadership that the French-German duo ("Merkozy") has shown in the recent economic policy debates. The analysis will be complemented by the United Kingdom as another important European economic player and the EU/eurozone dimension where appropriate.

03

MACROECONOMIC POLICYMAKING ACROSS THE POND

MACROECONOMIC POLICYMAKING ACROSS THE POND: POSITIONS, ROLES, AND RELATIONSHIPS

Short-Term Recovery and Long-Term Growth Strategies

MACROECONOMIC STANCES: FISCAL STIMULUS VERSUS CONSOLIDATION

Unity on Early Rescue Measures

The leaders' G20 was created in late 2008 in response to the global financial and economic crisis. The G20 members, including the United States and the European countries, were unified in their desire to combat the immediate crisis and "to do whatever is necessary to restore confidence, growth, and jobs."[32] In order to achieve these goals, G20 countries cut interest rates in a concerted effort and adopted fiscal rescue packages that included guarantees, tax breaks, as well as actual spending to restore confidence and boost the economy in the short run.

In February 2009, the United States signed the American Recovery and Reinvestment Act. The main focus lay on tax breaks (about $300 billion), direct aid (more than $250 billion), and the modernization of infrastructure (almost $200 billion). In addition, the government created a $275 billion mortgage plan. Germany passed two stimulus packages in 2008 and 2009, valued at a total of $90 billion, which included a tax holiday for cars, financial aid for home renovations, infrastructure investments, as well as income tax cuts. France announced a $33 billion stimulus package in December 2008, consisting of investments in public infrastructure, housing, and construction; and support for businesses and low-income households. The United Kingdom introduced a fiscal stimulus package of £25.6 billion (then the equivalent of about $36 billion) over two years, which included a personal income tax allowance, a reduction in value-added tax, employment measures, as well as spending on infrastructure, new social housing, schools, and energy efficiency measures.[33]

Almost 90 percent of stimulus programs worldwide originated in G20 countries—including the United States, Germany, France, and the United Kingdom—and were introduced shortly after the G20 summits in Washington, DC, in November 2008 and in London, in April 2009. While, in all likelihood, countries would have introduced these crisis measures regardless of the G20, the forum gave them the opportunity to coordinate their policies and send a concerted political signal to the markets. In the framework of the G20, the United States and European countries cooperated—together with the large emerging market economies—to reach an immediate reaction to the economic crisis. Both sides of the Atlantic were unified in their push for national rescue packages to combat the negative repercussions of the unfolding financial crisis.

Transatlantic Disagreement on Exit Strategies

The transatlantic unity did not last long. With deteriorating public finances and signs of economic recovery in some of the G20 members, certain countries—particularly Germany—advocated a coordinated exit from stimulus policies and a move toward greater fiscal consolidation in 2010. In the run-up to the G20 Toronto summit in June 2010, German finance minister Wolfgang Schäuble argued: "Just as it would be dangerous to remove such support abruptly; governments should not become addicted to borrowing as a quick fix to stimulate demand. Deficit spending cannot become a permanent state of affairs."[34] Germany's position was supported by France and the United Kingdom, who, by mid-2010, had all begun to introduce austerity measures to repair public finances.[35] The British Prime Minister David Cameron reinforced Germany's position: "You do hear the argument made sometimes: If you have a deficit, put off the action to deal with it because taking money out of the economy will reduce your growth rate […]. I simply don't accept that."[36]

In contrast to the European stance, the United States held that the risks of a premature exit outweighed the risks from rising public debt. Timothy Geithner emphasized that debt reduction should be implemented at different speeds with regard to diverging national circumstances, and that countries needed to continue to support growth. Moreover, he openly criticized European countries for their austerity measures and urged them to continue to boost domestic demand: "The G20's strong policy response to the crisis has played a pivotal role in restoring economic growth, but concerns about growth as Europe makes needed policy adjustments threaten to undercut the momentum of the recovery."[37] Angela Merkel rejected his analysis and emphasized that high public debt alienated consumers and made them even more reluctant to spend. Continued stimulus would, therefore, have a reversed effect in Germany.[38]

Transatlantic differences on the underlying analysis and the appropriate fiscal stances were palpable at the 2010 Toronto summit. In light of the contending views, the final declaration remained vague and left each country room for individual measures: "There is a risk that synchronized fiscal adjustment across several major economies could adversely impact the recovery. There is also a risk that the failure to implement consolidation where necessary would undermine confidence and hamper growth. Reflecting this balance, advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016 […]. Those with serious fiscal challenges need to accelerate the pace of consolidation."[39]

Hardening Transatlantic Differences from Toronto to Cannes

Beyond the immediate crisis management, transatlantic disagreements on the appropriate macroeconomic stance for long-term economic recovery became increasingly apparent. While the G20 summits could mute the open conflict between European countries and the United States, underlying fundamental differences remained. With the "second act" of the crisis unfolding over the course of 2011, transatlantic cleavages have hardened further. In the run-up to the Cannes summit in late 2011, Barack Obama pointed out: "Our challenge is clear. We must stay focused on the strong, sustainable and balanced growth that boosts global demand and creates jobs and opportunity for our people."[40] The U.S. president increased his stimulus efforts in late 2011 by introducing a Jobs Act that included tax cuts and tax holidays and infrastructure investment among other things worth a total of $447 billion.[41] The recent proposal is the latest initiative in a row of stimulus efforts in 2010 and 2011, including the Federal Reserve's second round of quantitative easing (QE2) and "Operation Twist," together valued at around of $1 trillion.[42]

European leaders have reproached the United States for its lax monetary and fiscal policy as one of the main reasons for the original financial crisis and see the U.S. public indebtedness as a key problem.[43] Germany in particular remains adamant that in order to resolve the current crisis—and ensure long-term growth—the focus should continue to lie on debt reduction and sound public finances.[44] Finance minister Schäuble maintained that it is "no accident that unemployment in the United States has remained stubborn despite all the efforts by the Federal Reserve and the United States government to promote growth. Loosening monetary and fiscal policies in the short term while promising monetary and fiscal tightening in the medium term, might have worked in the past. Today, however, as market reactions demonstrate, it lacks credibility with investors as well as with our citizens."[45] Fiscal discipline and structural reforms are therefore the preferred policy choices. While Germany is the main promoter of such a stability-oriented macroeconomic stance, other European countries such as France and the UK have followed suit in the light of the euro crisis and their deteriorating national fiscal situations.

The Cannes Declaration of November 2011 reflects the ongoing transatlantic disagreement: "Advanced economies commit to adopt policies to build confidence and support growth and implement clear, credible and specific measures to achieve fiscal consolidation. [...] Taking into account national circumstances, countries where public finances remain strong commit to let automatic stabilizers work and take discretionary measures to support domestic demand should economic conditions materially worsen."[46] Given the differences in macroeconomic outlook and appropriate macroeconomic stance, the Action Plan allowed for countries' individual macroeconomic policy measures: The United States committed to reduce its debt-to-GDP ratio in the medium term. France promised to reduce its fiscal deficit to 3 percent in 2013 through *inter alia* tighter limits on central government and health insurance expenditure; better targeted social transfers; and the inclusion of existing fiscal rules into the Constitution. The UK reaffirmed its commitment to its planned fiscal consolidation and structural reforms. Germany, in turn, committed to taking measures aimed at strengthening domestic demand.[47] However, the G20 declaration supports ongoing national policy initiatives and does not call for further obligations. The proposed measures do not go beyond the policies to which the individual countries had already committed themselves.

IMF LENDING: SYSTEMIC-RISK INSURANCE VERSUS THE RISK OF MORAL HAZARD

Broad Agreement on Increasing IMF Resources

Apart from fiscal rescue packages, increased IMF lending was at the heart of the immediate crisis response with the aim of dampening the repercussions of the financial crisis. As of September 2011, the IMF has agreed to loans of a record-level $260 billion to crisis-ridden countries. For the first time in a long period, debtors also included industrialized countries. Since the beginning of the crisis, 65 percent of the total value of IMF programs has targeted countries in wider Europe—more than 40 percent alone goes to members of the eurozone.[48] With a renewed demand for loans, the IMF's lending capacity was increased substantially. At the G20 summit in London in April 2009, the heads of state and government agreed unanimously to triple the available resources of the IMF to around $750 billion, *inter alia* through extensive new credit agreements between individual members and in the context of enlarged "New Agreements to Borrow" (NAB). In the first round of the crisis, Europeans and Americans—together with emerging countries—were united in their support to increase lending through the IMF, which proved able to act in a timely and effective manner.[49]

Reform of the Lending Toolkit: The United States between Opposing European Views

Backed by the large buffer of resources available to the Fund, the IMF also reviewed its lending toolkit. At the beginning of 2009, the IMF Executive Board initiated a general review of its credit instruments and conditions and subsequently introduced new flexible and precautionary credit lines.[50] The so-called "Flexible Credit Line" (FCL) is a large-scale lending facility intended for countries with strong policy track records, placing the emphasis on *ex ante* conditions rather than *ex post* conditionality of programs.[51] The FCL has so far provided loans to Mexico, Colombia, and Poland worth more than $111 billion, which they can draw upon at any time without fulfilling any further conditions. In August 2009, the IMF further expanded its lending toolkit by establishing the "Precautionary Credit Line" (PCL), intended for IMF members with sound policies not (yet) meeting the high FCL requirements, so that countries could access credit even if they had moderate vulnerabilities in one or two policy areas. Macedonia was the first recipient of a PCL worth around $653 million.[52] At the summit in Cannes in November 2011, the G20 leaders further mandated the IMF to put forward a new "Precautionary and Liquidity Line" (PLL) to provide increased liquidity to strong countries on a case by case basis.[53] In sum, the expansion of IMF credit lines has shifted the Fund's stance away from lending on the basis of actual balance of payments needs to lending for potential balance of payments problems.

In addition to introducing new credit lines, the IMF also adjusted the conditions for regular loans under the Stand-By Arrangements (SBA) and Extended Arrangements (EFF).[54] Having previously pursued strict orthodox lending policies, the Fund has started to embrace fiscal stimulus and social protection in its programs and advice, especially in low-income countries. The changed approach to social safety nets and anti-cyclical policy measures is already mirrored to a certain extent in the programs for Pakistan and Latvia.[55]

Preferences on reforming IMF lending have been split in Europe—with France, the UK, and some smaller EU members such as the Netherlands being diametrically opposed to the position of Italy and particularly Germany on this issue. France has been very supportive of expanding the lending toolkit of the IMF and has applauded the introduction of FCL and PCL as a major success. According to the former French economics and finance minister and current IMF director Christine Lagarde, the IMF is now better equipped to avert economic crises.[56] Similarly, the United Kingdom has been in favor of FLC and PCL lending and considers them progress in the IMF's lending framework. In contrast, Germany—and in particular the German Bundesbank—has been very reluctant to reform the lending framework and to introduce more flexible credit. The then-German finance minister Peer Steinbrück stated in 2008 that "the fundamental principles of IMF lending have served the Fund well and should not be abolished hastily."[57] Germany has warned repeatedly against the possible adverse implications that more flexible and more precautionary lending will entail for the financial system as a whole, and the IMF's financial resources in particular, fearing that it might provoke moral hazard. The German government sees it predominantly as the task of the market participants to increase crisis prevention efforts through appropriate risk management, while public sectors should set the right incentives and improve oversight to prevent balance of payment problems.[58] For similar reasons, Germany sees *ex post* conditionality as a cornerstone of IMF financing and has not been in favor of relaxing the lending conditions, especially vis-à-vis Eastern Europe. Germany has seen the recent changes to the IMF lending framework more as a trial and has lobbied for a review of the new programs' conditionality and loan design to critically assess in how far the recent changes and development of the lending toolkit have proved effective and justified.[59]

The United States has taken a middle route compared to the Europeans' polar positions. Being a big shareholder and thus concerned about IMF spending, the United States has—similar to Germany—generally opposed an increase in IMF lending and supported a stronger focus on international financial stability and balance of payment adjustment. In the wake of the crisis, the Obama administration has, however, adjusted its view on lending, favoring a relaxation of the lending stance—at least during times of crisis. Accordingly, Geithner has stressed that the introduction of the FCL and PCL has served to bolster resilience against future crises.[60]

France and the United Kingdom have been pushing for the reform, while Germany has been much more reluctant to change the IMF's lending stance. However, in combination with the shift in American thinking and a united front of emerging countries, Germany's foot-dragging was eventually outvoted. Overall, there is much less conflict about IMF lending policies than in previous times. The lending programs coming out of the crisis have been widely supported and have not ignited the same measure of controversy as before.[61]

Global Imbalances and Surveillance

Global imbalances have risen in the decade leading up to the financial crisis. The United States has accumulated a large current account deficit, while countries such as Germany or China have developed large export surpluses.[62] At the Pittsburgh summit in September 2009, the G20 members agreed to coordinate their efforts to reduce global macroeconomic imbalances, which were seen as one of the underlying reasons for the financial crisis.

THE MUTUAL ASSESSMENT PROCESS: FIXED NUMBERS VERSUS A RANGE OF INDICATORS

U.S.-German Clash on Current Account Balance

In the context of the "Framework for Strong, Sustainable, and Balanced Growth" that was launched at Pittsburgh in 2009,[63] the G20 initiated a Mutual Assessment Process (MAP) to analyze individual economic policies of G20 countries and their spill-over effects on global imbalances and global economic growth. The IMF was mandated to provide technical and analytical support to determine the mutual compatibility of the G20 members' policy frameworks and to give policy recommendations.[64]

The United States was the primary driver and the most outspoken advocate of the peer evaluation approach to global imbalances in the context of the G20. While generally agreeing on the need to reduce imbalances, differences in terms of approach and instruments among the G20 members became apparent over the course of 2010 and 2011. The United States clashed openly with export-oriented countries when Secretary Geithner proposed a cap of 4 percent of GDP on current account deficits and surpluses at the G20 ministerial meeting in Gyeongju, in October 2010. The proposal was directly aimed at Germany and China whose current account surplus was above 4 percent in 2010 (Germany 5.3 percent; China 5.2 percent). The German government immediately rejected the U.S. initiative. Rainer Brüderle, then-German Federal Minister for Economics and Technology, made clear that the German current account surplus was not the result of currency manipulation but had grown because of the German economy's competitiveness. He chided the U.S. proposal as a step back toward a "command economy."[65]

For fear of being pressured to abandon its export-led growth strategy, Germany resisted numerical targets on current account imbalances and prevented their inclusion in the final Seoul document.[66] The UK supported the German position by cautioning that "a single number applied to all countries may not be appropriate."[67] However, the UK was rather a neutral bystander in the conflict. France was sympathetic to the U.S. approach and supported the idea as a step in the right direction. Yet, Christine Lagarde also regarded the U.S. initiative as "courageous, but too uniform" for considering only one indicator (the current account balance) to assess the individual economic policies of the G20 countries instead of a series of indicators.[68]

Transatlantic Compromise on a Catalogue of Indicative Guidelines

After the open clash during the Korean presidency, further progress on the development of the indicative guidelines was postponed to the French presidency in 2011. At the meeting of the G20 finance ministers in Paris, in February 2011, the G20 agreed on a set of indicators to help identify global imbalances. The indicators comprise public debt and fiscal deficits; private savings rate and private debt; and the external imbalance composed of the trade balance and net investment income flows and transfers.

The guiding indicators were established in close cooperation between France and Germany—despite earlier criticism by Christine Lagarde, who had called on Germany to change its export-oriented growth strategy and to stimulate public demand.[69] Germany supported the indicators with the knowledge that the current account balance was now only one of the measures taken into account in the analysis. In the discussion on indicative guidelines, the United States was mainly interested in a currency indicator (see also below). While exchange rates were not included in the final list of indicators due to China's opposition, the agreement stipulated that exchange rate and monetary policies had to be taken into consideration when dealing with global imbalances.[70] U.S. Under Secretary for International Affairs at the Treasury Lael Brainard therefore considered the guidelines a "nice step forward" and emphasized that "we made some concrete progress."[71]

In the context of the debate on global imbalances, it has become clear that the common sense of purpose within the G20 has declined. What holds for the G20 in general is valid in particular for the transatlantic relationship. A common position does not even exist within Europe—in contrast to the growth strategies, where European countries have been unified in their desire for fiscal consolidation. Germany has openly criticized the United States for its numerous proposals on current account surpluses. While the UK has endorsed the German position, France has been rather supportive of U.S. ideas. The result has been a broad catalogue of indicators that could be supported by both Germany and the United States—albeit for different reasons. While the United States has succeeded in including the issue of current account imbalances into the indicators, Germany can live with the idea that imbalances are only one of a range of indicators that need to be considered.

IMF EXCHANGE RATE SURVEILLANCE: PRIORITY VERSUS ONE TOPIC AMONG OTHERS

The U.S. Fight against an Undervalued Renminbi

The U.S. government has grown increasingly frustrated with the Chinese currency policy and the undervaluation of the renminbi (RMB). While there has been a gradual appreciation of the RMB against the U.S. dollar over time, the U.S. government has judged this nonetheless insufficient, urging China to quicken the pace of currency reform.[72] In their view, the undervalued Chinese currency hurts U.S. companies' competitiveness and prevents the reduction of the persistent U.S. trade deficit and a quick economic recovery.[73] Barack Obama declared China's currency policy a top priority.[74]

The issue has mainly been carried out bilaterally between the United States and China. However, the U.S. has initiated several attempts at multilateralizing the conflict. First, the United States has been the main driver for integration of the issue into the MAP. Yet, China—in an uneasy alliance with Germany on global imbalances—has been able to prevent exchange rates from becoming a binding indicative guideline in the G20 (see above). The Seoul declaration merely asked the G20 countries to move toward more market-determined exchange rate systems; to enhance exchange rate flexibility to reflect underlying economic fundamentals; and to refrain from competitive devaluation of currencies.[75] The Cannes summit did not intensify the pressure: China committed to increase domestic consumption, to "promote greater exchange rate flexibility to better reflect underlying economic fundamentals, and gradually reduce the pace of accumulation of foreign reserves."[76]

In order to gain more upward flexibility of the RMB, the United States has followed a two-pronged multilateral approach. Apart from cooperating on exchange rate policy in the G20, the United States has pushed for a reform of the IMF's exchange rate surveillance activities. Both the Bush and the Obama administrations have repeatedly demanded a harder stance on exchange rate misalignments from the IMF, wanting the Fund to become an umpire rather than advisor.[77] Accordingly, Timothy Geithner maintained: "The current system of exchange rates in an obstacle to effective international cooperation on imbalances [...]. The IMF has the capacity and responsibility to play a critical role in solving this problem and should do so by significantly strengthening its surveillance. The Fund has the requisite tools [...] but they have not been sufficiently utilized."[78] The proposed U.S. measures include a clarification of the IMF exchange rate surveillance principles; an improvement of bilateral Article 4 consultations; and a better use of multilateral consultations—even if the United Stated acknowledges that the IMF cannot compel countries to accept its findings and implement its recommendations.[79]

The United States as Driver—Europe as Bystander

European countries have backed U.S. demands for the RMB to be convertible and more flexible and the use of exchange rate adjustment as a means to reduce global imbalances. Germany has been especially supportive of a reform of the IMF's surveillance mandate, which it sees as a crucial instrument to stabilize the world economy. However, the transatlantic partners do not attach the same priorities within their overall quest to reform the IMF's surveillance mandate. For the United States, enhancing exchange rate surveillance is crucial. The primary focus of France and Germany has, instead, been on the integration of financial vulnerabilities, and global and regional spill-overs into the IMF's surveillance activities rather than exchange rates.[80]

Reform of the International Monetary System

After two decades out of the spotlight, the reform of the international monetary system (IMS) is again on the international macroeconomic policymakers' agenda. The IMS comprises the mechanisms and institutions that organize international monetary exchanges and foreign exchange systems, which many perceive as ill-suited to contain financial contagion, exchange rate and capital volatility, and the build-up of national foreign reserves in the face of rising economic openness.[81] The presidencies of Korea and France initiated discussions, and a G20 working group was established under German and Mexican co-chairmanship to investigate the issue in greater depth over the course of 2011. The two most important elements of the debate are global financial safety nets (GFSN) and the role of Special Drawing Rights (SDR) in a new reserve currency system.[82] SDR are a non-traded currency unit that was introduced by the IMF in 1969. It is based on a basket of four international, freely usable currencies issued by economies with a large share of world trade.[83]

GLOBAL FINANCIAL SAFETY NETS: NECESSARY INSURANCE VERSUS MORAL HAZARD

Emerging Countries' Problems

During its G20 presidency, South Korea, together with other emerging countries, advocated GFSN as a preventive stability mechanism in parallel—and addition—to the expansion of the IMF's lending toolkit (see above).[84] GFSN are defined as a network of instruments, ranging from multilateral institutions like the IMF, to regional financing arrangements like the Asian Chiang-Mai Initiative (CMI) and individual country measures. High capital mobility and large economic interlinkages have contributed to an increased risk of systemic instability and contagion in the face of the crisis.[85] Large swings in capital flows have affected the ability to maintain macroeconomic and financial stability even of countries with solid fundamentals, thus further destabilizing the world economy.[86] In the face of capital volatility—and mistrust of the IMF as a result of the Asian crisis—many countries increased their national foreign reserves as a means of self-insurance.[87] The idea of GFSN has been to provide fast financial assistance in large amounts to countries with sound economic fundamentals that are open to global capital markets—the "innocent bystanders."[88] Especially emerging and developing countries would be able draw upon those resources to protect themselves from volatility and to prevent the spread of systemic crises in the first place.[89] With the fear of contagion of the euro crisis, discussions have gained force over the past months. Measures under discussion have included increased resources (and a stronger mandate) for the IMF's systemic role;[90] standing short-term liquidity lines with automatic pre-qualification processes;[91] increased (*ex ante*) central bank swap agreements;[92] more formalized cooperation between the IMF and regional financing arrangements;[93] and the development of local bond markets.[94]

Differences across the Atlantic—and within Europe

Transatlantic preferences on GFSN are analogous to the countries' preferences on expanding the IMF lending toolkit: France and the United Kingdom strongly support the IMF having a broader role in providing insurance against various shocks. France in particular has promoted the expansion of the IMF's role in crisis prevention through insurance mechanisms. The French government advocated: "The IMF has to play a more important role—a pivotal role—with respect to global financial safety nets."[95] The supporters argue that a pre-qualification mechanism—for instance in the context of the IMF's regular Article 4 consultations[96]—could reduce the stigma of IMF lending and thus avoid a further build-up of precautionary reserves.

The skeptics, in contrast, fear that the safety nets could set the wrong incentives in a classical insurance-type moral hazard problem and could expose the Fund to unsustainable financial risks. Again, Germany is at the forefront of the critics: Surveillance remained the primary tool for crisis prevention and should therefore be at the top of the Fund's priorities, according to Bundesbank executive Andreas Dombret.[97] Similar to the lending debate, the United States has taken a middle position between the contending European views. It sees a need to address the gaps in the global financial safety nets as a way to reduce the build-up of currency reserves and to promote stability as a paramount goal of the IMF.[98] Yet, like Germany, it favors a case-by-case approach rather than a standing, automatic facility.

A growing group of emerging market countries—supported by France and the United Kingdom—argue for the IMF to provide contingent or insurance-type financing, while countries like Germany are against it, dragging their feet to develop the IMF's role and instruments in this direction. At the summit in Cannes in November 2011, a compromise was struck that increases the role of precautionary financing without providing a standing facility. The G20 mandated the IMF to work on the development of the PLL as a new systematic financing possibility on a case-by-case basis.

An SDR-based Reserve Currency: Status Quo versus Far-Reaching Reforms

Since the end of the Bretton Woods system, the international currency system is characterized by a small number of free-floating global currencies—most notably the U.S. dollar and, to a lesser extent, the euro—and a large number of smaller currencies that are pegged to the large ones. The U.S. dollar is the main reserve currency, representing about 60 percent of the world's reserves.[99] There are signs of the system evolving toward a greater multipolarity—in line with a more multipolar economic world. Yet, the concentration makes diversification out of the U.S. dollar by large dollar holders like China and Japan very difficult, as it could lead to a sharp devaluation of their dollar-denominated portfolios.

Chinese SDR Proposals

In the run-up to the G20 summit in London in 2009, Zhou Xiaochuan, the governor of China's central bank, fuelled the debate on IMF reform by (re-)launching the idea of transforming the SDR into a new reserve currency.[100] This would involve converting existing reserves (currently predominantly in U.S. dollars) into SDR-denominated claims, which could be used to finance balance of payment deficits or other international transactions. Zhou went as far as suggesting that SDR could become a true reserve currency that is disconnected from the economic conditions of a single country and used more widely to make payments even in private international transactions.[101] With an increased role for SDR in the global currency system, the IMF as the manager would automatically acquire a bigger role, transforming it into a *de facto* central bank. The topic of creating an SDR-based currency system has gained force with the financial crisis. Yet, the debate is still rather academic, as a fundamental change of the SDR's now insignificant role requires overcoming major practical, political, and legal hurdles.[102]

Preferences on SDR: Emerging Countries versus "Established Powers"—Minus France

The debate on SDR reform has attracted a lot of attention—especially in the wake of Governor Zhou's remarks and the talks of "currency wars" in 2010 that were initiated by the Brazilian finance minister Guido Mantega. However, few concrete positions and results have emerged so far as to how the new reserve currency would be established and how it might be administrated. Generally, there is a split between emerging countries (including China, Brazil, Russia, and some Asian countries) on the one hand and the industrialized countries on the other hand—with the exception of France. While the first group of countries is actively pushing for SDR reform, including the internationalization of emerging countries' currencies and the expansion of the currency basket, the established economic powers are reluctant to discuss more fundamental reforms of the IMS or to further increase the use of SDR.

The United States has been particularly fast in rejecting emerging countries' support for the Chinese idea to transform the SDR into an alternative reserve currency and have reaffirmed the dominant role of the U.S. dollar in the global currency system: "The SDR is not a currency; it is a unit of account and it can't provide the role that many people would aspire to it, and there is no risk of that happening."[103] Similarly, Germany has been skeptical of SDRs as a possible alternative reserve asset as a remedy to IMS instability. Again, Germany highlights the risk of moral hazard in "providing unconditional liquidity by large SDR allocations."[104] More generally, due to its traditionally strong adherence to free exchange rates, Germany has been cautious in supporting grand reform plans of the currency system in favor of a more gradual approach toward making the IMS more stable.

France, in contrast, has been a vocal supporter of more fundamental reforms of the IMS. In the early phases of its G20 presidency, it used terms like "Plaza II" or "Bretton Woods II" to create visions of a fundamental reorganization of the currency system beyond the dollar dominance. The French president Nicholas Sarkozy stated that "we need to start thinking about the relevance of a system based on accumulation of dollar reserves."[105] However, over the course of its G20 presidency and increasing resistance from other G20 countries, France has backed down and eventually settled for more open-ended and pragmatic discussions on IMS reform.

Against the background of strong resistance by countries like the United States and Germany, more gradual reforms to the IMS have been initiated in the meantime. At the London summit in 2009, the G20 countries were unified in their support of an increase in the amount of SDR as a composite reserve asset. Subsequently, in August 2009, a general allocation of $161.2 billion was made in addition to a special one-time allocation of 21.5 billion SDR, increasing the total amount of SDR almost ten times—from 21.4 billion to 204 billion (equivalent to about $328.3 billion).[106] Second, the G20 members discussed an expansion of the SDR currency basket to reflect the growing multipolarity in the world economy.[107] Germany is generally supportive of expanding the SDR currency basket in order to stabilize the global currency system, but has been adamant that any expansion has to follow clear criteria and reflects economic importance.[108] This implies that the basket should not be expanded by China for political reasons, given that the renminbi is not freely convertible so far. Thus, at the finance ministers' meeting in Washington, DC, in April 2011 the G20 agreed to use a "criteria-based path" to broaden the composition of the SDR in order to reflect the relative importance of economies in the international system.[109] The French presidency was not able to generate bigger change to the IMS at the Cannes summit in November 2011. Instead of carrying forward the review of the currency basket composition, the original date of 2015 was kept—owing to the reluctance of several industrialized countries, including the United States and Germany.

04 CONCLUSION

CONCLUSION

The Transatlantic Macroeconomic Relationship at a Crucial Moment in Time

The challenges in international macroeconomic policymaking are ongoing, as the world economy is struggling to move out of the crisis. Over the course of 2011, the euro crisis has gone from bad to worse, and the U.S. economic recovery has been disappointing—despite numerous stimulus initiatives. The economic problems on both side of the Atlantic pose serious risks to the global economy and put pressure on the transatlantic partners to solve their problems as soon as possible.

The crisis has demonstrated again with great force how intertwined the global economy is today. This, in turn, has given a great impetus to calls for more international—and transatlantic—macroeconomic cooperation. Yet, after the initial rescue measures, which were unanimously agreed upon in the wake of the first "Lehman moment," the United States and European countries have increasingly drifted apart on many "hot topics" that are defining the current international macroeconomic policy agenda—and have even been in dispute over several issues. The divergences have stemmed both from material differences in economic structure and outlook, as well as from different policy approaches and priorities. Because of the economic slowdown and the upcoming elections, the United States has mainly been interested in economic growth by way of stimulus measures to strengthen domestic demand and through an improvement of competitiveness—especially vis-à-vis China. The U.S. initiatives on global imbalances and exchange rate adjustment have to be seen against this background. Furthermore, the U.S. government remains firm on keeping its international economic dominance, which *inter alia* is expressed by the U.S. dollar dominance and the rejection of more fundamental reforms to the international monetary system.

In contrast, Germany's interest lies, above all, on stability: on sound fiscal foundations and a rules-based approach to international macroeconomic policymaking. The analysis of the "hot topics" has shown that Germany is the main proponent of the policy approach of "keeping your house in order," both at home and abroad. Its promotion of fiscal consolidation and the great reluctance to introduce global financial safety nets in fear of moral hazard are a case in point. While France has lately shared Germany's policy stance toward fiscal consolidation because of its own fiscal situation, it is generally much more supportive than Germany of "grand reforms" in international macroeconomic policymaking, such as the reform of the international monetary system and the creation of international systemic safety measures. In addition, the transatlantic partners differ in their assessments of relative priorities—even if they generally agree on a common policy line—as could be seen in the case of exchange rate surveillance at the IMF.

Procedural coordination on international macroeconomic policies among EU countries is high—and has increased in the face of the financial crisis. Particularly the seventeen eurozone countries that share a common currency and a single monetary policy discuss IMF and G20-related policy issues in various coordinating bodies in Brussels and in Washington—especially before international summits. Yet, the analysis of the "hot topics" has shown that, substantively, European countries often do manage to speak with one voice in the international arena. Especially on fiscal policy, but also on financial policies, member states have retained differing views (and national sovereignty), adding further complexity to the transatlantic relationship on macroeconomic policies.

A Transatlantic Macroeconomic Dialogue in a Changing Global Context

The recent euro crisis has demonstrated that the transatlantic relationship is still crucial: crucial to the fate of the United States and Europe, but also crucial to the world economy and international macroeconomic policymaking. Yet, with the recent economic problems located in the North Atlantic region, there have been increased opportunities especially for emerging countries to play a role in stabilizing the world economy and to participate more actively in international macroeconomic policymaking. The United States and European countries can no longer make decisions alone in matters of macroeconomic policy or fully set the agenda of international bodies.

In order to keep up with the changing patterns of the world economy, the transatlantic partners have to find ways to increase their cooperation beyond the immediate rescue management, including long-term international macroeconomic policies. The transatlantic partners should therefore consider setting the transatlantic macroeconomic dialogue on a more stable and permanent footing at the highest political level—comparable to the financial market regulatory dialogue and the investment dialogue on trade—to provide a platform to exchange ideas, to reduce (open) conflicts and to find common ground on issues of international macroeconomic policy.

Abbreviations

CMI	Chiang-Mai Initiative
ECB	European Central Bank
EFF	Extended Arrangement
EFSF	European Financial Stability Fund
FAZ	Frankfurter Allgemeine Zeitung
FCL	Flexible Credit Line
G20	Group of Twenty
GFSN	Global Financial Safety Net
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IMS	International Monetary System
MAP	Mutual Assessment Process
NAB	New Agreements to Borrow
PCL	Precautionary Credit Line
PLL	Precautionary and Liquidity Line
RMB	Renminbi
QE2	Quantitative Easing
SBA	Stand-by Arrangement
SDR	Special Drawing Rights
WEO	World Economic Outlook
WTO	World Trade Organization

NOTES

1 The IMF projects a slowdown of real GDP growth from 2.4 percent (1.8 percent) in 2010 to 1.8 percent (1.1 percent) in 2012 for Europe (eurozone, respectively). IMF, “Europe Navigating Stormy Waters,” *Regional Economic Outlook*, Washington, DC, October 2011, <http://www.imf.org/external/pubs/ft/reo/2011/eur/eng/pdf/ereo1011.pdf> (2 November 2011), p. xii. The OECD warned that economic activity in the eurozone could even come to a near-halt in 2012 (0.2 percent in real GDP growth): OECD, *Economic Outlook* No. 90, Paris, November 2011, <http://www.oecd.org/dataoecd/2/7/49112938.pdf> (5 December 2011). See also Zsolt Darvas and Jean Pisani-Ferry, “Europe’s growth emergency,” *Bruegel Policy Contribution* 2011/13, Brussels, October 2011, <http://www.bruegel.org/publications/publication-detail/publication/623-europes-growth-emergency/> (2 November 2011).

2 E.g., “150 Milliarden Euro: Banken brauchen womöglich mehr Kapital,” *Frankfurter Allgemeine Zeitung (FAZ)*, 13 October 2011, p. 13.

3 Output grew at an estimated annual rate of 2 percent in the third quarter of 2011 and is projected to grow between 1.4 percent and 2 percent in 2012. See U.S. Department of Commerce—Bureau of Economic Analysis, “Gross Domestic Product, 3rd quarter 2011,” Washington, DC, 22 November 2011, <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm> (25 November 2011).

4 IMF, “Executive Summary,” *World Economic Outlook: Slowing Growth, Rising Risks,* Washington, DC, September 2011, <http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/exesum.pdf> (25 October 2011), p. xv.

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7 Jean-Claude Trichet in a speech to the European Parliament, quoted in: “Dramatischer Appell: EZB-Chef sieht globales Finanzsystem in Gefahr,” *Spiegel Online*, 12 October 2011, <http://www.spiegel.de/wirtschaft/soziales/0,1518,791170,00.html> (2 November 2011).

8 IMF, “Executive Summary,” *World Economic Outlook: Slowing Growth, Rising Risks*, Washington, DC, September 2011, <http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/exesum.pdf> (25 October 2011).

9 Martin Wolf, “First aid is not a cure,” *Financial Times*, 11 October 2011, <http://www.ft.com/intl/cms/s/0/f84a5d76-f368-11e0-b98c-00144feab49a.html#axzz1ca41TRzV> (2 November 2011).

10 IMF, “Executive Summary,” *World Economic Outlook: Slowing Growth, Rising Risks*, Washington, DC, September 2011, <http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/exesum.pdf> (25 October 2011), p. xvi. See also Vítor Gaspar, “Transatlantic Relations and Globalization in time of crisis?,” Opening address to the Bruegel—PIIE Conference “Transatlantic Economic Challenges in an Era of Growing Multipolarity,” Berlin, 27 September 2011, <http://www.bruegel.org/publications/publication-detail/publication/614-transatlantic-relations-and-globalization-in-time-of-crisis/> (3 November 2011), p. 2.

11 U.S. Bureau of Economic Analysis, “International Transactions,” <www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1> (9 November 2011); European Commission, “United States trade statistics,” <http://ec.europa.eu/trade/creating-opportunities-bilateral-relations/countries/united-states/> (9 November 2011).

12 Latest figures for investment stocks (inward) are for 2009. See European Commission, “United States trade statistics,” <http://ec.europa.eu/trade/creating-opportunities-bilateral-relations/countries/united-states/> (9 November 2011).

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17 Barack Obama, “A firewall to stop Europe’s crisis spreading,” *Financial Times*, 27 October 2011, <http://www.ft.com/intl/cms/s/0/8bea546a-ffc5-11e0-8441-00144feabdc0.html#axzz1ca41tRzV> (3 November 2011)

18 Angela Merkel quoted in: Peter Spiegel and Gerrit Wiesmann, “Merkel willing to recapitalize banks,” *Financial Times*, 5 October 2011, <http://www.ft.com/intl/cms/s/0/557e20d6-ef5e-11e0-bc88-00144feab49a.html#axzz1ca41TRzV> (5 October 2011).

19 Timothy Geithner quoted in: Binyamin Appelbaum, “Europe Seeks to Ratchet Up Effort on Debt,” *New York Times*, 24 September 2011, <www.nytimes.com/2011/09/25/business/geithner-tells-europe-it-must-work-together-on-debt-crisis.html> (18 October 2011).

20 Lawrence Summer, “The World Must insist that Europe acts,” *Financial Times*, 18 September 2011, <http://www.ft.com/intl/cms/s/2/5eaa83dc-dfca-11e0-b1db-00144feabdc0.html#axzz1ca41TRzV> (3 November 2011). Similarly, Austan Goolsbee, former chair of Barack Obama’s Council of Economic Advisors, criticized Europe—particularly Germany—for waiting too long to prevent the current financial crisis. Quoted in: “Schuldenkrise: Zu lange gezögert,” *Der Spiegel* 40/2011, p. 82-86. The calls for Europe to act have been joined by many countries around the world, including China.

21 The term was first popularized by the UK Prime Minister David Cameron, but then taken up with great fervor across the Atlantic.

22 Wolfgang Schäuble, “Achieving sustainable growth, fiscal consolidation and financial market regulation,” Transcript of the Speech, Chatham House, London, 17 October 2011, <http://www.chathamhouse.org/sites/default/files/public/Meetings/Meeting%20Transcripts/171011schauble.pdf> (3 November 2011), p. 6.

23 Different international institutions with a diverse set of institutional features and instruments at their disposal fulfill a range of functions in the governance system. See, e.g., Katharina Gnath, Stormy-Annika Mildner, and Claudia Schmucker, “Globale Wirtschaftsgovernance in turbulenten Zeiten: G20, IWF und WTO auf dem Prüfstand,” *SWP-Studie*, German Institute for International and Security Affairs (SWP), Berlin, forthcoming.

24 The G20 members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, the Republic of Korea, Turkey, the United Kingdom, the United States, and the European Union.

25 G20 Leaders' Summit, "Communiqué," Cannes, 3-4 November 2011, <http://www.g20-g8.com/g8-g20/g20/english/for-the-press/news-releases/g20-leaders-summit-final-communique.1554.html> (4 November 2011), § 31.

26 G20, "Leaders' Statement, The Pittsburgh Summit," Pittsburgh, PA, 24-25 September 2009, <http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf> (3 November 2011).

27 The most prominent example is the Chiang-Mai Initiative of swaps between South East Asian countries.

28 Mervyn King, "Reform of the International Monetary Fund," Speech of the Governors of the Bank of England at the Indian Council for Research on International Economic Relations, New Delhi, 20 February 2006, <http://www.bankofengland.co.uk/publications/speeches/2006/speech267.pdf> (3 November 2011); other prominent critics include, e.g., Joseph E. Stiglitz, *Globalization and its Discontents* (New York and London: W.W.Norton, 2002).

29 See, e.g., "Leaders' Statement, The Pittsburgh Summit," Pittsburgh, PA, 24-25 September 2009, <http://www.g20.org/Documents/ pittsburgh_summit_leaders_statement_250909.pdf >(3 November 2011); IMF, "The G-20 Mutual Assessment Process (MAP)," *IMF Factsheet*, Washington, DC, June 2011, <www.imf.org/external/np/exr/facts/pdf/g20map.pdf> (2 August 2011); IMF, "Financial Reform: Top 25 Financial Sectors to Get Mandatory IMF Check-Up," Washington, DC, 27 September 2010,<www.imf.org/external/pubs/ft/survey/so/2010/new092710A.htm> (2 August 2011).

30 Edwin M. Truman, "The IMF and the Global Crisis: Role and Reform," Remarks delivered to the Tulsa and Dallas Committees on Foreign Relations, 22 and 23 January 2009, <www.piie.com/publications/papers/truman0109.pdf> (3 November 2011); see also Ngaire Woods, "Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?," *Global Policy* 1 (2010) 1, p. 51-63.

31 Jeffry Frieden, "Europe's Lehman moment," *Reuters*, 16 September 2011, <http://blogs.reuters.com/great-debate/2011/09/16/europe%E2%80%99s-lehman-moment/> (10 October 2011).

32 G20, "Global Plan for Recovery and Reform," Statement Issued by the G20 Leaders London, 2 April 2009, <http://www.g20.utoronto.ca/2009/2009communique0402.html> (8 October 2011), § 1; See also G20, "Declaration of the Summit on Financial Markets and the World Economy," Washington, DC, 15 November 2008, <http://www.g20.utoronto.ca/ 2008/2008declaration1115.html> (9 November 2011).

33 Sameer Khatiwada, "Stimulus Packages to Counter Global Economic Crisis: A Review," *Discussion Paper* No. 196 (Geneva: International Institute for Labour Studies, 2009), pp. 3; 10f.; 13; 30f.; 41f.; Dick K. Nanto, "The Global Financial Crisis: Analysis and Policy Implications," *Congressional Research Service*, 4 February 2011, p. 1-174 (p. 30).

34 Wolfgang Schäuble, "Maligned Germany is right to cut spending," *Financial Times*, 23 June 2010, <http://www.ft.com/intl/cms/s/0/216daeba-7f0c-11df-84a3-00144feabdc0.html#axzz1V6lohjnO> (15 August 2011).

35 E.g., Lisa Becker, Christian Schubert, and Bettina Schulz, "Europa spart," *FAZ* No. 120, 27 May 2010, p. 13; "Britischer Finanzminister kündigt drakonische Haushaltssanierung an," *FAZ*, 22 June 2010, <http://www.faz.net/frankfurter-allgemeine-zeitung/wirtschaft/britischer-finanzminister-kuendigt-drakonische-haushaltssanierung-an-1997928.html> (9 November 2011).

36 David Cameron quoted in: "G-20 Summit: Agreement on vague guidelines as Obama met opposition from Hu, Merkel, Cameron and Myung-bak," *Finfacts*, 12 November 2010, <http://www.finfacts.ie/irishfinancenews/article_1021009.shtml> (23 August 2011).

37 Timothy Geithner quoted in: "US's Geithner urges G20 to safeguard recovery," *Reuters*, 5 June 2010, <http://www.reuters.com/article/2010/06/05/g20-geithner-letter-idUSN0415144820100605> (15 August 2011); see also "Kluft zwischen Deutschland und Amerika," *FAZ* No. 121, 28 May 2010, p. 11.

38 Angela Merkel quoted in: Manfred Schäfers, "G20: Politische Ungleichgewichte," *FAZ*, 29 June 2010, <http://www.faz.net/aktuell/wirtschaft/g-20-politische-ungleichgewichte-1994971.html> (9 November 2011).

39 G20, "The G20 Toronto Summit Declaration," Toronto, 27 June 2010, <http://www.g20.utoronto.ca/2010/to-communique.html#framework> (9 August 2011).

40 Barack Obama, "A firewall to stop Europe's crisis spreading," *Financial Times*, 27 October 2011, <http://www.ft.com/intl/cms/s/0/8bea546a-ffc5-11e0-8441-00144feabdc0.html#axzz1ca41TRzV> (3 November 2011).

41 See, e.g., The White House Office of the Press Secretary, "Fact Sheet: The American Jobs Act," Press Release, Washington, DC, 8 September 2011, <http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-american-jobs-act> (10 November 2011). The U.S. Senate, however, had blocked the Jobs Act at the time of writing.

42 In November 2010, the Federal Reserve announced QE2, buying $600 billion of Treasury securities by the end of the second quarter of 2011. Operation Twist comprised $400 billion planned purchases of bonds in September 2011.

43 E.g., Wolfgang Schäuble quoted in: Eric Bonse, "Bruegel-Konferenz: Schäuble fordert neues Wirtschaftsmodell," Berlin, September 2011, <http://gallery.mailchimp.com/b654eefc55844506fec2d988b/files/Bruegel_Konferenz_Sch_uble_fordert_neues_Wirtschaftsmodell.1.pdf> (18 October 2011); see also Patrick Welter, "IWF-Tagung: Transatlantischer Kindergarten," *FAZ*, 26 September 2011, <www.faz.net/aktuell/wirtschaft/iwf-tagung-transatlantischer-kindergarten-11369726.html> (18 October 2011).

44 While the initiative pre-dates the financial crisis, Germany's introduction of a constitutional debt brake in 2009 is a case in point. Furthermore, Germany has lobbied vigorously at the European level to strengthen the rules for fiscal discipline in the context of the EU "six-pack" legislation on economic governance in 2011. See, e.g., Bundesregierung, "Reform des Stabilitäts- und Wachstumspaktes," Press Release, Berlin, 29 September 2011, <http://www.bundesregierung.de/Content/DE/Artikel/2011/09/2011-09-29-reform-stabilitaets-und-wachstumspakt.html> (10 November 2011).

45 Wolfgang Schäuble, "Achieving sustainable growth, fiscal consolidation and financial market regulation," Transcript of the Speech, Chatham House, London, 17 October 2011, <http://www.chathamhouse.org/sites/default/files/public/Meetings/Meeting%20Transcripts/171011schauble.pdf> (3 November 2011), p. 5. On Germany's macroeconomic approach see also Jean Pisani-Ferry, "Eurozone countries can't afford more fiscal stimulus," *Bruegel* op-ed, Brussels, 19 September 2011, <http://www.bruegel.org/publications/publication-detail/publication/609-eurozone-countries-cant-afford-more-fiscal-stimulus/> (3 November 2011).

46 G20 Leaders Summit, "Communiqué," Cannes, 4 November 2011, <http://www.g20.utoronto.ca/2011/2011-cannes-communique-111104-en.html> (9 November 2011).

47 G20, "Cannes Action Plan for Growth and Jobs," Cannes, 4 November 2011, <http://www.g20.utoronto.ca/2011/2011-cannes-action-111104-en.html> (9 November 2011), p. 4-5.

48 In addition, Italy agreed at the G20 summit in Cannes in November 2011 to quarterly "verification" of its policy implementation by the IMF. See G20 Leaders' Summit, "Communiqué," Cannes, 3-4 November 2011, <http://www.g20-g8.com/g8-g20/g20/english/for-the-press/news-releases/g20-leaders-summit-final-communique.1554.html> (4 November 2011), § 5. The total lending figure excludes loans under the Poverty Reduction and Growth Trust for low-income countries. Around $95 billion has been distributed as of 30 September 2011. Authors' own calculations based on IMF figures at current U.S. dollar exchange rates. See IMF, "IMF lending arrangements," Washington, DC, 30 September 2011, <https://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2020-02-28> (4 November 2011); IMF, "Factsheet: A Changing IMF—Responding to the Crisis," Washington, DC, 16 March 2011, <www.imf.org/

external/np/exr/facts/changing.htm> (28 July 2011).

49 At the Cannes summit, the G20 leaders mandated their finance ministers to identify further funding options including voluntary bilateral contributions to the IMF. See G20 Leaders' Summit, "Communiqué," Cannes, 3-4 November 2011, <http://www.g20-g8.com/g8-g20/g20/english/for-the-press/news-releases/g20-leaders-summit-final-communique.1554.html> (4 November 2011), § 11; G20, "The Cannes Action Plan for Growth and Jobs," Cannes, 4 November 2011, >http://www.g20.org/Documents2011/11/Cannes%20Action%20plan%20 4%20November%202011.pdf> (4 November 2011), § 6.

50 The introduction of precautionary facilities had been discussed before the crisis, e.g., in the context of the Medium Term Reform Strategy of former IMF Director Rodrigo de Rato and the Meltzer Reform Commission. See, e.g., Alan Meltzer, "Report of the International Financial Institution Advisory Commission," Washington, DC, March 2000, <http://www.house.gov/jec/imf/meltzer.pdf> (4 November 2011).

51 Criteria include the external position and market access, sound public finances and monetary policy framework, and financial sector soundness. See IMF, "Factsheet: The IMF's Flexible Credit Line (FCL)," Washington, DC, 15 September 2011, <http://www.imf.org/external/np/exr/facts/pdf/fcl.pdf> (4 November 2011). The FCL was refined in August 2010 with the removal of access limits and the doubling of duration—from 6 months or 1 year to 1 or 2 years—with interim reviews.

52 The PCL combines a qualification process with *ex post* conditionality. None of the loans under FLC or PCL have actually been drawn as of November 2011. See IMF, "Factsheet: IMF Lending," Washington, DC, 22 August 2011, <http://www.imf.org/external/np/exr/facts/pdf/howlend.pdf> (4 November 2011).

53 G20 Leaders' Summit, "Communiqué," Cannes, 3-4 November 2011, <http://www.g20-g8.com/g8-g20/g20/english/for-the-press/news-releases/g20-leaders-summit-final-communique.1554.html> (4 November 2011), § 10. The extent and details of the PLL remain open at the time of writing.

54 SBA and EFF form the bulk of IMF lending to middle-income countries with short-term balance of payment problems and medium-term problems and structural weaknesses, respectively. Programs involve *ex post* conditionality. The biggest loans in the crisis have gone to Greece, Portugal, Ireland, and Ukraine.

55 See IMF, "Pakistan: Request for Stand-by Arrangement—Staff Report"; "Press Release on the Executive Board Discussion"; and "Statement by the Executive Director for Pakistan," *IMF Country Report* No. 08/364, Washington, DC, December 2008, <www.imf.org/exteranl/pubs/ft/ scr/2008/cr08364.pdf> (2 August 2011), p. 10; IMF, "Republic of Latvia: First Review and Financing Assurances Review Under the Stand-By Arrangement, Requests for Waivers of Nonobservance of Performance Criteria, and Re-phasing of Purchases Under the Arrangement," *IMF Country Report* No. 09/297, Washington, DC, October 2009, <www.imf.org/external/pubs/ft/scr/2009/cr09297.pdf> (2 August 2011). Susanne Lütz and Matthias Kranke go as far as identifying an emerging "post-Washington consensus" at the IMF. Susanne Lütz and Matthias Kranke, "The European Rescue of the Washington Consensus? EU and IMF Lending to Central and Eastern European Countries," *LEQS Paper* No. 22, London School of Economics, May 2010, <http://www2.lse.ac.uk/europeanInstitute/LEQS/LEQSPaper22.pdf>, p. 30.

56 See, e.g., Christine Lagarde, "Statement by the Minister of Economy, Industry and Employment of France," *Twentieth Meeting of the International Monetary and Financial Committee (IMFC)*, Washington, DC, 4 October 2009, <http://www.imf.org/external/am/2009/imfc/statement/eng/fra.pdf> (4 November 2011), § 6.

57 Peer Steinbrück, "Statement by the Minister of Finance, Germany," *Eighteenth Meeting of the IMFC*, Washington, DC, 11 October 2008, <http://www.imf.org/external/am/2008/imfc/statement/eng/deu.pdf> (4 November 2011), p. 5.

58 E.g., Wolfgang Schäuble, "Statement by Minister of Finance, Germany," *Twenty-First Meeting of the IMFC*, Washington, DC, 24 April 2010, <http://www.imf.org/External/spring/2010/imfc/statement/eng/deu.pdf> (4 November 2011); Jens Weidman, "Statement by the Governor of the Fund for Germany," *Governor Statement* No. 26, 2011 Annual IMF and World Bank Meetings, Washington, DC, 23 September 2011, <http://www.imf.org/external/am/2011/speeches/pr26e.pdf> (4 November 2011), § IV.

59 E.g., Wolfgang Schäuble, "Statement by the Minister of Finance of the Federal Republic of Germany," *Twenty-Third Meeting of the IMFC*, Washington, DC, 16 April 2011, <http://www.imf.org/External/spring/2011/imfc/statement/eng/deu.pdf> (4 November 2011).

60 Timothy Geithner, "Statement by the Secretary of the Treasury, United States," *Twenty-Third Meeting of the IMFC*, Washington, DC, 16 April 2011, <http://www.imf.org/External/spring/2011/imfc/statement/eng/usa.pdf> (4 November 2011).

61 For a similar assessment, see Michael Bordo and Harold James, "The Past and Future of IMF Reform," 2009, <https://sciee.ucsc.edu/JIMF/bordojamesimfmarch09V3.pdf>, pp. 2; 9.

62 Global imbalances measure as the sum of countries' global current account surpluses and deficits as a share of world GDP. See IMF, "World Economic Outlook: Slowing Growth, Rising Risk," Washington, DC, September 2011, <http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf> (10 November 2011), p. 25.

63 G20, "G20 Leaders Statement: The Pittsburgh Summit," Pittsburgh, PA, 24-25 September 2009, Pittsburgh, PA, <http://www.g20.utoronto.ca/2009/ 2009communique0925.html> (9 August 2011).

64 IMF, "The G-20 Mutual Assessment Process and the Role of the Fund," Washington, DC, 2 December 2009, <http://www.imf.org/external/np/pp/eng/2009/120209a.pdf> (9 November 2011).

65 Brüderle quoted in: "Geithner will Exportüberschüsse begrenzen," *FAZ*, 23 October 2010, <http://www.faz.net/frankfurter-allgemeine-zeitung/politik/geithner-will-exportueberschuesse-begrenzen-11051203.html> (9 November 2011); Sewell Chan, "Nations Agree on need to Shrink Trade Imbalances," *New York Times*, 22 October 2010, www.nytimes.com/2010/10/23/business/global/23finance.html (19 December 2011); IMF, "World Economic Outlook Database," Washington, DC, 17 June 2011, <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx> (18 August 2011).

66 The communiqué eventually read: "Persistently large imbalances […] 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." See G20, "The G20 Seoul Summit Leaders' Declaration," Seoul, 12 November 2010, <http://www.g20.utoronto.ca/2010/g20seoul.html> (17 August 2011).

67 UK finance minister George Osborne quoted in: "Highlights—G20 finance chiefs on Fx, Global Imbalances, IMF," *Reuters*, 23 October 2010, <http://uk.reuters.com/article/2010/10/23/us-g20-highlights-idUKTRE69M0O620101023> (23 August 2011).

68 Christine Lagarde quoted in: "Südkorea erwartet kein Ergebnis zu Handelsungleichgewichten," *FAZ*, 10 November 2010, <http://www.faz.net/aktuell/wirtschaft/suedkorea-erwartet-kein-ergebnis-zu-handelsungleichgewichten-positionen-vor-dem-g-20-gipfeltreffen-in-seoul-abgesteckt-11068493.html> (9 November 2011).

69 Christine Lagarde quoted in: Ben Hall, "Lagarde criticises Berlin policy," *Financial Times*, 14 March 2010, <http://www.ft.com/cms/s/0/225bbcc4-2f82-11df-9153-00144feabdc0.html#axzz1GgPz9i4J> (15 March 2011).

70 G20, "Communiqué: Meeting of Finance Ministers and Central Bank Governors," Paris, 18-19 February 2011, <http://www.g20.org/Documents2011/02/COMMUNIQUE-G20_MGM%20_18-19_February_2011.pdf> (3 March 2011); Bundesministerium der Finanzen, "G20-Treffen in Paris," 18-19 February 2011, <http://www.bundesfinanzministerium.de/nn_54/DE/Wirtschaft__und__Verwaltung/Internationale__Beziehungen/22012011-G20.html?__nnn=true> (3 March 2011). At the spring meeting of IMF and World Bank, the G20 agreed to analyze seven systemic G20 countries according to these indicators. These countries will be the United States,

China, Germany, France, United Kingdom, Japan, and India.

71 Lael Brainard quoted in: Robin Harding, Chris Giles, and Jamil Anderlini, “Emerging Markets Inflation Surges,” *Financial Times*, 15 April 2011, <http://www.ft.com/cms/s/0/c93f569a-678a-11e0-9138-00144feab49a.html#axzz1VJYUBAtc> (17 August 2011).

72 The RMB appreciated 21 percent against the U.S. dollar in nominal terms between 2005 and 2008, and 5.1 percent from June 2010 to end-April 2011. See U.S. Department of the Treasury Office of International Affairs, “Report to Congress on International Economic and Exchange Rate Policies,” Washington, DC, 27 May 2011, <http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/FX%20Report%20Final%205-27-11.pdf> (10 November 2011), p. 3.

73 The U.S. trade deficit with China surged from $10 billion in 1990 to an estimated $273 billion in 2010. See Wayne M. Morrison and Marc Labonte, “China’s Currency: An Analysis of the Economic Issues,” *Congressional Research Service*, Washington, DC, 12 January 2011, <http://assets.opencrs.com/rpts/RS21625_20110112.pdf> (10 November 2011). Fred Bergsten from the Peterson Institute has estimated that the undervalued RMB cost around 500,000 U.S. jobs. See C. Fred Bergsten, “A Proposed Strategy to Correct the Chinese Exchange Rate,” Testimony before the United States Senate, Washington, DC, 16 September 2010, <http://www.iie.com/publications/testimony/bergsten20100916.pdf> (10 November 2011). The latest bilateral spat involves a Senate bill, allowing a string of measure to punish China, e.g., through anti-dumping and countervailing measures. See, e.g., Jim Abram, “Senate passes bill to sanction China over currency,” *Associated Press*, 11 October 2011, <http://news.yahoo.com/senate-passes-bill-sanction-china-over-currency-223008528.html> (19 October 2011).

74 E.g., Barack Obama quoted in: Edward Wong and Mark Landler, “China Rejects U.S. Complaints on Its Currency,” *New York Times*, 4 February 2010, <http://www.nytimes.com/2010/02/05/world/asia/05diplo.html> (10 November 2011).

75 See G20, “The G20 Seoul Summit Leaders’ Declaration,” Seoul, 12 November 2010, <http://www.g20.utoronto.ca/2010/g20seoul.html> (17 August 2011), § 9.

76 G20, “Cannes Action Plan for Growth and Jobs,” Cannes, 4 November 2011, <http://www.g20.utoronto.ca/2011/2011-cannes-action-111104-en.html> (9 November 2011).

77 E.g., former Treasury Secretary Henry Paulsen quoted in: “USA bringen den IWF gegen China in Stellung,” *Handelsblatt*, 16 April 2007, p. 8; Krishna Guha and Richard McGregor, “US-China currency spat risks leaving IMF badly bruised,” *Financial Times*, 25 June 2007, p. 2.

78 Timothy Geithner, “Statement by the Secretary of the Treasury, United States,” *Twenty-Third Meeting of the IMFC*, Washington, DC, 16 April 2011, <https://www.imf.org/External/spring/2011/imfc/statement/eng/usa.pdf> (7 November 2011), p. 2-3.

79 See, e.g., Robert Lavigne and Lawrence Schembri, “Strengthening IMF Surveillance: An Assessment of Recent Reforms,” *Bank of Canada Discussion Paper* 2009-10, Ottawa, July 2009, <http://www.bankofcanada.ca/wp-content/uploads/2010/01/dp09-10.pdf> (10 November 2011), p. 2-3.

80 See, e.g., Wolfgang Schäuble, “Statement by the Minister of Finance, Germany,” *Twenty-first Meeting of the IMFC*, Washington, DC, 24 April 2010, http://www.imf.org/External/spring/2010/imfc/statement/eng/deu.pdf (4 November 2011); Christine Lagarde, “Statement by the Governor of the Fund and the Bank for France,” Press Release No. 36, 2010 Annual IMF and World Bank Meetings, Washington, DC, 8 October 2010, http://www.imf.org/external/am/2010/speeches/pr36e.pdf (11 November 2011).

81 Global outstanding reserves have increased over time, amounting to $1.2 trillion in 1999 against $5 trillion in late 2010. Emerging countries—especially China—have contributed considerably to this increase. See Emmanuel Farhi, Pierre-Olivier Gourinchas, and Hélène Rey, “Reforming the International Monetary System,” Centre for Economic Policy Research, London, September 2011, <http://www.voxeu.org/sites/default/files/file/Reforming%20the%20International%20Monetary%20System.pdf> (1 November 2011), p. 7.

82 G20, “Communiqué: Meeting of Finance Ministers and Central Bank Governors,” Washington, DC, 14-15 April 2011, <http://www.g20.org/Documents2011/04/G20%20Washington%2014-15%20April%202011%20-%20final%20communique.pdf> (4 November 2011), § 4.

83 The current basket consists of the U.S. dollar, the euro, the yen, and the British pound. 1 SDR = $1.58 = €1.14 (as of 4 November 2011).

84 See, e.g., “The G20 Seoul Summit: Leaders’ Declaration,” Seoul, 11-12 November 2010, <http://www.g20.org/Documents2010/11/seoul-summit_declaration.pdf > (7 November 2011).

85 See, e.g., IMF, “Mapping Cross-Border Financial Linkages: A Supporting Case for Global Financial Safety Nets,” Washington, DC, 1 June 2011, <www.imf.org/external/np/pp/eng/2011/060111.pdf> (1 November 2011). The IMF has shown that systemic crises tend to originate in large integrated economics but are then transmitted globally through trade and financial interlinkages. See, e.g., IMF, “Analytics of Systemic Crises and the Role of Global Financial Safety Nets,” Washington, DC, 31 May 2011, <http://www.imf.org/external/np/pp/eng/2011/053111.pdf> (4 November 2011).

86 The Palais Royal initiative of eminent public figures found that gross capital inflows worldwide fell from nearly 20 percent of global GDP to less than 2 percent in the crisis, and has now risen sharply again. Furthermore, liquidity tends to seek out safe havens—a “flight to quality”—which leads to a drying up of liquidity elsewhere. See Michel Camdessus et al., “Reform of the international monetary system: a cooperative approach for the twenty-first century,” *Report of the Palais Royal Initiative*, 8 February 2011, <http://62.23.12.117/smi/gb/telechar/news/Rapport_Camdessus-integral.pdf> (1 November 2011).

87 See, e.g., Gregory T. Chin, “Remaking the architecture: the emerging powers, self-insuring and regional insulation,” *International Affairs* 86 (2010) 3, p. 693-715 (pp. 696; 698).

88 See Stephen Pickford, “Global Financial Safety Nets,” *International Economics briefing paper* IE BP 2011/02, Chatham House, London, October 2011, <http://www.chathamhouse.org/sites/default/files/public/Research/International%20Economics/1011bp_pickford.pdf> (4 November 2011).

89 In addition, it was thought that multilateral alternatives to national self-insurance would also address the problem of global imbalances by putting pressure on emerging countries to reduce their currency reserves providing. See, e.g., Manuel Foretti and Bikas Joshi, “A Step Closer to a Stronger Global Financial Safety Net,” *IMF Survey Magazine*, Washington, DC, 30 August 2011, <http://www.imf.org/external/pubs/ft/survey/so/2010/pol083010a.htm> (31 October 2011).

90 E.g., through an expansion of the IMF’s SDR or NAB, or by allowing the IMF to borrow on capital markets and issuing debt. See, e.g., Michel Camdessus et al., “Reform of the international monetary system: a cooperative approach for the twenty-first century,” *Report of the Palais Royal Initiative*, 8 February 2011, <http://62.23.12.117/smi/gb/telechar/news/Rapport_Camdessus-integral.pdf> (1 November 2011).

91 John Lipsky, IMF First Deputy Managing Director, “Lunchtime Speech: Assessing the Agenda for Economic Policy Cooperation,” IMF conference on Macro and Growth Policies in the Wake of the Crisis, Washington, DC, 7 March 2011, <http://www.imf.org/external/np/speeches/2011/030711a.htm > (1 November 2011).

92 In the crisis, central banks—most notably the U.S. Federal Reserve and the ECB—entered into swap agreements, also with other central banks, such as Brazil, Korea, or Mexico. See e.g., IMF, “Analytics of Systemic crises and the Role of Global Financial Safety Nets,” Washington, DC, 31 May 2011, p. 29. Another suggestion has been to create a “star shaped” swap agreement, with the IMF as broker. See e.g., Emmanuel Farhi, Pierre-Olivier Gourinchas, and Hélène Rey, “Reforming the International Monetary System,” Centre for Economic Policy Research, London, September 2011, <http://www.voxeu.org/sites/default/files/file/Reforming%20the%20International%20Monetary%20System.pdf> (1 November 2011).

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94 See “G20 Action Plan to Support the Development of Local Currency Bond Markets, Endorsed by G20 Finance Ministers and Central Bank Governors,” Paris, 15 October 2011, <http://www.g20-g8.com/g8-g20/root/bank_objects/ANG_G20_Action_Plan_for_development_of_local_currency_bond_markets_ANG.pdf> (7 November 2011).

95 François Baroin, “Statement by the Governor of the Bank and the Fund for France,” *Governor Statement* No. 34, World Bank and IMF Annual Meetings, Washington, DC, 23 September 2011, <http://www.imf.org/external/am/2011/speeches/pr34e.pdf> (7 November 2011), p. 3. See also Christine Lagarde, “Statement by the Minister of Economy, Industry and Employment, France,” *Nineteenth Meeting of the IMFC*, Washington, DC, 25 April 2009, <http://www.imf.org/external/spring/2009/imfc/statement/eng/fra.pdf> (7 November 2011).

96 See, e.g., Stephen Pickford, “Global Financial Safety Nets,” *International Economics briefing paper* IE BP 2011/02, Chatham House, London, October 2011, <http://www.chathamhouse.org/sites/default/files/public/Research/International%20Economics/1011bp_pickford.pdf> (4 November 2011), p. 9.

97 Andreas Dombret, member of the Bundesbank executive board, quoted in: “Auf dem Weg zu einem neuen Weltwährungssystem,” *FAZ*, 29 September 2011, p. 10.

98 E.g., Timothy Geithner, “Statement by the Secretary of the Treasury, United States,” *Twenty-Third Meeting of the IMFC*, Washington, DC, 16 April 2011, <https://www.imf.org/External/spring/2011/imfc/statement/eng/usa.pdf> (7 November 2011).

99 See Emmanuel Farhi, Pierre-Olivier Gourinchas, and Hélène Rey, “Reforming the International Monetary System,” Centre for Economic Policy Research, London, September 2011, <http://www.voxeu.org/sites/default/files/file/Reforming%20the%20International%20Monetary%20System.pdf> (1 November 2011), p. 7.

100 Zhou Xiaochuan, “Reform the international monetary system,” 23 March 2009, <http://www.bis.org/review/r090402c.pdf?frames=0> (31 October 2011). Proposals to create a substitution account through which SDRs could be substituted for U.S. dollar reserves have been made at the time of the introduction of SDR in 1969 as a supplement to gold reserves. In fact, the original goal of SDR was to become a principal reserve asset. However, its use was reduced after the end of Bretton Woods. See Peter Kenen, “An SDR Based Reserve System,” *Journal of Globalization and Development* 1 (2010) 2.

101 See also Peter Kenen, “An SDR Based Reserve System,” *Journal of Globalization and Development* 1 (2010) 2, p. 1.

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