

The Open Method of Coordination

A Governance Mechanism for the G20?

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Introduction

As the G20 meeting has risen in prominence as the premier global forum, attention has necessarily focused on its governance mechanisms and effectiveness. This paper considers these issues and the appropriateness of the Open Method of Coordination (OMC) as a way of improving decision-making.

The G20 started its life as a regular meeting of the finance ministers and central bank governors of the world's 19 richest economies plus the European Union. It was founded in the wake of the financial crises of the late 1990s, acknowledging the fact that key emerging-market economies were inadequately represented in global economic governance. The recent row over Christine Lagarde as yet another European head of the International Monetary Fund (IMF) – following the departure of her predecessor Dominique Strauss-Kahn – again showed how the Bretton-Woods institutions are increasingly lacking credibility with many emerging players. In this particular case the BRICS countries (Brazil, Russia, India, China and South Africa) even joined ranks to publicly criticize the way the IMF succession was handled (Harding et al., 2011). Against the backdrop of evident shifts in economic and political importance from West to East (Quah, 2011) it seems unsurprising that new governance institutions such as the G20 are likely to gain in importance in the absence of credible alternatives.

It was therefore also unsurprising that during and since the great recession of 2007/2008 the G20 became the key forum for coordinating economic policy responses designed to stabilize the global financial and economic system. It was also appreciated as an institution by the installation of regular G20 summits at head of state or government level. There has been some interesting recent research on the effectiveness of the G20 in a variety of different policy fields and its relationships to institutions such as the UN and the G8. The common conclusion of this research was that 'the G20 must extend its mandate beyond economic crisis management if it wishes to establish itself permanently as a key global governance body' (Cooper and Helleiner, 2010). And indeed there is some early evidence that issues such as food and commodity prices as well as climate change related issues might be part of the future G20 agenda (Euractiv.com, 2010).

But the G20 has also revealed significant shortcomings, which need to be overcome if it is to succeed as an effective global governance institution. Consequently, the way it evolves as an institution is key for its future role as a global governance mechanism.

This study seeks to make an intellectual contribution to the debate about G20 evolution. We would like to address three areas in particular: First, we will present an analysis of the G20's shortcomings that are currently preventing it from operating effectively. Second, against this backdrop we will scrutinise the Open Method of Coordination (OMC) experience in the European Union (EU) and extract some of its key functions and principles. And finally, we will use these principles and make some concrete proposals – in the broader context of the G20's challenges – for how the OMC experience could be used to engineer adapted policy mechanisms for the G20 that would significantly improve its effectiveness.

The G20 - Main Challenges

In considering this ambition, it is necessary to identify the primary challenges facing the G20 as a global decision-making institution. Identified are four main challenges for the G20 going forward: (1) the shift from 'single issue' emergency institution to one of permanent global governance; (2) follow-through effectiveness; (3) overcoming the 'prisoner's dilemma'; (4) the problem of 'input legitimacy'.

1. Transition to Permanent Global Governance Institution

The contrast between recent G20 meetings and those at the nadir of the global economic crisis is stark. The cooperation, inclusiveness and single mindedness of the 2009 London G20 was characterized by an exertion of charismatic political power disassociated with politico-economic might. As a result, it can be said to have been broadly inclusive; an observation, which is all the more notable given the array of countries given a voice at the top table heretofore excluded from the narrow G7/8 framework. Convened as a direct response to the global 'emergency' which had unfolded in the preceding months, the meeting very quickly agreed to intervene in a coordinated fashion to stabilize the global banking system and to pump billions of dollars, yen, renminbi, euros, pounds and the rest, by way of fiscal stimulus, into the international economy (Cooper and Helleiner, 2010).

This period saw the G20 emerge as a single issue emergency institution (also often referred to as G20 1.0). Accordingly, it can be said to have enjoyed a clear strategic mission to which participants were broadly committed, consequently empowering individual country delegates to act foremost in the collective interest. In terms of achieving its strategic mission, results can be judged a rapid

success, leading to enthusiasm about what could be achieved in the future. But ultimately the experience was also one of structural dysfunctionality.

This early momentum and perceived success led to the institution stating its mandate to be 'the premier forum for international economic co-operation' (G-20, 2011a). By Paris 2011, however, the G20 Finance Ministers struggled to agree even on the blandest of communiqués (G-20, 2011b). Both the rapidity of early success and the new kind of global problems share responsibility for this turnaround. Stabilization of the global economy diluted the G20's 'emergency' mission and allowed individual countries to revert to pursuit of narrow domestic interests. Meanwhile, the cost of intervention for domestic treasuries and the reassertion of global markets helped transform the crisis from one of global proportions to one of disparate regional crises.

The short history of the modern G20 suggests that the more recent experience is a truer reflection of the norm. While the forum has moved beyond the G20 1.0 emergency institution, there is progress to be made before it can be seen as one of permanent global governance (G20 2.0). The challenge it faces in moving clear of this state of limbo is not simply that of being able to agree on substantive communiqués but also develop the capability to follow through on agreements.

2. Follow-Through Effectiveness

The follow-through argument leads to the closely connected second major challenge of the G20. There is the justified criticism that the G20 lacks effectiveness, as it is unclear how the agreements of a G20 meeting, usually published in the communiqué, are implemented on a national or regional level and how this policy implementation is monitored and evaluated. The G20 itself does not currently have the means or cohesive authority to do this. Its meetings are organized by a troika of host nations without the help of a permanent structure. The troika system is meant to provide some degree of consistency but has not been able to prevent punitive criticism about the effectiveness of the G20 framework. It was therefore predictable that the enthusiasm for the G20 became more muted after its initial successes as a crisis mechanism (Cooper and Helleiner, 2011).

So the key question about the effectiveness of the G20 is: In what way can the institution evolve and create mechanisms to monitor and evaluate the implementation of what amounts to agreements in principle on the global level?

This problem of effectiveness is not limited to the G20 but was also evident in the G8 framework. Many people will remember the high profile 'Make Poverty History' campaign that lobbied the G8 six years ago to redesign aid policies and write off Third World debt. Five years later the NGO Oxfam criticized that France, Germany, Italy and Japan all failed to live up to their promises (Godfrey, 2010). In this particular example there was at least NGO monitoring of progress but in many cases NGOs will be unable to fulfill this function and at any rate 'rank' below the G20 in global authority. So an effective follow-up process to implement communiqué agreements within the G20 framework is a crucial area for reform.

3. *The Prisoner's Dilemma*

The great challenge in longer-term strategic stability of the G20 centres on the more intangible nature of participant behaviour. The meetings which can be judged a success were characterized by higher ambition and shared goals than by the sort of self-interested negotiation and indeed bargaining that is more often associated with international summit making.

The prisoner's dilemma (Lane, 2006) is a very real challenge to G20 success. World leaders, especially those with democratic mandates, are frequently dis-incentivised from supporting goals judged as being of collective benefit since they must face both ways: outwards across the globe yes, but crucially inwards, satisfying domestic public opinion and national interests. Indeed, one might observe limited incentives to make the sort of sacrifices often required in this high stake diplomacy. There is no better example of this than environmental talks, which have tended to descend into a process whereby delegates attempt to 'win' the best deal they are able to for their own countries to the exclusion of the mutual interest of reducing carbon emissions. Any framework needs to be mindful of this need for players to be able to act in the global not simply the national interest. The test will be whether the G20 is able to tackle effectively the great issues facing the world today, above all issues associated with the global economy and the environment.

4. *Input Legitimacy*

The emergence of the G20 as the appropriate forum for world leaders to coordinate action aimed at tackling the economic crisis was judged not only in terms of necessity since the newer players of the China-led East remain unrepresented on the narrow, largely North Atlantic, G7 but also as a meeting which commanded greater legitimacy and global reach. Indeed, such reliance was placed on China and India in particular during the emergency stage process that questions arose about the legitimacy of existing institutions of economic global governance: the Washington based IMF

and World Bank where emerging economy interests remain dramatically under-represented in terms of voting rights in favour of European nations and the United States (Menkhoff and Meyer, 2010). The G20 can be said to represent something in the region of two thirds of the world population more equally.

While the G20 is broader in terms of representation than the G7 (or G8 which includes Russia) and can be said to more legitimately represent both hemispheres, it is by no means perfect. The membership of twenty is a largely arbitrary number and since the European Union is one of these, member states who also attend the G20 (France, Germany, Italy and the UK) are effectively represented twice. Spain and the Netherlands, both in the EU, sit outside the G20 but have attended meetings. Furthermore, the G20 has been self-selecting and includes countries of systemic significance rather than simply as measured in terms of wealth. Indeed, Spain and the Netherlands rank ninth and sixteenth respectively in GDP terms according to 2009 World Bank figures (World Bank, 2011). Elsewhere, an outsider to both the G20 and EU and vocal critic has been Norway, which believes it has no effective voice in discussions of potentially momentous decision-making.

While the G20 can be said to represent two thirds of the world's people, 170 countries do not have a place at the table and beyond South Africa that includes every African country. Proposals for a G20 plus 5 with rotating additional membership perhaps only assuage the chagrin of those countries attaining representation rather than seriously challenge the question of input legitimacy (Wade and Vestergaard, 2011b, Wade and Vestergaard, 2011a).

A further connected challenge is to design a framework that allows the G20 to evolve and reform. Lessons can be learned here from the static nature of the Bretton Woods institutions and the United Nations, which still reflect the post Second World War world rather than the power balances in the aftermath of global economic crisis in the twenty first century. Care must be taken not to freeze-frame today's power balances for evermore.

Addressing the Challenges

There is a distinction between the first and the last two challenges. The prisoner's dilemma and arguably also the issue of input legitimacy will always exist. If there were a G30, country number 31 would be likely to complain. And the alternatives put forward by the main critics – a fundamental reform of the Bretton Woods institutions (Vestergaard, 2011) – seem equally difficult. Not only is there the historical baggage the Bretton Woods institutions carry, but there are also severe questions about how a body including around 190 countries could take effective decisions if it were

consensus-based as is the G20. If there are so many veto players (Tsebelis, 2002) it is virtually impossible to agree on meaningful policies. This is not to say that the input legitimacy criticism is itself illegitimate. But the issue here is a practical one.

The authors believe that in order to address the first two challenges – to make a successful transition to the G20 2.0 and increase the institution’s effectiveness - there are practical steps that can be taken. Those steps, however, require fundamental reforms. And when attempting to evaluate these reforms, the European Union and its history as a laboratory for governance mechanisms is a valuable comparison. Of course, there will not be supranationalization on the global level any time soon. But the European Union has also more than a decade worth of experience with the most advanced governance mechanism that sits in-between supranationalization and loose cooperation (what the G20 currently has). And this is the OMC.

The Open Method of Cooperation (OMC) – Origins

OMC is an intergovernmental form of governance drawing on soft power and best practice. The OMC was introduced in the European Union in 2000 as part of the Lisbon Agenda, which was meant to turn the Union into the most competitive area in the world. In order to achieve this aim, it was judged that the EU needs better and more structured ways to cooperate in policy fields not covered by the ‘community method’, under which policy competencies are supranationalized. For this reason, the OMC developed further the experiences of the 1990s with the Broad Economic Policy Guidelines (BEPGs) and the European Employment Strategy (EES) and created a new set of processes (Zeitlin, 2009). It is important to note that the OMC is not a rigid procedure that is duplicated across a diverse set of policy areas. It is because it is applied to a diverse set of policy areas that the OMC is a rather flexible approach based on four procedural principles. Zeitlin describes these principles as follows:

1. Fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long term
2. Establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practises
3. Translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences
4. Periodic monitoring, evaluation and peer review organized as mutual learning processes (Zeitlin, 2009)

In the application of the OMC, the second point deserves special attention. In practise the European Commission pursues policy convergence via the OMC rather than – as stated above – the

mere comparison of best practise (Hodson, 2004) and therefore assisted national policy-learning. Apart from the self-defeating logic of this process – if policies converge there is less and less to compare and hence there would be a stifling of policy innovation and everybody would tend to adopt a rather similar and rigid policy framework (Kerber and Eckardt, 2007) – there is also the question whether the European Commission actually has the authority to pursue policy convergence in the areas covered by the OMC.

It is this implicit aim of policy convergence and the comparison against the community method that leads to slightly distorted judgement of the OMC. Of course, if convergence across the Union is the main aim the OMC must look ineffective. First, in the supranationalized policy fields the Union has the authority to legislate directly for all members so there is a straightforward process. Second, when evaluating the effectiveness of the OMC it cannot only be difficult to justify the pursuit of policy convergence but even more to prove that policy convergence when it happens is a result of OMC processes. The empirical study of OMC effectiveness is exceedingly challenging and suffers from a variety of methodological problems, above all how to isolate the OMC as a single factor. Academic opinion is split as to whether the OMC is a useful tool for policy convergence (Zeitlin, 2009).

OMC, OECD, IMF and G20

In the academic discussion, the OMC has also been compared to procedures within the OECD and the IMF, from which it has also drawn inspiration. OECD economic surveys monitor whether member states follow the code of conduct for healthy economic policies as described by the OECD convention. OECD economic surveys are regular monitoring and evaluation procedures for each country and are based on peer-pressure (Schaefer, 2006). In the case of the IMF, consultations under Article IV spring to mind. And the Fund has considerable scope to impose its policy prescription to debtor countries as loans always come with attached policy conditionality that is based on the Fund's financial programming approach (Buirra, 1983). The fact that policies based on this rather rigid method tend to produce one-size-fits-all policy prescriptions has been a frequent criticism of the IMF (Stiglitz, 2002).

When simply comparing organizational procedures, there might be a degree of similarity. But what is largely missing from these comparisons is a reflection on the nature of the institution in which these processes take place. The OECD describes itself as a policy forum 'in which governments can work together to share experiences and seek solutions to common problems. We work with

governments to understand what drives economic, social and environmental change' (OECD, 2011). But the OECD does not bring together heads of government or state on a regular basis to take major decisions on current policy issues. The OECD is much more a traditional policy forum that analyzes, evaluates and tries to influence and assist national decision-making by peer-review. It is by far not as high-level as the G20 and also suffers from a membership that is not representative of current global structures.

The comparison to the IMF is even less insightful for the purpose of this study. Apart from the difficulty to reform the IMF into a consensus-based decision-making body, it is generally not designed for this kind of policy-making. The Fund indeed has some advisory function that is also based on monitoring and peer-pressure, but the institution is mainly associated with providing member countries with concessional and non-concessional credit lines and technical assistance to overcome severe economic problems (Schaefer, 2006). This help usually comes with policy conditionality to which the affected country has to agree or face the cessation of financial help. The IMF does not bring global political leaders together either. It is run by a managing director who heads an executive board that is ultimately accountable to the institution's highest decision-making body: the Board of Governors, which meets annually and consists of representatives of the IMF's 187 member countries. One can compare procedures across different international bodies but one has to bear in mind the nature and purpose of these institutions when doing so.

Against this backdrop, can the OMC be categorized as a governance mechanism *sui generis*? The answer is: yes and no, depending on the elements one considers and how pure an understanding of *sui generis* is applied. As argued above the setting of the OMC in the EU framework is unique as an intergovernmental form of governance in a supranational institution. The procedural elements of the OMC on the other hand resemble more of an evolution of pre-existing EU practices that were further inspired by procedures applied in other international organizations. From this follows that there are two important aspects that need to be analytically captured: the institutional context and the procedural mechanisms.

So what does all of this mean for the G20? The G20 as a governance institution is more similar to the intergovernmental elements of the EU than either the OECD or the IMF as it seeks to direct global policy at the highest level and takes decisions to which all member governments agree in principle. The problem for the G20 is to translate these agreements into practical steps to be taken by member governments and to evaluate these steps. Therefore one of the main focal points of OMC criticism and discussion – whether it brings about policy convergence or not – is irrelevant for the G20 context. At the G20 level countries would not agree to any mechanism that would bring

about policy convergence. Mutual policy-learning and the spread of best practise could be a goal, but only a secondary one. The point here is that OMC is used not so much as a journey but rather as a mechanism for expansion and contraction as is necessary.

The Reform Path towards G20 2.0

When talking about a reform path for the G20 it is important to first of all bear some general lessons in mind. Above all, the G20 should learn from the post-World War Two institutions that are now coming more and more under pressure and develop a mechanism with which the constitution of the institution itself can be adjusted to changing realities. Institutional gridlock that prevents necessary adjustments must be avoided. As G20 decisions are consensus-based, the problem of input legitimacy is an important aspect in this context. Could the composition of the G20 change? And how is the insider-outsider problem addressed? There are some interesting developments currently being discussed.

First of all, as Andrew Cooper stated, the outsider countries do normally not revert to questioning the general G20 approach but seek inclusion:

Significantly, however, this does not mean that non-members have adopted a strictly oppositional stance towards the G20. Rather than outright rejection, the preference has been a search for inclusion. The G20 is viewed as having some positive features but remains in need of further adjustment in order to maximise its benefits to a greater range of countries (Cooper, 2011).

Since the South Korea G20 last year there have been interesting developments. Above all the concept of G20+5 – where 5 strategically important non-G20 countries are invited to attend the meetings – has been a fairly well received step to develop a more inclusive approach. As Cooper suggested, this approach could be extended to include regions rather than countries. By adding a network approach, wider participation in the G20 process could be secured by having regional groupings represented in some form (Cooper, 2011). Given that the EU, as a regional grouping, is a full member there is certainly scope to look more detailed into the possibility of involving regional networks and by doing so address issues related to input legitimacy and geographical imbalances.

Second, the G20 needs a stronger institutional setup. The idea to introduce a permanent G20 secretariat, that was first proposed by the South Korean G20 presidency last year, was initially also

championed by this year's G20 host France (Euractiv.com, 2010). The idea was also supported by important emerging economies such as China and Brazil whilst some more G7 focused countries such as Italy and Japan were opposed (The Chosunilbo, 2010). In the priorities of the French G20 presidency as published on the official website, however, there is no mention of the further institutionalization of the G20 by introducing a permanent structure that would work alongside the rotating presidency (G20-G8 France 2011, 2011).

To enhance G20 capabilities, however – especially if there are meant to be more outreach mechanisms as described above – a permanent secretariat is indispensable. The current troika structure of rotating presidencies of countries from different world regions – which seems to be influenced by the rotating presidency of the Council of the European Union – is simply not capable of accomplishing all tasks the G20 needs to take on if it wants to become a regular institution of global governance. The current presidency holder France and the 2012 presidency holder Mexico need to put the creation of a permanent institutional structure back on the agenda if they are serious about establishing the G20 as a leading governance institution.

Having addressed these institutional issues the major problem of G20 effectiveness still needs to be resolved. It is the key argument of this paper that G20 effectiveness could be greatly enhanced by adopting an adjusted form of the European Union's OMC. The OMC is of particular relevance to the G20 since gatherings in the immediate aftermath of the global economic crisis were characterised by a dysfunctionality borne of the economic and political dominance of the USA and China together with their diverging trade interests and policy dispositions. Bilateral discussions between the so called 'G2' have dominated the agenda to the exclusion of European and other nations who were invited to line up in support of one side or the other. It can also be observed that such dominance was less than edifying; the stand-off resulting in diplomatic stalemate. The G20 experience highlights not only the challenge of big player dominance but also the need to form some framework in order to mitigate such effect. The OMC as a procedure that binds all players into a common process has the potential to produce such a mitigating effect.

To operationalize an OMC for the G20 a permanent secretariat is also essential as supervising such a process would overburden national bureaucracies involved in the rotating presidencies and independence of evaluation needs to be guaranteed. As mentioned above, the key European benchmark for evaluating OMC success – whether it brings about policy convergence or not – is irrelevant in the G20 context although a 'best practise and lessons learned' programme could be a valuable if secondary goal. So liberated from the policy convergence point of view it is worthwhile to elaborate the principles of a G20 OMC or answer the question: how does one adapt the OMC to the G20?

The main objective is to design a political process following the four key principles of the OMC as described by Zeitlin. Again, the flexibility built into the OMC – that it is not a rigid process followed in the same manner across diverse policy areas – is a valuable characteristic for adapting it to different institutional settings.

So what needs to be done? First, the agreements of G20 communiqués have to be developed into more specific short-, mid- and long-term goals that are linked to specific timetables. This can be done in cooperation and agreement with national governments in the aftermath of G20 summits. Second, these goals need to be further broken down into quantitative and qualitative indicators that do not follow one-size-fits-all approaches but take the individual circumstances of members into account. Again, this would be a task a permanent G20 secretariat would accomplish in cooperation with national governments and bureaucracies. In a third step, specific regional and national policies would be developed to achieve these goals. On top of the G20 national government cooperation, this step could be assisted by the inclusion of existing institutions with an advisory function such as the IMF. There should not be a doubling up of advisory capabilities, which would maybe even give different advice, if there are no clear reasons for doing so. And fourth, there needs to be permanent evaluation and peer review to assess whether members are on track to fulfilling the commitments they signed up to in the communiqué. This process would involve the G20 secretariat producing regular reports on progress made and pointing to policy areas in which advancement has not been as expected. This process would follow a peer-review practice and, as an OMC for the G20 would also be a soft-law procedure, would rely on naming and shaming and peer pressure if progress in specific areas were sluggish.

In framing the procedures of the G20 arrangements, care needs to be taken to ensure the organisation remains consensus driven also in the interaction between the secretariat and individual governments. This could be problematic given the role and potential power of the secretariat, which would engage in the interpretation of communiqués and bilateral agreements with member governments as well as have the ultimate power to evaluate and recommend. The model should, therefore, tend towards those collaborative matters of primary and immediate interest to all.

Apart from the need to preserve the consensual character of the G20 to secure continued buy-in by member governments, an OMC for the G20 should also create a broader scope to increase the number of stakeholders in the process. As indicated above, an opening up of the OMC procedure could be linked to G20 outreach activities meant to address the input legitimacy problem (for instance G20+5). Also, the process should be opened up to civil society players and international

organizations. These closer links into society and the wider architecture of international organizations would potentially increase the power of peer pressure as the number and variety of peers would increase. The G20 would also benefit from the diverse input into its policy process and further enhance its legitimacy as an international governance institution.

Such a broad and inclusive OMC for the G20 cannot be run in a static manner. It would therefore depend on the policy fields addressed – if the G20 was to broaden its remit – what civil society groups and international organizations were to be part of the OMC. In the case of growth and jobs it would for instance be helpful to include the international trade union movement and the International Labor Organization (ILO) in the process as well as employer's associations. If the G20 were to address environmental issues the participation of organizations such as Greenpeace and the United Nations Environmental Program (UNEP) would be very helpful. The flexible adaptability of the OMC to different policy settings is a very helpful feature in this context.

Of course, comprehensive reform such as the introduction of an OMC would not be easy; but it would certainly help the effectiveness of the G20 process. First of all, member countries would be forced to reflect on what the sometimes loftily worded communiqué goals mean for their own countries and how progress towards these goals can be made and evaluated. This in itself would create a new follow-up process in which member countries would need to demonstrate in much more detail than hitherto how they intend to achieve the political goals they signed up for. And second, an OMC for the G20 would bind all members into a common process that would take place permanently and not just in the preparation of summits. It would be an important institutionalization of a mechanism that so far lacks permanent structures and procedures.

Conclusion

The basic argument for global governance – the need to regulate and channel the many social, economic, environmental, technological and cultural processes that now transcend the limits of national and regional governance – is more relevant than ever. With existing global governance institutions suffering from their deficiencies and international talks on important issues such as global trade and climate change often stalled or unsuccessful, there is a real need for governance institutions that involve the key global players and are capable of effectively addressing pressing global policy issues.

In this context, the ascendancy of the G20 has been a breath of fresh air even though it remains incomplete as an institution and its success will be determined whether the four key challenges it faces can be successfully addressed. The move from an emergency institution to a permanent component of global governance will crucially depend on how the effectiveness of the G20 can be further improved. We have made the case for why we think that an adopted version of the European Union's OMC would be an important structural reform to fundamentally improve G20 effectiveness. The scope of this study did not permit to develop our proposal in great detail. Our main aim, moreover, was to sketch out the basic principles of an OMC for the G20 and, crucially, set them in the context of the broader discussion of G20 evolution and reform. The full potential of the proposed introduction of an OMC for the G20 only becomes apparent when viewed against the backdrop of the G20's broader problems and challenges.

This paper should be seen as a contribution to the on-going academic and public debates surrounding the G20 process and we would like to thank the Bertelsmann Foundation for giving us the opportunity to work on our ideas and giving us the platform to publish our proposals.

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