Who Should the Twenty Be?

A New Membership System to Boost the Legitimacy of the G20 at a Critical Time for the Global Economy

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Foreword

"We live in an increasingly global economy." This phrase—or variations upon it—has become such an overused expression on the part of our leaders that it can be meaningless to the average taxpaying citizen. Yet, the need to find such meaning and ensure it informs U.S. fiscal policy has never been more urgent. The issues facing us in this quest are numerous, among them: How can trade taxes (tariffs) and other trade barriers be lowered to facilitate commerce among nations? How can our own tax laws be reformed to create a business climate more capable of nurturing investment and job creation? How can our country compete more effectively abroad without resorting to counterproductive subsidies that contribute to our rising national debt? How can the United States serve as an example to other countries by more fully embracing market-based economic principles? How should our nation participate in multilateral institutions concerned with matters of worldwide financial importance?

It is the last question that prompted the National Taxpayers Union (NTU) to support this study. Since its founding in 1969, NTU's work on behalf of lower taxes and limited government has often touched upon international financial issues. In 1977, for example, NTU initiated a public education campaign, chaired by experts in finance, to warn that the mounting debts of the developing world and (then) Iron Curtain countries could not be readily repaid. During the 1980s, we opposed the Carter and Reagan Administrations' attempts to vastly increase International Monetary Fund (IMF) quotas, and thereby burden taxpayers with shaky liabilities.

In more recent times, NTU has advocated suspending additional U.S. contributions to the IMF and multilateral development banks until participating nations honor their debt obligations. We have also called for greater protections for whistleblower employees with timely information about waste, fraud, and abuse at these organizations. Meanwhile, as a founding member of the World Taxpayers Associations, NTU has, for the past twenty-five years, partnered with activist groups on six continents to develop positive reforms that have guided nations toward limited governments.

In the G20, however, a tremendous opportunity exists to avoid taking on what this study's authors rightly describe as the "political and operational baggage" of other entities such as the IMF and the United Nations—baggage that, not coincidentally, often encumbers taxpayers here and abroad with heavy liabilities. This can be achieved through basic decisions to establish more transparent and rational membership standards, which can provide the most valuable capital for any multilateral body: legitimacy among the taxpaying constituencies it intends to serve. In so doing, the G20 could take a first step to becoming a new model for economic policymaking that depends not on costly bailouts but more on proactive self-discipline in the common interest; such a model rewards free-market solutions from innovators instead of statist behavior from bad actors.

In 1983, NTU's then-Chairman James Dale Davidson testified before the House Banking, Finance and Urban Affairs Committee on issues of international development. He warned:

> Economic growth is not an accident of nature. It is a consequence of human choice. Any country can impoverish itself by maintaining overvalued exchange rates, subsidizing

> foodstuffs and thus destroying domestic agriculture, erecting corrupt and inefficient state enterprise to monopolize industrial development, and imposing domestic fiscal policies which push aggregate expenditure above output. . . . Rather than dealing out yet another hand to be stacked on international banking's house of cards, we should take care, and look to the long run to the real sources of economic growth and prosperity. These lie in policy adjustments by the borrowing countries, not in subsidized lending.

Although much has changed in the global economic sphere—from the advent of the Information Age to the increased complexity of financial transactions—taxpayers everywhere continue to demand accountability from international institutions operating in that sphere. That is why some thirty years later, Davidson's words still have relevance, and they should be read not as an indictment of *all* multilateral approaches to economic challenges. Instead, they can define a balanced vision for cooperation that respects the sovereignty of taxpayers, recognizes the responsibility of individual nations, and fosters stability—all while resisting the impulse to replace dynamic, often self-correcting market forces with the arbitrary judgments of bureaucracies.

Some would ask, can such an ambitious blueprint ever be reflected in the design of any international forum, much less the G20's? Time will tell. It is our sincere hope that this study will begin a conversation on how to build such structures in the future—a conversation in which taxpayers deserve the most prominent voice.

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Executive Summary

A recent headline on the front page of the *New York Times* summed up the dire state of the efforts to remedy a weakening global economy: "In Economic Deluge, a World That's Unable to Bail Together."[1]

A key reason is that the organization established to do the job—the Group of Twenty, or G20—is facing a crisis of its own. On the eve of the June 18–19 meeting of G20 heads of state in Los Cabos, Mexico, critics say that it lacks the necessary will and authority to deal with the immense problems at hand.[2] This paper makes the case that correcting this deficiency is essential, and that the most important change must be made at the most basic level: the G20 cannot achieve adequate legitimacy until it adopts clear criteria for membership.

Remarkably, since its founding thirteen years ago, the G20 has lacked transparent rules governing its membership. As a result, there has been an erosion of trust among the nearly two hundred nations that are not part of the group but are affected by its decisions. Without legitimacy, the G20 cannot lead.

This paper identifies specific membership criteria and shows the effect they will have on the G20's composition. Setting clear criteria will be controversial—in part because it will require the replacement of several current members. Such change may be painful, but with another recession beginning in Europe, uncertainty over the future of the euro, sluggish growth in the United States, and weakness among developing economies, reform must happen soon if the G20 is to work constructively to help foster economic growth and financial-market stability.

The G20's legitimacy depends on having as members those nations most capable of improving global financial markets and preventing economic crises. Thus, the specific selection criteria must be based on the three objectives to which G20 heads of state agreed in 2008:

1. Restoring global growth,
2. Strengthening the international financial system, and
3. Reforming international financial institutions.[3]

With these goals in mind, we conclude that appropriate potential membership criteria should be based on measures of:

- A country's economic size and global economic importance,
- A country's adherence to rule of law and other principles consistent with market-based economies, and

[1] Floyd Norris, "In Economic Deluge, a World That's Unable to Bail Together," *New York Times*, June 3, 2012.
[2] In addition to the numerous critical pieces cited later in this paper, see Andrew F. Cooper, "The G20 and Its Regional Critics: The Search for Inclusion," *Global Policy* 2, no. 2 (May 2011): 203–209.
[3] G20, "The Origins and Evolution of the G20," available at www.g20mexico.org/en/the-origins-and-evolution-of-the-g20.

- The size of a country's financial-services sector and the magnitude of inbound and outbound cross-border banking activity (financial interconnectedness).

Using these objective measures, we conclude that:

- Four current G20 countries do not qualify for membership in the G20. They are, in alphabetical order, Argentina, Indonesia, Mexico, and Russia.
- Four current nonmembers should replace them. They are Malaysia, Norway, Singapore, and Switzerland.
- These changes assume that the European Union (EU) would continue as a member of the G20 even though it is not a nation but that the number of EU nations in the G20 would be capped at four, as is currently the case.

Our intention in this paper is not to determine the specific hard-and-fast criteria for G20 membership but to offer one rules-based formula among several possibilities and to emphasize the urgency of finding a solution to a crisis of legitimacy.

Introduction

The Group of Twenty, or G20, was established in 1999 in response to the Asian financial crisis of the late 1990s. Initially composed of finance ministers and central bank governors of twenty "systemically important advanced and emerging economies," [4] the G20 was intended to stabilize the international financial system and help coordinate responses to future global economic distress. The group rose to greater prominence in 2008, when, at the request of President George W. Bush, G20 heads of state began meeting to address the financial crisis that had begun to affect major economies the year before.

Although the G20 members are among the largest economies in the world, there are no established criteria for membership. As this paper will detail, this lack of a rules-based admissions system threatens to weaken the group's effectiveness, as criticism of the arbitrariness of the institution's makeup gives rise to challenges to its legitimacy.[5] The G20 clearly has the potential to serve as a positive force in the global financial system, but trust in its authority must be strengthened.

With the anemic economic recovery weakening, global leaders should quickly consider how to fulfill the G20's potential for building economic stability. The place to start is by establishing criteria for membership and adjusting the group's composition accordingly.

The paper is structured as follows. We begin with a brief history of the G20, its current structure, and the importance of the group's role in the global financial system. Then, we provide a review of the academic literature on the relationship between group legitimacy and membership criteria, particularly in multilateral organizations. After establishing the rationale for membership criteria for the G20, the paper argues that those criteria must be guided by the G20's overarching purpose. We conclude by identifying potential criteria for global leaders to consider and assessing the effect of such criteria on the group's current membership composition.

History, Structure, and Significance of the G20

The G20 is a relatively new international institution, but its roots date back roughly forty years. The G7—the international group comprising the world's seven largest economies—has been in existence since the 1970s, when those giants dominated the global economy to a greater extent than they do today. (The original G7 countries were Canada, France, Germany, Great Britain, Italy, Japan, and the United States.) By the 1990s, the rapid growth of emerging nations and greater global economic integration gave rise to calls for a larger, more inclusive international economic organization—one that would reflect the true nature of the modern global economy.

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[4] G20, "The Group of Twenty: A History," November 2008, available through www.g20.utoronto.ca/docs/index.html.

[5] See, for example, Jakob Vestergaard, "The G20 and Beyond: Towards Effective Global Economic Governance," Danish Institute for International Studies Report 2011:04, available at www.diis.dk/graphics/publications/reports2011/rp2011-04-g20-and-beyond_web.pdf.

The G7's initial attempts at establishing this larger group led to the formation of the G22 in 1997. It was replaced in 1999 by the G33, which was superseded that same year by the G20. Nearly a decade later, the global financial crisis launched the G20 as the leader in global economic governance.[6]

The G20 members (listed alphabetically in the accompanying box) comprise the European Union (EU) and nineteen countries selected by the G7. Representatives from the International Monetary Fund (IMF), the World Bank, and Spain regularly participate in meetings, though not as formal members of the group.

Current G20 Members

1. Argentina	11. Italy
2. Australia	12. Japan
3. Brazil	13. Mexico
4. Canada	14. Russia
5. China	15. Saudi Arabia
6. European Union	16. South Africa
7. France	17. South Korea
8. Germany	18. Turkey
9. India	19. United Kingdom
10. Indonesia	20. United States

There were no criteria for membership when the G20 was formed in 1999. Instead, the selection of members was based on several loose principles: that the group include economies important to the global financial system, that it be regionally representative, and that it reflect the composition of the global economy.[7] The G20 does include large, important economies—together the members comprise more than 85 percent of global gross domestic product (GDP) and two-thirds of the world's population.[8] The selection process, however, has been faulted for its arbitrariness, and the absence of formal criteria calls into question the legitimacy of the group as a representative body.

This surprising absence of membership criteria has a justification: the G20 was formed as a crisis committee, and long-term legitimacy was not a primary concern at the time. Now that the group is considered a global steering committee, criticisms about its composition need to be addressed.

The group is well positioned, with only minor reforms, to serve a valuable purpose: coordinating international policy to mitigate the risk of financial crises and promote global growth. As Brookings Institution scholars Colin I. Bradford and Johannes F. Linn write, "The G20 has a strong foundation in the ten-year history of the G20 ministerial meetings, developing a strong network among officials of communication, consultation and concertation. The strength of this network of senior officials is the foundation of G20 Summits and provides the means of moving the global agenda forward continuously from one [G20] presidency to the next."[9]

In a similar vein, following President George W. Bush's decision to host heads of state of the G20 nations in Washington, D.C., in 2008, Dan Price, assistant to the president for international economic

[6] Larry Elliott, "G7 Elite Group Makes Way for G20 and Emerging Nations," *The Guardian*, October 4, 2009.
[7] G20, "The Group of Twenty: A History."
[8] Il SaKong, "Foreword," in *Global Leadership in Transition: Making the G20 More Effective and Responsive*, ed. Colin I. Bradford and Wonhyuk Lim (Washington, DC: Brookings Institution Press, 2011), ix.
[9] Colin I. Bradford and Johannes F. Linn, "A History of G20 Summits: The Evolving Dynamic of Global Leadership," *Journal of Globalization and Development* 2, no. 2 (December 2011).

affairs, noted: "The President concluded after consultations with other leaders that for this first summit, the Group of 20 offered a representative group of countries for an initial discussion, and importantly, the G20 had established channels of communication among officials to help both prepare for the summit and to continue work after the summit."[10]

Rationale for Establishing Membership Criteria as a Means for Institutional Legitimacy

The primary reason for establishing criteria for G20 membership is that appropriate, carefully chosen criteria will lend the group increased legitimacy. As organizational sociologist Mark Suchman of Brown writes, "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."[11] Without legitimacy, the actions of a group such as the G20 could very well be ignored or dismissed for having no authority.

Sociologist Cathryn Johnson of Emory, discussing key legitimacy theories among social psychologists and organizational researchers, writes, "An authority exists and is binding when participants see that other participants act in accord with it and support it. . . . Order, then, is greatly facilitated when there is a collective belief in the legitimacy of an authority structure."[12] This collective belief is particularly important for multilateral organizations, such as the G20, because they do not have the legitimacy democratic processes naturally provide.[13] Political scientist Robert Keohane, a scholar of international affairs at Princeton and author of the highly regarded book *After Hegemony: Cooperation and Discord in the World Political Economy*, has noted that legitimacy for multilateral organizations depends in large part on the inclusiveness of the membership, given the diverse interests a multilateral group must represent.[14]

Some G20 watchers have criticized the group's lack of inclusiveness, and thus lack of legitimacy, since the original selection process that yielded the group's current structure. In 2001, University of Toronto economist Gerry Helleiner declared that the G20's "origins in the G-7 reduce its legitimacy" and criticized the group's membership as "not fully representative."[15]

More recently, Norwegian foreign minister Jonas Gahr Støre argued, "The G-20 had a meaning when the financial crisis broke out, the situation was serious and joint decisions had to be swiftly made

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[10] "Press Briefing by Daniel Price and David McCormick on the Summit on Financial Markets and the World Economy," news release, November 12, 2008, available at www.presidency.ucsb.edu/ws/?pid=84789.
[11] Mark C. Suchman, "Managing Legitimacy: Strategic and Institutional Approaches," *The Academy of Management Review* 20, no. 3 (July 1995): 574, available at www.sabin.org/files/Suchman_legitimacy_95.pdf.
[12] Cathryn Johnson, ed., *Legitimacy Processes in Organizations*, Research in the Sociology of Organizations, vol. 22 (San Diego: Elsevier, 2004), 3.
[13] Robert O. Keohane, "The Contingent Legitimacy of Multilateralism," in *Multilateralism Under Challenge? Power, International Order, and Structural Change*, ed. Edward Newman, Ramesh Thakur, and John Tirman (Tokyo: United Nations University Press, 2006), 63.
[14] Ibid., 59.
[15] Gerry Helleiner, "Developing Countries, Global Financial Governance and the Group of Twenty: A Note," prepared for the Governance Working Group of the Global Financial Governance Initiative, March 2001, available at www.globaleconomicgovernance.org/wp-content/uploads/Helleiner%20on%20G20.PDF.

in order to calm the markets. This importance remains. But . . . the G-20 is a self-appointed group. Its composition is determined by the major countries and powers. It may be more representative than the G-7 or the G-8, in which only the richest countries are represented, but it is still arbitrary."[16]

Terra Lawson-Remer of the New School University recently wrote, "The G20 excludes more than four-fifths of the world's countries, causing some critics (and excluded countries) to denounce it as unrepresentative and therefore insufficiently legitimate. And because having enough of the right actors at the table is a prerequisite for effective global coordination, these same critics contend that this lack of representative legitimacy also undermines the G20's effectiveness."[17]

Complaints from excluded countries will be impossible to avoid, but the key to increased legitimacy is to establish clear membership criteria for the group. As Chatham House researchers Paola Subacchi and Stephen Pickford write, "Thorough reform of the G20 membership with the view not only to allowing more countries around the table, but also to establishing objective and 'measurable' criteria for membership is highly desirable in the long term."[18]

Stewart Patrick, a senior fellow at the Council on Foreign Relations, agrees: "The G20 faces the immediate question of whether it should adjust its self-appointed, exclusive membership to accommodate other states and organizations. Although more representative than the G8, the G20 continues to suffer attacks on its legitimacy, particularly from excluded countries. A major source of controversy is the absence of any objective criteria for membership."[19]

Constructed properly, criteria for membership could foster the perception of legitimacy among G20 members and nonmembers alike. A G20 in which membership is based on straightforward, objective criteria could instill confidence around the globe by signaling that the group's composition is the result of neither arbitrary selection nor an attempt by one or more members to serve their own political ends.

It is important that reforms avoid turning the G20 into a rigid, cumbersome organization constrained by unnecessary rules. As global economic governance expert Ngaire Woods has explained:

> The G20's effectiveness has sprung from its informal, non-institutionalized form. The G20 has operated as an informal network, signaling the intent of powerful countries to cooperate, providing a stage on which they can commit to cooperate, and crafting

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[16] Jonas Gahr Støre, quoted in "Norway Takes Aim at G-20: 'One of the Greatest Setbacks Since World War II,'" *Der Spiegel*, June 22, 2010.

[17] Terra Lawson-Remer, "Does the G20 Matter?" Reuters blog "The Great Debate," February 24, 2012, available at http://blogs.reuters.com/great-debate/2012/02/24/does-the-g20-matter. See also Robert Wade and Jakob Vestergaard, "Overhaul the G20 for the Sake of the G172," *Financial Times*, October 21, 2010.

[18] Paola Subacchi and Stephen Pickford, "Legitimacy vs Effectiveness for the G20: A Dynamic Approach to Global Economic Governance," Chatham House International Economics Briefing Paper (October 2011), available at www.iadb.org/intal/intalcdi/PE/2011/09299.pdf.

[19] Stewart Patrick, *The G20 and the United States: Opportunities for More Effective Multilateralism* (New York: Century Foundation, 2010), available through www.tcf.org/publications/2010/10/the-g20-and-the-united-states-opportunities-for-more-effective-multilateralism.

> jointly agreed (when possible) priorities for cooperation. . . . An effective global steering committee will need to travel light, convening with rapidity (as occurred in November 2008), unencumbered by rules and structures but inclusive enough to command a minimum of legitimacy.[20]

Some countries have argued that legitimizing the G20 can be best achieved through the establishment of a permanent secretariat as opposed to the current rotating leadership without permanent staff.[21] Yet, the G20 benefits from not being viewed as yet another multilateral bureaucracy. Already, Terra Lawson-Remer summarizes public opinion of the G20 as "transnational elites hatching plans behind closed doors in insulated centers of power."[22] A permanent secretariat would only reinforce that view.

Major changes to the organization itself would probably be counterproductive. The G20 holds promise in part because it has not enveloped itself in elaborate structures to foster its self-importance. Instead, a fair set of criteria to determine which countries are included would buttress the organization's effectiveness without imposing the burdens associated with elaborate operational bureaucracies. That innovation alone would contribute greatly to the inclusiveness Ngaire Woods and others have identified as necessary for legitimacy. Once these criteria are established and implemented, the G20 can operate with as much flexibility as ever, but with the added advantage of a higher level of international trust. But care must be taken in setting the criteria. What kind of members should the organization have?

Basis for Criteria: Institutional Purpose

While the reason to establish membership criteria is to foster legitimacy, the actual criteria must be rooted in the purpose for which the G20 exists.[23] The group is intended not only to prevent future financial crises, but also to encourage the growth of transparent, appropriate, effectively functioning financial markets. The G20's legitimacy depends on having as members the countries most capable of, or suited to, improving regulation of global financial markets and preventing global financial crises.[24] A

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[20] Ngaire Woods, "The Impact of the G20 on Global Governance: A History and Prospective," in *Global Leadership in Transition*, 46–47.

[21] See Hugh Schofield, "Global Role Offers Sarkozy Fresh Ammunition," BBC News, December 31, 2010.

[22] Terra Lawson-Remer, "Does the G20 Matter?"

[23] Establishing purpose-driven criteria is not a new concept, but is modeled, in part, after the Organisation for Economic Co-operation and Development (OECD) framework for establishing accession criteria in 2004. As the chair of the OECD Heads of Delegation Working Group on the Enlargement Strategy and Outreach wrote regarding the selection of OECD membership criteria: "With a view to establishing a strategy on future membership and a new accession process, the Working Group took as a starting point a sequential, deductive approach involving the following tasks: first, to identify the Organisation's role and responsibilities as well as the functional processes which support them; then, to consider what sort of membership requirements are desirable for the OECD to fulfil such a role in the new world context; and finally, to determine what criteria and yardsticks can best approximate these requirements and thus guide the selection of eligible countries." (OECD, *A Strategy for Enlargement and Outreach*, May 13, 2004, available at www.oecd.org/dataoecd/24/15/37434513.pdf.)

[24] In addition, establishing membership criteria would bring focus to the G20's overarching purpose and could have the secondary benefit of checking the group's agenda before it interferes with other international institutions.

serious discussion about membership criteria presents an ideal opportunity not only to give the G20 legitimacy in the eyes of the world, but also to recommit to the group's founding principles.

At the first meeting of the G20 heads of state in November 2008, the members agreed to three primary objectives. These objectives should guide the selection of the group's membership criteria:

1. Restoring global growth,
2. Strengthening the international financial system, and
3. Reforming international financial institutions.[25]

The G20 currently is not ideally structured to serve these stated objectives. In fact, land mass—hardly a measure of whether a country is an essential participant in global financial regulatory reform or crisis prevention—has been identified as a key predictor of current G20 membership.[26]

Potential Criteria

Based on the three above objectives, the G20 should comprise large economies with large international banking and finance sectors. The best practices of these country's banking sectors should have the potential to positively influence financial institutions around the world. In addition, members should adhere to the economic principles identified in the declaration of the inaugural summit of the G20 heads of state: "Our work will be guided by a shared belief that market principles, open trade and investment regimes, and effectively regulated financial markets foster the dynamism, innovation, and entrepreneurship that are essential for economic growth, employment, and poverty reduction."[27] With these goals in mind, appropriate potential membership criteria should be based on measures of:

1. A country's economic size and global economic importance,
2. A country's adherence to rule of law and other principles consistent with market-based economies, and
3. The size of a country's financial-services sector and the magnitude of inbound and outbound cross-border banking activity (financial interconnectedness).

Criteria must be transparent, stable, and verifiable. Therefore, we rely on economic and political governance metrics provided by the World Bank and the IMF. We chose the World Bank as the primary source because of its commitment to timely and reliable global statistics. Its database includes over 2,000 measures of socioeconomic, geographic, and economic activity, and it is committed to ensuring that countries have statistical agencies that collect data in a consistent and appropriate manner.[28]

[25] G20, "The Origins and Evolution of the G20."
[26] Patrick Eagan-Van Meter, "Strategic Significance: A Model of G-20 Membership," *CMC Senior Theses*, Paper 104 (Spring 2011), available at http://scholarship.claremont.edu/cmc_theses/104.
[27] G20, "Declaration of the Summit on Financial Markets and the World Economy," G20 Information Center, November 15, 2008, available at www.g20.utoronto.ca/2008/2008declaration1115.html.
[28] World Bank data are available through http://data.worldbank.org. Other data sources such as the OECD were considered, but OECD databases are limited to far fewer countries. The United Nations Conference on Trade and Development database covers a broad number of countries but contains a more limited set of variables.

The notion of using transparent, objective criteria for membership has been suggested by others, including Enrique Rueda-Sabater, Vijaya Ramachandran, and Robin Kraft.[29] These scholars, however, advocate that, to be included, a nation's GDP or population must exceed 2 percent of that of the world as a whole. They then add some smaller countries to ensure geographic diversity. Our approach, by contrast, selects specific criteria that are aligned with the stated objectives of the G20.

For our analysis, we use a set of variables—summarized as economic size, adherence to market-based principles, and financial interconnectedness—to construct a country ranking to assess the current composition of the G20.

1. To measure economic size and global economic importance, the following statistics are included, each measured in current U.S. dollars and each equally weighted within the category: GDP, imports of goods and services, and exports of goods and services.

2. To measure adherence to the rule of law and other principles consistent with market-based economies, we rely on three of the World Bank's Governance Indicators: control of corruption, which "captures perceptions of the extent to which public power is exercised for private gain"; regulatory quality, which "captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development"; and rule of law, which "captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence."[30]

3. To measure financial interconnectedness and financial market size, we use a ranking constructed by the staff of the IMF. This ranking is based on measures of a country's financial systemic importance, and those measures rely on size and interconnectedness as two intuitive and easy-to-apply criteria. According to the IMF, "Size is measured in terms of the volume of services provided by a jurisdiction's financial sector. This defines the importance of a jurisdiction's financial sector in the global financial system and in the specific jurisdiction. Interconnectedness is the extent of linkages of a particular financial sector with financial sectors in other jurisdictions. Interconnectedness captures the potential for systemic risk that can arise through direct and indirect interlinkages, so that an individual failure or malfunction has repercussions around the financial system, leading to a reduction in the aggregate amount of services."[31]

[29] Enrique Rueda-Sabater, Vijaya Ramachandran, and Robin Kraft, "A Fresh Look at Global Governance: Exploring Objective Criteria for Representation" (Center for Global Development Working Paper 160, Washington, DC, February 6, 2009), available at www.cgdev.org/content/publications/detail/1421065.
[30] Governance Indicators and methodology are available at http://info.worldbank.org/governance/wgi/index.asp.
[31] IMF Monetary and Capital Markets Department, "Integrating Stability Assessment under the Financial Sector Assessment Program into Article IV Surveillance: Background Material," August 27, 2010, available at www.imf.org/external/np/pp/eng/2010/082710a.pdf.

The scores are constructed by indexing the maximum point value for each statistic to 100. The country with the highest GDP, for example, was given 100 points for its GDP. Each other country was given a number of points fewer than 100 that corresponded to the ratio of its GDP to the GDP of the top country. For example, a GDP index value of 35 would indicate that the country's economy is 35 percent of the size of the largest economy. To turn these points into a score, each variable is multiplied by an assigned weight between 0 and 1, and the weighted values are totaled. GDP, imports, and exports are each given a weight of 10 percent (for a subtotal of 30 percent); control of corruption, regulatory quality, and rule of law are also each given a weight of 10 percent (for a subtotal of 30 percent); and the financial interconnectedness and financial-market-size metric is given a weight of 40 percent. Before detailing the results of the analysis, two unique matters need to be addressed.

***What to Do about the EU*.** The EU is currently a member of the G20, along with four EU countries. This arrangement would appear to afford Europe's largest economies additional influence over the G20 (since France and Germany exert significant influence over the EU itself). On the other hand, the EU's participation permits the inclusion (by proxy) of a number of smaller, yet globally important, EU countries without the complexity involved with enlarging the G20. Although it is a difficult and multi-faceted issue, we decided to keep the EU as a member of the G20. Because the EU situation is so complex, we decided to maintain the current configuration, retaining the EU itself plus the four EU nations currently in the G20: France, Germany, Italy, and the United Kingdom. These four were among the original members of the G7. (Spain has been a non-voting observer to G20 meetings.) However, it should be noted that granting a non-nation membership does raise the risk that other regional organizations such as the Association of Southeast Asian Nations and the African Union (both of which are invited observers at the Los Cabos G20 meeting in June 2012) will cry foul.

How to Recognize the G20's Stated Objective of Geographic Diversity. At first blush, giving preference to geographic diversity may appear to be of little value within an institution responsible for international finance matters that are not constrained by geography. However, there are indeed valid reasons to consider geography. For example, small countries in a given region may be more likely to follow the lead of their "local superpower" than to heed the advice of a group composed almost exclusively of, say, Asian and Anglo-Saxon countries. Given these considerations, the largest countries from each of five regions were automatically included in our final list: United States (North America), Brazil (South America), Germany (Europe), South Africa (Africa), and China (Asia).

Results of Applying Criteria

The results of this analysis are presented below. Table 1 shows which current G20 countries would not qualify for membership and which current nonmembers should replace them. Table 2 provides further detail regarding the weighted index value for each of the seven criteria that are used in this analysis. While data on the forty-three largest countries were analyzed, only the twenty-four countries currently in or proposed to be added to the G20 are detailed below.[32]

[32] Data for all forty-three countries are available from the authors upon request.

Table 1. Changes in G20 Composition from Applying Criteria

Current G20 Members		**Countries Removed from G20**	**Countries Added to G20**
Argentina	Italy	Argentina	Malaysia**
Australia	Japan	Indonesia	Norway
Brazil	Mexico	Mexico*	Singapore
Canada	Russia	Russia*	Switzerland
China	Saudi Arabia		
European Union	South Africa		
France	South Korea		
Germany	Turkey		
India	United Kingdom		
Indonesia	United States		

***** Mexico and Russia fail to qualify by only a slim margin. See details in Table 2.
** Malaysia qualifies by only a slim margin. See details in Table 2.

Table 2. Country Scores for Membership Criteria Metrics

		Economic Size and Global Importance			**Rule of Law**			**Financial Interconnectedness**
Score	*Country*	*GDP*	*Imports*	*Exports*	*Rule of Law*	*Regulatory Quality*	*Control of Corruption*	*IMF Systemic Risk Measure*
95.2	**United States**	10.0	10.0	10.0	9.1	9.0	8.6	38.4
83.6	**Germany**	2.2	5.8	8.4	9.2	9.4	9.3	39.2
76.5	**United Kingdom**	1.6	3.1	3.6	9.5	9.7	9.0	40.0
74.8	**Japan**	3.7	3.4	4.7	8.8	8.1	9.2	36.8
72.7	**France**	1.8	3.1	3.6	9.1	8.7	8.9	37.6
68.2	**Canada**	1.1	2.1	2.5	9.6	9.6	9.7	33.6
64.8	**Switzerland (new)**	0.4	1.2	1.9	9.6	9.4	9.6	32.8
64.3	**China**	4.1	6.5	9.5	4.5	4.5	3.3	32.0
62.6	**Italy**	1.4	2.5	3.0	6.3	7.7	5.7	36.0
62.3	**Australia**	0.8	1.1	1.4	9.5	9.5	9.6	30.4
55.9	**Singapore (new)**	0.1	1.7	2.6	9.3	9.9	9.9	22.4
54.4	**South Korea**	0.7	2.2	3.0	8.1	7.9	6.9	25.6
48.1	**Brazil**	1.4	1.0	1.3	5.5	5.6	6.0	27.2
47.5	**India**	1.2	1.9	1.9	5.5	3.9	3.6	29.6
43.4	**Norway (new)**	0.3	0.5	0.9	9.9	9.2	9.7	12.8
41.5	**Turkey**	0.5	0.8	0.8	5.8	6.1	5.8	21.6
40.4	**Malaysia (new)**	0.2	0.8	1.3	6.5	7.1	6.1	18.4
39.4	**Saudi Arabia**	0.3	0.7	1.4	6.0	5.5	6.2	19.2
39.0	Russia	1.0	1.4	2.4	2.6	3.8	1.3	26.4
38.3	Mexico	0.7	1.4	1.7	3.4	5.9	4.5	20.8
35.4	**South Africa**	0.2	0.4	0.5	5.8	6.3	6.1	16.0
23.1	Indonesia	0.5	0.7	1.0	3.1	4.0	2.7	11.2
18.1	Argentina	0.3	0.3	0.4	3.3	2.7	4.0	7.2

Notes: Data are for 2010, the most recent available. Only nineteen current G20 members are listed because one spot is reserved for the EU. Countries in **bold** would be included in the G20. Countries underlined would be removed. South Africa qualifies for the G20 because it is the largest economy in its region.

By these criteria, two current G20 countries—Argentina and Indonesia—are shown clearly to be ill-suited for membership in the G20. In fact, based on these criteria, seven countries that did not qualify for membership would be better suited for inclusion than either Indonesia or Argentina.[33]

Given Argentina's record over the last decade, it is unsurprising that the country would fail to qualify for the G20 based on the proposed criteria. In the largest sovereign default in history, Argentina renounced its debt in 2001, just two years after acceding to the G20.[34] Displeasure over Argentina's actions has increased notably in recent months. In March, President Obama denied Argentina trade preferences because the Argentine government refused to pay a settlement to two U.S. investors awarded by the World Bank's International Centre for the Settlement of Investment Disputes.[35] The U.S. government's action is an indication of how global finance affects Americans and why it is important for U.S. taxpayers to concern themselves with the G20's legitimacy and composition.

There has also been a spate of recent editorials criticizing Argentine President Cristina Kirchner for the government takeover in April of the largest oil company in the country.[36] In early May, Senator Richard Lugar (R-IN) introduced a resolution to suspend Argentina's membership in the G20 because the country has been a bad economic actor.[37] In fact, questions have been raised regarding why Argentina earned a spot in the G20 originally. It has even been suggested that the decision was influenced by a friendship between then–U.S. Treasury Secretary Lawrence Summers and Argentina's Finance Minister Domingo Cavallo, who were roommates at Harvard.[38] On top of these criticisms, Argentina ranked last in compliance with the priority commitments that G20 members made at the 2010 Seoul Summit, complying with only 46 percent of the commitments compared to a member average of 76 percent.[39]

While Indonesia's economy is larger and its financial sector more globally important than Argentina's, its scores are still low relative to more-developed nations. Indonesia's growth in the last decade has been considerable, and the country weathered the Great Recession without much difficulty,[40] but Indonesia's government has been faulted recently for not welcoming foreign investment

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[33] Those seven countries are (in order) Russia, Mexico, Chile, UAE, Israel, Thailand, and Egypt.

[34] *The Economist*, "Foreign Creditors Join the Pyre," January 3, 2002, available at www.economist.com/node/922606.

[35] Doug Palmer, "Obama Says to Suspend Trade Benefits for Argentina," Reuters, March 26, 2012.

[36] See, for example, "The Argentine Model," *Wall Street Journal*, April 17, 2012; and "Argentina's President Rejects Stepping into the Future," *Washington Post*, April 19, 2012.

[37] *A Resolution Expressing the Sense of Congress That the Republic of Argentina's Membership in the G20 Should Be Conditioned on Its Adherence to International Norms of Economic Relations and Commitment to the Rule of Law*, Senate Resolution 457, 112th Congress, 2d Session, May 10, 2012.

[38] See Stewart Patrick, *The G20 and the United States: Opportunities for More Effective Multilateralism*, 49. According to Patrick, "Argentina's inclusion seems particularly arbitrary, since it was included in the initial G20 finance group less on the basis of its global weight than on personal relations" (p. 20).

[39] Krystel Montpetit, Hermonie Xie, Robert Schuster, Sarah Ellis, Ava-Dayna Sefa, Andrey Shelepov, Mark Rakhmangulov, and Vitaly Nagornov, *2010 Seoul G20 Summit Final Compliance Report: 13 November 2010 to 19 October 2011*, November 6, 2011, available at www.g20.utoronto.ca/compliance/2010seoul-final/index.html.

[40] OECD and International Labour Organization, "Leveraging Employment-Intensive Techniques in Infrastructure Investment," *G20 Country Policy Briefs: Indonesia* (September 2011), available at www.oecd.org/dataoecd/51/27/48724123.pdf.

and for taking actions detrimental to the country's banking sector.[41] Indonesia also has been criticized for not following up on promised reforms that would have given the country a better chance of remaining in the G20 under our proposed membership criteria. As University of Indonesia scholar Maria Monica Wihardja put it, "Indonesia's geopolitical position has been raised to the international level by its G20 membership. However, many still see it as the 'elephant in the room' with its huge population and large entourage but little contribution."[42]

The results regarding Mexico and Russia, two current members of the G20, are more complicated. The scores for Mexico and Russia are too low to qualify them for the G20, but several other countries are only slightly ahead of them, including Saudi Arabia. Small changes in the criteria or updates to the data could shift the results. (Note that both Mexico and Russia have higher aggregate scores than South Africa, which, nonetheless, qualifies for the G20 as the only African nation.) The closeness of the scores is actually a good argument for a rules-based admissions system. There is no obvious group of twenty nations that should be included in the G20, so fair and transparent metrics are essential, as they justify the difficult decisions that will be required in order to differentiate among similarly situated countries.

To take the place of the countries that fall out, Switzerland and Singapore are standouts. While their economies are relatively small, their rule of law scores and IMF systemic importance scores are high. These two countries are, therefore, excellent examples of the value of employing mission-based criteria rather than relying only on GDP or perceived geopolitical importance. Norway, too, makes it onto the list by a safe margin because of its exemplary rule of law scores. Malaysia is the fourth country to join the G20 under our criteria, but by only a thin margin over several other contenders.

Discussion

Ultimately, the analysis presented above leads to three questions about the fundamental soundness, structure, and future of the G20:

1. How do the results of this analysis reflect on the legitimacy of the current G20 membership?
2. Would imposing an objective test for membership in the G20 result in a significant change in the G20's composition and activities?
3. How could the G20 select appropriate criteria and put this formal approach into operation, and how often should the membership be reevaluated?

First, regardless of the outcome of applying objective criteria, the very process of using an objective mechanism is consistent with strengthening the institution by addressing doubts about a structure that seems to many to be arbitrary. Even if applying criteria resulted in no change in membership, the establishment of a transparent system is a powerful statement of the G20's legitimacy.

[41] Eric Bellman, "Indonesia Could Be the Next India . . . Unfortunately," *Wall Street Journal*, June 1, 2012.
[42] Maria Monica Wihardja, "Strengthening Indonesia's Links, Position, Contribution at the G20," *Jakarta Post* (Indonesia), April 25, 2012.

Second, while the results clearly suggest that some countries are not appropriate members for the G20, it should be considered a positive sign that using objective criteria has only a small impact on the existing composition and thus would not be disruptive to the G20's activities. Such an approach could have the secondary benefit of constraining the G20's "mission creep." For example, issues related to global health concerns would not be appropriate for the G20 since members were selected without any regard to their populations' health status. The proposed membership criteria should help the G20 stick to its core mission by staying focused, in contrast with the observable expansion of activities that other multilateral institutions have experienced.

Finally, because today's G20 membership may not be appropriate tomorrow, it is clearly necessary to reevaluate membership periodically. Change happens. (The original G7, for example, did not include China, which today is the world's second-largest economy.) Reevaluating too frequently, however, could distract the G20 from its core function, disrupt the group's cohesion, and allow an insufficient amount of time for member countries to implement a new policy consensus. Reevaluating too infrequently could also weaken the effectiveness of the group if unqualified countries remain members for extended periods of time and obviously qualified countries are on the outside.

We believe reevaluating membership every five years at minimum and ten at maximum would strike a proper balance between the risks. Given the normal lags associated with gathering and publishing statistical data, the criteria would be applied to the most recently available data, likely two years old. Of the two poles, we favor reevaluation at close to five years. Such a duration would create both a constant reassurance that the current members are deserving of G20 status and an incentive for countries on the cusp of gaining membership to implement reforms or strengthen their economies' growth prospects so they might make the grade.

Conclusion

With rumblings of economic distress growing louder, the global economy is in need of an effective forum for policy discussion and action. The United Nations, the IMF, and other multilateral institutions are all encumbered with their own political and operational baggage, but the G20 is poised to fill that role effectively if it adopts just modest reforms in the form of straightforward, objective membership criteria. Establishing such criteria would go a long way toward lending the group legitimacy and ensuring that its members are the most capable of forestalling or dealing with a financial crisis.

Our intention in this paper, however, is not to declare the absolute and only set of specific hard-and-fast criteria for G20 membership, but instead to illustrate that a transparent, rules-based formula, guided by the express mission of the G20, can lend credibility to the group without affecting the manner in which it conducts its policymaking. While two of the current members of the G20—Argentina and Indonesia—clearly do not belong, it should be recognized that the vast majority of the members do belong. Therefore, removing the appearance of arbitrariness from the makeup of the current organization could be achieved with little disruption. We hope that the leaders of the world will take the opportunity to put aside the political incentives to handpick winners and losers and do what is best to help reignite the global economy.

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