Global politics are domestic politics: a societal approach to divergence in the G20

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Abstract. Since 2008, the leaders of industrialised and emerging economies have engaged in steering the global economy through the G20. Divergent national positions were to be expected based upon the different stages of economic development and according to previously existing international groups. The actual controversies in the G20 did not reflect these patterns, however, but showed divergence both between industrialised countries and between emerging economies. In explaining this puzzle, I argue that the driving forces for global economic governance have ceased to be industrialised or emerging countries' alliances and levels of development. Rather, the causes for the positions of G20 members can be found in economic interests and ideas dominant in the domestic politics of countries. These societal influences shape governmental preference formation in both industrialised and emerging countries and consequently influence their behaviour in global governance. The resulting divergences weaken previously existing groups such as the G7 and the BRICs, and create a new pattern in world politics. This societal approach to explaining governmental positions in global economic governance is exemplified on the core G20 issues of stimulus/public debt and global imbalances/exchange rates.

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Introduction

For the first time in history, industrialised and emerging economies are negotiating the governance of global finance in a common forum, the G20.[1] Prior to the first convening of the G20 on the leaders' level in 2008, subgroups of the participating states were organised into standing groups as long-term alliances. Specifically, the industrialised states had formed the G7 and the emerging powers the 'trade G20' as well as the BRICs group (Brazil, Russia, India, China). The G7 of industrialised countries had aimed at steering the world economy since 1975 regarding trade, finance, exchange rate, and currency issues as well as the macroeconomic policies

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[1] Members of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States, and the European Union. The G20 was founded 1999 but has convened on the leaders' level only since 2008.

of its members.[2] The 'trade G20' was founded in Cancun 2003 as an alliance of developing and emerging countries to counteract the dominance of industrialised countries (especially the US and the EU) in the World Trade Organisation (WTO).[3] The BRICs were originally coined as a term by Goldman Sachs, but quickly assembled into a group articulating emerging powers' desire to change the world order and to oppose the leading role of the industrialised powers.[4] While the 'trade G20' has seen its coherence weaken since 2006, the BRIC leaders have continued to call for reforms of the global economic system (for example, for a more diversified currency system).[5] All of these groups of industrialised and emerging countries have been vocal regarding their preferences on most global economic governance topics, ranging from economic stimulus to trade and finance.

Hence, opposing alignments were to be expected in the G20 along the lines of previously existing groups as well as based on different levels of economic development, that is, in the form of industrialised versus emerging countries. However, the G20 summits since 2008 evidence a different pattern. Divergence appeared in an *ad hoc* way according to the issue at stake. Industrialised countries and emerging powers diverged from one another in changing constellations. For example, Germany and Brazil criticised US and Chinese exchange rate and monetary policy. In another instance, the US criticised China, Japan, and Germany for contributing to 'global imbalances', while the latter forcefully opposed US demands for political intervention against trade surpluses.

These examples demonstrate that positions in the G20 did not follow the pattern expected in light of traditional alliances. Rather, the latter were weakened by new divergences. This article addresses the question of the driving forces of these issue-specific controversies and attempts to explain the divergence of national positions on global governance. I argue here that the heterogeneity of domestic economic ideas and interests shaped the international economic positions of governments, weakened the path-dependent cohesion of previous international groups, and led to issue-specific controversies in the G20.

State of research: G20, emerging powers, and IR theory

The article refers to three different sets of research. First, it focuses on the negotiations within the G20 since 2008 as the new steering committee for the world economy. Second, it relates to the literature on the integration of emerging powers into global economic governance, a system largely shaped by industrialised countries, especially

[2] Members of the G7 are Canada, France, Germany, Italy, Japan, United Kingdom, and the United States. In 1998 Russia was included as an associated member.

[3] Stefan A. Schirm, 'Leaders in Need of Followers. Emerging Powers in Global Governance', *European Journal of International Relations*, 16:2 (2010), pp. 208–12.

[4] Leslie Elliot Armijo, 'The BRICs Countries (Brazil, Russia, India, and China) as Analytical Category: Mirage or Insight?', *Asian Perspective*, 31:4 (2007), pp. 7–42; Alexandre de Freitas Barbosa and Ricardo Mendes, 'Is there a Brazilian strategy for the G20?', in Thomas Fues and Peter Wolff (eds), *G20 and Global Development* (Bonn: German Development Institute 2010); Mark R. Brawley, 'Building Blocks or a BRIC Wall? Fitting U.S. Foreign Policy to the Shifting Distribution of Power', *Asian Perspective*, 31:4 (2007), pp. 151–75.

[5] Daniel W. Drezner, 'Bad Debts. Assessing China's Financial Influence in Great Power Politics', *International Security*, 34:2 (2009), p. 40; Riordan Roett, *The New Brazil* (Washington DC: Brookings Institution Press 2010), pp. 133–40.

the US. Third, the article is theoretically embedded in the International Relations (IR) debate about the sources of governmental positions in international economic negotiations.

Research on the G20 has largely focused on the legitimacy and efficiency of the new body.[6] Concerning legitimacy, the literature has emphasised the enlarged participation of countries and the improved representation of the world population in the G20, as compared to both in the previous steering committee for the world economy, the G7. Specifically, the legitimacy-argument highlights that the countries of the G20 represent two-thirds of world population and over 90 per cent of world economic output.[7] Despite this, however, over 170 countries represented in the UN General Assembly are not members of the G20 and several G20 member states (such as Saudi Arabia and China) are ruled by authoritarian regimes. Consequently, criticism has been voiced regarding the representativeness and legitimacy of the G20.[8]

Regarding efficiency, the G20 was credited with limiting protectionism in reaction to the global economic crisis, coordinating national stimulus packages, improving mutual understanding on economic policy issues, and strengthening international organisations.[9] The latter refers to the G20's accord on increasing the resources of the IMF and on reforming its voting shares and quotas to the benefit of emerging powers. The rapid agreement in the Basel Committee on enhanced banking standards in the Basel III Accord was also prepared in discussions between G20 leaders. In addition, increased understanding has been reached in the G20 on the need for fiscal stimulus to counteract the crisis on a national basis, on the necessity for expanded financial market regulation, and on the dangers of economic imbalances. However, since no binding decisions have come out of the understandings on the G20 level, critics have called it a 'talking shop',[10] which has failed to fulfil its steering function due to divergent positions on most issues. Therefore, the question arising from this strand of research is: why did the G20 remain a discussion-forum and fail to achieve binding rules for global finance?

Turning to research on the rise of emerging powers and on strategies towards this rise, the literature can be divided into two camps. On one hand, authors inspired by realism portray the rise of emerging powers, especially China, in terms of rivalry and, consequently, advocate a balancing or even containment strategy for 'the West'. In addition to pointing at rising economic resources and the political assertiveness of emerging powers, these authors often make the argument, that emerging powers such as Brazil, Russia, China, and India would not share 'Western' values and therefore ought to be kept outside of core global governance until they subscribe to these

[6] Daniel W. Drezner, 'Can the G-20 be Legitimate and Effective?', paper prepared for the 2nd Princeton Global Governance Conference (14–15 January 2011); Ngaire Woods, 'Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?', *Global Policy*, 1:1 (2010), pp. 51–63.

[7] Official G20 site: {www.g20.org/about_index.aspx}; Francoise Nicolas and Wonhyuk Lim, 'From the Korean to the French Presidency: Ensuring the G20's transition to a global governance committee', An Ifri – KDI joint paper, Paris (17 December 2010), p. 9.

[8] Jakob Vestergaard, 'The G20 and Beyond. Towards Effective Global Economic Governance', Danish Institute for International Relations Report, Copenhagen (2011).

[9] Andrew F. Cooper, 'The G20 as an improvised crisis committee and/or a contested "steering committee" for the world', *International Affairs*, 86:3 (2010), pp. 741–57; Stephen Fidler and Alexander Nicoll, 'Out of balance: The Fragile World Economy', *Survival*, 52:6 (2010), p. 92; John Kirton, Marina Larionova, and Paola Savona (eds), *Making Global Economic Governance Effective: Hard and Soft Law Institutions in a Crowded World* (Farnham: Ashgate 2010).

[10] *The Economist*, 'The G20: Talking-shop-on Thames' (12 March 2009).

values.[11] This argument has several flaws. First, it ignores the substantial differences in interests and ideas within 'the West', that is, between the US and continental European countries. This divergence was apparent, for example, in the assertions by European leaders like French President Nicolas Sarkozy and German Finance Minister Peer Steinbrück that the global financial crisis was a consequence of flaws in both the 'Anglo-American' economic model as well as the culture of deficit-driven consumption in the US.[12] In addition, the rivalry-argument also ignores that emerging powers like Brazil and India are stable democracies with a strong multilateralist record and, therefore, can hardly be characterised as dominated by differing ideas in this regard than those prevalent in 'the West'.

In contrast to the rivalry-argument, the second emerging power camp stresses the virtues of embedding these states in global governance to make them stronger stakeholders in a common set of rules governing the world economy.[13] According to this argument, emerging powers already perform as stakeholders since they are big trading nations within the WTO and shareholders in the International Monetary Fund (IMF). In addition, emerging powers are closely connected to industrialised countries through foreign direct investment and the division of labour in production. For these reasons it is argued that emerging powers already have a huge stake in a stable and open world economy. Hence, increasing emerging powers' participation in international fora would only acknowledge this role in an effort to further institutionalise common governance. Thus, the question emanating from the emerging powers strand of research is: what drives emerging and industrialised powers in the G20, rivalry or stakeholder behaviour?

Finally, with regard to IR theory, one line of research focuses on realist arguments which assume a zero-sum view of the distribution of power and consequently call for balance of power strategies to counteract the rise of new powers.[14] As mentioned above, this argument perceives the rise of China and other emerging powers in terms of threat and rivalry which must be countered by US assertiveness on issues such as currency, values, and trade policy. In this view, Europe should fall in line with the US and help share the burden of balancing emerging powers with a single 'Western' position. Another argument inspired by realism focuses explicitly

[11] Jorge G. Castaneda, 'Not Ready for Prime Time. Why Including Emerging Powers at the Helm Would Hurt Global Governance', *Foreign Affairs*, 89:5 (2010); Aaron L. Friedberg, 'Implications of the Financial Crisis for the US-China Rivalry', *Survival*, 52:4 (2010), pp. 31–54; Andrew F. Hart and Bruce D. Jones, 'How do Rising Powers Rise?', *Survival*, 52:6 (2010), pp. 63–88; Daniel Twining, *As Asia Rises. How the West can Enlarge its Community Values and Interests in the Indo-Pacific Region* (Washington DC: German Marshall Fund of the US, 2010).

[12] George Parker, Chris Giles and Edward Luce, 'G20 Leaders Hail Crisis Fightback', *Financial Times* (2 April 2009), available at: {http://www.ft.com/cms/s/0/082652de-1fb0–11de-a1df-00144feabdc0.html#axzz1KjyV8RzV}; Peer Steinbrück, '*Die Krise als Zäsur*', speech, Karl-Schiller-Stiftung (21 April 2009), available at: {www.peer-steinbrueck.de/interviews_reden/reden/090421_karl_schiller_stiftung.html?pg=1} accessed 22 Nov. 2010.

[13] Naazneen Barma, Ely Ratner, and Steven Weber, 'A World Without the West', *The National Interest*, July/August: 90 (2007), pp. 23–30; John G. Ikenberry, 'The Rise of China and the Future of the West. Can the Liberal System Survive?', *Foreign Affairs*, 87:1, Jan/Feb (2008), pp. 23–37; Nina Hachigian and Mona Sutphen, 'Strategic Collaboration: How the United States can Thrive as other Powers Rise', *The Washington Quarterly*, 31:4 (2008), pp. 43–57.

[14] Patrick Stewart, 'Irresponsible Stakeholders? The Difficulty of Integrating Rising Powers', *Foreign Affairs*, 89:6 (2010); Castaneda, 'Not Ready for Prime Time'; Friedberg, 'Implications'; Hart and Jones, 'How do Rising Powers Rise?'; Twining, 'As Asia rises'. For an overview of theoretical conceptions on emerging powers see Alasdair R. Young, 'Perspectives on the Changing Global Distribution of Power: Concepts and Context', *Politics*, 30:1 (2010), pp. 2–14.

on the G20 as a tool used by industrialised countries to balance and control the emergence of new powers. Ngaire Woods has expressed this thought in an exemplary way: 'we may not be witnessing the dawn of a new era of multilateralism. It may well simply be the last gasp of an old-fashioned concert of great powers, embodied in the Group of Seven major industrialised countries and what some might see as their new consultation forum – the G20.'[15]

A second theoretical line of thought focuses on institutionalist regime theory. This strand emphasises the dynamics of international organisations and regimes, the importance of previously existing rules, the path-dependent behaviour of states, the institutional supply of regulation, as well as the questions of legitimacy and efficiency mentioned above.[16] According to these arguments, previous institutional commitments and behavioural paths should have led the patterns established in the G7, the 'trade G20', and the BRICs to shape the policies and alignments appearing in the G20.

Neither the realist nor the regime variant will be followed in this article since they do not seem promising as explanatory approaches for the question of the driving forces for the divergence at stake here. Both neo-realism and institutionalist regime theory would predict a confrontation between industrialised countries on the one hand and emerging economies on the other in the G20. However, the actual G20 process in the last three years showed the opposite outcome. Realist arguments cannot explain why industrialised countries' positions diverged in the G20 and why some industrialised countries aligned with some emerging powers on an issue-specific basis. Nor can realist balance-of-power arguments explain G20 outcomes, because no balancing alliance of industrialised nations versus emerging powers was observed. On the other hand, regime theory cannot explain the sources of diverging governmental positions since it focuses on the established international rules as level of analysis. Nor can regime theoretical arguments on path-dependent behaviour explain the irrelevance of previous alliances *vis-à-vis* the issue-specific divergences in the G20, since actors are expected to follow previous commitments. Thus, the question emanating from the weaknesses of traditional IR theory is how to conceptualise the sources of governmental positions theoretically in a more conclusive way.

Societal approach to preference formation on global economic governance

Theoretical framework

To address the question of the reasons for the divergence of governmental positions in the G20 and the weakening of pre-existing alliances, I will follow a societal approach to governmental preference formation. This approach focuses on societal interests and

[15] Woods, 'Global Governance after the Financial Crisis', p. 51.

[16] Mark Beeson and Stephen Bell, 'The G20 and the Politics of International Financial Sector Reform', *Robust Regimes or Hegemonic Instability?*, Centre for the Study of Globalisation and Regionalism (CSGR) Working Paper 174/2005, University of Warwick; Barry Eichengreen and Richard Baldwin (eds), *What G20 leaders must do to stabilize our economy and fix the financial system* (London: Centre for Economic Policy Research, 2008); Kirton, Larionova, and Savona, 'Making Global Economic Governance'; Walter Mattli and Ngaire Woods, 'In Whose Benefit? Explaining Regulatory Change in Global Politics', in Walter Mattli and Ngaire Woods (eds), *The Politics of Global Regulation* (Princeton University Press, 2009), pp. 1–43.

ideas dominant in domestic politics of countries to explain the positions of governments in international relations. Thus, I argue that diverging societal interests and ideas crucially shaped the positions of governments, weakened the path-dependent cohesion of previous international groups and led to the formation of issue-specific divergences in the G20 which neither conformed to previous groups nor to an antagonism between industrialised and emerging countries.

The societal approach is based on previous research.[17] In this article, it will be developed further as well as applied to the empirical puzzle on the driving forces of governmental positions in the G20. It resorts to the liberal theory of International Relations, to two-level-game approaches, and to theories of domestic sources of foreign economic policies.[18] Its core claim is that the positions of governments towards global economic governance and their ability to compromise on multilateral agreements are strongly influenced by domestic ideas and interests. The argument is based on the assumption that governments are responsive to societal demands, which can range from specific lobby group pressure to attitudes of the public in general. The societal approach focuses on democratic political systems because, in these systems, societal influences can be analytically distinguished clearly from governmental policies and because democratic governments tend to be responsive and accountable to voters, this is, to societal preferences.

In sum, I argue that governmental positions strongly express preferences originating from societal influences which exist prior to international strategies and interstate negotiations. In order to understand the international behaviour of states, it is thus necessary to first analyse the domestic sources of governmental positions. For this purpose, I suggest two explanatory variables of societal 'interests' and 'ideas'. The inclusion of both variables is based on the assumption that individual as well as governmental preferences can be influenced either by material considerations or ideational beliefs, or by a combination of both. Ideas and interests can mutually reinforce one another or compete with each other in influencing preferences, and different interests and different ideas can also compete amongst themselves. The relevance of considering both societal ideas and interests in the analysis is underlined by Peter Hall and Kathleen Thelen who state, 'although the interests of firms and workers are crucial to particular modes of coordination, capacities for coordination also depend on ... a set of shared understandings about how other actors will

[17] Stefan A. Schirm, *Globalization and the New Regionalism. Global Markets, Domestic Politics, and Regional Cooperation* (Cambridge: Polity Press, 2002), pp. 33–56; Stefan A. Schirm, 'Ideas and Interests in Global Financial Governance. Comparing German and US Preference Formation', *Cambridge Review of International Affairs*, 22:3 (2009), pp. 503–7; Stefan A. Schirm, 'Varieties of Strategies: Societal Influences on British and German Responses to the Global Economic Crisis', *Journal of Contemporary European Studies*, 19:1 (2011), pp. 48–51.

[18] For the theoretical background of the societal approach see Orfeo Fioretos, 'The Domestic Sources of Multilateral Preferences: Varieties of Capitalism in the European Community', in Peter A. Hall and David Soskice (eds), *Varieties of Capitalism* (Oxford: Oxford University Press, 2001), pp. 213–44; Jeffrey Frieden and Ronald Rogowski, 'The impact of the international economy on national policies: an analytical overview', in Robert O. Keohane and Helen V. Milner (eds), *Internationalization and domestic politics* (Cambridge University Press 1996), pp. 25–47; Peter J. Katzenstein, 'Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy', in Peter J. Katzenstein (ed.), *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University Wisconsin Press, 1978), pp. 3–22; Andrew Moravcsik, 'Taking Preferences Seriously: A Liberal Theory of International Politics', *International Organization*, 51:4 (1997), pp. 513–53; Robert D. Putnam, 'Diplomacy and Domestic Politics: The Logic of Two Level Games', *International Organization*, 42:3 (1988), pp. 427–60; Leonard Seabrooke, *The Social Sources of Financial Power. Domestic Legitimacy and International Financial Orders* (Ithaca: Cornell University Press, 2006), pp. 173–90.

behave'.[19] Similarly, Mark Blyth stresses that 'structurally given interests' need to be instructed by 'ideas that inform agents' responses to moments of uncertainty and crisis'.[20] The societal approach relates to institutionalism in that institutions as regulations represent codified forms of ideas and/or interests.[21] It is therefore consistent with the argument that governments try to resist global governance rules that conflict with domestic institutions,[22] since the latter reflect societal ideas and/or interests.

Societal interests are defined as material economic considerations of domestic sectors which can change rapidly according to changing circumstances, that is, according to the benefits and costs induced by the global economy and (new) global governance initiatives. This definition is based on analyses concerning the interaction of economic internationalisation with domestic sectors and politics. For example, Jeffry Frieden and Ronald Rogowski argue that globalisation, as 'the exogenous easing of international exchange', leads interest groups to pressure the government into establishing competitive conditions.[23] Hence, in this article the suspected connection between interests and governmental positions in the G20 addresses the material impact of globalisation and/or (new) global governance via (expected) changes in economic conditions for interest groups which lobby the government accordingly.

Societal ideas relevant for preferences on global economic governance are defined as fundamental, collective expectations about how politics should govern the economy, that is, about appropriate governmental policies. Ideas can express themselves in societal attitudes and behavioural practices, and, in a codified form, in the institutions (regulations) of a country. Like interests, ideas can change, but changes take longer than changes in interests due to the fundamental character of ideas. In the economic governance realm, competing ideas can be, for example, 'trust in market forces' versus 'trust in governmental regulation', and 'fiscal prudence/savings' versus 'debt-driven spending/consumption'.

Summing up, the following three hypotheses constitute the societal approach to be applied in the empirical case studies:

(1) If societal ideas and/or interests differ between states, then diverging governmental positions on global governance are to be expected despite previous alliances, path-dependent international behavioural patterns, and a similar perception of the need for a better management of the world economy.

Thus, the empirical analysis focuses on how far governmental positions in the G20 correspond to endogenously dominant ideas and/or interests, as well as whether, in cross-country comparison, these ideas and/or interests differ. In addition, the analysis addresses to what degree international divergence weakens previous alliances and shapes controversies in the G20. The second and third hypotheses address the conditions under which ideas or interests dominate in shaping governmental positions:

[19] Peter A. Hall and Kathleen Thelen, 'Institutional Change in Varieties of Capitalism', *Socio-Economic Review*, 7:1 (2009), pp. 27–8.
[20] Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge University Press, 2002), p. 251.
[21] Schirm, 'Varieties of Strategies', p. 49.
[22] Andreas Nölke, 'Transnational Economic Order and National Economic Institutions: Comparative Capitalism Meets International Political Economy', MPIfG Paper (Cologne: Max Planck Institute for the Study of Societies, 2011).
[23] Frieden and Rogowski, 'The impact of the international economy', p. 35.

(2) Impact on specific sector. When a specific economic sector is affected strongly by proposed global governance initiatives, interests will dominate in influencing governmental preferences because lobbying will be strong. Conversely, when no specific sector is targeted directly and, consequently, interests are affected only in a diffuse way; ideas will be more relevant to governmental preferences because interest groups will not be motivated to engage in intense lobbying.
(3) Issue at stake. When the issue area affected by proposed global governance initiatives raises cost/benefit questions of international competition in the debate, interests will dominate in shaping governmental positions because potential winners and/or losers will articulate their preferences clearly. Conversely, societal ideas will prevail in shaping government positions, when the issue at stake concerns fundamental questions about the structural role of politics versus the market in governing the economy, because these affect principle-based collective expectations about appropriate governmental behaviour and political regulation.

The societal approach implies an empirical examination of the independent variables to explain the government's position as dependent variable. This includes examining the interests of domestic groups as expressed in statements by business associations, and societal ideas as expressed in opinion polls, behavioural practices, and regulations.[24] The empirical search for interests must focus on specific sectors' (such as the export or banking sector) calculations of costs and benefits emanating from global governance initiatives. The empirical examination of societal ideas involves three methods since ideas can take different forms, as defined above. First, ideas can be evidenced by public opinion polls concerning fundamental attitudes about the appropriate role of the government in steering the economy, such as preferences for 'strong versus weak government responsibility' and 'distribution via market mechanism versus governmental intervention'. Public opinion polls on day-to-day questions concerning current events or party preferences will not be considered here since they do not conform to the definition of ideas as fundamental expectations about how politics should govern the economy. Second, in addition to the examination of attitudes via polls, the possible role of ideas can be empirically evidenced by societal practices, such as 'debt-driven consumption' versus 'high savings rates'. Different societal practices in cross-country comparison plausibly reflect different societal expectations about the appropriate role of the government in the respective policy area. Third, besides polls and practices, another method to empirically assess the possible role of ideas is the examination of domestic socio-economic institutions since they are defined here as codified ideas, that is, ideas which have been transformed into formal regulations and now plausibly reinforce the corresponding ideas and/or interests.

In sum, the empirical focus of this article will be: (1) tracing the process of the debates and the divergence of governmental positions in the G20; (2) identifying possible domestic ideas and interests related to the issues at stake in the G20; and (3) examining whether the governmental positions correspond to domestic interests and/or ideas. Although I argue that the societal approach can explain the puzzle of divergences in the G20 better than neo-realism and regime theory, the explanatory variables ideas and interests should neither be seen as deterministic, nor as exclusive.

[24] See Schirm, *Globalization*; Schirm, 'Ideas and Interests'.

Other factors might, of course, also influence governmental positions. The argument here is that the focus on international institutions, regimes, and power is insufficient and needs to be complemented by the examination of ideas and interests within national societies as foundations for governmental preferences and thus as possible driving forces for divergence in the G20.

Case studies and operationalisation of the societal approach

The following cases were selected to test the explanatory value of the societal approach concerning major issues debated within the G20. These issues include proposals which impact different areas of policymaking and, consequently, potentially affect a variety of domestic interest groups and ideas. While the regulation of global trade imbalances and currency devaluations concerns specific interest groups (exporters), the debate about stimulus and public debt affects domestic fiscal policies and ideational settings. Regarding the evidence on governmental positions, the case studies will be based on: (1) quotes from responsible politicians (finance ministers and heads of government); (2) analyses and reports from specialised media (for example, *Financial Times*); and (3) studies by experts from think tanks and universities. Quotes from political decision-makers will be focused on those commentaries made by (elected) politicians because they are presumably responsive to interest groups and societal ideas, which would not necessarily be true for expert bureaucrats. In addition, the magnitude of the crisis, its domestic repercussions, and the leaders' character of the G20 summits since 2008 all speak for this focus on government politicians rather than expert bureaucrats since these factors increased the role of governments and decreased the influence of expert bureaucrats. As Helleiner and Pagliari note: 'Faced with newly engaged political leaders and resurgent domestic political pressures, transnational networks of financial officials were increasingly forced to react rather than to lead the international regulatory reform process.'[25]

Testing hypotheses with public statements by politicians can provide only plausibility, not proof. When governments underline their positions with ideas, they can, for example, also draw a rhetorical picture to promote hidden material agendas, such as protectionism or liberalisation. However, based on the standard assumption of self-interest to remain in office, public statements by politicians accountable to the populace give evidence for what they consider acceptable to crucial societal forces and therefore legitimate.

Since this article cannot analyse all countries involved in the G20 process, two industrialised countries, the US and Germany, and one emerging power, Brazil, were selected for systematic scrutiny in all case studies. Within the Varieties of Capitalism-literature the US represents a 'liberal market economy' (LME) and Germany a 'coordinated market economy' (CME), while Brazil is considered a 'state-permeated market economy' (SME).[26] Thus, diverging domestic settings can be expected to

[25] Eric Helleiner and Stefano Pagliari, 'The End of an Era in International Financial Regulation? A Post-crisis Research Agenda', *International Organization*, 65 (Winter 2010/11), p. 182.

[26] On the characteristics of LMEs and CMEs see Peter A. Hall and David Soskice, 'An Introduction to Varieties of Capitalism', in Peter A. Hall and David Soskice (eds), *Varieties of Capitalism, The Institutional Foundations of Comparative Advantages* (Oxford University Press 2001), pp. 1–68; on SMEs see Andreas Nölke, 'A BRIC' – variety of capitalism and social inequality: The case of Brazil', *Revista de Estudos e Pesquisas sobre as Américas*, 4:1 (2010), pp. 1–14.

have influenced the respective governmental positions in the G20. All three countries are key players in the formation of issue-specific controversies in the G20 and key members of previously existing groups such as the G7 (US, Germany) as well as the BRICs and the 'trade G20' (Brazil). China was also very vocal in the G20 controversies, but cannot be analysed adequately by the societal approach due to its authoritarian political system, which obstructs the examination of crucial features of the approach such as the distinction between societal ideas/interests on the one hand and governmental responsiveness on the other. As a democracy, India could have been chosen for examination with the societal approach, but India was not a key player within the G20.

The following case studies focus on four core issues debated within the context of the G20 since 2008: stimulus programmes to combat the post-crisis recession, rising public debt as a consequence of increased deficit spending, global imbalances with regard to trade, and exchange rates. The former two issues and the latter two issues are closely linked to one another and will therefore be analysed together in two case studies. A fifth core issue of the G20 agenda, financial market regulation, will not be dealt with here on two grounds. First, emerging powers did not see the necessity of a major overhaul since their banks were not affected substantially by the crisis. Second, regulative attempts were essentially national in scope and only reached multilateral governance in the EU. Thus, the case studies focus on: (1) stimulus programmes and public debt; and (2) global imbalances and exchange rates.

Stimulus programmes and public debt concern fundamental questions of how the government should steer the economy with substantial implications for the whole society and economy. Thus, this case allows for the expectation that ideas played a crucial role in defining governmental positions. Therefore, the concept of 'ideas' as developed above leads to the following operationalisation: Regarding stimulus programmes, governmental positions are expected to reflect ideas as attitudes and ideas codified as regulations (such as welfare and tax systems) which relate to the role of the government versus the market in distributing the resources of the stimulus. With regards to public debt, governmental positions are expected to reflect ideas as societal practices such as high savings rates versus debt-driven consumption as well as ideas as attitudes on debt-related expectations such as on inflation.

The second case study on global imbalances and exchange rates is narrower in the sense that both aspects relate to trade flows and trade opportunities. Therefore, this case study allows for the expectation that material interests of specific domestic sectors crucially shaped governmental positions. Hence, the variable 'interests' leads to the following operationalisation:

Regarding global imbalances, governmental positions are expected to follow the material interest of the export sector in surplus countries (opposing global export limits) and the interest of those sectors threatened by imports in deficit countries (favouring export limits).

Concerning exchange rates and similarly to the issue of global imbalances, governmental positions are expected to follow the material interests of the export sector in trade-surplus countries with a high dependence on exports (opposing currency devaluation in target markets) and the interest of those sectors threatened by imports in trade-deficit countries (favouring currency devaluation in their own country).

This operationalisation of the two explanatory variables and the small number of only two cases underlines the limited aims of the article in: (1) explaining the empirical puzzle of the controversies in the G20 between countries that have closely collaborated in previous alliances; and in (2) developing and testing the societal approach to the analysis of governmental positions on global economic governance.

Case studies

Stimulus programmes and public debt

Since 2008 most G20 countries created stimulus programmes intended to cushion the recession by boosting domestic demand. These stimulus packages (together with expensive bail-outs for banks) rapidly increased public debt, which, in turn, has become a core problem for the world economy since 2010. According to the Organisation for Economic Cooperation and Development, the three countries under scrutiny here initiated stimulus programmes for the period from 2008 to 2010 of 5.5 per cent of Gross Domestic Product (GDP) (US), 4 per cent (Germany), 15 per cent (Brazil).[27] However, a study by the Brookings Institution concludes that, if measures already planned before 2008 are not included, the new measures taken by March 2009 total 5.9 per cent of GDP (US), 3.4 per cent (Germany), and 0.5 per cent (Brazil).[28] The stimulus programmes were based on a common understanding at the first G20 leaders' summit in November 2008 and are held to have successfully cushioned the impact of the post-crisis recession and prevented substantial new protectionism.[29] In other words, debt-fuelled stimulus raised domestic demand and restricted protectionist pressures on trade. While all three countries at stake here initiated stimulus programmes, the measures took different forms, ranging from increased government expenditure on infrastructure, tax relief, and subsidies for the purchase of cars to general budgetary expansion and monetary easing. Before examining the governmental positions in the G20, the individual countries' stimulus packages and their societal foundation will be analysed.

United States. The US focused on new spending and tax cuts which heavily and directly increased public debt. The American Recovery and Reinvestment Act (ARRA) from February 2009 alone encompassed US $787 billion.[30] In addition, the US started three rounds of quantitative easing (QE) by the Federal Reserve Bank, thus sharply increasing in the amount of dollars on the market. QE2 encompassed US $600 billion and, in 2011, QE3 was announced, consisting of a purchase of US $400 billion of US treasury securities by the Fed.[31] While the Fed in 2011 was buying long-term treasury securities with short-term treasury securities, previous rounds had consisted of buying securities with newly printed dollars. US banks quickly

[27] OECD (Organisation for Economic Cooperation and Development), 'Policy Responses to the Economic Crisis: Investing in Innovation for Long-Term Growth' (Paris, 2009), pp. 18–19.

[28] Eswar Prasad and Isaac Sorkin, *Assessing the G-20 Stimulus Plans: A Deeper Look*, Brooking Institution, Washington DC (March 2009), available at: {www.brookings.edu/articles/2009/03_g20_stimulus_prasad.aspx?p=1}.

[29] Overseas Development Institute, *The G20 in 2010: Cementing the BRICKs of development*, Policy Brief, London (May 2010); Patrick, Stewart, *The G20 and the United States: Opportunities for More Effective Multilateralism*, A Century Foundation Report, New York (2010), available at: {http://tcf.org/publications/2010/10/the-g20-and-the-united-states-opportunities-for-more-effective-multilateralism}.

[30] ILO (International Labour Organisation), G20 Statistical Update: United States' Response to the Crisis (2010), available at: {http://www.ilo.org/public/libdoc/jobcrisis/download/g20_unitedstates_countrybrief.pdf}.

[31] *The Economist* (24 September 2011), p. 92.

regained their extraordinary profitability and part of the manufacturing industry also rebounded. However, since the labour market continued to suffer from the crisis through 2012, the US government remained committed to the strategy of debt-fuelled stimulation and QE.

These characteristics of the US stimulus policy corresponded to the long-term ideational and institutional foundations of the US's liberal market economy. First, the readiness to embrace huge deficit spending and the relative low fear of inflation by US government actors can be seen as reflecting a high acceptance of debt-fuelled spending demonstrated in societal attitudes in the US, where debt-driven consumption is widely supported by the public.[32] Second, the form of the US stimulus, that is, increasing general spending and a loose monetary policy with mainly market-driven distributional effects, corresponds to the respective ideational attitudes in the US, namely, more trust in the market in distributing resources than in the government in doing so. As Pfau-Effinger notes, 'In Germany the majority of the population is oriented towards an intervening welfare state which diminishes social inequality, while, in the United States, the majority opinion is that equity is guaranteed best by the free working of the market.'[33] Figures from the World Value Survey confirm these attitudes (see next paragraphs). Finally, mirroring the behavioural pattern of debt-fuelled consumption, the US private savings rate as a societal practice is traditionally much lower than in Germany,[34] plausibly leading to a higher ideational acceptance of public deficit spending in the US than in Germany.

Germany. As a coordinated market economy, Germany mainly boosted demand via automatic stabilisers in its welfare and tax systems, which are estimated at 2.5 per cent of GDP, and via schemes which avoided layoffs by subsidising wages through the Kurzarbeit-mechanism.[35] Because automatic stabilisers and other social security transfers are much higher in Germany than in liberal market economies such as the US, public expenditure and demand stimulus automatically increase substantially during an economic downturn. Public opinion polls show domestic support for the ideas which underlie these differences. For example, as indicated in data from the World Values Survey for 2006, while 27.7 per cent of Germans believe that it is an 'essential characteristic of democracy' that 'governments tax the rich and subsidise the poor', only 6.6 per cent of Americans agree with that statement.[36] The Kurzarbeit-scheme, in contrast, is an example of institutions within a coordinated market economy which are designed to cushion the impact of economic recession via state-business coordination. Essentially, the government subsidises the wages of workers who would otherwise be laid off in order ensure they remain in their jobs. The automatic

[32] Barry Z. Cynamon and Steven M. Fazzari, 'The End of the Consumer Age', working paper Washington University St. Louis 2010, available at: {http://www.artsci.wustl.edu/~ec448sf/Cyn_Fazz_Cons.pdf}; Rahguram G. Rajan, 'Rebalancing the Global Economy', *New Perspectives Quarterly*, 27:4 (2010), pp. 7–9; Glenn Morgan, 'Discussion forum: Global financial architecture and national capitalisms', *Socio-Economic Review*, 9:3 (2011), p. 593.

[33] Birgit Pfau-Effinger, 'Culture and Welfare State Politics: Reflections on a Complex Interrelation', *Journal of Social Policy*, 34:1 (2005), p. 11.

[34] OECD, Household Saving Rates – OECD Economic Outlook No. 88 (2010), available at: {http://dx.doi.org/10.1787/2074384X-2010-table7}.

[35] ILO, 'G20 Statistical Update: Germany's Response to the Crisis' (2010), available at: {http://www.ilo.org/public/libdoc/jobcrisis/download/g20_germany_countrybrief.pdf}; Schirm, 'Varieties of Strategies' (2011), p. 56.

[36] World Values Survey (WVS), *Values Survey Databank, V152 Democracy: Governments tax the rich and subsidise the poor*, data from 2006, available at: {www.wvsevsdb.com} accessed 5 Dec. 2011.

stabilisers in the German welfare state and the Kurzarbeit-scheme can be identified as institutional manifestations of the societal idea of collective solidarity through the state, which prescribes an automatic increase in governmental spending during an economic crisis.

Besides these institutional and ideational features which led Germany to enter stimulus by new deficit spending and channel its distribution through market mechanisms to a lesser degree than the US, additional ideational factors also contributed to a rejection of a US-style loose fiscal policy. Most prominent was the fear of triggering inflationary pressures through deficit spending as articulated in the domestic debate and, internationally, at G20 meetings since 2009 (see below). This broadly shared ideational consensus on anti-inflationary fiscal prudence in Germany, the 'Inflationstrauma', has dominated German economic policy culture since the hyperinflation of the Weimar Republic.[37] It was enshrined in Ludwig Erhard's recipe of the Soziale Marktwirtschaft[38] as well as in the statutes of the Bundesbank. Thus, anti-inflationary attitudes in Germany can be seen as an ideational feature based on previous material experience, which leads to a general societal interest in economic stability (reflected in high savings rates).

Brazil. The state-permeated economy Brazil focussed its stimulus programmes on infrastructure, tax cuts, and additional low-interest-rate credit lines of its development banks to firms suffering from the crisis.[39] This profile of the country's stimulus reflects the more interventionist role of the government in Brazil compared to the US and Germany, especially regarding the crucial role played by state-owned development banks such as the Banco Nacional de Desenvolvimento Economico e Social (BNDES). For example, BNDES was granted long-term credits of 180 billion reais (US $100 billion) by the finance ministry for low-interest developmental lending.[40] Societal ideas as fundamental expectations about the appropriate role of the government in steering the economy support the strong influence of the Brazilian government on the distribution of the stimulus, which contrasts clearly with the market mechanisms which were dominant in the US deficit spending. According to figures from the World Values Survey, 27 per cent of Brazilians agree with the statement that 'the government should take more responsibility', compared to only 8.8 per cent of Americans and 14.8 per cent of Germans agreeing with this statement.[41] These figures support the interpretation that ideas are reflected in the institutionalisation of the respective economic models as liberal (US), coordinated (Germany), and state-permeated (Brazil), which plausibly reinforce the underlying ideational settings.

In addition to the differences concerning the role of the government versus the market in allocating the stimulus effects, societal ideas in Brazil are also closer to Germany than to the US regarding anti-inflationary policies. After a period of hyperinflation in the 1980s, Brazil mastered inflation in the mid-1990s under the

[37] Hans-Hermann Hartwich, *Die Europäisierung des deutschen Wirtschaftssystems. Alte Fundamente, neue Realitäten, Zukunftsperspektiven* (Opladen: Leske & Budrich, 1998), p. 67.

[38] Manfred G. Schmidt, 'Still on the middle way. Germany's economy at the beginning of the twenty-first century', *German Politics* 10:3 (2001), pp. 1–2.

[39] ILO, 'G20 Statistical Update: Brazil' Response to the Crisis (2010), available at: {http://www.ilo.org/public/libdoc/jobcrisis/download/g20_brazil_countrybrief.pdf}.

[40] *The Economist*, 'Flying too high for safety' (20 May 2010), available at: {www.economist.com/node/16167612/print}.

[41] World Values Survey (WVS), *Values Survey Databank, V118 Government Responsibility*, data from 2006, available at: {www.wvsevsdb.com} accessed 5 Dec. 2011.

government of President Fernando Henrique Cardoso. Cardoso's 'Plano Real' found widespread support among voters because inflation had especially hurt the majority of the population, which was dependent on wages (vulnerable to inflation) for a living and could therefore not escape inflation, for example, by investing in real estate. As a consequence, Cardoso's successor, Luis Inacio Lula da Silva, maintained the anti-inflationary course and even strengthened the politics of fiscal prudence.[42] Evidence supports the interpretation that the collective material interest in price-stability has subsequently developed into a fundamental collective expectation in Brazil, ranking third after unemployment and interest rates in terms of societal expectations about governmental priorities in combating the crisis.[43] Thus, the Brazilian inflationary trauma was more recent than the German, but also strongly shapes domestic politics as an (interest-based) ideational expectation by voters about appropriate policies. Regarding the savings rate as a societal practice which indicates ideational expectations about public debt, the Brazilian savings rate of 19 per cent (2008) falls between the US rate of around 15 per cent (1990–2008) and the German rate of around 24 per cent (1990–2008).[44] These savings rates point to a higher ideational support for fiscal prudence and low public debt in Germany than in the US, with Brazil in the middle.

In the context of the G20 the three countries played antagonistic roles which weakened previous alliances, especially the G7. The US urged Germany (and others) to increase its general deficit spending and largely ignored the huge sums distributed via welfare schemes and automatic stabilisers in Germany. Specifically, US Treasury Secretary Timothy Geithner argued that large economic stimulus packages should be continued globally until the effects of the crisis were overcome and requested that 'everyone in the G20 to focus on boosting global demand'.[45] This US claim was repeated throughout 2010 at G20 meetings and was especially targeted at China, Germany, and Japan, with Geithner arguing in a letter to G20 finance leaders: 'G20 countries with persistent surpluses should undertake structural, fiscal and exchange rate policies to boost domestic sources of growth and support global demand.'[46]

On the other hand, Germany as well as Brazil opposed the US's loose fiscal and monetary policy as well as US demands for increased deficit spending and QE on two grounds. First, these countries disputed the sustainability of economic stimulation via deficit spending and printing money. Second, they emphasised the danger of global inflationary pressures on prices. Already at the G20 finance ministers' meeting in summer 2009, German Minister Peer Steinbrück urged the US to pursue an 'exit

[42] Jane Imai, 'Seeds of Change in a Deep-Rooted Society: Poverty Reduction in Brazil under President Lula', *International Affairs Review*, 17:2 (2008), available at: {http://iar-gwu.org/node/41}.

[43] Antonio Lavareda, 'Crise e Opiniao Publica. Percepcoes sobre o Enfrentamento da Crise no Brasil', presentation delivered at: Fundacao Getulio Vargas, Impacto da Crise na Gestao Governamental, Sao Paulo (2009), available at: {http://www.fgv.br/fgvprojetos/Arq/controle_arq/122.pdf}.

[44] For the data on the US and Germany see Guonan Ma and Wang Yi (2010), 'Chinas high savings rate: myth and reality, Bank for International Settlements, BIS WP no. 312, Geneva'. For the data on Brazil see Dennis Tao Yang, Junsen Zhang and Shaojie Zhon 'Why are Saving Rates so High in China? NBER Papers no. 16771 (2011), available at: {www.nber.org/papers/w16771.pdf}. Also see OECD, *Household Saving Rates – OECD Economic Outlook* No. 88 (2010), available at: {http://dx.doi.org/10.1787/2074384X-2010-table7}.

[45] Quoted in *The Economist*, 'The G20: Talking-shop-on Thames'.

[46] Timothy Geithner, 'Timothy Geithner's letter to G20 finance leaders', *The Guardian* (22 October 2010), available at: {http://www.guardian.co.uk/business/2010/oct/22/g20-timothy-geithner-letter} accessed 31 Oct. 2011.

strategy' with regard to loose monetary and fiscal policy[47] – a proposal strongly rejected by the US, whose secretary Geithner emphasised the 'necessity of keeping global economic stimulus in place until recovery is assured'.[48] In 2010 Chancellor Merkel demanded before the Seoul summit that countries 'talk more in the G20 framework about the exit strategy from our various crisis programmes. We must switch to a phase of budget consolidation, as we are doing in Germany.'[49] Brazil criticised the US deficit and QE, since this policy reduced the value of the dollar and therefore endangered Brazilian export opportunities.[50] The Brazilian Finance Minister Guido Mantega stressed that his country would boost public spending to sustain economic growth only 'if needed'.[51] Similarly, Brazilian President Dilma Rousseff underlined the need to 'address sovereign debt and fiscal imbalances in some countries' and declared that 'we will not succumb to inflationary pressures coming from outside'.[52]

In sum, the dispute among the three countries in the G20 involved an industrialised country on one side and another industrialised country with an emerging country on the other. Both sides articulated their opposing preferences in the context of G20 finance minister and leader summits, with the US advocating additional stimulus and discretionary measures and Germany and Brazil calling for monetary and fiscal prudence. All three countries asked other G20 members to join their respective positions. Germany and Brazil did enact stimulus programmes, but they differed from the US stimulus in size (percentage of GNP), form (no QE, lower deficit-spending), and mode of distribution (more via the government than through the market). As outlined above, these differences corresponded to diverging societal ideas as attitudes, societal ideas as practices as well as ideas codified as regulations. Since the differences between the US and Germany could not be overcome and continued to structure the G20 debates in 2011, this case study shows that a major previous alliance, the G7, did not play any role in shaping national policies and positions within the G20.

Focusing on societal ideas as the explanatory variable in this case study does not mean that material interests in the form of interest group activities regarding stimulus and public debt did not influence governmental positions. Lobby groups such as national industrial associations did voice their demands for governmental support. However, these demands did not differ between the three countries since they all aimed to enhance governmental support for economic growth. Therefore, they cannot explain the clear differences in size, form and mode of distribution of the stimulus between the three countries. Material interests did play a role, though, in reinforcing collective societal expectations as exemplified by the historical underpinnings of anti-inflationary expectations in Germany and Brazil.

[47] *Handelsblatt* (16 June 2009).

[48] Geithner quoted in Glenn Somerville, 'Geithner: need stimulus, not financial transactions tax', *Reuters* (8 November 2009), {http://www.reuters.com/assets/print?aid=USTRE5A611320091108}.

[49] Angela Merkel, 'Regierungserklärung von Bundeskanzlerin Merkel zum EU-Gipfel in Brüssel und zum Gipfel der G20-Staaten', Seoul (27 October 2010), available at: {http://bundeskanzlerin.de/Content/DE/Regierungserklaerung/2010/2010-10-27-merkel-regerklaerung-eu-g20.html}.

[50] *The Economist*, 'The ghost at the feast' (12 November 2010).

[51] Mantega quoted in Joshua Goldman and Camila Fontana, 'Brazil to Hold Off on Stimulus Plans, Meirelles Says', *Bloomberg* (9 November 2009), {www.bloomberg.com/apps/news?pid=21070001&sid=aaR01tExFS9g}.

[52] Dilma Rousseff, 'Brazil will fight back against the currency manipulators', *Financial Times* (21 September 2011).

In sum, societal ideas on the structural role of politics in steering the economy provide a plausible explanation of the variation in the positions of these countries' governments in the G20. Fiscal prudence, high savings, and anti-inflationary policies were substantiated as deeply rooted in societal ideas in Germany and, to a lesser degree but still significantly, in Brazil, while debt-fuelled spending, low savings rates and inflation were shown to garner higher acceptance in societal attitudes and practices in the US. Hence, societal ideas as attitudes, practices and regulations decisively contributed to the explanation of divergent governmental positions in the G20. These antagonisms superseded previous economic alliances, in his case the G7, and ultimately also precluded joint action in the G20 regarding stimulus and public debt.

Exchange rate policy and global imbalances

After the initial focus of the G20 summits on stimulus packages and financial market regulation, the negotiation agenda was broadened in 2009–11 through controversies over exchange rate policies and global imbalances. Both issues are tightly intertwined because they mattered to the protagonists for the same reason: trade. Exchange rate policy became an issue since it was seen as an instrument to boost exports by currency devaluation. Global imbalances became an issue when the US raised it to pressure the big exporters to reduce their surpluses and, thus, the resulting import pressure on US domestic producers. Regulating or coordinating different national policies on both of these issues in the G20 affects specific domestic interest groups directly due to its impact on jobs and profits in the export sector and in those sectors threatened by imports. Hence, this case seems predestined for an analysis of whether domestic interests prevailed in shaping governmental positions in the G20, whether alliances such as the G7 and the BRICs dominated, or whether different levels of economic development between industrialised and emerging countries influenced positions. In contrast to the previous case study, the debate on exchange rates and global imbalances in the G20 was not based on (and did not aim at) substantial domestic policy programmes but instead focussed on international economic policy.

Exchange rates. Controversies over exchange rates became focal in the context of the G20 in 2010. The Obama administration blamed China's undervaluation of the renminbi for decisively contributing to the large trade deficit the US had with China and demanded an appreciation of the renminbi *vis-à-vis* the US dollar.[53] In the words of Treasury Secretary Timothy Geithner: 'We believe it is very important to see more progress by the major emerging economies to more flexible, more market-oriented exchange rate systems.'[54] Since direct pressure on China did not lead to the desired result, the US increasingly integrated the currency issue into the G20 debates. However, with the issuance of huge amounts of dollars through quantitative easing (QE2 reached US $600 billion, QE3 US $400 billion), the US also began to devalue its currency.

[53] Timothy Geithner, 'Treasury Secretary Geithner's Testimony on China', *Wall Street Journal* (16 September 2010), available at: {http://blogs.wsj.com/economics/2010/09/16/treasury-secretary-geithners-testimony-on-china}.

[54] Quoted in *Financial Times*, 'Geithner speech on global recovery, Remarks at the Brookings Institution' (6 October 2010), available at: {http://cachef.ft.com/cms/s/0/140133a0-d14b-11df-8422-00144feabdc0.html#axzz1NUyUJAPU}.

This devaluation of the dollar and the persistent (and only slightly corrected) undervaluation of the renminbi led other G20 countries to worry about their exports suffering as a result of competitive devaluations between the US and China. The Brazilian Finance Minister Guido Mantega warned, that a ‘currency war’ was taking place which would impose costs on third countries by reducing their competitiveness while simultaneously destabilising the world economy. Specifically, Mantega warned a trade war could follow from currency depreciation, stating that Brazil’s trade with the US had slipped from a surplus of US $15 billon to a deficit of US $6 billion in 2010 because of the US efforts to revive its economy through loose monetary policy, which, in turn, had led to the dollar to falling by 11 per cent against the Brazilian real in the year to August 2011.[55] Mantega further criticised the US policy by stating that ‘the only result is to devalue the dollar to achieve greater competitiveness on international markets’, and added that China’s undervalued currency was also distorting world trade. This opinion was seconded by President Lula da Silva, who said that he would travel to the G20 summit in Seoul, ready to take ‘all the necessary measures to not allow our currency to become overvalued’ and to ‘fight for Brazil’s interests’.[56] Lula’s successor, Dilma Rousseff, affirmed in an article for the *Financial Times* that ‘it is urgent to combat protectionism and all forms of currency manipulation, which give spurious competitiveness at the expense of trading partners. The G20 can offer a coordinated response.’[57] In addition to criticising the US monetary policy, Brazil went along with the US in criticising China for the undervaluation of the renminbi (yuan) for the same reasons it was criticising the US devaluation of the dollar.[58]

Brazil was joined in its criticism by the German Chancellor Angela Merkel who complained about ‘increasing distortions of exchange rates’ and warned that ‘in the end, everybody loses from competitive devaluations’.[59] Along similar lines, the German Finance Minister Wolfgang Schäuble said, ‘It’s inconsistent for Americans to accuse the Chinese of manipulating exchange rates and then to artificially depress the dollar exchange rate by printing money.’[60]

As a result, the exchange rate and currency issue produced two opposed ad hoc groupings. On one side, the US complained about China’s undervaluation policy, but found itself in the same camp with China as a country criticised for devaluing its currency. On the other side, Brazil was joined by Germany in demanding from both China and the US a halt to competitive devaluations in order to stop the distortion of competition through exchange rate manipulation. Domestic interests played a crucial role in defining these positions since the US argued that their exchange rate policy/quantitative easing was aimed at securing domestic jobs and at pleasing the export lobby as well as those sectors threatened by imports. As US Treasury Secretary Geithner noted, ‘The undervalued renminbi … makes it more

[55] Quoted in *BBC News* (9 January 2011), available at: {www.bbc.co.uk/news/business-12148841?print=true}; *The Economist* (2011), p. 67.

[56] Quoted in John P. Rathbone and Jonathan Wheatley, ‘Brazil ready to retaliate for US move in currency war’, *Financial Times* (4 November 2010).

[57] Rousseff, ‘Brazil will fight back’.

[58] Costas Paris and Kanga Kong, ‘India, Brazil to Press China on Yuan’, *Wall Street Journal,* (18 February 2011), available at: {http://online.wsj.com/article/SB10001424052748704900004576151972899632918.html}.

[59] Angela Merkel, *Regierungserklärung von Bundeskanzlerin Merkel zum EU-Gipfel in Brüssel und zum Gipfel der G20-Staaten*, Seoul (27 October 2010), available at: {http://bundeskanzlerin.de/Content/DE/Regierungserklaerung/2010/2010-10-27-merkel-regerklaerung-eu-g20.html} accessed 22 July 2011.

[60] Quoted in *The Economist*, ‘The ghost at the feast’ (12 November 2010).

difficult for goods and services produced by American workers to compete.'[61] US policy positions with regard to China's currency followed intense lobbying by major domestic business associations. The list of 'Policy Accomplishments for 2011' on the US Chamber of Commerce activities states: 'Led advocacy efforts to increase multilateral pressure on China to adopt a market-determined exchange rate and revalue its currency.'[62]

The warnings of successful exporters such as Brazil and Germany were based on fears that undervalued Chinese and US currencies would harm the competitiveness of their products on the world market and lead to inflationary pressure. The position of the German government corresponded to the fear of a negative impact on exports from a 'currency war', as stated by business associations and by the president of the German Chamber of Commerce, DIHK, Hans Heinrich Driftmann.[63] The position of the Brazilian government in the G20, in turn, also corresponded to statements made by affected domestic interest groups, for example, by FIESP, the Federation of Industry of the largest industrial state, Sao Paulo. FIESP director Robert Gianetti stated that 'we need the leading nations of the G20 to immediately establish a new international dialogue on currency' in order to 'prevent a worsening of exchange rates'.[64] In addition, on behalf of the country's export sector, the Brazilian Confederation of Industry (CNI) strongly lobbied the government to adopt measures to help contain the strong appreciation of the real *vis-à-vis* the US dollar.[65]

In sum, the positions of the two trade surplus countries, Brazil and Germany, corresponded to the domestic interests of the export sectors, while the position of the US government corresponded to the weak competitiveness of US industry. While Brazil and Germany criticised the US for its exchange rate policy, all three criticised China's undervaluation of the renminbi. Thus, previous alliances – specifically the G7, the BRICs, and the 'trade G20' – were superseded as both the US and Germany as well as Brazil and China found each other on opposite sides in the G20 disputes.

Global imbalances. The issue of global imbalances was raised by the United States as a topic for the G20 in 2010 and played a dominant role at the summit in Seoul in November of that year. Treasury Secretary Geithner proposed a cap of 4 per cent for a country's current account surplus/deficit – a measure aimed at the large Chinese, German, and Japanese export surpluses. He called for these to be reduced and for domestic demand to be increased.[66] The US proposal was opposed by these three

[61] Geithner, 'Testimony on China'.

[62] US Chamber of Commerce, *International Trade and Investment: Policy Accomplishments for 2011*, Washington, DC (2011), available at: {http://www.uschamber.com/issues/accomplishments/international-trade-and-investment} accessed 31 Oct. 2011.

[63] *Die Welt*, Unternehmen fürchten den Währungskrieg (7 October 2011), available at: {http://www.welt.de/print/die_welt/wirtschaft/article10123894/Unternehmen-fuerchten-den-Waehrungskrieg.html} accessed 31 Oct. 2011); Deutscher Industrie- und Handelskammertag (DIHK), *Spiel's noch einmal Sam – G20 wieder gefordert*, Newsletter no. 42 (27 October 2011), available at: {http://www.dihk.de/presse/thema-der-woche} accessed 31 Oct. 2011; DIHK, 'Das Spiel mit Wechselkursen birgt Gefahren', Interview with DIHK President Hans Heinrich Driftmann in *manager magazine* (13 Oct, 2010), available at: {http://www.dihk.de/presse/meldungen/meldung012889} accessed 31 Oct. 2011.

[64] Federacao das Industrias do Estado de Sao Paulo (FIESP), 'Diretor da Fiesp defende rodada da moeda no G20 papa evitar maior deterioracao do cambio', press release (14 October 2011), available at: {www.fiesp.com.br/agencianoticias/2011/10/14/diretor-fiesp-rodada-moeda-g20-cambio.ntc}.

[65] *MercoPress*, 'Brazilian exporters ask Rousseff for a US dollar between 2 and 2.2. Real' (8 November 2010), available at: {http://en.mercopress.com/2010/11/08/brazilian-exporters-ask-rousseff-for-a-us-dollar-between-2-and-2.2-real}.

[66] Geithner, 'Testimony on China'.

countries, as well as by Brazil and by the oil and gas exporting countries, including Saudi Arabia and Russia. The German Finance Minister Schäuble insisted that his country's export surplus was the result of the competitiveness of its products since it was not manipulating its currency, nor subsidising exports.[67] Complementing her finance minister, Chancellor Merkel stressed at a G7/8 summit in 2011 that two-thirds of Germany's growth was triggered by domestic demand and not by exports.[68] To counteract US demands, both Germany and China also pointed to the huge capital flows into the US – primarily from China, but also from Europe – which supported debt-driven consumption as well as deficit spending in the US.[69] Since Brazil was not a major target of the US proposition to cut trade surpluses, the Brazilian government was also not as articulate in rejecting it as was the German government. However, the Brazilian president did distance herself from the US claim by emphasising that her country's priorities were not trade imbalances, but instead public debt and fiscal imbalances: 'The great challenge for the coming years is to address sovereign debt and fiscal imbalances in some countries, without stopping – or reversing – the global recovery.'[70]

In the end, the Seoul summit did not follow the US proposition, but instead agreed on developing a range of indicators. These were subsequently formulated at the G20 finance ministers' meeting in Paris in February 2011 and specified further at the ministers' meeting in Washington, DC in April 2011. The 'indicative guidelines' to be monitored encompass domestic private savings and private debt, public debt and fiscal deficits, trade balances, and net investment income flows and transfers.[71] No specific numeric goals were set as indicators for imbalances. Thus, the initial US proposal was largely rejected, and the US agreed to include indicators for its own imbalances, such as low savings, high borrowing, and a large public debt. As a result, the G20 compromise included monitoring not only trade as demanded by the US, but also sovereign debt as prioritised by Germany and Brazil, and investment flows, which had been a concern for Brazil[72] since inflows dramatically rose due to the real's gains *vis-à-vis* the dollar. Germany's export surplus was to be monitored, but no restrictions were agreed upon in the case that surpluses result from competitiveness rather than currency manipulation. Thus, the February agreement was consistent with Chancellor Merkel's position in defence of the German export sector: 'We have clearly ensured that export surpluses as expression of good competitiveness must never be banned.'[73]

[67] Schäuble quoted in *Wallstreet-online* (2010), available at: {http://www.wallstreet-online.de/nachricht/3103933-vor-g20-treffen-schaeuble-gegen-export-vorgaben}.

[68] Angela Merkel, 'G8 – Sicherheitstests für alle Kernkraftwerke', press release at official web-site of the German Chancellor (27 May 2011), available at: {http://www.bundeskanzlerin.de/nn_683580/Content/DE/Artikel/2011/05/2011-05-26-g8.html}.

[69] *The Economist*, 'Beyond Bretton Woods 2' (6 November 2010), p. 85.

[70] Rousseff, 'Brazil will fight back'.

[71] G20, 'Communique', Meeting of Finance Ministers and Central Bank Governors, Washington, DC (14 April 2011), available at: {http://www.g20.org/Documents2011/04/G20%20Washington%2014-15%20April%202011%20-%20final%20communique.pdf}; Ralph Atkins and Quentin Peel, 'G20 strikes compromise on global imbalances', *Financial Times* (19 February 2011).

[72] Rathbone and Wheatley, 'Brazil ready to retaliate'; *The Economist*, 'Emerging markets. One more such victory' (1 October 2011), p. 67.

[73] Angela Merkel, 'Rede von Bundeskanzlerin Angela Merkel anlässlich des BDI-Tags der deutschen Industrie' (27 September 2011), speech on the offical web-site of the Chancellor at: {http://www.bundeskanzlerin.de/nn_683608/Content/DE/Rede/2011/09/2011-09-27-bkin-bdi.html}.

The discussion of global imbalances led to a split between the US on the one hand, and a heterogeneous grouping encompassing primarily China, Germany, Japan, and Brazil, on the other hand, which opposed having their exports restricted on the US government's demand. The sources for the respective governmental positions on both sides were to be found in domestic economic interests as evidenced above by the lobbying of the export sector concerning the exchange rate dispute. The US concern was triggered by the US recovery lagging behind economic growth in other countries, by the desire to protect sectors threatened by imports, as well as by the wish to enhance the performance of US exporters through a devaluation of the dollar. On the other hand, Germany and Brazil were defending their successful export sectors against outside intervention. It is noteworthy that opposition to currency devaluations shaped the German and Brazilian positions because, in principle, devaluations of the respective currencies would have been beneficial in the short-run to exporters in all countries. However, the export sector prevailed in shaping the governments' positions in the surplus countries Brazil and Germany by emphasising its interest in opposing both the devaluation in target markets and global caps on trade. In the trade-deficit country (the US), in contrast, sectors threatened by imports shaped the government's position by stressing their interest in trade caps for surplus countries and by opposing the currency undervaluation of the major country of origin of US imports (China).

In sum, the debate on global imbalances represents a clear cut case for governmental positions corresponding to domestic sectoral interests. The proposed global governance initiative would have inflicted costs on the export sectors in Brazil and Germany, and benefited US sectors which were threatened by imports. The G7, as a previous international alliance, was weakened by the divergence between two of its key members, the US and Germany, within the G20. Differences in the level of development between the industrialised countries and the emerging country did also not matter in structuring the controversy.

Conclusions

The empirical findings in the case studies support the three hypotheses of the societal approach and substantiate its explanatory power. First, the divergences between Brazilian, German, and US positions in the G20 could be traced back to societal interests and/or ideas whose influence on governmental positions prevailed over previous international alignments. The positions of the governments regarding the G20 issues of stimulus and public debt as well as imbalances and exchange rates corresponded to ideas and/or interests dominant in the domestic politics. Societal ideas as attitudes towards the appropriate role of the government versus the market in steering the economy, ideas as attitudes on inflation, ideas as practices *vis-à-vis* savings and debt, and ideas codified as regulations of welfare and tax systems all clearly shaped the divergent positions of the three governments in the G20 debates. Second, the degree to which specific economic sectors were affected by proposed global governance initiatives mattered for the prevalence of interests over ideas. Interests prevailed regarding the governmental positions on imbalances and exchange rates because the effects of the discussed initiatives were likely to be considerable for specific sectors, namely the export sector in surplus countries and the sector threatened by imports in the deficit country. Third, the hypothesis on the issues at stake allowed for the insight that those issues relating the structural role of politics versus the market in steering the economy stirred ideas-driven governmental positions on the form, size, and distributional modes of stimulus and debt. Conversely, issues concerning cost/benefits in the form of material gains or losses from trade stirred interest-driven governmental positions on imbalances and exchange rates.

The analysis in the case studies also showed that ideas and general (non-sectoral) societal interests partially reinforced each other. For example, attitudes on inflation reflected historical experiences in Germany and Brazil which affected the material interests of the society in general and led to a learning process which resulted in strong ideational preferences. The latter were observed in form of anti-inflationary attitudes as well as behavioural practices (high savings rates), which both involve material implications and, consequently, shaped the preference for fiscal prudence. Another instance of this linkage between ideas and general societal interests is the regulation of welfare and tax systems, which reflects ideational expectations on the role of the state in distributing resources (with a stronger role favoured by Germans and Brazilians than by Americans), while simultaneously contributing to material – and thus interest-related – expectations. These findings show that the societal approach needs to be further developed to consider the relationship between ideas and general societal interests, as well as those between ideas, interests and socio-economic regulations. One additional hypothesis following from the analysis is that, once fundamental ideas shape politics, they tend towards codification in regulations, which, in turn, strengthen the original ideational expectations and shape interests. However, since interests are defined in the societal approach as sectoral interests expressed empirically by lobbying, the economic interests of broader parts of the society (such as welfare gains and low inflation) transcend sectoral interests both theoretically and empirically since they cannot be localised analytically as clearly as sectoral interests. Thus, future research should conceptualise and examine the potential role of general societal interests in addition to sectoral interests and the potentially reinforcing, competitive and/or complementary relationship between them.

The findings in the case studies also revealed empirical areas for further research. First, given the small number of countries and issue areas examined in this article, more research is needed on additional countries and issues to broaden the empirical basis of the results and to further test the societal approach. In addition, it seems useful to undertake further research on how diverging interests and/or ideas can be brought to converge internationally with the aim of strengthening global economic governance. Examining the reverse question could also be worthwhile: how can global economic governance be structured in a way that respects national diversity, while promoting shared understandings and commitments on the management of the world economy?

The case studies clearly evidenced the observation that previous international groups (G7, 'trade G20', and BRICs) were weakened by issue-specific divergences in the G20 which led to a rift between allies in those previous groups, that is, between the US and Germany as well as between Brazil and China. Since the causes for issue-specific divergences could be traced back to domestic politics in the three country cases, evidence also shows that neither industrialised nor emerging countries shared the same or compatible interests and/or ideas. As a consequence, neither the emerging nor the industrialised countries analysed here could build a community of interests and/or ideas. This finding points to an increased multipolarity in international relations, which is characterised by the prevalence of domestic politics over international alignments, by issue-specific divergences, multiple potential coalition-partners, and via the absence of a hegemon. In this situation, instituting the concept of 'inclusive leadership', in which the domestic ideas and interests of potential followers are incorporated into the strategy of leadership, might constitute a promising way to enhance global cooperation.[74]

[74] Schirm, 'Leaders in Need of Followers', pp. 198–201.