Strengthening the G20's Membership

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Foreword

In 2012, National Taxpayers Union (NTU) proudly partnered with Alex M. Brill and James K. Glassman to produce *Who Should the Twenty Be? A New Membership System to Boost the Legitimacy of the G20 at a Critical Time for the Global Economy*. The question posed in the title of that trenchant analysis was not, and is not, academic. Upon its answer depends the institution's capacity to serve as a legitimate facilitator of global financial stability, one that provides a flexible alternative to rigid, statist approaches that can burden taxpaying citizens.

Today, NTU is once again honored to collaborate with these two distinguished researchers to explore the issue of transparent G20 membership processes, by utilizing updated and refined criteria. Their findings may not be at spectacular variance with the results obtained in 2012, but in NTU's opinion this only lends more strength to their work. While the recommendations for membership outlined in this new paper are certainly not the only potential prescriptions for the G20's transparency, effectiveness, and accountability, they remain both relevant and resilient in a changing world.

Yet as in 2012, many may ask now, why should taxpayers be so concerned about the G20's future? NTU's reply is simple: because the international bodies of the past have failed to serve taxpayers' interests adequately. Since its founding in 1969, NTU's work on behalf of lower taxes and limited government has included international finance issues. In 1977, for instance, NTU's research affiliate undertook a public education initiative led by experts in finance who sounded the alarm over repayment prospects of the developing world's debts. During the 1980s, we clashed with the Carter and Reagan Administrations over increases in International Monetary Fund (IMF) quotas. Our views were summarized in 1983 testimony before the House Banking Committee, when our then-Chairman James Davidson warned, "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."

More recently NTU has called for suspending additional U.S. contributions to the IMF and multilateral development banks until participating nations honor their debt obligations. We have also sought stronger 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-six years, developed constructive proposals with activist groups on six continents to help guide them in their missions of limiting government power.

Finding a framework that is able to support measured, resolute responses to global financial exigencies remains a challenge today. So too is the need to encourage financial leaders, rather than bloated bureaucracies, to take the primary role in maintaining such a structure.

As I noted in 2012, however, with the G20 a tremendous opportunity still exists to chart a different course that would:

> …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.

Some would argue that recent events in Argentina, the Crimea region, and the Middle East, with their potential to disrupt the worldwide economic as well as the political balance, ultimately render multilateral forums like the G20 nearly useless. Only some formal supra-national arrangement based on entities of the past can, in their opinion, provide a corrective force. NTU does not share this view; rather, we continue to have confidence in what we described two years ago as a “vision for cooperation that respects the sovereignty of taxpayers, recognizes the responsibility of individual nations, and fosters stability.” All the while, we must resist the “impulse to replace dynamic, often self-correcting market forces with the arbitrary judgments of bureaucracies.”

Of course, there are many opportunities for the United States to exert leadership in financial and fiscal policy on the world stage. Some long-overdue conversations for reform must be initiated within America’s own borders, such as fundamentally overhauling our uncompetitive tax system, creating a more hospitable and rational regulatory climate, lowering trade taxes (tariffs), and shunning unproductive economic subsidy schemes. These efforts will necessarily involve patient deliberations among many branches and levels of government, as well as taxpaying citizens.

As this study demonstrates, however, the conversation over transforming the G20 can be much more straightforward, and could conclude with a successful agreement over membership criteria before the year draws to a close. For those taxpaying citizens, who deserve international financial institutions that wield a nimble, deliberate touch rather than a clumsy, smothering grasp, such an agreement would come none too soon.

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Executive Summary

Heads of 19 nations plus the European Union meet in Brisbane, Australia, November 14-15, 2014 for their ninth summit since President George W. Bush transformed the G20 from a largely somnolent institution into a more relevant international organization to facilitate the stabilization of the global financial system and boost global economic growth. But throughout its history the G20's record for positively affecting the global economy has been spotty. One important reason that the G20 has failed to live up to its promise is that it lacks credibility and authority. In a paper we published on June 14, 2012, we argued that "the G20 cannot achieve adequate legitimacy until it adopts clear criteria for membership."[1]

Since its founding in the wake of the Asian financial crisis, the G20 has operated without transparent rules – in fact, without any rules at all – governing which countries are member. "As a result," we wrote, "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."

Unfortunately, in the two years since we wrote those words, the situation has only become worse. Argentina and Russia, which we identified as ill-suited for membership in such a prestigious and potentially powerful organization, have continued on paths that deviate sharply from international norms.

This judgment is subjective. However, our 2012 conclusion about G20 membership is based upon objective standards. This update also uses objective standards and asks two questions:

1. What should the objective standards for membership in the G20 be?
2. Under those standards, who should be granted G20 membership?

The G20's legitimacy rests on having as members those nations most capable of helping to meet the three goals to which G20 heads of state agreed in 2008. We decided then to base selection criteria on these official objectives:

1. Restoring global growth;
2. Strengthening the international financial system; and
3. Reforming international financial institutions.

With those goals in mind, we decided that appropriate membership criteria should be based on measures of:

1. A country's economic size and trade activity;
2. A country's adherence to the rule of law and other principles consistent with market-based economies; and
3. Financial interconnectedness: that is, the size of a country's financial-services sector and the magnitude of inbound and outbound banking activity.

[1] Alex Brill and James Glassman, "Who Should the Twenty Be?" (June 2012), available at http://www.aei.org/files/2012/06/14/-brill-g20-ntu-paper_095940274931.pdf.

Using these measures, we conclude that:

- Four current G20 countries should not qualify for membership in the G20. They are, in alphabetical order, Argentina, Indonesia, Russia, and Saudi Arabia.
- Four current nonmembers should replace them. They are Chile, 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 and that the number of EU nations would be capped at four, as is currently the case.
- The changes also assume representation for each of the five major geographic regions in the world. One country, South Africa, qualifies for our revised G20 as a result of this rule, representing Africa. Otherwise, Russia would occupy the 20^{th} spot.
- As in 2012, Argentina finishes in last place overall among current members of the G20. It is also last in GDP, last in imports, last in exports, third-to-last in control of corruption, last in regulatory quality, next-to-last in rule of law, and last (in a tie with three others) in systemic connectedness. Among a list of countries with a median score of 60.5 points on our aggregate measure, Argentina's dismal score of 14.1 is about half that of the 20th-place country.

The 2014 list differs little from the 2012 list. The only changes are that Mexico retains its position in the G20 rather than being eliminated, as the 2012 data indicated, and that Chile, rather than Malaysia, is added to the G20.

Our intention in this paper, as in our previous one, is not to determine the only 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 20, or G20, is a relatively new international institution, but its roots date back to the mid-1970s, when representatives of seven large economies – the United States, Japan, Germany, the United Kingdom, France, Italy, and Canada – began meeting periodically to discuss economic and financial issues. In response to the Asian financial crisis of 1999, the group was expanded to include 12 more "systemically important advanced and emerging economies,"[2] plus the European Union. Initial meetings of the G20 involved only finance ministers and central bank governors. Then, in the fall of 2008, at the request of President George W. Bush, G20 heads of state met in Washington to address the global financial crisis. There have been seven summit meetings since then, with another scheduled November 14-15, 2014 in Brisbane, Australia.

Although the current G20 members are among the largest economies in the world (see Table 1), there are no established criteria for membership. Instead, the original G7 simply picked the other members, using vague notions of size and geographic diversity to guide them. The G20 does include large and important economies; together, its members represent 85 percent of global GDP and two-thirds of the world's population.[3] There is little doubt that the original G7 members should be included and that large developing economies – China, Brazil, and India – are appropriate members. But that leaves half of the G20's composition in question. One study found, incredibly, that *land mass* was a key predictor of current G20 membership.[4]

Table 1. Current G20 Membership			
Argentina	European Union	Italy	South Africa
Australia	France	Japan	South Korea
Brazil	Germany	Mexico	Turkey
Canada	India	Russia	United Kingdom
China	Indonesia	Saudi Arabia	United States

The fact that the selection process is arbitrary has weakened the group's effectiveness, as criticism of the arbitrariness of the institution's makeup gives rise to challenges to its legitimacy.[5]

These concerns about legitimacy have had an impact on the G20's spotty record in stabilizing the global financial order and in increasing economic growth. Without strong global support, the G20 is unable to take steps in areas such as trade, the environment, and rule of law that would meet its ambitious objectives.

[2] G20, "The Group of Twenty: A History," (November 2007), available at http://www.g20.utoronto.ca/docs/g20history.pdf.
[3] 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.
[4] 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.
[5] See Jakob Vestergaard, "The G20 and Beyond: Towards Effective Global Economic Governance," Danish Institute for International Studies Report, (April 2011), available at http://www.diis.dk/files/publications/reports2011/RP2011-04-G20-and-beyond_web.pdf.

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. The most important step is to set up transparent and enforceable standards of membership.

The paper is structured as follows. We briefly relate work showing the connection between membership criteria and legitimacy. We determine what the criteria should be, and we apply the criteria to current members and possible acceding members and discuss the results.

Why Membership Criteria Are Essential to Institutional Legitimacy

Our 2012 paper explained at length why carefully chosen criteria lend legitimacy to international organizations. In summary, all such organizations require a "socially constructed system of norms, values, beliefs, and definitions" to endow their work with authority.[6] Robert Keohane, a scholar of international affairs at Princeton University, has noted that inclusiveness of membership is one of the most important elements in such a system because of the diverse interests that a multilateral group has to represent.[7] Inclusiveness, in the sense of having many members, may reduce a group's effectiveness, so a clear selection process is necessary to blunt criticism for not being broad enough.

Many scholars have commented on the dangers of the arbitrary membership selection for the G20. As just one example, 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."[8]

In a chapter in the recent book, *The G-20 Summit at Five: Time for Strategic Leadership,* published by the Brookings Institution, Subacchi argues that the G-20 has failed to establish itself as a "permanent steering committee" and instead functions as a "crisis committee." She goes on to write, "functioning as a crisis committee allows the G-20 to ignore its 'birth defect'—that is, issues of legitimacy and accountability.… Without greater legitimacy, the G-20 will have difficulty achieving full implementation of any agreement, which would likely be perceived as the decisions of a self-selected group of countries."[9]

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

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[6] Mark C. Suchman, "Managing Legitimacy: Strategic and Institutional Approaches," The Academy of Management Review 20, no. 3, (July 1995), available at http://www.socio-legal.sjtu.edu.cn/Uploads/Papers/2011/YLN110624111854555.pdf.

[7] 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.

[8] 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.

[9] Paula Subacchi, "Adapting to the New Normal: The G-20 and the Advanced Economies Fives Years after Washington." in *The G-20 Summit at Five: Time for Strategic Leadership.* Washington: The Brookings Institution, (2014).

accommodate other states and organizations…. A major source of controversy is the absence of any objective criteria for membership."[10]

Our own view is that an expansion of G20 membership is not a good idea. The organization benefits from being relatively small and flexible. "The G20's effectiveness has sprung from its informal, non-institutionalized form," writes global governance expert Ngaire Woods. "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."[11]

A G50 or G100 would become hidebound and bureaucratic, a disease with which the United Nations is afflicted. Still, the G20 should have *some* rules – and one of them must be the criteria by which members are chosen.

Proposed Criteria for Membership

At the first meeting of G20 heads of state in 2008, the members agreed to three primary objectives. We believe these three goals should guide the selection of members:

1. Restoring global growth;
2. Strengthening the international financial system; and
3. Reforming international financial institutions.

Based on these three objectives, we conclude that the G20 should comprise large economies with significant international financial and trade sectors. 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."[12]

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

1. A country's size and global economic importance, as reflected by its gross domestic product and its trade volumes;
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 cross-border banking activity (financial interconnectedness).

[10] Stewart Patrick, "The G20 and the United States: Opportunities for More Effective Multilateralism," New York: Century Foundation, (2010), available at http://72.32.39.237:8080/Plone/publications/2010/10/the-g20-and-the-united-states-opportunities-for-more-effective-multilateralism/get_pdf.

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

[12] G20, "Declaration of the Summit on Financial Markets and the World Economy," G20 Research Group, (November 2008), available at www.g20.utoronto.ca/2008/2008declaration1115.html.

Criteria must be transparent, stable, and verifiable. Therefore, we rely on economic and political governance metrics provided by the World Bank and the International Monetary Fund. We chose these sources because of their commitment to timely and reliable global statistics. The World Bank 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.[13]

The idea of using transparent, objective criteria for membership in the G20 is not new. It appears to have been first suggested in 2009 in a paper issued by the Center for Global Development.[14] The authors – Enrique Rueda-Sabater, Vijaya Ramachandran, and Robin Kraft – advocate that the first hurdle for membership should be whether a country's GDP *or* population exceeds 2 percent of that of the world as a whole. (That would immediately add Pakistan, Nigeria, and Bangladesh, populous countries with small economies.) They would then add smaller countries for geographic diversity. In our opinion, this would create an unwieldy organization that would have a difficult time reaching consensus. Our approach, by contrast, selects specific criteria that are aligned with the stated objectives of the G20.

Our data fall into three categories economic size, rule of law, and financial interconnectedness:

1. <u>Economic Size</u>: We use three metrics, each measured in current U.S. dollars for 2013: a) GDP, b) imports of goods and services, and c) exports of goods and services.
2. <u>Rule of Law</u>: Here, we use three of the World Bank's Governance Indicators, for the latest year, 2012:[15] a) control of corruption, which "captures perceptions of the extent to which public power is exercised for private gain"; b) 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 c) 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."
3. <u>Financial Interconnectedness</u>: For the first two categories, we simply updated data that was originally used in our 2012 paper with no methodological changes, but for Financial Interconnectedness, or systemic importance, there was a change in the underlying methodology used by IMF. Instead of ranking 50 countries, the IMF both made improvements to its methodology and switched to a simple listing of 29 countries that are denoted as having systemically important financial sectors.[16]

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[13] 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.

[14] 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, (February 2009), available at www.cgdev.org/content/publications/detail/1421065.

[15] The World Bank Group, "The Worldwide Governance Indicators (WGI) Project," available at http://info.worldbank.org/governance/wgi/index.aspx.

[16] International Monetary Fund, "The Financial Sector Assessment Program (FSAP)," (March 2014), available at https://www.imf.org/external/np/exr/facts/fsap.htm.

The scores were constructed by giving equal weight to each of the seven variables, a small change from 2012. In the original paper the Financial Interconnectedness variable was given a weighting of 40 percent. Because of the IMF's updated methodology, Financial Interconnectedness is now treated as a binary metric. A country is given a Financial Interconnectedness score of 100 if it is one of the 29 systemically important countries and 0 if it is not. As a result, we reduce the weight of this factor to reflect its increased potency.

Our index gives a maximum point value of 100 for each metric. The country with the highest GDP (the U.S.), for example, is given 100 points for that category. A country whose GDP is 20 percent of the U.S. would be given a score of 20. For Rule of Law metrics, we simply used the World Bank index figures, and, as noted above, for Financial Interconnectedness, a country scores 100 or 0.

In our 2012 paper, we provided a lengthy discussion of two other rules that we applied in determining membership: what to do about the EU and how to recognize the G20's stated objective of geographic diversity. In the end, we decided to: 1) retain the EU as a member and not add any individual EU nations as members beyond the four current ones – the U.K., France, Germany, and Italy, which were also members of the G7; and 2) include at least one representative of each of the five major geographic regions of the world: North America, South America, Europe, Asia, and Africa. We retain these rules in this update.

Results of Applying the Criteria

The changes that result from our updated analysis are presented in Table 2, with complete scores in Table 3. Four current G20 countries do not qualify for membership. Two of them – Argentina and Indonesia– fall far short, with total scores of just 14.1 and 18.4, respectively. The two other non-qualifiers are Russia, at 33.4, and Saudi Arabia, 29.0. The scores of all four countries are significantly below that of the lowest-ranking current G20 country that was *not* eliminated: India, at 39.2. The median score of all countries on our revised G20 list is 60.5.

Table 2: Changes in G20 Composition from Applying Criteria and Updated Data

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

The replacements for the four eliminated countries are: Singapore, Switzerland, Norway, and Chile. The addition of Switzerland and Norway, which are not EU members and thus qualify under our rules, increases European representation to seven (including the EU itself), or more than one-third of total membership in the G20.

The 2014 results differ only slightly from the 2012 results. In the updated case, Saudi Arabia rather than Mexico is eliminated and Chile rather than Malaysia is added. The addition of Chile means that, even with the elimination of Argentina, Latin America continues to be represented by three countries.

Table 3: Country Scores for Membership Criteria Metrics										
Rank	Country		Economic Size and Trade			World Bank Rule of Law Metrics			IMF Systemic Financial Sector	SCORE
			GDP	Exports	Imports	Control of Corruption	Regulatory Quality	Rule of Law		
1	**European Union**		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2	**United States**		100.0	100.0	100.0	89.5	87.6	91.5	100.0	95.5
3	**Germany**		21.1	78.0	55.4	93.8	92.3	91.9	100.0	76.1
4	**Japan**		36.6	41.2	36.9	91.9	83.7	87.2	100.0	68.2
5	**United Kingdom**		15.2	34.7	30.1	92.3	94.7	92.9	100.0	65.7
6	**France**		16.1	34.7	29.8	90.0	83.3	90.0	100.0	63.4
7	**Canada**		11.2	24.7	21.2	95.2	95.7	95.3	100.0	63.3
8	**China**		50.7	98.0	70.5	39.2	43.5	38.9	100.0	63.0
9	**Singapore**	&	1.8	25.1	18.0	97.1	100.0	95.7	100.0	62.5
10	**Switzerland**	&	3.9	18.2	12.7	97.6	95.2	96.7	100.0	60.6
11	**Australia**		9.4	14.1	12.2	95.7	97.1	94.8	100.0	60.5
12	**Norway**	&	3.1	9.3	5.0	98.6	91.9	100.0	100.0	58.3
13	**Korea**		7.5	30.0	22.7	70.3	77.0	79.6	100.0	55.3
14	**Italy**		12.4	26.3	20.4	57.9	74.6	62.1	100.0	50.5
15	**Turkey**		4.9	9.3	9.1	63.2	65.6	56.9	100.0	44.1
16	**Brazil**		13.8	12.8	11.1	56.5	54.5	51.7	100.0	42.9
17	**Mexico**		7.3	17.5	14.6	42.6	67.0	36.0	100.0	40.7
18	**Chile**	&	1.6	4.1	3.3	91.4	93.3	88.2	0.0	40.3
19	**India**		11.4	20.1	21.1	34.9	34.0	52.6	100.0	39.2
	Russia	#	12.4	26.7	16.2	16.3	38.8	23.7	100.0	33.4
	Malaysia	*	1.9	12.0	8.3	65.6	69.9	65.9	0.0	31.9
	Saudi Arabia	*#	4.5	18.1	7.8	56.9	55.0	60.7	0.0	29.0
20	**South Africa**		2.4	5.2	4.4	53.6	63.2	57.8	0.0	26.6
	Indonesia	#	9.5	5.4	7.8	28.7	43.1	34.1	0.0	18.4
	Argentina	#	4.3	3.7	3.1	38.8	19.1	29.4	0.0	14.1
KEY :	**Bold:**	New G20								
	&	Added to the G20								
	*	Original G20 Paper, but not new G20.								
	#	Actual G20, but not new G20.								
Notes:	EU and South Africa are in by definition. Score is average of each factor.									

Argentina bears special attention. It ranks last among current G20 members in all three of the Economic Size categories, tied for last with three others in Interconnectedness, last in Regulatory Quality, next-to-last (to Russia) in Rule of Law, and third-to-last (after Russia and India) in Control of Corruption. In an August 24, 2014 assessment of each G20 nation's adherence to commitments in such areas as trade, investment, and crime, Argentina's compliance rate was just 53 percent, lower than any country except China (50 percent) and Saudi Arabia (47 percent). The G20 average was 69 percent.[17]

The inclusion of Argentina in and of itself challenges the legitimacy of the G20. In the largest sovereign default in history, Argentina renounced its debt in 2001 and defaulted, for the second time, on its debt obligation in 2014. It has spent more than a decade defying court orders (and mocking U.S. judges), flouting the World Bank's International Centre for the Settlement of Investment Disputes, and acting as an global financial renegade.[18] Two years ago, Senator Richard Lugar, a moderate Republican who has since left the Senate, introduced a resolution to suspend Argentina's membership in the G20 for its conduct.[19] Congressman Posey recently introduced a comparable resolution in the House of Representatives.

It is hard to understand how Argentina earned a spot on the G20 in the first place, though personal political relationships likely played a role.[20] Today, the country's economic record is astonishingly poor. Of the 57 countries tracked by The Economist, only Argentina and Ukraine are expected to suffer a GDP decline in 2014[21] Argentina's global isolation, its willingness to defy international standards, and its inability to meet G20 commitments render the country unfit for membership.

Russia's deficiencies with regard to rule of law are similarly poor though obviously its economy is much larger and more engaged in global trade. Russia's score is nearly seven points higher than that of South Africa, which is admitted under our formula as the African representative. Indonesia's overall score is about four points higher than Argentina's and eight points lower than South Africa's. While nearby Malaysia produces less than one-fourth the GDP of Indonesia, its higher Rule of Law metrics give it an overall score that is 13.5 points higher – though shy of making it into the final G20.

The four countries that fall out under our analysis have excellent replacements. Despite its small size (GDP is less than 2 percent that of the U.S.), Singapore would rank eighth among G20 nations in total score (excluding the European Union), due to its high scores for rule of law metrics and vibrant trade sector. Switzerland and Norway are close behind. Like the other three, Chile has high Rule of Law scores and, with a population of nearly 18 million, finished ahead of India in total points. Chile is among six countries within four points of each other on the bubble of the cutoff for membership. The closeness of the scores is a good argument for a rules-based admissions system, and the possibility of Singapore qualifying for the G20 with a GDP of only $300 billion will give smaller countries an incentive to improve rule of law and financial connectedness and increase trade.

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[17] Stacey Bocknek, et al., "2013 St. Petersburg G20 Summit Interim Compliance Report," G20 Research Group, (August 2014), available at http://www.g20.utoronto.ca/compliance/2013stpetersburg-interim/index.html.
[18] Doug Palmer, "Obama Says to Suspend Trade Benefits for Argentina," Reuters, (March 26, 2012), available at http://www.reuters.com/article/2012/03/26/us-usa-argentina-trade-idUSBRE82P0QX20120326.
[19] Senate Resolution 457, 112th Congress, 2d Session, May 10, 2012.
[20] *See* Patrick (2010). "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."
[21] The Economist, "Output, Prices and Jobs," (September 2014), available at http://www.economist.com/news/economic-and-financial-indicators/21616992-output-prices-and-jobs.

Conclusion

As we said at the outset, our seven metrics are not the only ones that the G20 could use to determine membership. The very process of using a reasonable objective mechanism is consistent with strengthening the institution by addressing doubts about a structure that seems arbitrary to many. Even if applying criteria resulted in no change in membership, the establishment of a transparent system would increase the G20's legitimacy – and, therefore, its authority to enact global reform in a dangerous time for the global financial system. One of the G20's great strengths is its limited mission, and an admissions system that sticks to economic criteria will help constrain mission creep.

Having clear criteria also allows the G20 to reevaluate its membership on a regular basis. As the global economy changes, other, rapidly developing economies could potentially earn admission to the G20. However, reevaluating too frequently will disrupt the group's cohesion and stifle the collegial relationships among its members.

Therefore, we advocate reevaluating membership every 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.

The G20 should adopt a set of criteria for membership at its upcoming meeting in Brisbane, Australia on November 14 and 15 and during 2015 changes in membership should be made.

The global economy must have an effective forum for policy discussion and action. The United Nations, the IMF, and other multilateral institutions are all too encumbered with their own political and operational baggage, but the G20 could be well-suited for the role if it were only to set straightforward, objective membership criteria. Two years have passed since we first made this recommendation, and, while our original paper was greeted positively, no action from the G20 was forthcoming. The world can't wait for another two years to pass.

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