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G-7 Economic Cooperation in the Trump Era

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The G-7 countries have used economic cooperation to pursue three main objectives: macroeconomic policy coordination (either in response to global shocks or to reduce large external imbalances among its members); the promotion of an open, rules-based multilateral trading system; and the promotion of global financial stability through common regulatory standards and common institutions such as the International Monetary Fund (IMF).[1] The views of US President Donald J. Trump appear to conflict with all three objectives. His "America First" philosophy and apparent belief that current account imbalances must be addressed by renegotiating trade agreements rather than through macroeconomic policies appear to leave little room for macroeconomic coordination with other members of the G-7. His trade views directly contradict the G-7 agenda so far, and his intention to roll back financial regulation in the United States seems difficult to reconcile with regulatory cooperation. Furthermore, key congressional Republicans have been highly critical of US participation in the Basel Committee on Banking Supervision and the Financial Stability Board (FSB) and have also opposed "IMF bailouts" and IMF quota increases.

At the same time, it is not yet clear to what extent—and how—President Trump's views will translate into policies of the new US administration. For example, Treasury Secretary Steven Mnuchin appears to have affirmed the IMF's role in crisis prevention and management and the role of international cooperation in addressing financial stability risks in separate conversations with IMF Managing Director Christine Lagarde and Financial Stability Board (FSB) Chairman Mark Carney immediately after his confirmation.[2] President Trump himself, while pursuing an "economic nationalist agenda," has recently stated that "global cooperation, dealing with other countries, getting along with other countries is good, it's very important."[3] This posture could give members of his economic team political cover to

1. The G-7 countries are: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

2. See US Department of the Treasury, "Readout from a Treasury Spokesperson of Secretary Mnuchin's Call with International Monetary Fund Managing Director Christine Lagarde," press release, February 21, 2017, https://www.treasury.gov/press-center/press-releases/Pages/sm0010.aspx (accessed on April 25, 2017) and US Department of the Treasury, "Readout from a Treasury Spokesperson of Secretary Mnuchin's Meeting with Mark Carney, Governor of the Bank of England (BOE) and Chair of the Financial Stability Board (FSB)," press release, February 23, 2017, https://www.treasury.gov/press-center/press-releases/Pages/sm0013.aspx (accessed on April 25, 2017).

3. The first quotation is from Trump's chief strategist, Stephen Bannon (see Benjy Sarlin, "Steve Bannon Touts Trump's 'Economic Nationalist Agenda,'" NBC News, February 23, 2017, http://www.nbcnews.com/politics/politics-news/bannon-touts-trump-s-economic-nationalist-agenda-n724851 [accessed on April 25, 2017]). The second quotation is from Trump's February 24, 2017 CPAC speech, http://time.com/4682023/cpac-donald-trump-speech-transcript/ (accessed on April 25, 2017).

continue the US postwar tradition of international economic cooperation, particularly with its allies.

This Policy Brief explores how G-7 cooperation could be maintained in the Trump era, starting with its upcoming summit in May in Taormina, Sicily, Italy. It assumes the US administration will *both* remain open to international cooperation in principle *and* feel constrained by Trump's economic nationalism as well as by specific campaign promises, such as reducing trade imbalances. The central issue is how, in light of these constraints and potential contradictions, the non-US members of the G-7 can best influence the ongoing policy debate in the United States in a constructive direction. Leaders and senior policymakers of other countries should seek to convince the US administration that G-7 economic cooperation is in the interests of each member, including and particularly the United States. But they also need to be prepared to proceed on their own if their efforts at persuasion fail.

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MACROECONOMIC AND TAX POLICY

Three elements of Trump's campaign platform could potentially have a major fiscal impact. By far the most important is a large tax cut encompassing personal income, estate, and particularly business income taxes (Cole 2016); second, a plan to stimulate infrastructure investment by offering private investors tax credits of 82 percent of the equity that they commit to infrastructure projects (Navarro and Ross 2016); and third, a large increase in defense spending, to the extent that it is not fully offset by reductions in other spending.

These policies would be expansionary on net, at least in the short run, but their magnitude and timing are highly uncertain because both the proposed policies themselves and offsetting revenue and expenditure measures are also uncertain. President Trump has signaled that he intends to balance the budget within the 10-year budget window. This objective, more moderate than his campaign pledge to eliminate the federal debt, aligns with a long-standing goal of the director of the Office of Management and Budget, Mick Mulvaney, and House-passed budget resolutions. On February 27, the administration announced it will seek both a $54 billion (about 0.3 percent of GDP) increase in defense and security spending in the coming year's federal budget and nondefense cuts of the same magnitude. Two weeks later, the administration detailed some of those nondefense cuts. Furthermore, leading House Republicans have pledged to reduce taxes on business and top individual income tax rates as part of a revenue neutral tax reform package (Tax Reform Task Force 2016). Possible offsetting components include limits to individual tax expenditures—for example, the tax deduction for state and local taxes—as well as a "border adjustment tax" (BAT, also referred to as "destination-based cash flow tax," or DBCFT), which would eliminate both exports and import deductions from business income taxation. According to numerous press reports, the Trump administration has not yet decided whether to include this proposal in its tax reform package, which it hopes to get passed by August. It is also not clear whether a border adjustment tax would pass, given opposition in the Senate and by sectors that stand to lose from the tax.

Independent estimates have put the fiscal cost of the expected Trump tax plan at about 2.6 percent of GDP on average over the next decade, which would increase the US federal debt by about 25 percent of GDP by 2026 (Nunns et al. 2016; see also Cole 2016). However, these estimates assume the corporate income tax rate will be reduced from 35 to 15 percent, whereas 20 percent or higher is politically more likely. Furthermore, they do not consider offsetting spending cuts or destination-based border adjustment, which would in effect tax the US trade deficit (currently just under 3 percent of GDP) at a 20 percent rate. The macroeconomic impact of the infrastructure plan is even less clear. Its authors claim that it would be fiscally neutral over time. Even if this is not the case, its fiscal cost would be relatively limited, however,[4] and the same is likely for its overall impact, particularly since it is not clear what portion of the investment projects financed by the tax credit would have happened anyway, as noted by several commentators.[5]

Notwithstanding these uncertainties, a reasonable baseline assumption is that US fiscal policy will, over the next year and likely beyond, turn more expansionary, driven mainly by lower corporate tax rates and to a lesser extent by higher defense spending.[6] If this turns out to be right,

4. The example given in the proposal (Navarro and Ross 2016) is that of a $137 billion tax credit (about 0.75 percent of 2016 GDP) required to finance an infrastructure gap of $1 trillion over several years.

5. Alan Blinder and Alan Krueger, "Trump's Infrastructure Mistake," *Wall Street Journal*, December 18, 2016; Paul Krugman, "Build He Won't," *New York Times*, November 21, 2016.

6. For example, Stockton (2017) assumes the deficit will increase about $180 billion per year (about 1 percent of GDP), phased in during 2018–19, as a result of tax cuts in

President Trump's fiscal plans would impact the remaining G-7 members through three channels:

- **Higher US economic activity and higher US interest rates**. Long-term US interest rates have already risen in the wake of Trump's election. In an environment of low global growth and extremely low interest rates, these effects should be welcome. That said, a sharp and sizeable increase in US dollar interest rates that carries over to other currencies, particularly the euro, could adversely affect the economies of G-7 members with high debt burdens, such as Italy.
- **Current account balances and President Trump's reaction to trade imbalances**. Expansionary fiscal policies and higher interest rates in the United States will likely further widen the US trade deficit with most of its G-7 trading partners. The Trump administration may react to such a development through protectionist measures such as safeguards. While these measures would be ineffective in substantially reducing the US trade deficit and surely subject to legal challenge, litigating these challenges could take years.
- **Tax competition and—depending on exchange rate reactions—competitiveness effects**. Depending on the magnitude, lowering corporate tax rates in the United States may tilt the playing field against, or create additional profit-shifting incentives for, companies based in high tax rate countries, such as France. The imposition of border adjustment would further complicate this picture. For given exchange rates, the introduction of a border adjustment tax is discriminatory, as it imposes a higher tax burden on imports than on domestically produced goods (Cline 2017). While appreciating exchange rates can offset this effect, the extent of exchange rate movements in reaction to the border adjustment is unclear (Freund and Gagnon 2017, Hufbauer and Lu 2017a, Buiter 2017).

Coordination options

Coordination among the G-7 members might help to diffuse the adverse consequences of Trump's plans on current account imbalances and tax competition—and indeed do some good beyond that.

First, the longstanding and so far unsuccessful idea of coordinated increases in public investment could conceivably experience a comeback. For example, Germany—which has raised its public investment but not to a degree that would threaten its balanced budget—and the United States—which could otherwise react to its widening trade deficit by imposing "safeguards" directed against Germany among others—could compromise by Germany increasing its public investment and the United States agreeing not to impose trade safeguards on Germany. The remainder of the G-7 would have an obvious interest in supporting such an outcome. The main obstacle to broader G-7 coordination is that not all members have the fiscal space to make a significant contribution themselves. Partly for this reason and partly to diffuse trade conflicts between the United States and emerging-market countries, extending such an initiative to G-20 members would be desirable. This may be feasible if public investment is defined broadly to include social infrastructure and education.

A case for tax policy coordination would arise particularly—but not only—if the United States does decide to impose a border adjustment tax.

Second, a case for tax policy coordination would arise particularly—but not only—if the United States does decide to impose a border adjustment tax. While a unilateral border adjustment tax introduced by the United States may be discriminatory in both intent and impact (depending on exchange rate reactions), a coordinated set of border adjustment taxes introduced by G-7 members in response (Auerbach et al. 2017) should have no adverse impact on trade, as the tax burdens of importers and exporters would remain unchanged. That said, all else being equal, such a move would benefit deficit countries fiscally (the United States) and hurt surplus countries. At the same time, it would also reduce incentives for profit shifting and certainly be preferable to a trade war. In countries that have a value-added tax (VAT), a US tax reform that reduces or eliminates the corporate income tax and replaces it with a border adjustment tax could be implemented using existing tax instruments, by lowering the corporate tax rate, increasing the VAT, and lowering payroll taxes.[7]

the corporate rate ($100 billion) and personal tax rate ($20 billion) and increased spending in defense ($30 billion), infrastructure or infrastructure related tax credits ($20 billion), and increases in other nondefense discretionary spending ($10 billion). See also Dynan (2017) on the implications of the Trump administration's fiscal policy for the US economy.

7. Both the VAT and the DBCFT are destination-based taxes. The main difference is that the latter allows the wage bill to be deducted from the tax base, while the former does not. Let R denote revenues, W the wage bill, and I the cost of intermediate inputs. Then $VAT = \tau_{VAT}(R - I)$ while $DBCFT = \tau_{DBCFT}(R - I - W)$. Hence, an introduction or increase in τ_{DBCFT} is equivalent to a combined increase in VAT and a reduction in payroll taxes.

Even if a border adjustment tax is not adopted in the United States, greater coordination with respect to business income taxation, building on the extensive work undertaken in recent years by the G-20 and the Organization for Economic Cooperation and Development (OECD) under their Base Erosion and Profit Shifting (BEPS) initiative, would limit the harmful effects of competition spurred by unilateral tax reductions across members. Such coordination on business tax could help establish common standards or procedures for the tax base and minimum tax rates. Although efforts in this area should not supplant those of the G-20, the G-7 is a good forum for pushing this process forward, since it includes only large countries at similar stages of development. As such it is not susceptible either to free riding by small countries or to arguments that lesser developed countries need to use low corporate taxation to compensate for other weaknesses in the business environment.

TRADE POLICY

The backlash against globalization represents the central, perhaps existential, threat facing the G-7. It could reverse 70 years of painstaking efforts to create an open and cooperative world economy, with unforeseeable but potentially disastrous consequences. The backlash is partially motivated by identity politics and other noneconomic factors, but economic, especially trade, issues are among its most important causes and will certainly bear much of its consequences.

To this point in time, however, the international trading system has been performing remarkably well. Four major plurilateral negotiations undertaken by the World Trade Organization (WTO), covering the bulk of world trade in key sectors, have either been concluded successfully (Information Technology Agreement II, revised Agreement on Government Procurement) or are nearing completion (Trade in Services Agreement, Environmental Goods Agreement). The dispute settlement mechanism at the WTO is held in high regard everywhere and is threatened only by excessive demand for its services (though Trump staff are reportedly looking for alternatives). There was no major outbreak of protectionism during the Great Recession or thereafter, despite the tepid recovery. Several new megaregional agreements were concluded in 2016, such as the Trans-Pacific Partnership (TPP) and the EU-Canada Comprehensive Economic and Trade Agreement (CETA), or advanced a considerable distance, such as Asia's Regional Comprehensive Economic Partnership (RCEP) and the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States. The slowdown in trade growth since the Great Recession mainly reflects changes in the pace and composition of GDP growth and the slowing growth of global value chains rather than protectionism (IMF 2016b).

This picture of progress is threatened by the advent of the Trump administration in the United States, against the backdrop of antiglobalization sentiment in the Democratic Party and much of the Congress, and coupled with the Brexit vote in the United Kingdom and similar views elsewhere in Europe. The risk of an outbreak of protectionism has already created international tensions, which may hurt investment. The broader implication of a possible breakdown in cooperation among the major (mainly G-7) countries, and even a breakup of the European Union and the multilateral trading system, adds considerably to the negative impact of such fears.

The G-7, and perhaps subsequently the G-20, can play a major role in countering these threats. Possible avenues include new initiatives in trade policy, within the new political constraints, and mounting a backlash against the backlash. Their implementation can revive the momentum toward trade liberalization, which is essential to resisting the spread of protectionism.

A "Better Trade Agenda"

The Trump administration may alter the course of global trade policy but need not derail it. We do not yet know the contours, let alone the details, of Trump's trade policy. Sharp differences have already surfaced within the administration on trade (as on many other issues). As of early May, Trump's only specific step has been to withdraw the United States from the Trans-Pacific Partnership and to initiate a process of renegotiating the North American Free Trade Agreement. Throughout his campaign and the transition period, however, Trump has said that he wants "better deals" for the United States, loosely defined as reducing bilateral trade deficits (creating jobs and avoiding excessive shocks to incomes). He favors bilateral over multilateral or regional approaches. He sees currency issues as an integral part of trade policy (as do many members of Congress). He does not oppose trade or trade agreements, however, so the task before the international community is to modify its traditional strategies to accommodate these proposed amendments—if they actually begin to eventuate—without compromising their basic principles.

The G-7 should thus advocate, and actively promote, a "better trade agenda" among its member countries (for which Trump could claim at least partial credit). The agenda could encompass plurilateral agreements that include the United States and that the new US administration might be willing to support, multilateral and bilateral agreements that do not include the United States, and new bilateral agreements involving the United States. Such an initiative would enable the G-7 to take the offensive against the backlash against globalization by restarting the momentum toward liberalization and rule making, suitably amended to incorporate the several legitimate complaints that have been raised. The main components could be:[8]

1. Full implementation of the Trade Facilitation Agreement already negotiated in the WTO (all G-7).
2. Completion of the two major plurilateral agreements, the Trade in Services Agreement (TISA) and the Environmental Goods Agreement (EGA), being negotiated in the WTO (all G-7, hopefully with G-20 support).
3. Implementation of CETA (EU-Canada).
4. Completion of the pending EU-Japan agreement (EU-Japan).
5. Completion of the pending Canada-Japan agreement (Canada-Japan).
6. Institution of a US-Japan bilateral agreement to replace the TPP, most of whose economic impact in any event came from creating free trade between those two countries (US-Japan).[9]
7. A revived and renamed TTIP, (EU-US) framed as "bilateral" (since the European Union is a single trading entity), probably shorn of its investor-state dispute settlement chapter and perhaps with other modest revisions (Trump has *not* criticized TTIP).
8. After Brexit, free trade agreements between the United Kingdom and other G-7 members: the European Union, the United States, Japan, and Canada (EU-UK, US-UK, Japan-UK, Canada-UK).

This is a potentially very rich trade liberalization agenda, some of which is already ongoing, that could be reinforced, and indeed extended even further, at the G-7 summit in May this year. Such an approach (especially by the new US administration) would have a very positive effect on confidence around the world, and thus global economic prosperity, by countering fears of an outbreak of protectionism and disruption of the international trading system. The G-20, some of whose members would be involved in important parts of this agenda, could amplify these effects by adding its endorsement during their summit in July.

Direct Responses to the Antitrade Backlash

Some of the needed responses to the backlash are idiosyncratic to individual countries. For example, the United States has failed to provide adequate safety nets to enable workers to absorb trade-induced (and other) shocks, and effective training programs to foster real adjustment for them. And there is a major domestic political barrier to overcoming this problem: The most active supporters of globalization (traditional Republicans) oppose such programs almost as much as they support free trade. An especially peculiar US policy is *trade*-adjustment assistance, with expanded unemployment insurance and other benefits made available only to workers hurt by trade, which does not exist in any other G-7 country.

The G-7 should nonetheless make an effort to establish consensus around a cooperative (and possibly coordinated) program of "Supporting the [American/British/Canadian/French…] Worker" that responds to concerns raised about the impact of globalization on labor. This could include three components: measures to improve disposable incomes specifically in the lower-middle income brackets in which wage growth has slowed over the past two decades, strengthened safety nets (such as wage insurance) to address the costs of unemployment and wage reductions, and better education and worker training initiatives to foster real adjustment. These measures would preferably apply across the board, rather than only to trade-related developments, both because causality is difficult to identify and because globalization tends to be blamed for problems whose sources lie elsewhere. There should also be joint efforts to address major issues that have been identified as contributing to an unlevel international playing field, such as currency manipulation (currently in remission in China and almost everywhere else) and China's desire to be accorded market economy status.

The international cooperation could come through the creation of G-7 task forces or working groups, preferably to include representatives from the private sector as well as governments, in each of these areas to share information, national experiences, and new ideas (whether previously adopted) among the member countries. The goal would be the development of international best practices with respect to all these issues. It would not be necessary, or even desirable, for all countries to adopt the same measures, but each

8. The original version of this paper advocated "Reaffirmation of the traditional standstill on WTO–inconsistent measures, extension of that standstill to rule out all new trade barriers, and addition of a commitment to roll back at least the G-7 portion of the 1,500 or so new impediments imposed by G-20 countries since they pledged to avoid such actions in 2009 (all G-7)." At the meeting of the G-20 ministers and governors in Baden-Baden, Germany on March 17–18, 2017, the US representatives persuaded other G-20 representatives to drop previous language reaffirming their pledge to resist protectionism and to replace it with "We are working to strengthen the contribution of trade to our economies." In the view of this Policy Brief, reaffirmation of the traditional standstill and a rollback of post-2009 impediments remain desirable, but it does not seem to be immediately achievable. The G-20 language was repeated word for word in the communiqué of the IMF's International Monetary and Financial Committee on April 22.

9. Japan is also participating in negotiations for a Regional Comprehensive Economic Partnership (RCEP) with 11 other Asian countries. Also, some TPP member countries would like to go ahead and implement the TPP without the United States.

should become aware of the full spectrum of possibilities and reinforce each other's efforts wherever possible.

Whatever the G-7 countries do on these specific issues, they should agree to launch a major concerted effort to educate their publics (and the world more broadly) on the benefits of globalization. They should acknowledge that there are costs and losers, and point to their new efforts (as needed) to address them. But the focus should be on the huge net economic gains to each country from the process along with the unquantifiable, but probably even greater, gains for international security and world peace. The G-7 governments can no longer assume that open trade and globalization will command support from their electorates and should make recovering that support a top priority.[10]

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GLOBAL FINANCIAL STABILITY[11]

A central lesson from the global financial crisis of 2007–09 is that one economy and financial system's significant crisis affects many other countries' economies and financial systems. If such financial crises are to be contained and global financial stability enhanced, international financial cooperation on both crisis prevention and crisis management is essential and benefits all countries.

The Trump administration's policies in these areas are unclear and appear not yet to be determined. If the new administration pulls back from proactive involvement with the institutions of international cooperation crisis prevention and crisis management, global financial stability would be weakened. If the United States were to pull out of these organizations entirely, it would be a disaster. Over seven decades, the United States promoted the creation and strengthening of these organizations. Without US involvement, the evolution of these global institutions would be called into question. In addition, the United States would be abandoning critical tools of crisis prevention and management, putting US economic and financial stability at risk.

Crisis Prevention

The Trump administration has indicted through several executive orders and statements to the press its intention to reform and replace the Dodd-Frank Act. That 2010 legislation was designed to strengthen the stability of the US financial system via the introduction of a large number of structural and substantive reforms. Against that background, reforming and replacing the Dodd-Frank Act is likely to weaken the US financial system. The resulting new US financial regulatory framework also could conflict with some of the provisions of international standards that have been agreed since the global financial crisis of 2007–09, as well as some still under discussion.

The staff of the International Monetary Fund warned in its April *Global Financial Stability Report* (IMF 2017, xi):

> "Caution is needed when considering any future regulatory rollback. While regulation is never costless, neither is its removal; weakening regulatory standards comes at the cost of higher financial stability risks. Decisions to opt out of mutually established regulations in an uncoordinated or unilateral manner could result in financial fragmentation and could threaten to reignite a race to the bottom in regulatory standards. Completing the regulatory reform agenda is vital to ensure that weaknesses are addressed and to reduce uncertainty."

The *Financial Times* reported on April 24 that Andrew Bailey, head of the UK Financial Conduct Authority expressed concern that if the US Treasury's review of the orderly liquidation authority (OLA) in Title II of the Dodd-Frank Act led to the elimination of that authority, foreign regulators would lose confidence in the US regula-tory system.[12] Timothy Adams, president of the Institute of International Finance, wrote to Secretary Mnuchin on April 18, "Title II and OLA are important tools and are vital in a globally interconnected world. If Title II were to be repealed, the ability of foreign authorities to count on well coordinated resolution planning with US authorities would be destroyed."[13]

10. A new study by the Peterson Institute for International Economics, to be published shortly, shows that the US economy is about $2 trillion richer per year as a result of the globalization of the past 70 years (Hufbauer and Lu 2017b). This equates to more than 10 percent of total national income and almost $18,000 per household. The new study updates a well-known analysis by the Institute published in 2005 that showed net US gains of almost $1 trillion annually. Similar studies should be conducted (for example, by the OECD) for all G-7 and other countries.

11. This section is based in part on Truman (2017).

12. Sam Fleming, Gemma Tetlow, and Barney Jopson. "UK watchdog warns Trump over scrapping rules on failing banks," *Financial Times*, April 24, 2017.

13. Timothy D. Adams, "RE: Presidential Executive Order

A breakdown of negotiations over the final chapter in the international financial regulatory regime known as Basel III—or a halt or reversal of cooperation on other aspects of the regime that has been substantially strengthened in the last 10 years—would endanger global financial stability. If the United States were to scale back its participation in the FSB and related activities, for example, the postcrisis regime would be incomplete.[14] If the United States were to discontinue playing a proactive role in international standard-setting bodies and the FSB, international financial reform could start to unravel. At worst, there would be a race to the bottom; at best, other countries would struggle on with a more fragmented system, with unnecessary opportunities for regulatory arbitrage, and hope that the United States comes to its senses.

The first-best option for the responsible authorities in other countries is that they should impress upon the Trump administration the importance of continuing the process of global financial reform. Based on reports of Treasury Secretary Mnuchin's conversation with FSB chair Mark Carney, this effort seems to be underway. As a second-best option, they should try to convince the new US administration not to abandon the existing institutions and agreements of crisis prevention in support of global financial stability. If they fail, other countries should carry on without the United States and resist a race to the bottom. However, they can be expected to protect their financial systems against US financial institutions that they conclude are underregulated and undersupervised. The United States itself has an established precedent for keeping foreign institutions from operating in the United States via the legal requirement enforced by the Federal Reserve that such institutions be subject to comprehensive consolidated supervision. In the future, the shoe may be on the other foot. Either way, the mechanisms of crisis prevention in support of global financial stability could be weakened.

Crisis Management

The IMF, the institution at the center of managing international financial crises, is weaker than was envisioned in the plans laid down to strengthen it in the wake of the global financial crisis. Initial agreements to enhance IMF funding were successfully implemented, but subsequent initiatives were delayed and finally ground to a halt.

Although the IMF does not face an immediate need for additional financial resources, the Trump administration will soon have to decide its posture, as the ongoing review of IMF quotas is scheduled to be completed by 2019. If this review is to advance reform of IMF governance, total quotas must be increased substantially. The Trump administration will have to decide whether to block any significant increase in quotas, to agree to an increase in the US quota to maintain its capacity to block or veto major decisions in the IMF, or to step aside and allow the US veto to disappear.

What the administration decides on IMF quotas will have implications for US participation in the IMF's New Arrangements to Borrow (NAB) after 2022. Continued participation after that date will require congressional authorization, and a decision on whether to seek such an authorization will need to be made early in the next administration, either under Trump or another president. The groundwork will have been laid before the 2020 presidential election. If the United States does not renew its $38.5 billion commitment to the NAB, it would be a severe blow to international monetary cooperation and the capacity of countries to manage crises that threaten global financial stability.

It is also reasonable to expect the Trump administration, following Republican views in the Congress, to be reluctant to support large IMF lending programs. In the past, the United States has strongly supported most of these so-called bailout programs, finding their contribution to the stability of the countries involved in the interest of the United States. Going forward, we may see fewer such large programs, and regional financial arrangements may have to step into the void. But in many regions, such arrangements do not exist or are underequipped financially. And even where large arrangements do exist, such as the European Stability Mechanism and the Chiang Mai Initiative Multilateralization, their governance mechanisms are underdeveloped or untested, and they would be more exposed financially because of the preferred creditor status enjoyed by the Fund itself (see IMF 2016a and Weder di Mauro and Zettelmeyer 2017).

A useful way to strengthen the global financial safety net could be (1) to expand the existing, unlimited bilateral swap arrangements among the central banks issuing reserve currencies[15] to include other countries, such as large emerging-market economies, and (2) to tie the qualification of these other participating countries to their having received a commitment from the IMF for a flexible credit line as a backup arrangement (Weder di Mauro and Zettelmeyer

13772 on Core Principles for Regulating the United States Financial System," letter to Secretary of the Treasury Steven Mnuchin, April 18, 2017, https://www.iif.com/publication/regulatory-comment-letter/iif-letter-us-executive-order-financial-regulation (accessed on May 2, 2017).

14. See Nathan Sheets (2017) for a comprehensive assessment of the contributions of the FSB to US interests in the aftermath of the global financial crisis.

15. In the postcrisis period, the central banks of Canada, the euro zone, Japan, Switzerland, the United Kingdom, and the United States established swap lines of unlimited size, but the central bank wanting to draw must receive the permission of the central bank making its currency available.

2017, building on Truman 2011 and 2013). It would be in the US interest, as well as in the interest of the other countries whose central banks now participate in the unlimited swap network, to pursue this proposal, for example at upcoming G-7 and G-20 meetings, with or without the support of the Trump administration.

If future US support for the institutions of international monetary cooperation that are central to crisis management—the IMF in particular—is minimal at best and negative at worst, the inevitable financial crises will be more challenging to handle.

In summary, if future US support for the institutions of international monetary cooperation that are central to crisis management—the IMF in particular—is minimal at best and negative at worst, the inevitable financial crises will be more challenging to handle. Other countries either must strengthen those institutions without the United States or persuade the United States to step aside from its dominant role in the IMF. They could also seek to strengthen regional institutions in which the United States is not a member.

CONCLUSION

This Policy Brief has analyzed how the G-7, starting at its meeting in Taormina, Sicily, Italy on May 26–27, can make the best of the new US administration's economic and financial policies to encourage continued economic cooperation.

Regarding macroeconomic policies, the likelihood of fiscal stimulus by the United States and the recent uptick in global growth make coordination to overcome weak growth in the short run somewhat less urgent than in the past. At the same time, international coordination has a role to play to diffuse the adverse consequences of Trump's plans on current account imbalances and tax competition. This could include coordinated increases in public investment as well and common or minimum standards for the corporate tax base and corporate tax rate. Although it should not supplant the G-20, the G-7 is a good forum for pushing this process forward, since it includes only large countries at similar stages of development.

With regard to international trade, the G-7 should attempt to coalesce around a "better trade agenda" to counter the risk of an outbreak of protectionism while taking the backlash against trade and the political constraints of the Trump administration on board. This could encompass plurilateral agreements that include the United States and that the new US administration might be willing to support, multilateral and bilateral agreements that do not include the United States, and new bilateral agreements involving the United States, including a refocused and reframed free trade agreement between the United States and the European Union. They should also begin a cooperative (and possibly coordinated) program that responds to concerns raised about globalization, including measures to improve disposable incomes specifically in the lower-middle income brackets, strengthened safety nets (such as wage insurance), and better education and training initiatives to foster real adjustment.

Finally, on global financial stability, the G-7 leaders should impress upon the Trump administration the importance of continuing the process of global financial reform, since a breakdown of negotiations over the final chapter in Basel III and a halt to cooperation on other aspects of the international financial regulatory regime would undermine progress on crisis prevention and endanger global financial stability. International cooperation should concentrate its efforts not only on crisis prevention but also on crisis management. The IMF, the central institution managing global financial crises, is weaker than was anticipated in the early days after the global financial crisis, and continued US support for the Fund is in doubt. G-7 leaders should emphasize to the Trump administration the importance they attach to the IMF and ask the administration to step out of the way if it is not prepared to join them in promoting the further evolution of the Fund.

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