The Significance of the Economic Summits

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Chapter 7
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1. Introduction

The protests that materialize at the economic summits and the expense of hosting a summit measured against actual policy outcomes call for a rethinking of the significance of the high-profile international gatherings such as the annual economic summits, and perhaps even the regular meetings of international institutions such as the International Monetary Fund (IMF) and the World Bank. The tragic events of September 11 and the Madrid bombings question the wisdom of hosting events that bring together the leaders of the wealthiest nations in one location. The current global governance framework is, after all, crowded with various summits. The principle consideration, therefore, is whether events such as the annual economic summits contribute enough to global policymaking to warrant their continuation.

Because the economic summits are unique, in that they bring together the leaders as opposed to ministers and bureaucrats, expectations for the meetings to deliver ambitious agreements certainly run high. But are the summits designed to deliver such agreements? Should the leaders attempt to deliver
ambitious and detailed agreements, even if they could? Are there specific issues that are more likely to be resolved in a summit format as opposed to elsewhere? This chapter considers what the annual summits were originally designed to accomplish, economic policy cooperation, the record of the summit accomplishments, how the summits evolved, and the role of the summits in the context of the global economic governance architecture. This is done in the context of economic policymaking—the summit’s raison d’être—and, therefore, looks past other important accomplishments and shortcomings of the summits. For example, this chapter does not consider the importance of the summits in addressing issues of global terrorism, WMDs, and collective responses to North Korea and the Middle East (see Kirton, 2003). Hence, the analysis here is very focused and, arguably, confined.

The central thesis of this paper is that the summits have contributed, though in a limited way, to international economic policy cooperation and the summit process is a significant organization in today’s global governance architecture. Nonetheless, it is argued here that global economic stability depends, first and foremost, on good domestic economic policymaking. International policy cooperation, although even more important in light of global economic integration, is of second order importance for global stability. Given this view, and the record of what the summits have and have not accomplished, the conclusion reached here is that the leaders should avoid international policy coordination packages and focus on sharing information. This position is similar, but not as pessimistic as that of Razeen Sally (2001, p. 55) who states that “most arguments for global governance are in fact bad economics and even worse political economy”. Hence, the media and other critical observers who look for the summits to deliver concrete and detailed policy packages must realize that less may be better when it comes to the economic summits.

2. The Genesis of the Economic Summits

The annual economic summits were born out of the “Library Group”, the informal meetings of the finance ministers (later the G5 meetings of the finance ministers). These meetings began with an invitation from George Shultz to the finance ministers of Germany, France, and the U.K. to meet in the White House Library. At that time, President Valery Giscard d’Estaing and Chancellor Helmut Schmidt participated in these meetings as finance ministers and felt these informal meetings should continue with their remaining G5 counterparts (Armstrong, 1988).

Three realities motivated the first summit, hosted and organized by President Giscard in 1975. First there was the realization that some global economic events, such as the 1973-1974 oil shocks, lie beyond the individual control of
policymakers in the major industrialized economies. Second, was the increasing integration of the advanced economies, and the number of common problems shared by policymakers. Third was the awareness that even in a flexible exchange rate regime, nations cannot conduct economic policy independent of one another.

2.1 Purpose

International economic policy cooperation was the formal purpose of the early summits. Note that the summit declarations themselves often do not distinguish between international policy cooperation and international policy coordination. To many economists, however, economic policy cooperation is the exchange of information designed to prevent or minimize the adverse spillovers of economic policy actions thereby minimizing common harm. In contrast, economic policy coordination denotes the activities that bring about significant changes in domestic policies in recognition of international interdependencies so as to maximize the common good (von Furstenberg and Daniels, 1992). Policy coordination, therefore, is something much more concrete and ambitious than policy cooperation.

In addition to international economic policy cooperation, the summits were also intended to serve as a forum for the leaders to settle issues that their ministers were unable to resolve. In other words, the leaders would tackle the most difficult issues of the day. The legitimization of floating exchange rates at the first economic summit is an example of an issue that had been eluding the leaders and ministers for a number of years. (The agreement actually came about on the eve of the summit as pressure mounted on U.S. and French deputies.) The resolution and completion of the Uruguay round of trade negotiation is another example of the summit participants taking on issues their ministers had been unable to resolve.

2.2 Structure

President Giscard envisioned the first summit as a one-time meeting of the leaders, although with hindsight it is clear that the Rambouillet summit would spark a full cycle of summit meetings. The early summit meetings were designed to be exclusive and top down in structure. These two features remain to day. In spite of the addition of Canada and Russia, and frequent invitations to include the President of the European Union, the summit remains an exclusive, private club whose members are in complete control of the club’s membership. Keeping with the original top-down structure, the summits remain aloft of other organizations and do not act laterally with any other international institution.
It was also hoped that the summits would remain flexible and able to respond to shared crises of the day. Once the summits settled on an annual timetable, some of this flexibility was lost. The ability of the summits to react timely to pressing problems soon became a point of debate. For example, according to a sous-sherpa the Japanese delegation warned their counterparts of an impending crisis in Thailand during the 1997 Denver summit. A preoccupation with "the U.S. economic model", a failed E.U. summit that took place immediately prior to the G7 summit, the obvious lack of an agenda by the host country, and the unwillingness of the Japanese to press the issue, however, left the impending crisis off the already crowded agenda.

The 1998 Birmingham summit was also conspicuously mute on the 1997 financial crisis. At this summit, both the mainstream media and the Summit participants were focused on other current non-economic issues. The U.S. media were most interested in an unfolding domestic crisis for the U.S. President as details of a dalliance with an intern were unfolding at home. Perhaps, this was the reason for U.S. officials to hold press conferences at a hotel near the airport as opposed to the central-city media facility where all other press conferences were held. The other issue of the day was the detonation of a nuclear device by India. Though the U.S. pressed for a multilateral response to India’s actions, a policy action consensus could not be reached (due mostly to a yet unused Glenn Amendment that automatically triggered U.S. unilateral sanctions).

In spite of the summits becoming something of a pseudo-institution, they still remain more independent, elevated, and flexible than other international organizations. Because of these characteristics, the summit can be seen as a policy concert: a non-institution that relies on a small number of rules. A policy concert serves mainly to cooperate in policy formation rather than follow rules established to manage international relations (Kirton, 1989 and Schwegmann, 2002). It is this characteristic that is the strong point and distinctiveness of the annual summits.

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4 A sherpa is the personal representative of the leader and the term comes from the native bearers who assist mountain climbers in the Himalayas (Hajnal, 1989). The personal representatives of the finance and foreign ministers are referred to as sous-sherpas.

5 The Glenn amendment requires automatic sanctions against a nation detonating a nuclear device, allowing the President but a few days to invoke the sanctions unilaterally or presenting a case against said sanctions to Congress. With his hands tied by the amendment, President Clinton had little room to persuade his counterparts to join in a coordinated package of sanctions.
3. The Record of the Summits

In spite of the fact that the original summit was envisioned as a “fire-side chat”, the global media and other interested summit watchers continue to expect the leaders to do much more than just exchange views. The communiqué, the public document generated by the summit process, is continuously scrutinized for signs of quantitative policy commitments. Summit watchers expect the summits to deliver international policy coordination packages as opposed to merely facilitating policy cooperation. In spite of this pressure, actual examples of international policy coordination are not so easy to find.

3.1 Examples of Policy Coordination During the 1970s and 1980s

Many economists regard the 1978 Bonn Summit as the hallmark of policy coordination. At this summit, the leaders committed to a policy package where the economies of Germany and Japan were to be stimulated through fiscal measures, thereby spurring economic growth throughout the G7 economies - a locomotive effect. The other G7 nations, the United States in particular, were to contain inflationary pressures. A tripling of crude oil prices by OPEC the following June halted efforts to complete the package of policy measures. This policy package was later criticized, especially in Germany, for merely adding to inflationary pressures.

Some economists, in contrast, argue that the 1978 summit is not a true example of international policy coordination. Their claim is that the 1978 agreement does not represent an adjustment of policies that would not have otherwise been undertaken without any such agreement to coordinate (Theuringer, 2001). Because the policy measures were likely to be undertaken unilaterally, it is not an effort to bring about significant changes in domestic policies due to international linkages and the promotion of international common good.

The Plaza-Louvre period of the last half of the 1980s is sometimes offered as another example of international policy coordination. During this period, the advanced economy nations engaged in substantial and coordinated foreign exchange interventions designed to bring down the value of the dollar. These interventions, however, were sterilized. Hence, there was an unwillingness to allow these coordinated foreign exchange interventions to affect domestic economies. In addition, the view among academic economists is that sterilized foreign exchange intervention was effective in the short run only, or at best. Indeed this view found its way into the Jurgenson Report of 1983, which was commissioned by the leaders at the Versailles Summit in 1982 (Sarno

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6 Sterilization is the process of undertaking an additional portfolio operation, such as buying or selling government instruments or third currencies, so that the domestic monetary base is unaffected by the foreign exchange transaction.
and Taylor, 2001). Being unwilling to subordinate domestic economic policy to achieve an international and shared objective, this era, therefore, does not represent policy coordination either.

3.2 The Empirical Evidence

Empirical examinations of the first two rounds of the annual summits further show that policymakers were either unwilling or unable to fulfill economic policy commitments agreed upon and put forward in the summit communiqués. Von Furstenberg and Daniels (1992) develop a metric for gauging the degree of compliance on policy commitments formed at the summits. Using empirical evidence on outcomes, their research indicates that policymakers delivered on about one-third of their economic policy commitments. The summits, for example, receive relatively poor scores on commitments to stabilize exchange rates and relatively higher scores on trade and energy commitments. The conclusion they reach is that policymakers are better at delivering on microeconomic commitments rather than macroeconomic ones.

The summit communiqués not only reveal the policy undertakings themselves, they also provide glimpses of what the undertakings promise to achieve. In this way, some of the general economic relationships and means-ends linkages that policymakers subscribe to also come to light. As Richard Cooper (1985) points out, even if policymakers have compatible objectives and similar economic conditions, they may disagree on their forecasts of future events and the structure of economies and therefore on the relationship of means to ends.

There are very few empirical studies of the means-ends relationship advanced in the economic declarations. Daniels (1993) inventories the relationships found in the first fifteen summit declarations. This study finds that most of the economic relationships, or understandings, can be characterized as arguable. That is, the means-ends relationship found in the communiqué can neither be rejected by the empirical evidence nor supported in a statistical sense. On the one hand, the conclusion that policymakers generally do not commit themselves to undertakings based on economic assumptions that are very risky or run the chance that they may be rejected outright by future empirical study is not too remarkable. On the other hand, it is a bit surprising that policymakers do not completely “play it safe” and rely only on economic relationships that are beyond dispute.

Of course the first of these studies focuses on quantitative commitments to achieve some economic outcome and, therefore, are primarily examples of policy coordination. The second, however, examines the framework in which these commitments were made and can be seen more so as a measure of eco-
nomic policy cooperation. Because of the low score on policy undertakings and the relatively neutral grade on means-ends relationships, one must conclude that the summits should primarily serve to cooperate rather than coordinate. Furthermore, policy cooperation must take precedence over policy coordination. After all, the leaders must first come to agreement on their economic assessments, forecasts, and economic ideology before subscribing to policy undertakings intended to achieve some specific objective.

The evidence cited above shows why there is considerable opposition to international economic policy coordination, especially among German and U.S. economists, but support for greater policy cooperation. Clearly another reason for this resistance is the recognition that policymakers face a “technological constraint” (Blackburn and Christenson 1989), that is, there is a limit to what economists know and on the quality of their advice and forecasts. Another reason is that it has been shown (for example, Frankel and Rockett 1988) that coordination based on incorrect information or models can actually be counterproductive. Finally, if German and U.S. finance ministers were to coordinate on foreign exchange rates, thereby committing their central banks to monetary policy actions, this could compromise the autonomy of their central banks and jeopardize their hard fought stocks of central bank credibility.

More recently there have been some examples of policy coordination (though these policy packages have yet to be fully recognized.) The first example is the reform of the international financial architecture and the second is multilateral initiative on debt relief for the Heavily Indebted Poor Countries (HIPC) as reinforced by the Cologne initiative of 1999. It is quite possible, in the very near future, that we will count the financial fight against terrorism as the fruit of improvements in internationally coordinated efforts to combat transnational crime.

3.3 Uneven Success

Whether or not the above examples are “true” examples of international policy coordination, there is little doubt that the performance of the economic summits as a global governance body is uneven. Even though the summiteers may have a view from the highest perspective possible, they are certainly no better at predicting crises than lower-level participants.

Two recent examples of economic policy cooperation failures are the inability to collectively recognize an impending collapse of an inflated Japanese economy and, as mentioned earlier, the summit participants refusal to heed Japan’s warning of a possible crisis in Thailand in the spring of 1997. An example of policy coordination failures is that incapacity to pass a multilateral agreement on investment (in spite of the fact that investment flows con-
tinue to increase at rates much greater than those seen in global trade.) In regard to trade, the summits have demonstrated the ability to generate critical multilateral decision-making, or a "Rambouillet effect", resulting in marginal progress during periods of multilateral negotiations (Ullrich, 2004). Nonetheless, the summits failed to dampen rising regionalism, and, particularly during the Clinton administration, made little or no progress in expanding trade on a multilateral basis need to provide better leadership, especially when multilateral negotiations stall.

Why, then, are the summits successful in some areas, but not others? Some policymakers and academics agree that perhaps the best single explanation of the uneven success of the summits lies in the competence of the ministry responsible for implementing the specific undertaking agreed to by the leaders (Kokotsis, 1999). Those intimately involved see the finance ministers' policy process as the most developed and displaying the most coordination and follow through, with the foreign ministers being second in this regard. In addition, the foreign ministers have well-established links to institutions such as the Paris Club, the IMF, and the World Bank.

4. The Marginalizing of Economics

The 1978 Bonn Summit represents a turning point for the economic summits. At the end of this summit, the leaders issued a joint statement on hijacking. This statement shows that the summit agenda, for the first time, included issues other than global economics and marks the gradual marginalizing of economics, as economic issues receive less and less attention with each round of summits.

By the early 1990s, economic issues received limited space on the summit agenda. Except for the Cologne summit, global economic policy continues to receive less attention at the summits despite calls by policymakers such as Gordon Brown, U.K. finance minister, to "put economics back into the summit".

This marginalizing of economics is also due in part to the inclusion of Russia as a near-full participant in 1997 and member in 1998. Russia was, and still is economically asymmetric to the other G7 members. Its inclusion, therefore, reflects the aim to use the economic summits to achieve political objectives, as opposed to economic ones. The inclusion of Russia may also signal another important change in the summits for the near future: the inclusion of China as a member and the move to a G9. If China continues to move forward with reforms and participates in a greater number of important institutions (e.g., permanent member of the United Nations Security Council, member of the G20, and member of the World Trade Organization), it increases this possibility.
Some observers claim that the conversion to the Euro may spark a change in the G8 process as well. The argument is that there will be a fewer number of G8 nations with independent monetary policy. Hence, the summit may evolve to a triad-plus-Russia organization, that is North America, Europe and Japan plus Russia. This is unlikely, however, as monetary policy has never been part of the economic summits in the first place.

5. The Significance of the Economic Summits in Today’s Global Governance Architecture

The introduction to this paper stressed that it is good *domestic* economic policymaking that is critical to global economic stability. Good domestic economic policymaking spurs economic growth, creates an environment to promote financial stability, and reduces the gap between those who have and those who have not. The annual economic summits, therefore, can only promote global economic stability by improving upon *domestic* economic policy making through international economic policy cooperation.

5.1 Cooperate, not Coordinate

If global economic stability is improved, first and foremost, through good domestic policymaking, then there is no institution, even the summits, that serves as the ultimate centre for global economic governance. This is a very specific claim, however, as it focuses on economic issues only. It may well be that the summits are at the centre of global governance, which encompasses much more than economic issues. Nonetheless, the summits should be seen first and foremost as a means for improving and generating better *domestic* policies as opposed to delivering packages of coordinated policies designed to enhance collective or joint welfare.

Other than testing means-ends relationships that might be found in the declarations, the effects of international policy cooperation – sharing information and ideas – cannot be measured. What is unpalatable about this position to the media and academic observers of the summit process (this author included) is that it means that we cannot quantitatively evaluate the significance of the summit process. Hence, we cannot argue with any rigor, that the summits accomplished anything or not. We can evaluate qualitatively the achievements of the summits, assessing the appropriateness of was discussed (which is done annually by the G8 Research Group at the University of Toronto and posted on the G8 Website at www.g7.utoronto.ca.)

Sharing of information internationally, however, can do much to improve domestic economic policymaking. Certainly the summits are uniquely suited
to international policy cooperation. Having the highest view, the leaders must surely see farther than ministers and bureaucrats. Hence, when the leaders of the G8 come together and discuss economics conditions it must be worth more than just idle talk. By reaching understandings, as opposed to agreements or undertakings, the summits are well prepared to set broad visions and aid in domestic economic policymaking.

5.2 Improving the Process

Now that some limits have been imposed on what the summits can reasonably deliver in terms of economic policymaking, what do this mean for the summit process itself? In order to build and maintain the credibility of the process, the G8 should not set themselves up as a “Super Cabinet” or director for global governance (Hodges, 1994), and in spite of pressure by the media for the summits to produce hard agreements and detailed solutions to world problems, the leaders must avoid giving the impression that they are capable of dealing with all issues and solving all crises.

In spite of this limitation, the summits provide the best “bully pulpit” to advance perspectives on globalization. This is, arguably, their most important responsibility, because international trade and engagement in the global marketplace is still seen by a majority of people in the advanced nations as a zero-sum game. There is no better forum that could be used to articulate the benefits to a nation’s residents from participating in the global marketplace. And yet, this opportunity remains to be fully utilized.

Of course the summit process can be improved upon and there are a number of proposals on how to do so (see Hodges, Kirton, and Daniels, 1999). In terms of global economic policy, and in light of the evidence and views given herein, the summit process could be improved by:

1. Streamlining the process along the lines recommended by John Major in 1992.
2. Removing from the agenda any domestic economic issues not fully internationalized. Or, in other words, remove those issues that do not hold the possibility of assembling international synergies.
3. Focusing on issues whose means-ends relationships are well understood so that ministers can see them to fruition.
4. Working for agreements in areas where leaders have real authority. For example, monetary policy should continue to be off the table since the leaders do not hold any authority in this area.
5. Working for agreements in areas where credible and effective domestic institutions exist
6. Continuing to communicate well with ministers.
7. Avoid giving the impression that the summits can solve every problem, or “lower expectations, cool the temperature and even try to ignore the heads of state” (Hodges, 1999, p. 72).

Given this menu for improvement, what are the issues that should be addressed at the summits? The most obvious would be to revive the stalled Doha Trade Round. Another issue that also has important humanitarian implications for developing nations is to continue multilateral debt relief without substituting it for continued development assistance.

6. Conclusion

It is argued here that the summits should not be transformed or elevated to some system of global economic governance. Rather, global economic stability depends on good domestic economic policymaking and, therefore, the economic summits cannot substitute for effective and efficient policymaking within sovereign nations. The summits, therefore, should be seen first and foremost as a means for improving and generating better domestic policies via cooperation as opposed to delivering packages of coordinated policies. By focusing on international economic policy cooperation, the summits can contribute much to improving domestic economic policymaking.

The protest at the Genoa summit and the events of September 11 provide a well-timed opportunity to rethink the format of the summits, to streamline the process, and to return to the European or Rambouillet model of summity. Perhaps this is the path the summits are on following the “secluded and intimate” 2002 summit in Kananaskis (Bayne, 2002).

The world was a very uncertain place in 1975. There were oil shocks, an unsettled foreign-exchange system, and a global recession. The original summit was formed to deal with these uncertainties. The world is again an uncertain place, with financial crises, the emergence of Russia and China as political and economic forces, terrorist attacks on the United States, an economic downturn among the advanced economies, and turbulence in the world’s equity markets. The annual summits remain as a significant forum for sharing information and reducing this uncertainty.

References

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