



G8/G7 and Global Governance —

By Tom Barry

At the center of the current debate of global governance is the G8/G7, a self-constituted forum of the major free-market democracies, whose deliberations and declarations have come to shape key decisions in the management of global political and economic affairs. The G8 Summit of 2000 will be the fourth time that Japan has hosted the leaders' summit. New security developments in the region (such as the Korean reconciliation talks) and in the world (such as the proposed U.S. deployment of a national missile defense system) will figure prominently in the agenda. The security agenda is likely to be influenced too by the protests mounted by Japanese and foreign nongovernmental organizations against the continued presence of some 63,000 American troops in Japan.

The G8/G7's origins can be traced to the economic turmoil of the early 1970s, when the Bretton Woods' monetary system collapsed and the world

White House library to discuss the tumultuous state of the international economic order. This "Library Group" quickly evolved into regular ministerial meetings and an annual summit of the leaders of the most powerful capitalist nations. Beginning in 1975 as the G6 (with the inclusion of Japan and Italy), this elite group of industrialized capitalist nations became the G7 in 1976 when the U.S. insisted that Canada be invited to the leaders' summit. Together these industrialized nations assumed the responsibility for ensuring the stability of a new monetary system of floating exchange rates.

While its initial focus was the coordination of the macroeconomic policies of its members, the G7—all cold war allies—soon also began discussing political/security issues, condemning the 1979 Soviet invasion of Afghanistan, for example. During the Reagan years in the 1980s, cold war issues received new prominence in G7 meetings, although the G7 was at the same time deeply involved in advancing the Uruguay Round trade talks and formulating multilateral strategies to address the acute debt crisis in Latin America that began in 1979.

Following the collapse of the Soviet Union, the G7 invited Russia to a post-summit dialogue in 1991. Initially excluded from the financial discussions of the G7 leaders, Russia officially gained full membership in 1998, and the annual gathering became known as the G8. Russia's nuclear status and President Yeltsin's commitment to democratization and economic liberalization were cited as reasons for granting Russia membership in this group of major powers. But it was the triumphalism of the cold war victors that may best explain the willingness to include Russia as a member of the elite club of capitalist nations, despite its weak economy and uncertain dedication to democratic principles. G7 countries have continued to hold ministerial and informal presidential meetings that exclude Russia. Moscow's dependence on IMF financing, its unstable transition to capitalism, and its war in Chechnya are among the factors that separate it from its partners in the G8—hence the schizophrenic designation "G8/G7."

By virtue of its combined economic, military, and diplomatic power and influence, the G8/G7 exercises tremendous influence over the multilateral institutions of global governance. This power gives the G8/G7 great influence on the policies, programs, and decisions of the UN Security Council, World Trade Organization (WTO), International Monetary Fund (IMF), World Bank, and Organization for Economic Cooperation and Development (OECD). This is the case despite the fact that, unlike these institutions, the G8/G7 has no permanent staff, no headquarters, no set of rules governing its operations, and no formal or legal powers. For those negatively impacted by the policy agendas advanced by the G8/G7 and for countries excluded from its deliberations, the G8/G7's influential role in global governance is highly resented and frequently criticized.

Key Points

- A forum of industrialized nations established in 1975, the G7 focused initially on macroeconomic policy coordination but has steadily increased its consideration of political/security issues.
- Today the G8 is central to the debate on global governance, as the other multilateral organizations—IMF, World Bank, UN, WTO, and OECD—look to the G8 for direction in virtually all international decisionmaking.
- G8 is beset with concerns about its representation and legitimacy as it promotes policy agendas affecting all the world's peoples and nations.

was hit by the first OPEC-induced oil crisis. This was also a time when U.S. post-World War II hegemony was being widely challenged by an emerging movement of non-aligned countries, proponents of a New International Economic Order, and third world insurgent forces, notably in Cuba and Vietnam. The type of control the U.S. exercised over the global economy and institutions of global governance was also being challenged by other industrialized nations, who were increasingly competitors with the U.S. for international markets. At home, the U.S. was suffering stagflation, while its external affairs also looked

grim, with no end in sight to the Vietnam war and with its first trade deficit since 1947.

In 1971 President Nixon delinked the dollar from the gold standard, thereby unilaterally destroying the prevailing monetary system. Under this system, member countries pegged their currency to a fixed quantity of gold—but only a handful (in practice mostly the U.S.) actually committed to selling gold on demand to the central banks of other members at that price. By saying it would no longer sell its gold reserves for the surplus dollars held overseas, Washington sent a clear signal that the U.S. could no longer be counted on to ensure the stability of the world's capitalist economies.

In April 1973 the finance ministers of the U.S., West Germany, France, and the United Kingdom met in the

Problems with Current U.S. Policy

In the past quarter of a century, other groupings of nations have come and gone, but the G8/G7 has endured. From its origins as an informal meeting of the heads of state of the wealthiest nations, the G8/G7 leaders' summit has become an international forum full of pomp and ceremony. The declarations of its leaders and ministers reflect the consensus of the world's most powerful nations about an expanding array of international issues.

By its own standards, the G8/G7 can point to a history of success. The consultations of the early years succeeded in stabilizing the international monetary system after it abruptly shifted from the limited gold standard. President Reagan credited the peaceful conclusion of the cold war in favor of capitalism to the "hanging together" of the G7 powers. The G7 played a key role in the conclusion of the Uruguay Round and the creation of the WTO with the dispute-settlement function as its centerpiece. As it enters a new century, the G8/G7 can rightfully claim to have played a key role in maintaining mutual trust among the industrialized nations and in expanding the realm of free-market democracies.

But the failure of the G8/G7 to advance solutions to the array of economic, political/security, and transnational issues it now addresses is just as evident. On the economic front, its call for a new round of trade/investment negotiations fell flat at the WTO meeting in Seattle, when developing countries insisted that the impact of earlier liberalization measures needed to be assessed and complained that the industrialized countries had failed to meet their market access and economic aid commitments. The G7's 1998 promise to advance "reform of the global financial architecture" has devolved into a focus on promoting national financial reforms among emerging market countries. While acknowledging the urgent need to "ensure increasing, widely shared prosperity" and to "put a human face" on globalization, it has not moved beyond this now-tired rhetoric. Britain and Canada played a key role in having the G8/G7 declare its commitment to the IMF/World Bank debt relief program for the poorest nations at the 1999 Cologne Summit, but the U.S. congressional failure to back this initiative has made this another empty promise. Increasingly, the G8/G7 declarations are largely a laundry list of transnational problems and a compendium of promises—many of which are subsequently broken.

As it moves forward, the G8/G7 is beset with problems of representation and legitimacy. Having evolved from its initial focus on economic policy coordination of member states, to assuming an agenda-setting role for global governance, the G8/G7 is faced with mounting criticism that it is unrepresentative. How can such an elite club fairly shape an agenda that will affect all peoples and nations?

In 1999 the G8/G7, responding to a U.S. initiative, formed an associated forum called the G20 to involve a broader spectrum of nations of mostly emerging markets in deliberations about financial policy reform. Thus far, however, the G20 functions mostly as a sounding board for G7 policy initiatives, doing little to alter the G8/G7's elite character.

What type of countries should be represented in a forum limited to what the G8/G7 itself has called "sys-

temically important countries?" Strong arguments have been made for the inclusion of China, clearly one of the world's most important players in security issues and in the global economy. Others contend, however, that with the entry of authoritarian China, the G8/G7 would no longer be a forum of like-minded nations, making it all the more difficult for the member nations to reach consensus. There also exist representation questions about other emerging market economies like Brazil, South Korea, and India, whose economic power have greatly expanded since the founding of the G7. Conversely, it is not clear why a minor power like Italy or a mid-level economy like Canada should remain a member.

The G8/G7 is criticized routinely as a wealthy club whose main concern is maintaining the global economic and political stability necessary for its members to continue accumulating wealth. Expanding its membership to developing countries would give the appearance of being more representative. But it's likely that the U.S. and its allies would continue to meet apart from any expanded forum, just as the G7 (particularly in ministerial meetings) continues to function alongside the G8.

Clearly, the wealthiest and most powerful nations have a right to meet formally or informally, just as other groupings of countries with similar interests and concerns do—such as the G77 forum of developing nations. The fundamental legitimacy problem associated with the G8/G7 is not its right to exist. Rather it's the way that it has worked to promote itself as the central player in global governance—and in the process undermined the credibility of the United Nations.

In the aftermath of World War II, the U.S. and other G8/G7 members created a visionary system of global governance designed to preserve peace and promote prosperity through intergovernmental institutions, mainly the United Nations. Today, these institutions are plagued with identity and representational crises and find themselves ineffective in the face of new global challenges, such as responding to the outbreak of intrastate conflicts, stopping financial crisis contagion, and regulating transnational corporations. Structural reform is necessary if the WTO, World Bank, IMF, and UN are to meet some of these challenges, while other global problems will require new visionary agendas of global governance—and new institutions. Unfortunately, the G8/G7 has shown little leadership in addressing the deepening crisis of global governance. Indeed it has contributed to this crisis by supporting policy solutions that bypass the UN and further destructive trends in the global economy.

Key Problems

- G8/G7 countries have failed to implement many of the recommendations of past summits.
 - The U.S. failure to pursue its foreign policy within the UN's framework or to pay its dues to the UN, undermines Washington's credibility as a responsible global leader, while creating widespread concern that the U.S.-dominated G8/G7 functions as the actual center of global governance.
 - The lack of attention to deepening impoverishment reinforces criticisms that the G8/G7 is more concerned about increasing the most powerful nations' wealth than about its professed goal of increasing global prosperity and democracy.
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Toward a New Foreign Policy

Global governance lies in shambles, but there is little indication that the world's most powerful political leaders have the inclination or will to reform current institutions or create new ones. Within the multilateral institutions, blame and recriminations abound, leaving no room for self-criticism and change. Neither have the various groupings of like-minded nations—the G8/G7 and the G77 as the most prominent—provided the kind of enlightened leadership and visionary thinking necessary to upgrade global governance.

Key Recommendations

- At the top of the G8/G7 agenda should be the grave security, economic, and environmental problems for which these countries are themselves primarily responsible.
- The G8/G7 could play a key role in highlighting the need for substantial reforms in the decisionmaking institutions of global governance.
- Policies are needed that will ensure a system of global governance that has both strong decisionmaking institutions at its center, and informal, consultative groups around the perimeter.

Due to its booming economy, its lead in information technology, and its lack of military competitors, the U.S. once again exercises hegemonic power in the capitalist world—which now encompasses virtually the entire planet. As such, the U.S. must assume a large part of the blame for the dismal state of global governance, and a large part of the responsibility to set international affairs on a more forward-looking path. A new approach to U.S. participation in the G8/G7 would be a good place to start. In its deliberative capacity, the G8/G7

could play a key role in highlighting the need for substantial reforms in the decisionmaking institutions of global governance and in forging an international consensus on the policies needed to address global climate change and other pressing transnational issues.

Washington and the other G8/G7 leaders could begin by taking the representation and legitimacy critiques more seriously. Within successful global governance, there can be a constructive role for self-constituted groupings of like-minded countries such as the G8/G7. Unfortunately, this is not the case today. Without the presence of other strong country groupings (particularly of developing countries) and in the absence of more democratically constituted multilateral institutions, the G8/G7 countries have assumed an unhealthy degree of power.

Rather than working to foster forums of other like-minded nations, the U.S. has historically sought to undermine groups that it cannot or does not control. Just as the wealthy industrialized countries benefit from sessions involving only other like-minded nations and leaders, so too will poor and developing countries benefit from strategy meetings with their counterparts throughout the South and in the transitional states. The concerted campaign led by the U.S. to crush the factions within the UN supporting a “new international economic order” and its aid embargo against leaders of the nonaligned movement are cases in point. The apparent reemergence of the G77 at a meeting in April 2000 is a positive development that deserves U.S. support and encouragement, and more weight needs to be given to the G24, a smaller grouping of developing countries and emerging markets.

At the center of global governance, however, must be effective, representative intergovernmental institutions, starting with the United Nations. The representation and legitimacy problems of the G8/G7 need to be addressed, but these

problems cannot be adequately considered without first addressing the representation and structural problems that beset the UN. One reason the G8/G7 has grown to be a such an influential player in global governance is the out-dated structure of the UN Security Council, whose permanent membership is limited to five nuclear powers, thereby keeping G8/G7 members Japan and Germany on the outside. If there are strong, credible, effective, and representative institutions at the center of global governance, the legitimacy of self-constituted forums like the G8/G7 will be less of an issue. Policies are needed that will ensure a system of global governance that has both strong decisionmaking institutions at the center and informal, consultative groups around the perimeter.

In their role as responsible global leaders, G8/G7 policymakers should adopt agendas that foster such a global governance system. At the same time the leaders and ministers can advocate policy that will go a long way toward meeting its stated objective in 1975 of “strengthening democratic societies everywhere.” These include:

- Proceed with earlier commitments made during the Asia financial crisis to reform the international financial architecture to address the problem of large speculative capital flows instead of its present focus on patching the architecture's cracks and its asymmetric attention to reforming the policies of borrowing nations.
- Expand the security environment in Asia to include China as a partner in common security agreements, while making immediate commitments to close U.S. military bases and withdraw U.S. troops.
- Substantially expand the 1999 Cologne summit's commitment to debt relief programs, eliminating 100% of the bilateral and multilateral debt of the poorest nations.
- Commit (without demanding parallel commitments from developing countries) to substantial cuts in carbon emissions at least as deep as those called for in the Kyoto Protocol.
- Finally, return to where it began—macroeconomic policy coordination among industrialized nations—with policy recommendations to address the structural problems in their own economies that could jeopardize global economic stability. First up for review should be the U.S. economy, with its unsustainable trade deficits and private debt—both of which are at record highs. Also in keeping with a renewed focus on macroeconomic policy coordination, the G8/G7 should strive for an agreement between Washington, Brussels (EU), and Tokyo to reduce the volatility of the three key exchange rates of the current international financial system by agreeing to impose upper and lower bands on the euro-dollar, dollar-yen, and euro-yen exchange rates, along with measures—such as a currency exchange tax—to reduce speculative attacks on these rates.

The G8/G7—with its annual summits, ministerial meetings, and consensus process of agenda-setting—has established a valuable process for establishing international policy agendas for groups of countries with similar interests and concerns. However, for this deliberative process to be constructive, it must in the G8/G7 case focus on the grave security (arms proliferation), economic (increasing social polarization and marginalization), and environmental problems (global climate change) for which these countries are themselves primarily responsible.

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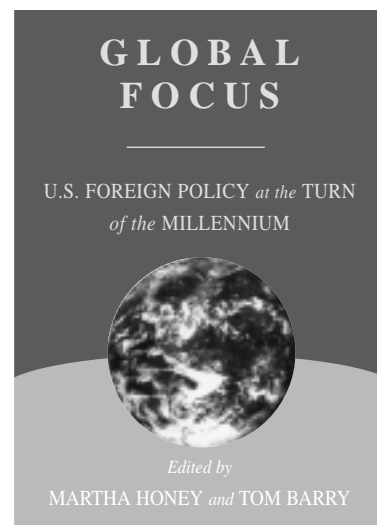
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