<u>Assembling a New International Financial Architecture: The Deeper Challenges</u>

Reforming the International Financial Architecture:
The G7 Summit's Successes and Shortcomings
(DRAFT)

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International financial questions have occupied the G7 summit repeatedly since its very beginning. This paper reviews the occasions, right up to the present, when the summits have contributed to the design of the world's financial and monetary system. From this review of past and present performance some lessons can be drawn on what the summit can do best.[i]

This enquiry is defined narrowly, being limited to summit activities concerned with the international system as such. It therefore excludes all the G7's attempts to improve the coordination of macro-economic policy or exchange rates among themselves, such as the Plaza and Louvre agreements of the 1980s. It concentrates on what the annual summits themselves have done, as distinct from the G7 (and earlier G5) finance ministers and their supporting officials. The paper speaks of G7 throughout: even though the summits since Birmingham 1998 have been called G8 summits, because of the addition of Russia, the Russians play no part in the financial discussions.

Under this definition, four important episodes stand out in the summit record. These are:

1. The Legitimisation of Floating Rates: Rambouillet 1975.
2. The Commercial Bank Debt Crisis: Versailles 1982 to Paris 1989.
3. Debt Relief for the Poorest: Toronto 1988 to Okinawa 2000 (and beyond).
4. The Speculative Financial Crisis: Halifax 1995 to Cologne 1999 (and beyond).

The first two episodes are from the past and can be considered closed. The second two are more recent and may not yet be over for the summit. But since neither is a leading topic for Genoa 2001, this is a good time to take stock.

In each of these episodes, the summit's achievements are judged against a range of criteria, as follows:-

- *Leadership.* Did the summit succeed in resolving differences which could not be overcome at lower levels?
- *Effectiveness.* Did the summit exercise its talent for reconciling domestic and external pressures?
- *Durability.* Did the agreement reached at the summit provide a lasting solution to the problem ?
- *Acceptability.* Was the agreement reached among the G7 leaders readily accepted by the wider international community?
- *Consistency.* Did the summit's decisions on international financial issues fit in well with the policies adopted on other subjects?

The judgements form the basis for the overall conclusions, which are summarised in the following two paragraphs.

First, the leaders must use the summit as the occasion to resolve disagreements between them which have persisted at lower levels. If this chance is wasted, the summit's purpose is lost. *Second*, the issues must have maximum advance preparation, to limit the issues for resolution at the summit. If the leaders are confronted with too many problems, they will temporise or fudge. That will allow damaging differences among the G7 to persist. *Third*, experience shows that informal arrangements do not endure. Reforms to the financial architecture must be integrated into formal institutions and given legal force. The summits must also keep up the pressure to ensure that whatever they agree is properly carried out. Commitments that are not fulfilled or are allowed to drag on undermine the authority of the summits. *Fourth*, the G7 summits must give a lead - that is expected of them - but they must not expect others to follow blindly. They must explain their proposals persuasively, responding to the concerns of others, especially poor and vulnerable countries. They must also justify their policies before the wider public, who are growing suspicious about who gains and who loses from globalisation.

Fifth and finally, they must integrate their policies on financial reform with their other economic recommendations. If not, this lack of consistency will undermine all their efforts, both in finance and elsewhere. The preparations for this year's Genoa summit have recognised this, by seeking to correct the earlier neglect of international trade and going beyond debt relief to address other aspects of development, especially health and education. Reforms of the financial architecture must also serve all countries, not just those that carry weight in the system.

Episode 1. The Legitimisation of Floating Rates; Rambouillet 1975.

The first episode dates from the dawn of summitry. It focuses on the struggle to agree a new monetary system, to replace the regime of fixed par values that collapsed in 1971. French President Giscard was the original creator of the G7 summit, with German Chancellor Helmut Schmidt as co-founder. Monetary stability was Giscard's highest priority. "What the world calls a crisis of capitalism," he said, "is in fact a monetary crisis."[ii] When Giscard invited his five colleagues to Rambouillet in November 1975 (Canada only joined the group in 1976), his first objective was to achieve agreement on the reform of the monetary system - ie, on new international financial architecture.

In fact France itself was the main obstacle to agreement. Hitherto France, almost alone, would not agree that the IMF should permit floating exchange rates as a legitimate currency regime, as opposed to a temporary expedient in times of crisis. At Rambouillet Giscard compromised: he agreed to legitimise floating, in return for undertakings from the United States and the others to intervene to counter short-term currency fluctuations.[iii]

The agreement reached at Rambouillet was based on meticulous advance preparation between the Americans and the French. This took some of the others by surprise, but they had already indicated their readiness to accept whatever France and the United States could agree among themselves. The provisions concerned with legitimising floating were fed into the international community and led to rapid results. Within three months the IMF had agreed amendments to its Articles which embodied the Rambouillet agreement. It laid the foundation for today's financial architecture, with all its merits and its weaknesses.

The understanding on countering short-term fluctuations was more controversial. The Americans were lukewarm from the start and during US President Reagan's first term (1981-1984) ignored it altogether. The focus on exchange rates, which the French wanted, became absorbed into the process of multilateral surveillance of macro-economic policy, which was first agreed at Rambouillet 1982. In Reagan's second term, with James Baker at the US Treasury, this became the principal activity of the G7 finance minsters, as it remains today. Exchange rates were the focus of the finance ministers' meetings at the Plaza in 1985 and the Louvre in 1987. But this interest proved short-lived and the exchange rate regime has never returned to the summit.[iv]

The Rambouillet episode scores highly against the criteria and provides a very early illustration of what the summit can do:-

- The summit showed *leadership* in resolving the persistent dispute between France and the US, in ways acceptable to the others. Rambouillet is still regarded as among the most productive summits in terms of cooperation achieved.[v]

- The summit proved *effective,* not from the intellectual brilliance or originality of the participants, but because of the meticulous advance preparation. The summit endorsed and gave its authority to the detailed provisions worked out beforehand.
- That part of the Rambouillet agreement proved *durable* which was incorporated into a legally binding instrument and applied worldwide. But the part which just relied on informal cooperation between the G7, to intervene in exchange markets, did not endure for long.
- The Rambouillet agreement was *acceptable* to the wider membership of the IMF, though there was some criticism from the Fund staff that it was imprecise and inelegant.
- There was no problem of *consistency* with that part of the Rambouillet agreement that went on to the IMF. But the informal arrangement on countering short-term fluctuations came under strain because G7 countries adopted economic policies that were not compatible with currency stability.

Episode 2. The Commercial Bank Debt Crisis: Versailles 1982 to Paris 1989.

The first episode showed the summit in a generally favourable light. The second episode concerns the crisis over the debts owed by middle-income countries to commercial banks, which occupied most of the 1980s. This time the summit does not emerge so well.

By the Versailles summit of 1982, the G7 countries had been pursuing restrictive economic policies for over three years, aimed at countering the inflationary effects of the second oil crisis. The policies were successful in that aim, but led to a world-wide recession. The summit itself was highly contentious. Agreements were reached with great difficulty on East-West trade and on surveillance of the G7 economies - only to crumble a few days later. The leaders were obsessed with these issues and ignored the signs of an imminent debt crisis among developing countries, despite warnings from Helmut Schmidt, attending his last G7 summit.[vi]

During the 1970s, oil-importing countries had been spared the full impact of the two oil crises by the device of 'recycling'.[vii] This worked by the commercial banks lending on to oil-importing countries the accumulated financial surpluses which the oil-exporters deposited with them. But the world recession made it impossible for many middle-income countries to earn enough dollars to service their debts. The crisis broke in August 1982, with Mexico threatening to default, followed by other major debtors like Brazil, Argentina and Poland. Many international banks were highly exposed to these countries, so that default threatened a systemic crisis.

Even after Versailles, however, the summits gave the debt crisis very little attention. Since many leading debtors were in Latin America and American banks were the most exposed, the United States took the lead in proposing solutions. The IMF and World Bank were deeply involved. But the Reagan Administration only once brought debt issues to the summit, when the London summit of 1984 endorsed the innovation of debt rescheduling agreements covering several years, instead of one year at a time.

With the arrival of US President Bush I, all that changed. His Treasury Secretary, Nicholas Brady, developed a new strategy for resolving this persistent problem. The 'Brady Plan' introduced the concept of debt reduction, ie writing down the debts below their market value. It was a radical idea for banks and their governments to accept that debts would not be paid in full. The IMF meetings in spring 1989 could not agree on it. Bush and Brady decided to raise the issue to summit level and secured the endorsement of the Paris Arch summit of July 1989. This was followed by agreement on the Brady Plan at the IMF Annual Meeting in September and the long-standing crisis was effectively resolved.[viii]

The summit's record in this second episode is more mixed than in the first. In general the summits from 1982 to 1988 score badly, while the results of Paris 1989 score well, as follows:-

- For a long time, the summits showed no *leadership.* Their neglect of this subject in the mid-1980s almost certainly prolonged the crisis, which dragged on for seven years. However, in 1989 the authority of the heads of government was successfully used to get acceptance of the radical new concept of debt reduction. (The 1984 agreement on multi-year rescheduling had a similar effect, though on a much smaller scale.)

- Likewise, the summits were largely *ineffective*, up to 1989, in reconciling the domestic pressures from the creditor banks with the external requirements of the debtor countries. The Americans under Reagan made very little use of the summits, preferring to work at lower levels.

- A *durable* solution only emerged with the Brady Plan in 1989. Once that was in place, the problem went definitively off the agenda.

- Debt reduction had been rejected by the IMF in early 1989; but it became generally *acceptable* after it had been endorsed by the summit.

- The *inconsistency* of G7 policies contributed to the outbreak of the debt crisis. The G7 encouraged the recycling of oil-producers' surpluses, leading to mounting debts for oil importers. But this strategy was undermined by the world recession, provoked by the G7's tight economic policies. The leaders at Versailles did not foresee the problems and let themselves be taken by surprise. In general, the summits have a poor record in anticipating financial crises.

Episode 3. Debt Relief for the Poorest: Toronto 1988 to Cologne 1999 and Beyond

The third episode concerns the summit initiatives on debt relief for low-income countries, which go back to the Toronto summit of 1988 but remain active up to the present. The record here, despite some weaknesses, is much better than over middle-income debt. The G7 leaders have realised that effective arrangements for very poor countries are a neglected part of the international financial system and need to be integrated into any reforms.

Both middle-income and low-income countries accumulated large stocks of debt as a result of the oil crises. The debts owed to commercial banks by middle-income countries were so large that they threatened the system. The debts owed to governments by poor countries were much smaller in total and thus non-threatening; but they were a much heavier burden to the countries concerned. As the crisis eased for middle-income countries, the G7 summit came to recognise the special problems of the poorest.[ix]

The first initiative, agreed at Toronto in 1988, offered relief on debt owed to governments by poor countries following IMF programmes. Toronto terms were fairly modest. But once the Brady Plan had been accepted, debt reduction could be given to poor countries too. Thus more generous terms were endorsed at London III 1991 and again at Naples 1994. The Lyon summit of 1996 expanded these into the Heavily Indebted Poor Countries (HIPC) programme. This provided further relief not only on debt owed to governments but also on debt to the IMF, World Bank and other such institutions. A large proportion of poor countries' debt was owed to these bodies. Hitherto the institutions had refused debt relief for fear of weakening their credit rating. But they now agreed to replace existing debt with new loans on much softer terms. 41 poor countries, mainly in Africa, were eligible to benefit from the programme.

Though the HIPC programme was intended to be more generous than what went before, it soon revealed its drawbacks. Poor countries had to endure IMF discipline for a very long time - usually six years - before benefiting from debt relief. The amounts of relief, once received, often proved insignificant. The financing of the scheme was not assured, in part because of dissent over the use of IMF gold for this purpose.[x]

Despite pressure from articulate public opinion, led by the Jubilee 2000 Campaign, Birmingham 1998 could only agree on modest changes. But Cologne 1999 produced a complete overhaul, thanks to a change of policy by the new German government.[xi] The amount of debt relief on offer was doubled and the qualifying period was halved. The financing commitments were less clear at the summit, but they were tightened up at the Annual Meeting of the IMF and World Bank in September 1999. That meeting agreed on a scheme to make use of IMF gold and produced the necessary voluntary commitments.

At Cologne, the G7 leaders had agreed to forgive up to 90% of their government debt to poor countries. They set a target of getting debt relief agreed for three-quarters of the 41 eligible countries by the end of

2000.[xii] By the time of the Okinawa summit in July 2000, all G7 governments were in fact offering 100% relief on their own debts. But only nine countries had agreed relief programmes, largely because of the time taken to prepare the new Poverty Reduction Strategies required by the Cologne reforms. This slow progress dismayed Jubilee 2000 and the summit itself could do little about it. But thereafter the pace quickened, so that 22 countries had debt relief agreed by the end of 2000. The total now stands at 23, while a few other eligible countries, like Ghana, have preferred not to bid for debt relief, preferring to pay their debts and keep their credit record. Most of the countries still outside the programme are hampered by war or civil conflict.

This year, the Genoa summit intends to go beyond debt relief. Poor countries remain poor even when their debts are forgiven. They need help with trade access, health care and education, so these are the key economic subjects for this year. In its political agenda the summit will focus on conflict prevention, in Africa and elsewhere.

The review of the summit's performance on this issue yields a broadly positive judgement:-

- The summit has consistently shown *leadership* since it took up this issue. It is clear that if the heads of government themselves had not pushed for action on debt relief for the poorest, nothing would have happened at all. The initial proposals were not adequate for the scale of the problem. But the G7 leaders were not content with a single initiative; they remained engaged and kept coming back to improve it.

- The summit did have problems of *effectiveness* in reconciling domestic and external pressures. These measures to help the poorest were not provoked by any systemic crisis or major threats to the G7's economic interests; they were driven by a clear ethical motivation. For a long time, this was not strong enough to ensure agreement among the G7 on sufficiently generous terms of debt relief or adequate financing. But from Cologne onwards these problems were overcome, helped by the change of government in Germany in 1998 and the voting of adequate funds by the US Congress in 2000.

- The summit likewise found it hard to agree on a *durable* debt-relief programme. Every year or so they had to come back and adapt it. But this reflected their determination to come up with a programme which would really achieve its objectives. Even now future modifications may be necessary, for example to bring more help to countries emerging from conflict.

- Successive debt relief programmes emerging from the summits had no real difficulty in winning *acceptance* internationally. Each of them was endorsed by the full membership of the IMF and World Bank and any problems arose within the G7 itself. More recently, the summit also faced the test of *acceptability* from the charities and other NGOs that made up the Jubilee 2000 Campaign. Jubilee 2000 set higher demands than the G7 could meet fully and has not given up its pressure. Drop the Debt, the successor to Jubilee 2000, wants the IMF and World Bank to forgive their debts outright. But the campaigners recognise how far the G7 leaders have come.

- The judgement on *consistency* raises wider issues. Debt relief was for many years about the only area where the G7 summits directly addressed the problems of the poorest countries. In other fields of concern to these countries, notably aid policy and trade access, the summits of the 1990s did much less. But in preparing for Okinawa 2000 and especially for Genoa 2001, the G7 realised that a wider involvement in development issues is essential to complement debt relief. This issue will be examined further in the conclusions.

Episode 4. The Speculative Financial Crisis: Halifax 1995 to Cologne 1999.

The fourth and final episode concerns the search for new international financial architecture. This was provoked by the crisis which broke out in three Asian countries just a few days after the Denver summit of 1997 and took 18 months to bring under control.

The crisis did not in fact begin in 1997. It was a revival, in a more acute form, of the troubles that overwhelmed Mexico at the turn of 1994 and 1995. Like the more recent upheavals, the Mexican crisis was marked by the collapse of exchange rates, the haemorrhage of volatile capital and rapid contagion both around the region and further afield. It was checked by an exceptional IMF-led programme, on the record scale of $50 billion, early in 1995. This Mexican programme provoked sharp disagreement between the United States and the Europeans. The 1995 Halifax summit restored harmony and agreed a series of reforms to IMF and World Bank, as a response to the experience of Mexico.

At Halifax the G7 leaders agreed a four-point plan, which was rapidly adopted by the IMF and World Bank. The four elements were: stronger IMF surveillance for all countries, based on better data; a new emergency financing mechanism, backed by extra funds; better cooperation between regulators of financial institutions; and exploring procedures for countries comparable to insolvency for firms.[xiii]

At Halifax, French President Chirac, in a striking image, denounced international speculators as the AIDS virus of the world economy. The Halifax measures were intended to deter further outbreaks of the disease. Instead they only provided a period of remission, before the crisis broke out worse than before. This was because the implementation of the Halifax programme was tardy and incomplete. To take the four elements in reverse order: the G10 declared 'insolvency' impractical for countries; G7 finance ministers reported only limited progress on regulation to Lyon 1996 and Denver 1997; the funds for the new mechanism were committed far too slowly; and that left stricter surveillance as the only defence. Surveillance on its own was not enough, as countries in difficulty had every incentive to conceal unwelcome data.[xiv]

As a result, the work on reform - on new financial architecture - had to start again in the light of what happened in Asia. This differed from the Mexican crisis not only in its scale - $112 billion had to be mobilised for Thailand, Korea and Indonesia - but because it was caused by the errors of the private sector, not of government. The IMF's traditional remedies attracted wide criticism.[xv] In early 1998 the G7 finance ministers assembled a package of reforms, which were endorsed by Birmingham 1998. But they were overtaken by renewed crisis in Russia (only months after the first G8 summit) and in Brazil. A much more extensive range of measures was prepared for Cologne 1999. The leaders endorsed them once again, preparing the way for their implementation by the IMF and World Bank.

The Cologne measures built on the Halifax programme and greatly expanded it. Surveillance was strengthened not only by new standards for data but also by codes of conduct prescribing greater transparency in monetary, fiscal and social policies. Cooperation between regulators was promoted by a new Financial Stability Forum, bringing together the G7 and the IMF with the Bank for International Settlements (BIS), the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO). The Halifax emergency mechanism was fully funded, while a new IMF Contingent Credit Line was intended to help responsible countries resist financial contagion. There were elaborate provisions for involving the private sector in financial rescue operations. The work of the G7 and IMF was reinforced by a new G20, associating ‘systemically significant’ developing and ex-communist countries with the preparation of reforms.[xvi]

Though none of these measures are really radical, they amount to an extensive overhaul of the machinery for preventing and responding to financial crises. In the two years since they were agreed, the system has remained calm. The summits at Okinawa 2000 and Genoa 2001 have not been called upon to do more than endorse work in progress among their finance ministers. Some severe country crises have been contained, in Turkey and Argentina, without provoking serious contagion. The slowdown in the US economy this year, coupled with persistent weakness in Japan, has not yet led to visible strains in the system.

Yet this relative calm may itself be cause for concern. Without the pressure of crisis conditions, implementation of the measures has again slowed down and some of the more difficult issues, like involving the private sector in financial rescues, remain unsettled. There is a sense that the reform process is incomplete, so that new ideas keep surfacing, especially from the United States.[xvii]

On this topic, the summits from Halifax to Cologne get a mixed but generally favourable assessment, as follows:-

- The Halifax 1995 summit demonstrated *leadership.* While the rescue of Mexico had been contentious, the summit restored G7 harmony in the pursuit of IMF reform. At Birmingham 1998 and Cologne 1999 the heads of government were less clearly decisive. They provided the focus for their finance ministers' work, ensuring that agreement was reached and giving it the necessary authority. But they contributed nothing themselves, in contrast to their personal involvement with debt relief.

- All three summits were *effective* in reconciling domestic and external pressures. As at Rambouillet 1975, the key was thorough and detailed preparation, carried through by the G7 finance ministers and their officials.

- The Halifax reforms were manifestly not *durable.* This was because of slow and incomplete implementation, without sufficient pressure from Lyon 1996 and Denver 1997 to get things done. After the crisis broke out again in Asia, the Birmingham and Cologne summits were concerned not to make the same mistake. But now that calm has returned, there is a danger that implementation is again slackening off.

- All the reform proposals emerging from the summits have proved widely *acceptable* in the IMF and World Bank. The G7 did not leave this to chance, but took care to involve other parts of the membership in the reform process. This was chiefly done through the G22, which was launched by the Americans in 1998 and brought in some of the key Asian countries. The new G20, forecast at Cologne 1999 and confirmed at the next IMF Annual Meeting, has put this wider consultation on a permanent footing and is proving very valuable.[xviii]

- Once again, the judgement on *consistency* opens up wider issues. The first question is whether the summits, by focusing too much on financial architecture, have neglected other parts of the international economic system, notably the trade regime. The second is whether the new architecture serves the interests of all countries or only the G7 members and those like them. This issue also will be addressed in the final conclusions.

Conclusions: Lessons from the Past and Present

It is now possible to draw some lessons from the summit record in handling issues concerned with the international financial system. These conclusions look initially at their performance under the first four criteria, which focus on the financial issues alone. They then consider the fifth criterion – whether the financial recommendations have been consistent with the summit’s other actions.

A. Leadership, Effectiveness, Durability, Acceptability

Leadership. The heads of government must use the summit as the occasion to resolve disagreements between them which have persisted at lower levels. If this chance is wasted, the summit's purpose is lost. The achievements of Rambouillet 1975, Paris 1989 and Halifax 1995 all demonstrate this, as do the summits from Toronto 1988 onwards which dealt with debt relief for the poorest. In contrast, the world suffered from a lack of leadership from the summits of the mid-1980s.

Effectiveness. The issues coming to the summit must have maximum advance preparation, to limit the items requiring resolution at the summit itself. Effective summits, from Rambouillet right through to Cologne, clearly demonstrate this. Without proper preparation, the leaders will be confronted with too many problems and they will temporise or fudge. This leads to disagreements persisting among the G7, which can undo any apparent consensus at the summit. This was the main weakness of the G7's work on debt relief for the poorest, so that it required constant reference back to the summit itself.

Durability. There are two lessons to be drawn from the summit record on how to make its agreements durable. The first, based on the experience from Rambouillet, is that informal arrangements do not endure. Reforms to the financial architecture, such as those agreed at Birmingham and Cologne, must be integrated into formal institutions and given legal force. The second concerns proper implementation. The summits must keep up the pressure to ensure that whatever they agree is properly carried out. Commitments which are not fulfilled, or are allowed to drag on, undermine the authority of the summits.[xix] This was the mistake made after Halifax, which left the world vulnerable to the Asian crisis. So the most important task for Genoa 2001 in the financial field will be to ensure that the decisions of earlier summits, on both debt relief and financial architecture, are being thoroughly implemented.

Acceptability. The demands made on the summit under this criterion have grown over the years. The G7 must give a lead from the summit - that is expected of them. But they must not expect others to follow blindly. They must set a good example of international behaviour - no one will respect new rules if the G7 themselves do not do so. They must explain their proposals persuasively within the global institutions, such as the IMF, responding to the concerns of others, especially poor and vulnerable countries. The new G20 forum is very helpful in this respect. They must also respond to a wider public. There is increasing doubt and suspicion about who gains and who loses from globalisation. Charities and other NGOs, grouped under the banner of 'civil society', are keen to correct what they see as the dangers of globalisation, for example for the poorest countries. The summit leaders have to be ready to explain and defend their decisions before this audience too.

B. Consistency

The analysis suggests that *consistency* is the hardest criterion for the summit to satisfy. None of the four episodes examined in this paper shows a wholly satisfactory record. Part of the Rambouillet understanding failed because G7 members adopted policies incompatible with currency stability. The debt crisis of 1982 broke out because the recycling of oil surpluses could not survive the recession provoked by tight economic policies. The summits' attention to debt relief during the 1990s contrasted with how little the G7 was otherwise doing to help the poorest countries. Most serious of all, the most recent summits have given close attention to financial matters but have neglected international trade. The G7 has paid a heavy price for this neglect, which contributed to the spectacular failure of the WTO Ministerial at Seattle to launch a new round of trade negotiations in December 1999.[xx]

The Okinawa 2000 summit showed a first recognition of these underlying inconsistencies. It extended the G7's attention to other problems faced by the poorest countries, focusing on health, education and the 'digital divide'. But it could not go far in resolving differences over trade so close to the US presidential election. Genoa 2001 should be able to build on these foundations. Its main economic theme will be going beyond debt relief to address the wider problem of world poverty. On trade, it looks as if the close rapport between Pascal Lamy and Bob Zoellick, the EU and US trade negotiators, and the meeting between President Bush and his European colleagues at Gothenburg in June have led to much closer transatlantic identity of view on a new WTO trade round and how to launch it.[xxi] While Genoa's conclusions on trade may still be fairly general, so as to avoid any appearance of dictating to the rest of the WTO membership, they should no longer conceal unresolved differences among the G7.

The G7's work on developing and applying the new financial architecture also needs to be integrated into this concern for the poorest countries. The new architecture must respond to the needs of all countries, even the poorest and smallest, not just to advanced economies like the G7 or even the 'systemically significant' countries that sit on the G20. Some parts of the new system look very complex. For example, the new rules for capital adequacy worked out by the BIS have proved so difficult technically that their implementation has been delayed a year.[xxii] This extra time should be used to make them more accessible to small and poor countries. In other areas there is a suspicion that the large countries are imposing their will on others. The best example here is the OECD's crusade against tax havens. This was endorsed by the Okinawa summit, but has been condemned by some of the targeted countries as an attempt by large advanced economies with high tax rates to inhibit the legitimate policies of smaller ones.[xxiii]

At their summits since Birmingham 1998, the G7 leaders have been directly responding to what is perceived as the dark side of globalisation. Measures of financial reform address two of these dangers directly: fear of financial panic, where the herd instincts of the market penalise prudent and imprudent alike; and anxiety about world poverty, where low-income countries fall ever further behind. The summits have shown leadership in these areas and have produced some effective, durable and acceptable results. But more needs to be done, especially to integrate their financial proposals into a wider economic and social context.

The summit will not get everything right. Problems only come up to the summit when they have defied settlement lower down. Many of them are too deep-seated to be resolved at a single session. Mistakes of judgement will be forgiven, provided the G7 leaders persevere in trying to do better. But the G7's reputation will not survive refusal to exercise leadership, persistent disagreement among themselves or failure to implement what they have agreed.

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Notes

[i] This paper is an updated version of Bayne 2000b, incorporating conclusions drawn from Okinawa 2000 and the preparations for Genoa 2001.

[ii] Quotation from Giscard's interview with Hearst press, carried in *Le Monde* and *Financial Times,* 9 July 1975. For Giscard's ambitions in launching the first summit, see Putnam and Bayne 1987, pp. 27-34.

[iii] The monetary agreement from the Rambouillet summit is analysed in Putnam and Bayne 1987, pp. 38-41.

[iv] The Plaza agreement of September 1985 was a rare public appearance of the secretive G5. The Louvre meeting of February 1987 was meant to be of the G7, but the Italians refused to attend. For the foundation and early activities of the G7 finance ministers, see Putnam and Bayne 1987, pp. 215-222 and 233-234, and Funabashi 1988. For later critiques of the G7, compare Dobson 1991 with Bergsten and Henning 1996.

[v] Rambouillet, with a grade of A-, is regarded as the most productive summit after Bonn I 1978 in the table given in Putnam and Bayne 1987, p. 270, updated in Bayne 2000a, p. 195.

[vi] For Versailles' neglect of the impending debt crisis, see Putnam and Bayne 1987, pp. 174-175.

[vii] For good accounts of recycling and its aftermath, see Kapstein 1994, chapters 3 and 4 and Kenen 1994, chapter 1.

[viii] Jacques Attali, President Mitterrand's sherpa, covers the Paris 1989 summit in detail in his memoirs (Attali 1995). For the Brady Plan at Paris 1989, see also Bayne 1992 and Bayne 2000a, p. 64.

[ix] Evans 1999 gives an insider's account of how the summits came to focus on debt relief for the poorest and how agreements were reached. See also Dluhosch 2000.

[x] A pre-Birmingham critique of the inadequacy of the HIPC programme was produced by Christian Aid, the leading charity in the Jubilee 2000 campaign (Lockwood and others, 1998). Bayne 1998 describes the disappointing outcome of the Birmingham summit on this issue. Criticism continued right up to the Cologne summit; see *Financial Times*, 12 June 1999.

[xi] The German change was signalled in an article by Chancellor Schroeder in *Financial Times,* 21 January 1999.

[xii] For an assessment of the Cologne Debt Initiative, see Bayne 2000a, pp. 182-185.

[xiii] An account of the monetary reforms agreed at Halifax are in Bayne 2000a, pp. 118-124. See also Cooper 1995 for proposals offered in advance.

[xiv] Initial assessments of the Halifax programme had been generally satisfied with the progress and did not expect a new crisis to break out. See Kenen 1996, which has an introduction by Lawrence Summers, then Deputy Secretary of the US Treasury.

[xv] Stanley Fischer, Deputy Managing Director of the IMF, replied in *Financial Times,* 17 December 1997, to attacks by Martin Wolf and Jeffrey Sachs, *Financial Times,* 9 and 11 December 1997. See also the exchange of articles in *Foreign Affairs* by Feldstein 1998 and Fischer 1998. Camdessus and Wolfensohn 1998, in a volume prepared for the Birmingham summit, give a joint defence on behalf of both the Fund and the Bank.

[xvi] In general, the summits favoured cautious, piecemeal measures, such as those advocated in Eichengreen 1999, rather than radical changes. An assessment of the work by the Birmingham

and Cologne summits on new financial architecture is in Bayne 2000a, pp. 171-178.

xvii An American commission chaired by Allan Melzer produced in early 2000 a report calling for the IMF to lend only to countries meeting strict conditions in advance and for the World Bank to provide grants not loans. Paul O'Neill, the new US Treasury Secretary in the Administration of President Bush II, at first seemed attracted by some of these ideas, but he has not so far pursued them.

[xviii] For a full analysis of the role of the G20, see Kirton 2000.

xix See Kokotsis and Daniels 1999 and Kokotsis 1999 for assessments of the general summit record of compliance with commitments. The subsequent assessment of Okinawa 2000 shows an exceptionally high level of compliance.

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[xx] The adverse consequenes of the summit neglecting trade are argued vigorously in Bayne 2000b.

[xxi] For reports of the meetings at Gothenburg, see *Financial Times*, 15 June 2001, page 8.

[xxii] See *The Economist*, 30 June 2001, pages 83-84.

[xxiii] Many of the tax havens targeted by the OECD are members of the Commonwealth. As a result, the Commonwealth has been active in a mediatory role. For an analysis, see Persaud 2001.