Assembling a New International Financial Architecture: The Deeper Challenges

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

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This chapter reviews the occasions during the 1990s and early 2000s when the G7 summits have contributed to the design of the world's financial and monetary system. From this review of recent G7 performance, it draws some lessons on how the summit can best contribute to international financial reform in conditions of advancing globalisation. The chapter speaks of G7 throughout, rather than G8, since the Russians play no part in these financial discussions. It is an updated and amended version of a paper written in 1999, omitting most of the evidence from the summits of the 1970s and 1980s, which featured in the earlier enquiry, while adding new material.[i]

Three areas of summit activity are examined, all spread over a number a years but remaining active subjects on the G7 agenda. These are:

I. **Debt Relief for the Poorest**. This has been active from Toronto 1988 onwards, especially at Lyon 1996 and Cologne 1999.

II. **The Speculative Financial Crisis**. The most important summits were Halifax 1995, Birmingham 1998 and Cologne 1999.

III. **Abuses of the Financial System**. This first featured at Paris 1989 and returned to the summit at Okinawa 2000 and Genoa 2001.

Two earlier subjects of summit attention - the legitimisation of floating rates, at Rambouillet 1975, and the commercial bank debt crisis, active from Versailles 1982 to Paris 1989 – were examined at length in the original paper. But since they are receding into the past and can be considered closed, these historical episodes only get brief treatment here.

In each of the chosen topics, the summit's achievements are judged against a range of criteria:-

- *Leadership.* Did the summit succeed in resolving differences and reaching solutions, that could not be achieved 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 against these criteria form the basis for the overall conclusions. But excluding the earlier episodes from the enquiry reveals how the weight of the different criteria has changed. The *durability* criterion has become harder to meet; none of the three topics can be regarded as finally resolved, so that they can be taken off the agenda. The *acceptability* criterion has likewise become more demanding. In the 1970s and 1980s the G7 members could be sure that whatever they decided would be accepted without question. Now, as globalisation advances, the summits have to satisfy a much wider and more critical circle of other governments and non-state actors.

Subject to these modifications, the lessons from the summit's performance in the 1990s and early 2000s are summarised below:

- *First,* the G7 leaders must use the summit as a means to resolve disagreements between them that have persisted at lower levels. This is what the summit is for.
- *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*, the summits must 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. Wherever possible, they should associate private business and civil society with their work.
- *Fifth,* 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 Genoa summit of 2001 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 the problems of Africa. Reforms of the financial architecture must also serve all countries, not just those that carry weight in the system.

The Historical Episodes: Floating Rates and the Commercial Bank Debt Crisis

The first summit of all, at Rambouillet in 1975, reached agreement that the IMF should permit floating exchange rates as a legitimate currency regime, as opposed to a temporary expedient in times of crisis. France had hitherto resisted this. But at Rambouillet French President Giscard agreed to legitimise floating, in return for undertakings from the United States and the others to intervene to counter short-term currency fluctuations. This agreement was based on meticulous advance preparation between American and French officials. The IMF rapidly introduced amendments to its Articles which embodied the Rambouillet agreement.[ii]

The Rambouillet episode scores highly against the criteria. The summit showed *leadership* in resolving the persistent dispute between France and the US, in ways acceptable to the others. The summit proved *effective,* because of the meticulous advance preparation. The Rambouillet agreement was *durable* where it was incorporated into the IMF's Articles and applied worldwide. This was readily *acceptable* to the wider membership of the IMF and created no problem of *consistency.* However, the informal arrangement on countering short-term fluctuations did not prove *durable*, because G7 countries adopted economic policies that were *inconsistent* with currency stability.

The Versailles summit of 1982 ignored the signs of an imminent debt crisis among developing countries. The crisis broke in August, with major debtors threatening to default on their borrowings from commercial banks. Default on this scale threatened a systemic collapse. But the summits gave the crisis very little attention, as the Reagan Administration only once brought debt issues to the summit, at London 1984. Under President Bush I and Treasury Secretary Brady, however, things changed at once. The 'Brady Plan' introduced the radical concept of debt reduction. When the IMF meetings in spring 1989 could not agree on it, Bush and Brady raised the issue to summit level. The Brady Plan was endorsed by the Paris summit of July 1989 and accepted at the IMF Annual Meeting in September. The long-standing debt crisis was effectively resolved.[iii]

The summit's record here is less favourable. The summits from 1982 to 1988 score badly, while only Paris 1989 scores well. For a long time, the summits showed no *leadership,* so that the crisis dragged on for seven years. But in 1989 the leaders' authority ensured acceptance of the radical new concept of debt reduction. 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. 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 became *acceptable* after endorsement by the summit. The *inconsistency* of G7 policies contributed to the debt crisis. The G7 had encouraged the recycling of oil-producers' surpluses to oil importers. But this was undermined by the world recession, provoked by the G7's tight economic policies.

I. Debt Relief for the Poorest: From Toronto 1988, especially Lyon 1996 and Cologne 1999.

The first current 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 in the 1980s. 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.[iv]

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.[v]

British Prime Minister Blair wanted this to be a major subject at Birmingham 1998. But despite pressure from articulate public opinion, led by the Jubilee 2000 campaign, Birmingham could only agree on modest changes. A year later, however, Cologne 1999 produced a complete overhaul, thanks to a change of policy by the new German government.[vi] The amount of debt relief on offer was doubled and the qualifying period was halved. ‘Poverty Reduction Strategies’ were introduced, to ensure the money saved was well used, especially on education and health care, and to involve civil society in debtor countries. 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.[vii] 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.[viii] But thereafter the pace quickened, so that by the Genoa summit of 2001, 23 countries had debt relief programmes agreed. A few other eligible countries decided not to bid for debt relief, preferring to service their debts and keep their credit record. Most of the countries still outside the programme were hampered by war or civil conflict.

The main topic for Genoa 2001 was poverty reduction, going beyond debt relief. This recognised that poor countries remain poor, even when their debts are forgiven, and need help in areas like trade access, health care and education. Genoa also continued to work on unfinished business in the HIPC programme. This included: making the best use of resources saved by debt relief; helping conflict countries to get into the programme; ensuring debt relief led to a ‘lasting exit’ from unsustainable debt burdens; and getting other creditors to match what the G7 had done. But there was no improvement of the terms of debt relief itself. Campaigners for complete debt forgiveness or for the reduction of IMF/ World Bank debt (like Drop the Debt, the successor to Jubilee 2000) were clearly disappointed.

The review of the summit's performance against the criteria 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, often going further than their finance ministers were prepared to go.

- 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 eased, thanks to 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 are 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.[ix] More recently, the summit also faced the test of *acceptability* from the charities and other NGOs that made up the Jubilee 2000 Campaign for complete debt forgiveness. The campaigners recognised the advance made by the G7 leaders at Cologne, but hoped that would lead on to even more generous relief. Drop the Debt, the successor to Jubilee 2000, wanted the IMF and World Bank to forgive their debts outright. The absence of movement on this at both Okinawa and Genoa was frustrating to the campaigners.

- The judgement on *consistency* shows poor performance in the 1990s but some improvement in the 2000s. 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 was essential to complement debt relief. This was reflected in the decisions at the 2001 summit on a new Global AIDS and Health Fund and the Genoa Plan for Africa.

II. The Speculative Financial Crisis: Especially Halifax 1995, Birmingham 1998 and Cologne 1999.

The second current episode concerns the search for new international financial architecture. This was provoked by the crisis that 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 US 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.[x]

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.[xi]

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.[xii] 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 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, which brings 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 countries following responsible policies to 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.[xiii]

Though none of these measures are really radical, they amount to an extensive overhaul of the machinery for preventing and responding to financial crises. For two years after they were agreed, the system remained calm. Yet this relative calm could be a cause for concern. Without the pressure of crisis conditions, implementation of the measures slowed down and some of the more difficult issues, like involving the private sector in financial rescues, remained unsettled. There was a sense that the reform process was incomplete, so that new ideas kept surfacing, especially from the United States.[xiv]

The summits at Okinawa 2000 and Genoa 2001 were not called upon to do much more than endorse work in progress among their finance ministers. But the slowdown in the US economy in 2001, coupled with persistent weakness in Japan, began to impose visible strains on the system. Countries that had recovered rapidly from the Asian crisis, because of strong American demand for their exports, began to suffer as this demand fell away. Some severe country crises broke out in Turkey and Argentina. These were only contained with difficulty and led to fears of contagion elsewhere in Latin America.[xv]

On this topic, the summits from Halifax to the present 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 also provided *leadership,* in that they provided the focus for their finance ministers' work, ensuring that agreement was reached and giving it the necessary authority. The conclusions on financial architecture were key achievements of these two summits. However, the leaders contributed nothing on their own account, in contrast to their personal involvement with debt relief. At Okinawa 2000 and Genoa 2001 this topic no longer had such high priority.

- All three summits were *effective* in reconciling domestic and external pressures. 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 once calm returned, implementation again tended to slacken off. This left it unclear whether the new architecture would be robust and *durable* enough to withstand the strains caused by the slowing US and Japanese economies.

- 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.[xvi]

- The judgement on *consistency* is less positive. While the summits of the late 1990s had good reasons for focusing on financial architecture, this led them to

neglect other parts of the international economic system, notably the trade regime.[xvii] This was not properly corrected till Genoa 2001. The summits of the early 2000s – Okinawa and Genoa – increasingly turned their attention to the problems of developing countries, especially the poorest. But it was unclear whether the new architecture served the interests of all countries or only the G7 members and those like them.

III. Abuses of the Financial System: Paris 1989, Okinawa 2000 and Genoa 2001

This is the third area where the summits have intervened in the financial system, embracing concerns about money-laundering, offshore financial centres and harmful tax competition. The direct involvement of the leaders has been much less than in debt relief or financial architecture. But it has become an active issue over the last two years and is suitable for judgement against the criteria.

The summit's involvement in money-laundering grew out of its concern to check the growth of drug trafficking in the late 1980s. The Paris summit of 1989, from an unusual joint initiative by France and the United States, created a Financial Action Task Force (FATF) to limit access to the financial system for drug traffickers (and other criminals) and to make it easier to track down and seize the proceeds of crime.[xviii] The authority of the G7 leaders gave this initiative enough impetus to bring in other countries alongside the G7 and to find the FATF a home alongside the OECD, though it remains independent. Within a year the FATF members drew up a complete set of counter-measures against money laundering, embodied in the FATF Forty Recommendations. The FATF spent the whole of the 1990s ensuring that its 28 members observed these recommendations and seeking to persuade other countries to adopt them.[xix]

By 2000, the FATF decided the time had come to identify publicly countries which were open to money-laundering and whose financial systems gave too many opportunities to criminals. In June 2000 it published a list of 15 such 'non-cooperative' jurisdictions. In July, the G7 finance ministers, meeting at Fukuoka, commended this action and added that countries that did not mend their ways would be vulnerable to counter-measures. This in turn was endorsed by the G7 leaders at Okinawa, even though Russia was on the list.

The G7 leaders at Okinawa endorsed two other parallel recommendations from their finance ministers. The first was to encourage the Financial Stability Forum in its work on improving regulation in offshore financial centres, especially those identified as not meeting international regulatory standards. The second was linked to the OECD's work on harmful tax practices, which had again identified a list of tax havens which were called upon to mend their ways.[xx]

All three topics, which identified lists of countries which failed to meet certain standards, returned to the G7 finance ministers and thus to the G7 leaders in 2001; but the results were not uniform. On money-laundering, there had been clear progress, in that four jurisdictions had so mended their ways that they could be taken off the list, while eight others had shown improvement. Only three, including Russia, were at risk of counter-measures, to be taken later in 2001, though six new countries, including Hungary and Egypt, were added to the list. The work on offshore financial centres was proceeding steadily.

The OECD's action in identifying tax havens, however, provoked strong controversy. Many of the countries targeted complained that the OECD had not consulted them properly nor explained what they were expected to do to correct matters. They argued that the OECD members, being mainly high tax countries, were trying to impose standards on poorer countries which were trying to become competitive.[xxi] In addition, the new US Administration would not agree that the OECD should be telling other countries what level they should set their taxes, though they remained concerned about tax evasion. In consequence, the approach endorsed by the G7 in 2001 was much less demanding than a year before, focusing more on information exchange than prescription.

The judgement on the summit's performance varies according to the topic addressed:

- Money-laundering is a good example of summit *leadership.* The original initiative got enough impetus from the leaders in 1989 that it did not need summit attention for ten years. It returned in 2000-2001 when the FATF needed summit authority for a more aggressive policy. With offshore financial centres and tax havens, however, the leaders did no more than endorse current action by finance ministers, which hardly needed summit attention.

- With money-laundering, the domestic measures taken by FATF members, including the G7, provided a good basis for an *efficient* international intervention. The same applies to offshore financial centres, but is less true of the OECD's action on tax havens.

- The action on money-laundering has had slow, but *durable* effect. With offshore financial centres it is too early to say. With tax havens, the G7 has already had to go into reverse to some degree.

- In all three areas, the actions taken are unwelcome to those countries identified on the list. But raising standards of regulation in offshore centres as part of the new financial architecture, which is generally *acceptable.* The FATF has given plenty of warning and opportunity for amendment to target countries, while action against money-laundering carries wide *acceptability.* In contrast, the OECD's action against tax havens is perceived as hasty and unfair, so that it is resisted not only by the countries concerned, but also by developing countries more generally.

- As regards offshore centres and money-laundering, the G7 actions are *consistent* with their wider campaigns to strengthen financial architecture and fight against international crime and the drugs trade. But some aspects of the OECD's action on tax havens seem *inconsistent* with G7 efforts elsewhere to encourage developing countries to make the most of whatever competitive advantages they have.

Lessons from the Summit Record

It is now possible to draw some lessons from the summit record in handling issues concerned with the international financial system in the 1990s and early 2000s. These conclusions look at their performance under the five criteria.

Leadership.

The heads of government must use the summit as the occasion to resolve disagreements between them that have persisted at lower levels. That is the underlying rationale for summits. The achievement of Halifax 1995 demonstrates this; so do the summits from Toronto 1988 onwards which dealt with debt relief for the poorest. In particular, Cologne

1999 was able to make progress which had not been possible at Birmingham 1989. Alternatively, the heads of government can ensure that their finance ministers come to agreement, as happened before Birmingham and Cologne with financial architecture.

Effectiveness.

The issues coming to the summit must have maximum advance preparation, to limit the items requiring resolution at the summit itself. The most effective summits of this period 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.

The main lesson to be drawn from the recent summit record, on how to make its agreements durable, is that proper implementation is essential. The summits must keep up the pressure to ensure that whatever they agree is properly carried out. The record on money-laundering is a good example of what should happen, while the leaders have also kept up the pressure on debt relief.

In contrast, commitments which are not fulfilled, or are allowed to drag on, undermine the authority of the summits.[xxii] This was the mistake made after Halifax, which left the world vulnerable to the Asian crisis. So the most important task for the summits of the 2000s in the financial field will be to ensure that the decisions of earlier summits 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. On all these points, the

G7 action in supporting the OECD campaign against tax havens was open to criticism. In contrast, the new G20 forum is very helpful in associating major developing countries with the process of reforming the financial architecture.

The G7 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. Wherever possible, private business and civil society should be involved in the implementation of G7 decisions. This is working well with the Poverty Reduction Strategies linked to the HIPC programme, but involving private lenders in financial rescues is proving more difficult.

Consistency

The analysis suggests that *consistency* is the hardest criterion for the summit to satisfy. None of the episodes examined in this paper shows a wholly satisfactory record. The summits' attention to debt relief during the 1990s contrasted with how little the G7 was otherwise doing to help the poorest countries. Those summits that gave close attention to financial matters neglected international trade. The G7 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.

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 was able to build on these foundations. Its main economic theme was how to go beyond debt relief to address the wider problem of world poverty. It launched a new Global AIDS and Health Fund and a new Genoa Plan for Africa, based on a partnership between G8 and African leaders. On trade, the close rapport achieved between Pascal Lamy and Bob Zoellick, the EU and US trade negotiators, enabled the leaders to take a firm position on a new WTO trade round and how to launch it. While Genoa's conclusions on trade are fairly general, so as to avoid any appearance of dictating to the rest of the WTO membership, they 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.[xxiii] 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 clearest example here is the OECD's crusade against tax havens, 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.

Conclusion

At their summits since Birmingham 1998, the G7 leaders have been directly responding to anxieties about what is perceived as the dark side of globalisation. Measures to make the financial system stronger and more equitable address three of these anxieties directly: about financial panic, where the herd instincts of the market penalise prudent and imprudent alike; about world poverty, where low-income countries fall ever further behind; and about international crime, where globalisation seems to help the criminal as much as the honest citizen. 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.

After the violent riots associated with the Genoa summit, the G7's record is under close scrutiny. 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 may be forgiven, provided the G7 leaders persevere in trying to do better. But the G7's reputation will not survive persistent disagreement among themselves or failure to implement what they have agreed.

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Notes

[i] This paper is an amended version of Bayne 2000b, incorporating new material on abuses of the financial system and the results of Okinawa 2000 and Genoa 2001.

[ii] An account of the Rambouillet monetary agreement is in Putnam and Bayne 1987, pp. 38-41.

[iii] 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 2000a, p. 64.

[iv] 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.

[v] 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.

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

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

[viii] The outcome of the Okinawa summit on debt relief is analysed in Bayne 2001a.

[ix] This process was helped by the practice of Britain and Canada seeking prior support for their debt relief proposals from the finance ministers of the Commonwealth – see Bayne 1998.

[x] 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.

[xi] 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.

[xii] 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. Haggard 2000 contains a more extended analysis of the Asian crisis.

[xiii] 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 Meltzer 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 (Meltzer 2000). Paul O'Neill, the new US Treasury Secretary in the Administration of President Bush II, seemed attracted by some of these ideas. On his recommendation, Bush made a speech on the eve of the Genoa summit arguing that the World Bank should give grants, not loans, to poor countries. But this idea was not endorsed by the rest of the G7.

[xv] The G7 leaders at Genoa appeared to have promised further help to Argentina, if its problems persisted, but this does not made clear in their published document. See *Financial Times,* 21 July 2001.

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

[xvii] The adverse consequences of the summit neglecting trade are argued vigorously in Bayne 2000b and Bayne 2001b.

[xviii] For the foundation of the FATF, see Bayne 2000a, p. 66.

[xix] On the activities of the FATF in the 1990s and 2000s, see OECD 2001a.

[xx] On the OECD's work on harmful tax practices, see OECD 2001b.

[xxi] 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.

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