

Whither the G8?

Article for Europe's World

As the current chair of the Group of Eight (G8) this year, the German government is currently preparing for the Heiligendamm summit in early June, the main event of its Presidency. But this Presidency comes at a time when the *raison d'être* of this club-like group is called into question. The G8 increasingly is neglected as an economic-policy forum. Its vitality and relevance is seriously challenged. What started in the early 1970s as an informal club of the then seven biggest industrial countries is today seen by many as an elderly-care centre for economies whose time has gone. The major emerging markets are not member of this club. Brazil, China, India and others are invited to the summit meeting and participate on the sidelines, but they are not part of the yearly circuit of G8 meetings and efforts to coordinate policy.

Furthermore, with the global complexion on key international economic affairs today it seems rather odd to run a club for eight economies when there are plenty of other multilateral organisations, comprising many more countries, which are purported to address the same issues.

This critique is largely correct. The same verdict applies to the headline conclusion: the G8 needs to be reformed to stay vital. Yet the critique lacks perspective and essentially fails to understand the real nature of G8's problems. Similarly, the ensuing proscriptions for reform, especially proposals suggesting a sizeable expansion of membership (multilateralizing the G8), will not remedy the G8's lack of relevance or make it an effective body for affairs of economic policy.

The metrics of policy coordination

The G8 remains a forum for economic policy. Other fields of policy are added to the agenda; energy, foreign aid, debt relief, foreign policy, et cetera. But the backbone of the G8's loose institutional structure is the Finance and Economy Ministries. Lacking an own secretariat, this strategy makes sense. Finance Ministries is the hub of domestic policy coordination and warrants integration between G8 policy coordination and domestic policy making.

But this form of policy coordination between member governments is subtle and can effectively only be pursued in a limited number of issues. International policy coordination is sensible if – and only if – a number of conditions are met. Applied to the G8 context these conditions can be described as follows.

First, the economic problem at hand should be clear, as should be the policy measures to resolve the problem. If especially the latter is not the case, and there is uncertainty about the best policy response to a specific problem, policy competition as a means to discover the appropriate response to economic problems is superior.

Second, the problem has to be international in character. In other words, issues subject to G8 policy coordination should have “spillovers”. If that is the case, autonomous policy making is

ineffective, let alone pointless. Policies to tackle climate change offer an appropriate example. If it is not the case, policy coordination will miss the problem and, worse still, might generate a cartel-like situation where more effective policy responses are kept out of the market by high entry thresholds.

Third, there must be a common understanding between member countries of the course to take in a particular issue. Policy coordination is a tool only for situations when such a broad consensus exists. This holds even more for policy coordination in a G8 context. The G8 has no tools to sanction countries that violates from an agreed position. Compliance can only be regulated by countries own willingness to pursue a specific policy or programme.

Fourth, the problems must be manageable by the policy tools available to G8 governments.

These conditions may come across as common sense, but they are surprisingly seldom part of the G8 process in a clean and straightforward manner. It is rather the reverse. The G8 process for consideration and design of its agenda is unfocused and seemingly exercised without sufficient regard for the subtle mechanics of international policy coordination.

German G8 leadership

The current German Presidency offers ample examples.¹ The German agenda, since the first tentative G8 agenda was submitted to the Cabinet in October 2006, has been a flexible document without clear priorities and a strategy for achieving results. Targeted issues have been picked across all political areas and new issues have invariably been added.

Such inflation is an all too common phenomenon and, in the case of the German G8 leadership, it has been given an extra flavour as the G8 priorities have often been discussed in the same breath as priorities for the German EU Presidency. In many instances it has been difficult for initiated observers to understand if drafted ideas should be regarded in a G8 or EU context. For sure there are overlapping issues, but the German government has also made a point of not mixing the two agendas. One can understand such a strategy: broad multi-tasked and multi-focused agendas run the risk of blurring core strategy. But it is understandable only to a point. The current separation is a product of the excessive compartmentalization of German bureaucracy. By not connecting yin and yang in this year of Presidencies, Germany has neglected an opportunity of building a strong agenda, with the EU endorsements, where one element could underpin the other and vice versa.

Equally important, the issues elevated to the G8 agenda have neglected the subtle mechanics of international policy coordination. Very few, if any, of the items on the German G8 agenda meets the four conditions set out above. Most of the issues fail on all four tests. This is particularly true for the sets of issues that Chancellor Merkel has underlined as the core part of the agenda: innovation and investment, reducing global imbalances, improved transatlantic relations, and Partnership Agreements between African countries and G8 members.

Innovation and investments primarily concerns freedom to invest and enforcement of intellectual property rights. These are both areas of concern, but the concerns do not derive

¹ For a discussion of the German G8 agenda see Fredrik Erixon and Andreas Freytag (2007), *Germany and the G-8 Presidency*, ECIPE Policy Briefs 02/2007, Brussels.

from the conduct of G8 members, which are all developed nations. They are rather developing-country concerns – issues where essentially all reforms would be assigned to non-members.

Reducing global imbalances rests on the long tradition of G8 intervention in current account and monetary affairs. But what can be a relevant G8 agenda when there is a clear difference in opinion over the cause and magnitude of this problem between G8 members? And what tools to G8 members command to correct the imbalances without seriously distorting the world economy?

The German eager to address global imbalances is understandable; Germany could benefit by an increasing dollar exchange rate. But it also reflects the idea that the global economy is manageable to the extent it was when the G8 was formed in the early 1970s. The chief problem is not that non-G8 members have emerged as key players in the world of finance. It is rather that there are no effective policy options available.

The way forward

This points us to the overall problem with the G8 and explanations to its deteriorating relevance. The G8 problem is not exogenous, but endogenous. It is essentially a failure of member governments to put adequate issues on the G8 agenda and act in accordance with modern principles for international policy coordination. In other words, the G8 membership can be expanded – by a small or a large group of countries – but it will not add much to the G8 relevancy unless member governments designs a G8 agenda that fits its structure. The ineffectiveness of G8 decision making would rather be aggravated by an expanded membership without proper reforms to discipline member government's use of the G8.

There are also reasons to cautiously approach expanded membership. There is today plenty of talk about global economic governance, but the existing intergovernmental economic organisations are unfocused bodies without a real identity and purpose. Most of these organisations – the World Bank, IMF, WTO, OECD, ILO, UNCTAD, et cetera – were created in a different era and were based on a club-like membership structure. The world economy has changed dramatically since their inceptions and the framework that guided them is in many respects not longer valid. Many of these organisations have also been “multilateralised”; membership has grown considerably.

This development is largely applaudable, but two important characteristics of the “old” order of international economic governance have been lost.

First, intergovernmental economic organisations lack leadership by key member countries. It is a naïve belief that multilateralism implies leadership by all. This is particularly true in world economy affairs; a significant minority of countries represents the vast part of the global economy. Ghana cannot be expected to shoulder the same responsibilities as Germany.

Second, the linkage between the agendas of these organisations and policy reforms in key member governments has diminished. International economic policy is of little use for domestic policy making.

These two territories could be occupied by the G8. The G8 could perform greater leadership for the world economy by multilateralising itself; not necessarily by expanding the membership (although such reforms should be considered) but rather by acting as the vehicle for multilateral efforts. This implies a G8 agenda that mirrors the immediate issues in intergovernmental economic organisations and takes greater use of their policy mechanics.

The G8 should also assume leadership for reforms in its member states. World economy issues are closely related to what normally have been viewed as inherently local issues. The global economy has clear implications for labour market policy, educational systems, and health care policy, to name just a few examples. In this way there is today a greater interdependence between policy areas than before. But none of the existing intergovernmental economic organisation takes stock of these interdependencies and put them in an adequate structure for international policy coordination.