

14. Sustaining Global Growth

John Kirton

Hello, I'm John Kirton, Director of the G8 Research Group at the University of Toronto and your lead instructor for G8 Online 2002.

In this session, "Sustaining Global Growth," we examine the G7/G8's role and record in fostering and sustaining real economic growth, in ways that support social and environmental objectives, and that does so within G7/G8 countries and in the global community as a whole.

Generating sustainable growth is a core subject that every G7/G8 Summit has dealt with since the Summit's start in 1975. It is also one of the three themes selected as a focus for the Kananaskis Summit in June 2002. It comes as the G7/G8 struggles with the challenge of how its members can transform their still somewhat fragile recovery, following the terrorist attacks of September 11, 2001, into strong, sustained growth that will broaden to benefit all.

There are deep doubts about whether the G7/G8 can deliver anything of real value in this regard. Indeed, the **false new consensus** model of Summitry asserts that the G7/G8 can do little to manage economies in today's globalized markets, dominated by the private sector. Here, more than US\$1.4 trillion is traded every day in foreign exchange markets. And here, it is claimed, all governments feel they should balance their budgets to maintain the confidence of investors and their money, which can instantly move anywhere in our globalized world (Bergsten and Henning 1996).

Alternatively, adherents of the **American leadership** model see the United States as the great engine, or "locomotive," that drives global growth and macroeconomic policy co-ordination. They worry that an internally preoccupied America will not manage its economy in ways that reflect the needs of the Japanese, Argentinians, Europeans, developing

countries or others around the world (Putnam and Bayne 1987).

But still others argue, in accordance with the **concert equality** model, that the G8's major power governments, acting together, can still effectively manage exchange rates and co-ordinate their **macroeconomic** policies to sustain growth. The G7 does so in part by giving markets the confidence and clear signals about desired directions they need to function efficiently in a globalizing age (Davanne and Jacquet 2000).

In this lecture, I argue that the G7 — and increasingly the G8 with Russia — is still as potent and productive in generating global growth as it was in the Summit's early years. Indeed, **globalization** has given the G7/G8 a greater relevance and role. International economic flows are now more important to more countries. Now more types of economic policies must be managed internationally to ensure economic stability and growth. Citizens the world over now call for growth that avoids **inflation** and generates good jobs, and also fosters **social cohesion** and environmental protection. Such growth is only possible through G7/G8 economic governance (Kirton and von Furstenberg 2001).

The G7/G8 controlled the inflation and oil shocks of the 1970s, the unsustainable U.S. "superdollar" and developing countries' debt crisis of the 1980s, and the global financial instability of the 1990s. Already in the twenty-first century, it has had to face several new shocks. These include the first simultaneous slowdown in all three G8 regions in 25 years, the collapse of firms and "new economy" stocks based on information and communication technology (ICT), the post-September 11th seizure of North American economies. At the same time, a soaring U.S. superdollar, a burgeoning

American **current account deficit** and volatile world oil prices have arisen once again. Yet despite these new challenges, the prospects are good that at Kananaskis the G7/G8 leaders will meet them and beat them, and thus broaden today's fragile recovery for the benefit of all.

A. G8 Macroeconomic Governance, 1975–2001

At every Summit since 1975, G7/G8 leaders have discussed the world economy. At almost every gathering they have made clear collective **commitments** about what they will do to foster and sustain growth. A careful count of the leaders' commitments each year suggests that decisions on economic growth have been particularly prominent at the Summits hosted by France — Rambouillet in 1975, Versailles in 1982 and Lyon in 1996 (Kirton and Takase 2002). The dean of Summit scholars, Nicholas Bayne, has judged that growth has been a key part of the Summit's overall achievements at the 1977 London Summit and the 1978 Bonn Summit, and, in more specialized ways, at Rambouillet in 1975, Versailles in 1982, Tokyo in 1986, Birmingham in 1998 and Cologne in 1999 (Bayne 2000, 195). Indeed, some regard the 1978 Bonn Summit as the most successful Summit ever, because despite initial reluctance, each member government adjusted different parts of its domestic economic policy — interest rates, government spending stimulus, oil price controls and **trade liberalization** — as part of a coherent package to stimulate global growth.

In the first half of the 1980s, the Summit tended to move from "singing in harmony", with each member doing different things, to "singing in unison," with everyone doing the same thing. Under the latter, all members tried, with difficulty, to move in the same direction to reduce inflation, budget deficits and domestic microeconomic inefficiencies. By 1985, however, they returned to bold, targeted, interventionist action to reduce the exchange rate of the vastly overvalued U.S. dollar, and to

institute an early-warning system of surveillance of member economies. At the 1986 Tokyo Summit, they created a new G7 finance ministers forum to oversee the new system.

In the 1990s there was less Summit attention and action in regard to growth. This was partly because, all G7 and global economies except Japan were doing relatively well after a mild recession in 1991 (Kirton 1999). It was also because the G7 was preoccupied with transforming the Soviet Union and then Russia into an open democracy with individual liberty, in part by reforming and reviving its struggling economy in those years. But, in keeping with the false new consensus model, this lack of attention and action may reflect the fact that G7 leaders recognized their poor record of keeping their promises in the fields of exchange rates, interest rates, fiscal policy, inflation and growth (Kokotsis and Daniels 1999, p. 78). Yet when growth was again threatened by the financial crisis of 1997–99, which started in Southeast Asia and spread quickly around the world, the G7/G8 quickly returned to this subject, and undertook important initiatives in the field of finance in 1998 and 1999.

B. Sustaining Global Growth at Kananaskis

For the 2002 Kananaskis Summit, growth is back on the Summit agenda as one of the three central themes, alongside reducing poverty in Africa and combating terrorism. It is a most timely topic, for the G8 currently confronts several core economic challenges. To be sure, G7 members, led by Canada and the United States, are now bursting out of the worst simultaneous slowdown in 25 years. But the G8 and the global economy remain afflicted by a series of acute risks — stagnation in Japan, slow growth in Europe, high consumer and corporate debt in North America, the U.S. current account deficit, rising world oil prices and financial collapse in Argentina. Moreover, if the current growth is to be sustainable, and recapture the permanent productivity increases

promised by the information technology revolution of the 1990s, then current fiscal and monetary stimulus will need to be converted into smart investments and sustained by structural reforms in order to build a genuine new economy for the twenty-first century. Such domestic reforms, will need to be reinforced by deep reforms to the international financial system. Such reforms should anticipate and prevent crises. They should also create the proper incentives for sound market behaviour and mobilize the expertise and resources of the private sector in this process. Furthermore, they should ensure high standards of **transparency** and corporate governance, build ecological and social capital, and give rising economic powers and their values a proper place.

The restoration of permanent prosperity, in the wake of the shock and slowdown of the terrorist attacks of September 11, 2001, is also vital to the ongoing war against terrorism. It is required to show that the confidence of citizens and corporations has not been damaged and to produce the tax revenues required to finance a long campaign. "Smart spending" is needed in order to ward off the inflation that may now be returning and that can result in painful choices between security and civilian spending. It is also necessary to fuel a new generation of technologies that can help combat terrorism more efficiently, and that can ensure security while keeping financial systems and borders open for globalized firms, their customers, workers, families, and communities. Moreover, wise security investments can produce the innovation that will enhance the productivity of the civilian economy for decades to come.

Sustainable growth is equally important to reducing poverty in Africa and driving development throughout the world as a whole. Sustained prosperity will make it easier for G8 governments and international institutions to provide the necessary increases in effective **official development assistance**, debt relief, market access, streamlined **conditionality**, and

appropriate financial support at times of crisis and much as the **Marshall Plan** did in Europe after World War Two, it can also encourage the private sector to undertake the investments required as the leading instrument of the **New Partnership for Africa's Development** (NEPAD).

There is thus much riding on the G8 leaders' growth agenda at Kananaskis, not only for the sake of growth alone but also as a critical contribution to accomplishing their larger agenda as well. But given the leaders' varying treatment of the growth agenda over the 27 years of the Summit, and their relatively low level of compliance in the early years, it is far from certain that their ambitious objectives will be met. With only 30 hours together at Kananaskis, much of it taken up discussing development with the African leaders attending, the G8 leaders will have to use their time very efficiently to produce policies to sustain global growth. It will be worth watching to see if they will live up to the very high standards set at the 1978 Bonn Summit, or will have to settle for a lesser result.

References

- Bayne, Nicholas (2000), *Hanging in There: The G7 and G8 Summit in Maturity and Renewal* (Ashgate: Aldershot).
- Bergsten, Fred and Randall Henning (1996), *Global Economic Leadership and the Group of Seven* (Institute for International Economics: Washington DC).
- Davanne, Olivier and Pierre Jacquet (2000), "Practising Exchange Rate Flexibility," pp. 153–186 in Karl Kaiser, John Kirton and Joseph Daniels, (eds.), *Shaping a New International Financial System: Challenges of Governance in a Globalizing World* (Ashgate: Aldershot).
- Kirton, John (1999), "Economic Co-operation: Summitry, Institutions and Structural Change." Paper prepared for a conference on "Structural Change and Co-operation in the Global Economy," the Centre for International Business Education and the Center for Global

Change and Governance, Rutgers University, May 19–20, 1997 <www.g7.utoronto.ca/g7/scholar/kirton199702/index.html> (May 2002). See also John Dunning and Gavin Boyd, eds. (1999), *Structural Change and Co-operation in the Global Economy* (Edward Elgar: London).

Kirton, John and Junichi Takase (forthcoming), *New Directions in Global Political Governance: The G8 and International Order in the Twenty-First Century* (Ashgate: Aldershot).

Kirton, John and George von Furstenberg (2001), *New Directions in Global Economic Governance: Managing Globalisation in the Twenty-First Century* (Ashgate: Aldershot).

Kokotsis, Ella and Joseph Daniels (1999), "G8 Summits and Compliance," pp. 75–91 in Michael Hodges, John Kirton and Joseph Daniels, eds., *The G8's Role in the New Millennium* (Ashgate: Aldershot).

Putnam, Robert and Nicholas Bayne (1987), *Hanging Together: Co-operation and Conflict in the Seven-Power Summit*, 2nd ed. (Sage Publications: London).

Further Readings

Dornbusch, Rüdiger (1988), "World Economic Problems for the Summit: Co-ordination, Debt and the Exchange Rate System." Bissell Paper No. 6. University of Toronto, Centre for International Studies <www.g7.utoronto.ca/g7/scholar/dornbusch1988/index.html> (May 2002).

Freytag, Andreas and Stefan Mai (2001), "Does E-Commerce Demand International Policy Co-ordination? The Okinawa Charter on Global Information Society Scrutinised." Paper presented in a research workshop at the University of Marburg, Germany, January 23, 2001, and at the Public Choice Society's Annual Meeting in San Antonio, March 9–11, 2001 <www.g7.utoronto.ca/g7/scholar/freytag/dotforce3Freytag010925.pdf> (May 2002)

Rugman, Alan and Alain Verbeke (2002), "The World Trade Organization, Multinational Enterprises, and the Civil Society." Paper prepared for "Sustaining Global Growth: Prosperity, Security and Development Challenges for the Kananaskis G8," Calgary, June 22 <www.g7.utoronto.ca/g7/conferences/2002/calgary/rugman-verbeke.pdf> (May 2002).

Staines, Nicholas (1997), "The G7: Economic Outlook and Policy." Paper prepared for the conference titled "Explaining Summit Success: Prospects for the Denver Summit," University of Colorado at Denver, June 19, 1997 <www.library.utoronto.ca/g7/annual/staineg8.htm> (May 2002).

Webb, Michael (1999), "The Group of Seven and Political Management of the Global Economy." Paper prepared for the 40th Annual International Studies Association Convention, Washington, DC, February 17–21, 1999 <www.g7.utoronto.ca/g7/scholar/webb1999/index.html> (May 2002).

Whitehead, John (1988), "Towards a Stronger International Economy." Bissell Paper No. 7. University of Toronto, Centre for International Studies <www.g7.utoronto.ca/g7/scholar/whitehead1988/index.html> (May 2002).

Discussion Questions

1. Why does France succeed in making growth one of the primary subjects and achievements at the G7/G8 Summit?
2. How and when, if at all, can G7/G8 governments intervene effectively with their own foreign exchange reserves in currency markets to ensure financial stability, lessen volatility, and thus sustain global growth?
3. Why did G7 countries have such a poor record of compliance on macroeconomic related commitments in the 1970s and 1980s and what can be done to improve the compliance rate?
4. What are the prospects that the 2002 Kananaskis Summit will be successful in regard to its agenda for sustaining global growth?
5. What structural reforms are most needed if the current G7 growth is to be sustained and yield permanent productivity increases?
6. Can Canada be a G7 locomotive of growth in its own right or does it depend too much on the U.S. economy to be even a sparkplug on its own?
7. Does the G8 and global economy face a new oil shock?

Quiz

1. Generating sustainable growth is a subject dealt with
 - a. at every Summit since 1975
 - b. during the first seven-year cycle from 1975 to 1981
 - c. only at Paris 1989
 - d. during the most recent cycle starting at Lyon 1996
2. Many regard the most successful Summit ever, because of its package deal for macroeconomic policy co-ordination, as
 - a. Rambouillet 1975
 - b. Bonn 1978
 - c. Tokyo 1986
 - d. Toronto 1988
3. Within the G8, the current economic recovery is being led by
 - a. Canada and the U.S.
 - b. Europe
 - c. Japan
 - d. Britain
4. Growth in Europe after World War Two was revived by
 - a. NEPAD
 - b. the Monroe doctrine
 - c. the Marshall Plan
 - d. Gosplan
5. The value of foreign exchange traded on world markets every day is estimated at:
 - a. US\$700 billion
 - b. US\$812 billion
 - c. US\$1 trillion
 - d. More than US\$1.4 trillion
6. G7/G8 commitments on the world economy have been most prominent at Summits hosted by:
 - a. France
 - b. the United States
 - c. Germany
 - d. Canada