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The Role of G8 Economic Summits in Global Monetary Architecture

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Introduction

The 1970s saw turbulent and dramatic economic transitions. The breakdown of the Bretton Woods System introduced new monetary conditions that ended a period of consensus among most capitalist states regarding ideal regimes to form their monetary relations. Until 1971, the interests of financial capital were embedded in domestic and global monetary regimes in what Ruggie termed the "compromise of embedded liberalism" (1982). After the first oil crisis (1974), industrial states faced severe obstacles to accommodate macroeconomic shocks, as well as to address persistent structural problems, substantial current account disequilibria and stagflation. Realizing the complex, and highly volatile nature of the post Bretton-Woods Monetary environment, six of the most industrialized nations, decided to introduce a new informal and confidential instrument for International Economic Policy Coordination (IEPC), the Annual Economic Summits of the Group of Six Countries.

The purpose of this article is to survey the norms and principles that the G7/G8 System has developed, since its inception in Rambouillet (1975) in the area of *monetary relations*. Indeed, G7/G8 states have gone through a succession of phases over the past thirty years, characterized largely by the dominance of Keynesian or neoliberal thinking and subsequent strategies. To this end, three questions are thoroughly examined. These are:

a) What accounts for the change in policy content in G7/G8 Summit cycles?
b) What conceptions of causality prevail in IEPC of G7/G8 mechanisms?
c) What is the performance of G7/G8 states in monetary issues?

This research aims to demonstrate the continuing interplay between economic ideas (constructivism), economic and political interests (liberalism), and

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power considerations (realism), in G7/G8 policy-making. The main argument advanced here maintains that policy shifts between cycles cannot be reduced to material considerations but should incorporate intersubjective changes, systemic institutional variables and societal interests. To that end, this work is subdivided into three sections. The first specifies the rationale of G7/G8 monetary cooperation in each of the 'Summit Cycles.' The second part evaluates the effectiveness of G7/G8 monetary cooperation since 1975. Finally, the conclusion of this work discusses some acute challenges G8 Summits will likely face in monetary issue-areas in the future.

The Evolution of G7/G8 Monetary Cooperation: Priorities and Progress from Rambouillet to Heilingendamm

Understanding the basic premises of the G7/G8 IEPC framework, analysis must be centred on summit commitments on monetary cooperation, through more static classifications (ie quantitative commitments and narrative commitments), as well as through an examination of their evolution between 1975 and 2007. Instead of restricting G7/G8 assessments to one, or a few, commitments, this research incorporates – in a unified framework – an inventory of statements, many of which are not easily amenable to quantitative evaluation due to the complexities of the international financial system.

G7/G8 summits have exhibited significant variance in the degree of consensus built around monetary cooperation since the first summit in Rambouillet (1975). However, for analytical purposes, a sub-division of IEPC into five cycles will assist in providing insights into how the G7/G8 summits operate. These cycles are:

a) Cycle 1: Rambouillet (1975) to Bonn – 1 (1978)
b) Cycle 2: Tokyo (1979) to London (1984)
c) Cycle 3: Bonn – 2 (1985) to Paris (1989)
d) Cycle 4: Houston (1990) to Naples (1994)
e) Cycle 5: Halifax (1995) to Heilingendamm (2007)

The First Cycle

The first cycle ran for four years, (1975-1978), and was characterized by Keynesian macroeconomic thought, culminating in the well-known Bohn summit, and the implementation of the "locomotive theory for economic growth". Despite the reliance on ideological overlap among the Heads of G7 states, it took three Summits to reach an agreement on how to address the negative spillovers of the first oil crisis, and the asymmetric economic shock, caused by the collapse of the Fixed Exchange Rates System.

The Rambouillet and Puerto Rico Summits (1975 and 1976) saw states facing fierce domestic pressure over the need of counter stagflation. The subsequent London Summit (1977), made a crucial contribution to developing a two-pronged coordinated strategy for dealing with stagflation. First, it prepared the ground for the Bohn Summit agreement, mentioning that "... on our discussions we have reached Substantial agreement. Our firm purpose is now to put that agreement into action. We shall review progress on all the measures we have discussed... in order to maintain the momentum of recovery" (Declaration of London, 1977: par. 9). Second, it identified two prevalent policy approaches favoured by G7 members. According to the Appendix of the London Declaration, some countries have adopted reasonably expansionist growth targets for 1977, and other states pursued stabilization policies designed to construct a basis for sustained growth without increasing inflation.

However, the G7 did not view the two policy approaches as contradictory, but rather as reinforcing since the former could assist in constructing an environment conducive to expansion among the latter without inflationary pressures. Thus, negative economic experiences, strong domestic political pressures and the inability to absorb the negative repercussions of global economic instability focused domestic economic strategies towards deeper and more meaningful cooperation as viewed in the subsequent (Bohn-I, 1978) Summit. Indeed, leaders of the G7 agreed to implement a collective 'stimulation strategy', assigning specific responsibilities and aims to member.

The major problems of IEPC during the first cycle of Summits were strategic uncertainty, and durability of collective targets' implementation. Moreover, the second oil crisis (1979) questioned Keynesian views of the Bohn Agreement and the emerging framework for collective economic management. As the crisis deepened, it became clear that the prevailing demand-side policies could not properly deal with growth and inflation. Thus, a shift seemed unavoidable, for pragmatic reasons, at the beginning of the Second Cycle of Summits.

The Second Cycle

Between 1979 and 1984, macroeconomic policy was directed at internal rather than external economic policies, to address economic problems. The stimulus for New Economic liberalism was drawn not only from monetarism but also from public choice approach and supply-side economics. There was a quest for stable structures of domestic economic results and a preference for liberalization of capital controls. Unavoidably, the exchange rate was considered a 'second-order' problem, and the real premises for stable economies were sound macroeconomic strategies and institutional reforms, rather than guided exchange rate regimes. Exchange rates were considered a symptom rather than a cause of economic instability.

G7 states underlined, in their Communiqués, their collective will to carry out fiscal and monetary constraints (Venice Summit, 1980), as well as their push for anti-inflationary growth (Ottawa Summit, 1981), and the minimal volatility of interest rates (Ottawa Summit, 1981). So, by 1981, it was evident, that USA and UK favored convergence policy, (foreign governments should adjust their macroeconomic policies to better emulate those of the US and the UK) rather than IEPC. But what caused this shift?

Although episodes of backdoor monetarism occurred in 1970s, (ie the 1976 Barre Plan in France), it was at the end of the 1970s that neoliberal principles gained ground. Monetarists maintained that each economy had a non-accelerating inflation rate of unemployment (NAIRU), which was structurally determined, and any initiative to induce more employment by stimulating the economy, could not influence this rate because the outcome would be stagflation. They also claimed that structural conditions in labor and markets determine growth rates rather than active monetary and fiscal strategies. Monetary discipline and automatic stabilizers were prerequisites for crisis prevention and long-term anti-inflationary growth. So, during the second period of Summits, the threat of inflation was considered to be the primary, if not the sole target of domestic macroeconomic policy, and it was suggested that Central Bank Independence was the most relevant mechanism through which this policy could be implemented.

Politics also delayed agreements during the second cycle, especially when national elections were set to occur around the time of Annual Summits of Leaders (ie Reagan's First Administration resisted pressure to alter fiscal policy, in fear of the electoral consequences). Additionally, institutional obstacles in fiscal and monetary policymaking created varied levels of discretion in G7 states. As a result contradictory national preferences remained in place until 1985, effectively blocking consensus on specific IEPC targets. G7 states hesitated on choosing between two monetary strategies with some attempting to depoliticize the management of monetary policy and ensure that it corresponds to a set of fixed norms and rules. Alternatively, the others considered monetary and fiscal policies as efficient instruments that have to be used for reducing the adjustment forced on states by external economic / financial shocks.

It would be erroneous to argue, on this basis, that a real shift occurred in G7 monetary logic as there was no substantive alteration of the normative content of IEPC. Despite the strong preference for neoliberal parameters, two major economic states – France and the US – disagreed over the proper macroeconomic policy framework, or to use Cooper's terminology, "over the rules of the game" (1984). On crucial issues, such as the relative importance attached to economic growth versus price stability, the respective roles of *surplus* and *deficit* states in pursuing adjustment, and the need for foreign exchange intervention, participants could not reach a clear and long-term agreement. Further, significant divergence existed, within the G7, over what it implied and which strategies and institutional arrangements neoliberalism advised.

Equally important, neoliberalism did not account for the influence of interest groups within G7 states. However, public policy formation had distributional effects in the international and domestic environment, reinforcing certain interests at the expense of others. It is not accidental that 1984–1985 marks the peak of societal lobbying on exchange-rate policy in the US and contributed to a reverse strategy in 1985 (Destler and Henning, 1989: 41). Apparently, G7 passivity in IEPC seriously burdened the world economy in four ways: a) it could not deal with the threat of growing protectionism to the liberal trading system; b) it did not face the enormous imbalances of the US economy; c) it ignored the deleterious efforts of an overvalued US Dollar, and, d) it did not seriously consider the deteriorating position of indebted, developing countries.

Indeed, the serious risks to the global economy, which derived from a neoliberal, benign neglect strategy in the early 1980's, led to a shift in G7 strategy thinking. Between September 1985 and July 1989, macroeconomic policy began to exhibit some of the old features of Keynesian demand management, without abolishing neoliberal principles of the Second Cycle of Summits. Unlike the measures agreed at the Bohn Summit of 1978, new concerted fiscal strategies would have to ensure that monetary policies were not fuelling inflationary pressures. Behind this consensus lay a trend towards convergence in the policy stance of participating countries, mainly in the priority given to fighting inflation, to improving the functioning of market forces and to controlling interest rates. But what were the main reasons for this shift?

In 1985 exchange-rate lobbying nearly exploded, and important US business unions demanded a more competitive US Dollar. The rise on the value of the Dollar, resulting from easy fiscal strategy and tight monetary policy in the US during the first four years of the 1980s finally brought pressures on US trade and fiscal strategy. Accordingly, the combination of pressures from US Congress and US economic interests, and the unwillingness of Reagan to bear the cost of exchange rate realignment, shifted US exchange rate strategy from unilateralism to policy coordination.

The Third Cycle

The third cycle is characterized by two major foreign exchange interventions – the Plaza Accord (1985) and the Louvre Accord (1987) – and marked a temporary shift in G7 monetary policy from neglect to activism. G7 states were willing to use declarations and foreign exchange operations to bring about desired exchange-rate levels. It seems that G7 management of currency markets prioritized two key goals: a) to avoid disorderly markets and excessive currency volatility b) to avoid prolonged misalignments between market exchange-rates and countries' competitive positions.

In particular the Plaza and Louvre Accords generated agreements that compounded international monetary problems through burden shifting. Although, G7 states recognized that policy convergence was vital, they also suggested that it was not a sufficient condition for exchange stability. Indeed the US was ready to shift the burden of Dollar depreciation to other countries, in the form of a proposal oriented around multilateral intervention in markets, and to apply revenue-neutral tax reforms, which strengthened domestic savings (Funabashi :1988). So, the Plaza Accord showed that "convergence of national policies" was a necessary but not sufficient condition for exchange rate stability, and promoted an organized intervention strategy, based on coordinated domestic policy adjustments of the participants' states and on an enhanced surveillance role of the International Monetary Fund (IMF).

At Louvre (1987) domestic problems also pushed towards *ad hoc* intervention rather than long-term IEPC. The scheme limited the long-term perspective and effectiveness of policy coordination, and supported stimulation of domestic demand in Japan and West Germany and the reduction of fiscal deficit in the US. Since no fundamental changes in national macroeconomic policies had been undertaken, and *all* actions centred on *ad hoc* intervention "to foster stability of exchange-rates around current levels": destabilization resulted.

The shortcomings of the two episodes of Foreign Exchange Intervention, led the G7, at the Venice Summit (1987), to distance itself from reliance on shifts in exchange-rates as an instrument for adjustment; focusing instead on the application of a mutually consistent set of medium-term goals, and on mutual assessment of economic performance, based on specific economic indicators. Structural reforms were considered part and parcel of successful coordination since they complement macroeconomic policies and provided a basis for more robust growth (see Venice Communiqué, 1987, and Toronto Communiqué, 1988).

Summits, it is difficult to trace a single, dominant economic paradigm, though it seems that governments turned to monetary and fiscal policy coordination as a last resort when domestic economic problems could not be resolved with other policy instruments.

The Fourth Cycle

During the fourth Cycle of Summits, (1990–1994), the rise of Central Bank Independence removed the setting of interest-rates from politicians and placed it in the hands of technocratic élite, forming a zone of institutional separation between societal interests and policy-making. Monetary orthodoxy advanced – relying for its force on the hypothesis of economic convergence – a contention that all states tend (or ought to tend), toward common policies of organizing their monetary actions. The "institutionalization" of liberal principles exerted important influence, not only to the operating rules / norms for national decision-making systems, but also to economic actors' attitudes, disembedding monetary issues from political cycles. Consequently, neoliberalism required countries not only to behave in accordance with certain rules, norms and principles, but sought to create a unique analytical framework for economic problems and financial crises. Thus, although neoliberalism was not yet fully embodied in institutional frameworks, it significantly constrained national public policies.

More specifically, national decision-making procedures favored Central Bank Governors power, linking national monetary targets directly to economic growth. Although macroeconomic coordination was not a *forbidden* word as it had been in the 1980s, it was no longer practiced with enthusiasm. The basic belief was that exchange-rates should reflect underlying domestic economic fundamentals, and were best determined by economic conditions. Markets were expected to reward domestic policy and punish expansionary / inflationary strategies, while reacting to information rationally. The consensus for inaction, (Bergsten and Henning, 1996), was further strengthened by the perceived inability of effective foreign exchange intervention in a highly complex financial market. The dominant view, (Goodman and Pauly, 1993), was that global markets have overwhelmed the abilities of states to stabilize monetary trends, and that the integrated global financial environment augmented the incentives for mutual policy adjustment, because the failure to adjust was likely to be punished by economic agents. The result was the decline of coordinated intervention in 1990 and 1991, and the unwillingness of G7 states to be involved in large foreign exchange market operations.

Thus, discursively united, G7 states argued for a bigger role of the IMF, the application of self-regulatory standards and consequently, little practical attention was given to the implications of the uneven levels of vulnerability and levels of integration, or to the inequality that was intrinsic to financial liberalization.

Two major priorities rose during the fourth cycle: a) the enhanced stabilization of key exchange-rates consistent with underlying fundamentals; and, b) the improvement of the framework for multilateral surveillance and the refinement of the G7 understanding of the interaction of macroeconomic policies. So, coordinated monetary policy was removed from the G7 agenda for institutional, technical and ideological reasons. The preference instead was for an exchange of information and data and mutual surveillance, conducted on a regular basis, using domestic indicators such as fiscal deficits, inflation and growth. The role of the IMF was further enhanced to support this goal and encourage states to consider the medium-term consequences of policy stances. Equally important for the G7's Summit Agenda was the focus on domestic structural reforms which constituted a condition *sine qua non* for long term growth potential and monetary stability.

The Fifth Cycle

The Fifth Cycle (1995–2007), revealed a wide consensus on the major imperatives of non-inflationary growth, the benefits of structural reforms and deregulation, and investment / trade liberalization. Despite severe financial crises and noticeable dissent from a small group of politicians at the 1996 Lyon Summit over the effects of economic globalization, neoliberal consensus became deeper than those of the early 1980s and 1990s, grounded on economic pragmatism and a strong belief in the impossibility of efficient management of world financial markets. The enduring ideational consensus further raised the costs of nonconformity with prudent monetary / fiscal policy, and increased the consequences to reputations for those politicians that questioned monetary orthodoxy. Evidently, convergence toward a single monetary anti-inflationary policy was completed – reducing dilemmas associated to the trade-off between greater financial stability and lost currency flexibility.

During the last cycle, the G7 became increasingly selective in the use of foreign exchange intervention (exceptions were the episodes of limited intervention in the Dollar market, 1995, and in favor of the EURO, 2000), because the idea that the efficiency of exchange market intervention as a tool diminished due to systemic and domestic economic factors. From mid-1995 untill 2003, the US Federal Reserve intervened only twice in coordination with other countries' central banks, and the European Central Bank has also acted twice in foreign exchange markets. Only Japan continued to conduct regular foreign exchange interventions, which increased in frequency in 2003. The favoured policy instrument was no longer based on intervention, but rather on *declaratory* policies in statement formats, calling for market corrections as deemed necessary.

European integration has also been a crucial driving force for the ongoing convergence process. Based on a stability-oriented and non-activist policy, it led to a near complete change of the institutions, norms and rules governing European Monetary relations. It favors prudent fiscal policies, market liberalization, and minimization of discretionary monetary policy decisions, underling the necessity for common monetary policy. In moving beyond the convergence theory, emphasis has been paid to policy choices that would not widen the fluctuations in current accounts and exchange rates, and that would provide predictability to monetary actions.

It should not be overlooked that from 1995 onwards, the G8 recognised the social costs of the neoliberal paradigm as well as the need for reforms in the International Financial Architecture (ie at Halifax Summit in June 1995). Yet, as long as the basic assumptions about the IEPC remain unchanged, such acknowledgements are likely to be limited in influence. Every G8 proposal related to strengthening supervision, or for exceptions to capital liberalization, are considered temporary diversions from universal financial liberalization, and is taking place as long as it does not question the incontestability of market-based solutions.

The basic assumptions of the 'new social purpose' of the neoliberalism in the Fifth Cycle of Summits are as follows:

First, the *rational expectations* hypothesis which argues that all market participants will eventually converge on a correct model of the economy. Implicitly, G8 mechanism recognizes the intersubjective nature of finance, and pushes countries and other economic agents, to develop new ethical codes, new attitudes that are compatible with market liberalization. The social purpose that justifies these actions, denies its own normative aspirations, claiming universality. Further, the *new purpose* implies an analytical separation of economics from politics, conceptualizing financial liberalization as a process that derives from market integration and is always directed towards the maximization of economic efficiency. The G8 nexus, urges states to adopt isomorphic institutional frameworks, follow standardized monetary rules and implement recommended reforms from IMF The functional integration of the "Washington consensus principles" is a *conditio sine qua non* for successful economic policy.

Second, the *efficient market hypothesis* which states that markets collect and distribute information efficiently, ensuring that market prices reflect fundamentals or, as (then) US Secretary Summers noted: (1989:166) "the ultimate social functions, [of financial markets are], spreading risks, guiding the investment of scarce capital, and processing and disseminating the information possessed by diverse traders... prices will always reflect fundamental values… The logic of efficient markets is compelling".

Third, the call for a new fundamental architecture is a minimalist enterprise, based on the provision of more and better information for all. The intention is to impose a specific set of norms and principles; a uniform set of financial institutional rules, rather than building on domestic institutions, taking into account the variation of financial needs and experiences of participating countries. Within this framework, the IMF should strengthen its surveillance mechanisms and pay close attention to the appropriateness of countries' exchange rate regimes. The achievement of such an ambitious reform of International Financial Institutions (IFIs), is based on global partnerships.

Fourth, to reduce risk and uncertainty, G8 mechanisms should eliminate the problem of moral hazard. Once a *lender of last resort* is recognised, debtors and creditors have an incentive to follow a risky behavior, than they otherwise might, since no country expects to bear the full economic and monetary costs alone.

Fifth, there is agreement on the need to reduce fiscal deficits and the desirability of giving Central Banks the target of price stability. Accordingly, the basic causes of turbulence in the International Monetary System are not systemic but reside within the domestic structure of states.

Sixth, there is agreement on the need to speed up structural reforms and to increase flexibility of labour, financial and product markets. Structural policies, thus seem to gain an important – although not equal – status to monetary policy.

Seventh, G7/G8 mechanisms oppose any restrictions on international capital flows. According to the Summits' Communiqués, there are no effective regulatory structures or tax mechanisms that can produce exchange-rate stability without significant costs in terms of other economic objectives.

Eighth, intensive IEPC has short-term positive effects, because even if there had been effective economic coordination, it contradicts the new social purpose of monetary policy, both domestically and internationally. Moreover, governments are constrained in their ability to pursue IEPC from advanced financial integration and fundamental changes in the magnitude and composition of financial flows.

Ninth, flexibility in exchange rates of the major currencies is the basic feature of the monetary system, because unanticipated events occur and economic fundamentals change. Interventions could be effective in certain circumstances, especially when they reinforce changes in policies that lead to changes in market expectations about future exchange-rates. But even in exceptional cases intervention must be used judiciously given its implications for monetary policy and the amount that authorities can mobilize relative to the size of international capital markets. Moreover, such interventions should be based on clear and consistent G7/G8 assessments of economic fundamentals.

Accordingly, in the fifth period of Summits, G7/G8 logic is based on credible fiscal programs, successful anti-inflationary policies, low interest rates, strengthened structural reforms, sound monetary strategies, and minimal interventions in foreign exchange markets.

The G7/G8's Performance in Monetary Cooperation

Summits' performance in monetary cooperation is certainly not an easy task because it entails the examination of the range and the depth of G7/G8 actions (Kokotsis:1999), in several issues-areas[2]. As Kirton noted: (1989: 10), "(t)here are a host of problems of evaluative criteria, inference and evidence. Should Summits be judged by their success in building a perfect world? Even

[2] On the question of G7/G8 performance two major approaches have been proposed on the past. N. Bayne (2002: 27) argues that the Summits' achievements should be judged against five criteria (leadership, effectiveness, durability, acceptability, and consistency), and J. Kirton (2002: 50) argued that G7/G8 performance should be explained by the degree of internal consensus and external coherence, achieved in Annual Summits.

when Summits cope badly with clear and present dangers can they confidently be charged with not preventing or even causing them?"

More specifically, evaluation is difficult for three reasons: firstly, documents are often written in vague language and in terms of general targets, rather than clear policies. For example, occasionally the G7/G8 commits itself to anti-inflationary growth, but it not clear exactly how to satisfy such a commitment using monetary tools.

Secondly, an effective intervention to a proper economic strategy is not simple due to the complexities of intervening domestic and international variable, and of so-called *time-lag*. Indeed, there seems to be some inertia in the choice of a specific form of IEPC which occurs at time 't', but is conditioned by monetary and fiscal conditions that existed at time 't-1'. Moreover, there is a lag between policy actions and policy outcomes, especially, those involving agents' expectations regarding policy credibility, monetary growth and inflation. For example even when G7 realized the importance of reforming international institutions in the fifth cycle of Summits, proposals were not implemented promptly, leaving the international financial system vulnerable to contagion effects of regional financial crises.

Thirdly, decisions over monetary policy are applied differently in the various G7/G8 states, making it difficult to construct a single structural framework to capture strategic shifts in (and across) participating states. Finally, even when there is agreement that monetary targets have been met, consensus may be lacking as to whether that should be ascribed wholly to the initiatives of the G7 mechanism.

Many studies exist that focus on Summit compliance patterns by country, issue-area and time-period; each tending towards different conclusions[3]. For instance, Kokotsis (2004), argued that Summits produced tangible and credible commitments that are timely and appropriate. Von Furstenberg and Daniels (1992) measured overall Summit compliance scores from 1975 to 1989 and found low scores with interests and exchange rate management. Quan Li (2001), found that compliance with inflation control targets were positively correlated with the interstate level variable of reciprocating behavior and negatively with domestic level factors of divided coalitions / governments. Finally, building

[3] Many authors examined specific issue-areas of G7 policy coordination, focusing especially on the effectiveness of Sterilized interventions. K. Dominguez and J. Frenkel , (1993), as well as K. Dominguez (2003), concluded that such interventions in the Group-Three countries were successful in the 1980's and in the 1990's and influenced significantly Dollar exchange rates. On the other hand Obstfield and Rogoff (2002), suggested that increasing integration in International markets, does not necessarily make coordination more appealing. Béine and Lécourt, (2002), using data for interventions in 1980's and 1990's show that market interventions by central banks are frequently counterproductive, in that they merely raise market uncertainty and volatility.

on previous analytical studies and on Kirton's methodology, the University of Toronto G8 Research Group assessed the compliance record of G8 states from 1996 to 2003 and found low levels of compliance for IFI reform and exchange rates.

In assessing the record of G7/G8 Summits on monetary cooperation, it is useful to distinguish between their procedural and substantive achievements.

Concerning procedural achievements, the G7/G8 mechanism increased awareness of monetary interactions and focused on the need for mutually compatible economic policies. Furthermore, through repeated bargaining at the level of Ministers and Sherpas, G7/G8 states tried to strengthen reputational considerations in IEPC.

Substantively, G7/G8 efforts did not reach initial expectations. Although the Summits promoted the "dogma of good house keeping Club", (sound macroeconomic policies, prudent debt management, reduction of large budget deficits, strengthening of market forces, financial liberalization, structural reforms, supervision of banking system), the G7/G8 performance has fluctuated sharply since 1975.

The absence of a shared, long-term, economic philosophy throughout much of the G7/G8's existence left little room for crucial initiatives. Thus, markets got the impression that the policy mix resulted from political and diplomatic interaction, rather than from a clear conception of IEPC. Such uncertainty, had an important impact on economic agents' expectations. Competing domestic targets – between unemployment and inflation and between internal and external balances – often blocked incentives for, and actualization of, collective action. As Bergsten and Henning (1996: 51), note:

> "it was the United States that chose Reaganomics in the early 1980's via easy money and that failed to effectively supervise its financial system, thus bringing on the bubble economy, renewed undervaluation of the Yen and the huge nonperforming loan problem. It was the United Kingdom that entered the E.M.S. with an overvalued currency and other European countries that effectively vetoed appreciation of the Mark when it was needed to head off high interest rates throughout the continent".

This may lead to the conclusion that domestic political and constitutional structures influence monetary preferences and consequently the evolution of states bargaining strategies. Any assessment of G7/G8 monetary cooperation must explain how national economic conditions are translated into political influence from private economic actors and through domestic institutions. Additionally, the exact interplay of international and domestic economic conditions is analysed in an evolutionary framework, which not only takes into account international sources of influence (structural, relational, epistemic), but also the political, societal institutional and cognitive constraints in each of the participating countries of the G7/G8 system.

G7/G8 foreign exchange policy has also faced significant obstacles; suffering from a lack of consistency and time-durability. Although, there are different views as to the the effectiveness of G7/G8 intervention strategies, the analysis of three, well-known episodes of G7/G8 coordination (Bohn, Plaza and Louvre), suggests a rather short-term impact of G7/G8 collective action in foreign exchange markets. The package of the Bohn Summit placed insufficient emphasis on medium-term anti-inflationary monetary measures that were necessary to face the deleterious effects of the second oil shock. Likewise, the scale of the G7/G8 intervention in the Plaza, and in Louvre, was too insignificant to produce medium-term effects. More specifically, in the Plaza (1985), despite the US Dollar's decline in value, protectionist measures remained strong (over the next three years), limiting the credibility of later attempts to stabilize exchange-rates. In Louvre (1987), the communiqué of G7/G8 Finance Ministers was pressured by the 1987 stock market crisis; demonstrating difficulties faced by G7/G8 states in synchronizing their actions, while facing market deficiencies. In a similar vein, the declaratory policy in the fifth cycle of the Summits did not effectively foreign exchange fluctuations. Politicians and technocrats realized that there are limits to the extent to which the market could respond to declarations, especially if economic agents perceive that states lack the ability to intervene in a collective manner.

The results of IMF surveillance and G7 collective indicators are challenged by opponents of G7 IEPC. According to their findings, the G7/G8 did not manage to achieve a strong consensus on how policies would be adapted in light of data provided by the indicators. Furthermore, the lack of common understanding about the fundamentals of medium-term policy effectiveness, as well as the technical disagreements concerning the channels of transmission of economic influences among G7/G8 states, significantly limited the usefulness of G7/G8 indicators. As Cooper put it (1984: 1228-1229), "... even if countries have compatible objectives and similar circumstance... they may disagree on the structure of the economy and hence on the relationship of means to ends".

Regarding reform, a more intensive engagement of G7/G8 states with international economic regulation began with the Halifax Summit (1995). The intensity and importance of the effort was apparent in G8 strategy; for example in the plan for Implementation of the Global Financial Architecture, presented to the G7/G8 Heads in December 1998 by G7 Finance Ministers and Central Bank Governors. However despite the ambitious thirty-five targets of the plan, real policy action was constrained by the above mentioned G7/G8 principle of "limited reform of IFIs".

During the Fifth Cycle, the G7/G8 mechanism emphasized reforms in International Financial System, to face financial and monetary turbulence. Thus, at the Halifax Summit, the G7/G8 promoted an improved early warning system for crises and a more generous disbursement of IMF funds for dealing with the crisis. Also, in the wake of financial crisis in East Asia and the Russian

Federation, G7/G8 created the Financial Stability Forum (1999), and the Group of Twenty (G20). The former meets regularly to assess issues and vulnerabilities affecting international monetary system and identifies the policies needed to face them. The latter tries to enforce the legitimacy of decisions reached by industrialized and emerging market economies in important financial reforms. So, as the G7/G8 states become highly vulnerable from crises outside their economies, their incentive in enhancing participation is reinforced.

Besides, G7/G8 states underlined the importance of strengthening complementarities and avoiding overlap between the major international institutions, involved in monetary issues. Thus, both IMF and IBRD continued moving to reform their lending instruments and their corporate strategies. Additionally, the IMF became the main organization in implementing G7/G8 decisions, undertaking actions on indicators of surveillance, financial transparency and international codes and standards.

But what was the purpose of this intensive reform strategy? It seems that G7/G8 mechanism tried to structure power relations to facilitate smooth integration of developing countries in World Monetary System. Although, between 1998 and 2003, there had been a differentiation in the content of G7/G8 declarations, which indicates recognition of the social costs of disembedded liberalism and a corresponding target to address the needs of particular countries, the ultimate policy navigator remains financial liberalization. Any proposed institutional change in international monetary relations is bounded to neo-classical efficiency and reflects a neoliberal raison d' être of international economic policy coordination, (Porter: 2000).

Finally, the G7/G8 system did not succeed in stimulating growth through structural reforms in Japan and the European Union or in reducing US external imbalances. The idea that the G7/G8 system could alter US fiscal policy proved to be naive. US Administrations were driven toward exchange rate activism only when exchange rate misalignment, (and external imbalances), could not be accommodated by domestic means. Hence, the US used G7/G8 mechanism whenever they lacked the ability to apply costly (in political and economic terms), domestic adjustments, necessary to sustain their macroeconomic policy. Foreign governments were also unable to persuade the US government to coordinate long-term monetary, fiscal, or exchange-rate policies because they could reach no consensus on the proper course of action and because they had no effective bargaining chips.

Concluding Remarks

The aim of this article was to identify and characterize the evolutionary pattern of IEPC among G7/G8 states over the past 30 years.

The analysis suggested that the major hurdles for optimizing monetary cooperation within G7/G8 system are intersubjective, institutional and material.

The nature of systemic interactions, the content of shared understandings and views, the structure of national material bases in G7/G8 states, as well as the influence of exogenous shocks and challenges shaped all together the evolutionary path of monetary cooperation in the G7/G8 system. The effects of the financial / monetary crises on these dimensions, (intersubjective, institutional and material), were crucial, although the way they were absorbed depended highly on the structure of domestic political and economic settings in each of the G7/G8 states. Thus, monocausal explanations are unlikely to provide an adequate analytical basis for IEPC evolution. A better approach is to develop a framework of dynamic interplay between domestic politics, institutions, international bargaining and constructive identities.

Ultimately, four conclusions may be derived from this research. First, there seems to be a problem on the interaction between cyclical and structural policies in G7/G8 cooperation. Successful policy coordination involves more than monetary discipline and thus more effort should be put toward designing a sustainable framework for counter - cyclical fiscal policy. The economic problems of USA, Euro-Area and Japan are simultaneously structural, cyclical and international in nature and thus only a coordinated mix of policies, based on a common cognitive framework, could bring results in medium and long-term. In the Fifth Cycle of Summits, the excessive focus on anti-inflationary policies and the reduction of budget expenditures, independently of the evolution of the above-mentioned triangular causal chain of economic problems, makes monetary policy very hard to follow a strong coordination path. Part of the problem also derives from Central Bank's fear that any expansion of the money supply would jeopardize their credibility and reputation in fighting inflation.

Second, it is evident that internal politics of the participating countries had a major impact on IEPC and thus any successful combination of monetary, fiscal and structural policies should seriously consider internal factions on the cross-country coordination process. As Gill and Law contend (1989: 497), this involves not only the issue of which groups and classes gain or lose from different world orders and regimes of accumulation, (thus distributional effects), but also how constellations of interest form and disintegrate, learn from experience and develop identity and strategy. In this way domestic-institutional arrangements seem more durable even in the face of policy failure than many constructivists assume. Consequently, the economic effects of IEPC are highly contextual, and they change depending on the specific political-institutional setting (internal vs. external), economic conditions (external vs. internal), and economic thinking (constructivist transformations).

Third, information asymmetry and market irrationality are major threats for both internal and external monetary policies of G7/G8 states. The G7/G8's current approach is of little help in addressing financial turbulence because it is based on the idea that the interactions between the various economic policy actors are predictable. Thus, there is a need for appropriate and transparent information - providing institutions to compensate for the limits of the market.

Four, emerging countries are becoming important economic players because of rising multipolarity and because of the greater likelihood of financial contagion as financial liberalization continues to increase. To exclude these countries from the global financial governance would have been to exclude an emergent set of key actors within the system from helping to determine its future. Furthermore, although the inclusion of such economies in surveillance and policy coordination activities may well be necessary, the long-term problem is how to produce a rule-based system that minimizes discretion, and maximizes participation of the growing number of economic agents in international monetary and financial affairs?

What becomes clear from G7/G8 IEPC is its unwillingness to contribute to a fundamental reform of international monetary system, promoting instead a functional inclusivity of developing countries in a newly organized Bretton Woods-type framework. Despite the creation of several committees the agenda of G-8 has been scaled back to addressing monetary instability and financial vulnerability mainly at the domestic level and only through neoliberal economic approaches. But the effectiveness and durability of G7/G8 nexus in the future is embedded not on the inclusionary dynamics of a neo-liberal Global Financial Governance, but in a transparent multilateral framework of cooperation, linking reforms to well-coordinated monetary relations.

Table 1: Monetary Related issues included in G7/G8 Annual Summits Communiqués

	Problems in Balance of National Payments	Inflation	Growth	Fiscal Adjustment	Interest Rates	Foreign Exchange rates	Consultations - Information Exchange on Economic issues	Monetary Growth	International Financial Institutions Reform	Surveillance - Consultation by IMF
Rambouillet (November 1975)		+	+			+			+	
Puerto Rico (1976)	+	+	+	+		+	+			
London - I (May 1977)	+	+	+							
Bohn - I (July 1978)	+	+	+	+		+	+			
Tokyo - I (June 1979)	+	+				+				+
Venice - I (June 1980)	+	+		+		+				+
Ottawa (July 1981)		+		+	+	+		+		+
Versailles (1982)		+	+	+	+	+	+			+
Williamsburg (May 1983)		+	+	+	+	+	+		+	+
London - II (June 1984)		+	+	+	+			+		+
Bohn - II (May 1985)	+	+	+	+	+				+	
Tokyo - II (May 1986)	+			+			+			+
Venice - II (June 1987)	+	+	+	+	+	+	+			+
Toronto (June 1988)	+	+		+			+			+
Paris (July 1989)	+	+	+				+			

	Problems in Balance of National Payments	Inflation	Growth	Fiscal Adjustment	Interest Rates	Foreign Exchange rates	Consultations - Information Exchange on Economic issues	Monetary Growth	International Financial Institutions Reform	Surveillance - Consultation by IMF
Houston (July 1990)	+	+		+			+			+
London - III (July 1991)		+	+		+		+			
Munich (July 1992)		+	+	+	+		+			
Tokyo - III (July 1993)		+	+				+			
Naples (July 1994)		+	+				+		+	
Halifax (June 1995)	+	+	+	+		+	+		+	+
Lyon (June 1996)	+	+	+	+	+		+		+	+
Denver (June 1997)	+	+	+	+			+		+	+
Birmingham (May 1998)		+	+						+	
Koln (June 1999)	+	+	+			+	+		+	
Okinawa (2000)		+	+						+	
Genoa (July 2001)			+						+	
Kananaskis (June 2002)			+						+	
Evian (2003)			+				+		+	+
Sea Island (June 2004)			+						+	
Gleneagles (2005)			+							
St. Petersburg (July 2006)	+		+	+					+	+

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