

5: The U.S. and the G8

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Hello, my name is Bob Fauver. I am here today to talk to you about the economic summit process for the G8 Online. I might briefly describe some of my experience and background if I could at the start, and then I'll turn to both the U.S. perspective and history of the economic summit process, and a brief discussion of what some of the issues we will be focusing this year at the Sea Island Summit chaired by the United States.

I spent about 32 years working for the United States government before I got true religion and joined the private sector about three years ago. I started my own consulting firm, Fauver and Associates, which is an economic political consulting firm focused mainly on Asia, largely on Japan and Taiwan. Prior to that, when I was working for the tax payers, I spent about 20 years at the Treasury Department in International Finance. Starting with the economic summit process back in the first summit at Rambouillet, I did a lot of negotiations on financial services including the U.S-Canadian Free Trade Agreement, in the financial services sector, which was the first time that there was a bilateral negotiation of financial services. That set the stage for including financial services in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the [World Trade Organization](#) (WTO). After about 20 years at treasury, I was fortunate enough to be asked by former Secretary James Baker to move to the State Department with him and undertake a focus on Asian economics. I served as the deputy assistant secretary for East Asia and then the undersecretary of state for economic affairs during the first Bush administration.

At the end of the Bush administration, I searched around for some kind of a job; as a career employee it's very hard to go through

the transition between administrations, especially at a senior level. But for some reason the Clinton administration wanted to have an experienced hand working on the economic summit process. So I joined the White House staff at the National Security Council (NSC) and the National Economic Council (NEC), and served simultaneously as President Bill Clinton's sherpa for the first two economic summits and then on the staffs of the NSC and the NEC. Once the Clinton administration realized that the job was too interesting and too good for a career civil servant, they asked if I wouldn't like to find something new to do. So I moved out to the National Intelligence Council and they replaced me with a political appointee.

It's interesting to note that over the long 30 years or so of economic summits, there has only been one career person who held the job. That was for a brief two year period when I held it. Every other time, the sherpa for the United States has been a political appointee, with greater or lesser degrees of ties to the president. I moved onto the National Intelligence Council, where for about four years I performed fundamental economic research and analysis. The National Intelligence Council is an advisory group that provides analysis but no policy decisions, a major change for me after about 25 years in the policy field. I then returned to the State Department toward the end of my career, when Deputy Secretary Strobe Talbert wanted somebody to be the co-ordinator for the U.S. government on India and Pakistan, following both of their experiments with exploding nuclear weapons. So, after a career of pushing free trade and trade liberalization and financial market liberalization, I was tasked with the problem of defining and creating a set of economic sanctions against both India and Pakistan. Much as that was against my basic train

of experience and thought and beliefs, I felt strongly, as did my government at the time, about the negative effects of breaking the Non-proliferation Treaty and the spread of nuclear weapons. So it was a challenging and interesting experience. I retired from the government in the summer of the year 2000 and started my own firm.

That's enough background on me. Let me turn to what you really want to hear about, which is some of the history of the United States on the economic summit process, and a bit about what they are going to be doing this year.

It is important to remember the history of the summit process and how it started. Back in the late 1960s, the world was still in a fixed exchange rate mode. The dollar was considered to be grossly overvalued. Yet nobody from the major industrialized countries was willing to revalue their own currencies upward. It was virtually impossible, given the fixed exchange rate system, for the U.S. to devalue. The solution should have come from other countries: the British, the Germans, the French, the Japanese, revaluing their currencies. Sometime in 1968, the Treasury Department decided it would be useful to have a group of quiet meetings among finance deputies. This led to the creation of what was called the G5 Library Group, which was the predecessor of the economic summit process. For about four years, this G5 Library Group met in secret. They met about four or five times a year, to try to figure out a way to change the exchange rate system that would allow the dollar to have a more appropriate value. At the same time, they were trying to find a way that would focus on the rules of the International Monetary Fund and their view of fixed exchange rates.

The Library Group played a major role in the August 15, 1971, decision by the United States to abandon the gold system. This led to the process of moving toward more flexible exchange rates and, eventually, floating exchange rates. The decision by the United States to abandon gold and to move toward a differ-

ent value for the dollar led to a long process of negotiations among the major countries on how to revise the articles of agreement of the [International Monetary Fund](#) (IMF). After strong negotiations and a long set of time, detailed work, we came up with a process that changed the Articles of Agreement of the IMF. The finance ministers decided that it would be very useful to have a meeting of the heads of state of the five countries, to give their political support to the endorsement of changing the rules of agreement of the IMF. So, what underlay the first economic summit meeting was coming together to agree to proposed changes in the articles of agreement of the IMF that would allow more flexible exchange rate systems to be put in place and allow essentially a floating of the dollar. Since the United States was at the core of forming and postulating the idea of the G5 Library Group, it is not hard to imagine that we were also very strong original, initial supporters of the beginning of the economic summit process.

It met the first time in Rambouillet in France. It was largely the G5, although the Italians and the Canadians were connected with the first meeting in associated status manner. Then the European Community (EC) came along (it was the EC in those days). Because of their authority on trade matters, they were eventually included in the summit process, so that if there were discussions about trade issues the representation of the European members would be handled by the EC.

It's important not to forget that the historic underpinning of what is now the G8 economic summit process was, as Clinton said, "It's the economy, stupid." The first series of meetings focused entirely on world economic issues, largely bilateral issues and regional issues among the industrial countries. So, the original focus, original purpose — the original mandate if you will — of the group was to focus on international economic systemic issues and the macro monetary and fiscal policies among the participating countries.

There was, in the early process (the first year or two), a strong debate inside the United States government over what the role of other issues might be in the economic summit. You would not be surprised to hear that my State Department took a very strong view that economics should not be the sole focus of discussions at the economic summit: since we had a rare chance for the leaders to be together, their agenda should include political issues, security issues, regional kinds of foreign policy issues in addition to the economic issues. Despite some of the hard work by sherpas in the early days, in trying to craft the agenda and script the process, it was very clear that leaders decided by themselves what they wanted to talk about. One thinks that one is able to control what the process will be like, but once the leaders get inside the room by themselves, they have a strong tendency to be politicians and to talk about either what's on their mind at the moment or things that have been bothering them over time, and they want to share their ideas with the only peer group these leaders really have.

It is also important to remember the world of the 1970s, because it was quite different then what we see today. Many of you would not be aware of the fact that in the early 1970s, when the economic summit process started, international travel was still a relatively rare thing. The Boeing 707 was the plane of choice in 1973. It was the only major plane that flew internationally. So taking an international trip took a lot more time and effort. Leaders didn't meet on a regular basis in a variety of foras as they do today. The economic summit was a unique chance for them to be together and share some time together talking and getting to know each other.

Trans-Atlantic telephone calls were not easily arranged. Often in 1973, people had to book calls in advance. You did not pick up your cellphone and dial Europe. You didn't pick up your cellphone and dial Japan. It was a long, complicated process. Connections were bad.

It wasn't easy to carry on international conversations. So the leaders in 1973 or 1974 did not have the exchanges on a daily or weekly basis that they do today. One of the major roles of the economic summit process was to bring the leaders together and let them take a read of each other — take a measure of each other and build a rapport and an ability to discuss things. Then, if an emergency or a crisis came up, they knew their counterpart on the other side of the table. One of the original true values of the summit process was to pull together the leaders for an informal time together, an informal conversation.

It is interesting to look at the summit process and watch how it's evolved over time. World events, of course, have always shaped discussions. The role of economic issues has waxed and waned over time. Some years, economics is a critical part of the summit process; other years economics plays a very minor role. It is easy to look back and recognize that in the 1970s the oil crises and the global recession played a major role in the economic summit process. During the middle 1980s, in the Reagan era, economic reform, market economics, the changing belief of the role of governments played a major part of the discussions. There were fascinating debates among the rest of the G7 with Margaret Thatcher and Ronald Reagan on what the role of government and the role of regulations ought to be. This was a unique chance at that time for the leaders of the world to debate and to discuss what the role of government was. You would not be surprised to come to the conclusion and to recognize the fact that they did not reach agreement, but they had interesting and unique opportunities to share their views and try to convert each other to their different perspectives on the role of government.

During the late 1980s and '90s, development issues played a more important role. The focus on the debt crisis of the less developed countries (LDCs) raised them first to the surface, then to the top of the agenda. When it

was Canada's turn to host a summit in the 1981 at Montebello, there was a focus on debt forgiveness for the poorest of the poor. This started a process of focusing on debt relief and debt restructuring. The late 1990s saw the Asian financial crisis take centre stage in the economic discussions. The Uruguay Round was a major focus of discussions in the 1980s and '90s, as the leaders every year, for four straight years, promised to bring to the conclusion the Uruguay Round that year. Then the next year they would meet again and they would re-promise to bring the Uruguay Round to a conclusion that year. Then they would meet again. So, the role depends in part on what the issue of the day is on the economic side. But it also depends on whether they are able to successfully negotiate some conclusions.

Political issues have also changed over time. They have risen in essence from the beginning and played a more and more important role. Even membership has been decided and dictated by political events. In the late 1980s, there was talk about the break-up of the Soviet Union; by 1990 there was the beginning evidence of the break-up and the freeing of Eastern Europe, and the role of Russia in the freed, changed Soviet Union became a concern among the G7. They felt it was important to send a political signal to both the Russian people and the Russian authorities. At the London Summit they began to invite the Russians to come as an occasional participant for some topics, first as a third-day member — that is, they added another half day of discussions and invited the Russians for a third day. Over several years, the Russian role became more and more inclusive, so that today they are virtually a full-fledged member of what is now called the G7/8.

Last year we saw a shift again in political emphasis. Obviously post-September 11 there was a focus on the role of terrorism and the spread of terrorism and how the G7/8 countries could work together to fight the rise of global terrorism.

It is interesting to note that the view of the United States on the summit process changes according to who is president. There has been a widely different view of the value and role of the economic summit meetings. In the early days, President Jimmy Carter, who was known for his focus on detail and minutiae, was heavily involved on the drafting process himself. He liked to take pen and pencil in hand and work on the economic communiqué drafts. President Reagan loved people. It's very clear he enjoyed the economic summit process for the informal exchanges with other leaders. He often used his ability to use folktales as part of a way to sell his positions and his approaches to policies. He often told jokes. He and Prime Minister Thatcher had a marvellous set of exchanges going during the economic summit process.

President Clinton was concerned about the economic summit his first one in Tokyo because it was his first chance to meet world leaders. As the new boy on the block, he had not had the opportunity to go around and meet most of the leaders. So the 1993 Tokyo Summit was his first opportunity to be on stage. He quickly fell in love with the process. He is an outgoing person who enjoys working and negotiating with people. I happened to be the sherpa for the Tokyo Summit. The president turned to me at the first coffee break and said, "Bob, this is just like the national governors' convention. This is going to be fun work!" For those of you who don't know the national governors' convention, Clinton was chair of it for a number of years. It is a chance for the Republican and Democratic governors around the country to get together and share ideas and experiences. So, he saw the economic summit as his peer group as a leader and a place where he could work issues. He often brought new issues to the table himself. He often thought up new ideas for the economic summit process. He was truly a hands-on President for the economic summits.

On the other hand, we've had two Bush presidents who were less than enthralled with

the summit process. The first President Bush did not really enjoy meetings that focused on details and minutiae. The constant turning back to the Uruguay Round trade issues continually bothered him. He could not figure out how to solve the problem and get it off the agenda. He didn't enjoy the informal conversation. The current President Bush also does not seem to enjoy detailed negotiations. He prefers one-on-one meetings in an informal setting to large group meetings where people are working off an essentially scripted text. So, the focus of the United States by the president on the summit process is quickly translated to the sherpa, who then implements, or tries to implement, the existing president's views, and that tilts and changes the perspective that the U.S. administration places on the economic summit process.

This year, we will see a new focus on the summit. As host, President Bush must, by definition, become involved with the summit process, more so than he was last year. What we've seen to date is that this will be a small part of his presidential election campaign. One must remember that whenever there's a presidential election campaign going on, every event the president undertakes has some ramifications for the election campaign, and will be seen both by American reporters and voters as part of an ongoing process in his re-election campaign. I think security will play a high role on the economic agenda as proposed by the United States. I think that there will be a focus on Iraq, on Afghanistan and on the Middle East problems of terrorism. It seems to be that the themes for the economic summit this year will be security, prosperity and freedom. Now, one must always have caution, because things change and, until the meetings actually

take place and the final communiqué is released, there is always room for change. These topics and their focus may change over time.

Freedom is going to focus on encouraging democracy in the Middle East and other countries not experiencing democracy. Prosperity is going to focus on re-energizing the global trade talks, while prodding, poking and urging our G7/8 partners to strengthen their economic situations. From what we have seen in the finance ministry run-up to the economic summit, there is liable also to be a focus on exchange rates and the exchange rate system of non-participating countries. On the security side there will be a discussion focused on how to control the spread and transfer of nuclear, chemical and biological weapons. In the aftermath of Libya abandoning its programs for nuclear weapons, chemical weapons and biological weapons, we have new evidence of the spread of technology coming out of the Asian continent. The triumvirate of Pakistan, China and North Korea has played a major role in the unfortunate spread of nuclear technology and biological and chemical warfare technology to any country willing to pay. So, I suspect there will be a stronger than anticipated focus on the spread of weapons of mass destruction at this year's summit. But that is the U.S. agenda, and one always needs to keep in the back of one's mind that each of the other participants comes with their own agenda ideas and with their own priorities. It should be a very interesting debate this year. The leaders will be sealed off on Sea Island. They will be essentially away from the press and the pomp and circumstance of other summits. I expect it will be a very informal, relaxed atmosphere, and one could at least hope that they will have good economic discussions. •

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