

# WebMemo



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## Fold the G-8 into the G-20

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The July 8–10 Group of Eight (G-8) summit in L'Aquila, Italy, was a waste of the world's time. It ended up as nothing more than an instant replay of the G-20 talkfest/photo-op held just three months ago in London.

World economic conditions did not change significantly in that short period to justify the time and expense of the L'Aquila summit, which has been estimated to have cost the Italian government at least \$300 million<sup>1</sup> (the price tag for last year's G-8 Summit in Japan exceeded half a billion dollars<sup>2</sup>).

The G-8 process has outlived its usefulness. President Obama should insist that the meeting in Italy be the last G-8 event. He should also call upon G-20 leaders at the next meeting in Pittsburgh in September to reassert fiscal and monetary discipline in their countries, avoid excessive government interference, and preserve and protect the free enterprise system by allowing private markets to self-correct.

**How Did We Get Here?** Both the G-8 and the G-20 groupings trace their lineage back to emergency meetings of finance ministers beginning in the 1970s to deal with the oil shocks and resulting global financial imbalances.<sup>3</sup> In the years since, the agendas of both groups have tended to be repetitive and the results of the meetings meager.

Fancy speechifying and approval of largely meaningless agreements by world leaders at the G-8 is intended to create the impression of success in coordinating a global economic recovery. But voters around the world know hot air when they hear it. And they know that only the private sector, not governments, can create sustained economic growth.

Worse still, taxpayers are cringing at the expensive and statist-oriented government programs the G-8 leaders have recommended: cuts in emissions of 80 percent by 2050 for developed countries (China and India refused to go along), holding world temperature increases “to no more than 2°C,”<sup>4</sup> and a pledge of “\$20 billion over three years for a new “food security initiative”<sup>5</sup> that is almost guaranteed to be wasteful and inefficient.

**The G-8 Process: A Cold War Relic Being Replaced by the G-20.** Originally a “Group of Six” (France, Germany, Italy, Japan, the United Kingdom, and the United States, with Canada added in 1977, the G-7 process attempted to deal with the OPEC oil shock-induced economic crises of the 1970s as well as the need to redesign the post–World War II Bretton Woods international monetary system that had been based on the gold standard.

G-7 leaders (who were also Cold War allies) gradually added other foreign policy coordination issues to their agenda. When the Soviet Union disintegrated, the G-7 countries avoided triumphalism and invited the Russian Federation to join in the hopes that the G-8 process could encourage Russia to stay on the path toward market-based democracy. Unfortunately, those hopes have been dashed in recent years as Russia nationalized major

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corporations, squeezed out Western competitors, allowed unprecedented corruption in the law enforcement and court system, and clamped down on media freedom.

Meanwhile, the “Group of Twenty (G-20) Finance Ministers and Central Bank Governors was [formally] established in 1999 [after the Asian financial crisis] to bring together systemically important industrialized and developing economies to discuss [annually] key issues in the global economy.”<sup>6</sup>

Given that the three of the four “BRIC” countries (Brazil, Russia, India, and China), other leading emerging markets (e.g., Mexico and South Korea), and other market-based democracies such as Spain, Australia and New Zealand are members of the G-20—and all of the those countries will need to work together if the world economy is to recover quickly—the G-20 seemed like the right vehicle to use at the head-of-state level to respond to the financial crisis that began in September 2008.

**More Statist Programs and Government Spending.** While the 2009 G-8 summit communiqué emphasized a few very worthy goals—calling for continued resistance to trade and investment protectionism and stepped-up efforts to fight against corruption as well as refraining “from competitive devaluations of our currencies” and promoting “a stable and well-functioning international monetary system”<sup>7</sup>—it also contains far too many endorsements

for government interference and calls for a plethora of internationally coordinated statist programs.

Pledging to “cooperate to ensure that the global economy resumes growth along a balanced, equitable and sustainable path for the benefit of all, especially the most vulnerable,”<sup>8</sup> G-8 leaders call for, among other things:

- Ensuring “a green global recovery”;
- “Strengthen[ing] financial regulation and reform International Financial Institutions (IFIs), and to provide them with adequate resources”;
- “Rehabilitating banking sectors in some countries” and “reforming financial system regulation and supervision to prevent boom and bust cycles”; and
- Mobilizing “resources to respond to the development emergency and to advance in the achievement of the internationally agreed development goals including the Millennium Development Goals (MDGs)” through increases in traditional (and largely ineffective) foreign aid.<sup>9</sup>

All of these goals would require ramped-up government spending and contradict the “key principles of economic freedom—individual empowerment, non-discrimination, and the dispersion of power”<sup>10</sup> that form the backbone of the annual *Index of Economic Freedom*, published by The Heritage Foundation and *The Wall Street Journal*.<sup>11</sup>

1. “G8 Summit May Move to L’Aquila,” *Shanghai Daily*, April 24, 2009, at [http://www.shanghaidaily.com/sp/article/2009/200904/20090424/article\\_398730.htm](http://www.shanghaidaily.com/sp/article/2009/200904/20090424/article_398730.htm) (July 10, 2009); see also Paola Totaro, “Ring of Steel Around G8 Summit Leaders,” *The Sydney Morning Herald*, July 8, 2009, at <http://www.smh.com.au/world/ring-of-steel-around-g8-summit-leaders-20090707-dbwe.html> (July 10, 2009).
2. Richard Lloyd Parry, “G8 Summit Costs Could Treat 4 Million HIV Patients,” *The Times*, July 5, 2008, at <http://www.timesonline.co.uk/tol/news/world/asia/article4272578.ece> (July 10, 2009).
3. *The Wall Street Journal*, “The History of the G-20,” April 2, 2009, at <http://online.wsj.com/article/SB123868695694882779.html> (July 1, 2009).
4. Guy Dinmore, “G8 to commit \$20bn for food security,” *The Financial Times*, July 10, 2009, at <http://www.ft.com/cms/s/0/b71a9052-6d2b-11de-9032-00144feabdc0.html> (July 10, 2009).
5. Jonathan Weisman and Stacy Meichtry, “G-8 to Pledge \$20 Billion for Food-Security Initiative,” *The Wall Street Journal*, July 10, 2009, at <http://online.wsj.com/article/SB124722089820922581.html> (July 10, 2009).
6. G-20, “What is the G20,” G20 Summit 2009, at [http://www.g20.org/about\\_what\\_is\\_g20.aspx](http://www.g20.org/about_what_is_g20.aspx) (July 1, 2009).
7. *Ibid.*
8. G-8, “Promoting the Global Agenda,” G8 Summit 2009, July 9, 2009, at [http://www.g8italia2009.it/static/G8\\_Allegato/G8\\_G5\\_Joint\\_Declaration,0.pdf](http://www.g8italia2009.it/static/G8_Allegato/G8_G5_Joint_Declaration,0.pdf) (July 10, 2009).
9. *Ibid.*

They also have nothing to do with a financial crisis. Instead, as in the U.S., statist groups around the world see the crisis as an opportunity not just to regulate the financial system—which at least is topical—but to introduce a host of interventions that will accomplish nothing in terms of growth and probably cause net job loss.

They will also cost huge amounts of money few of the governments have. When banks act like this, the statist demand stern government oversight. When governments do it, they call it “progress.”

**What Obama Should Do.** The G-8 process served U.S. interests in its heyday, but its shelf life has expired. While the G-20 is now the better policy vehicle, all of the existing international coordination

mechanisms tend to promote government solutions requiring more burdens on the taxpayer.

When he returns to the White House next week, President Obama should stop the proliferation of international talkfests by demanding that the G-8 process be ended and folded into the G-20 group. He should also hold the line against committing the United States to more government spending and seek instead the adoption of measures that emphasize the protection and preservation of the true generator of jobs and wealth: the market system.

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10. Terry Miller, “Government Intervention: A Threat to Economic Recovery,” testimony before the Subcommittee on Terrorism, Nonproliferation and Trade, Committee on Foreign Affairs, U.S. House of Representatives, July 10, 2009, at <http://www.heritage.org/Research/Economy/tst061009a.cfm>.
11. Terry Miller and Kim R. Holmes, *2009 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones and Co., 2009), at <http://www.heritage.org/index>.