



Pittsburgh G-20 Summit Gets Only a B

Morris Goldstein says the G-20 did all right on financial regulation, global governance, and stimulus, less well on the new framework for growth and combating protectionism.

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Steven R. Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Morris Goldstein, senior fellow at the Institute, is here to give us an update on progress made at the Pittsburgh G-20 summit and the various international meetings following the summit, including the World Bank–IMF sessions in Istanbul. Morris, thanks for joining us.

Morris Goldstein: Delighted to be here, Steve.

Steven R. Weisman: The G-20 summit has come and gone with great fanfare and trumpeting its own accomplishments. What grade would you give the leaders in that summit, in terms of meeting the goals to stabilize and improve the financial and economic system?

Morris Goldstein: Overall, I'd give the Pittsburgh summit a solid B. I thought it was good but not great. There are a number of things on the positive side, there are also a couple on the negative.

Steven R. Weisman: What were the positive achievements?

Morris Goldstein: I think they made further progress on financial regulatory reform. The main pluses were agreement on higher capital standards for banks; we want to push that up considerably, we want to have it countercyclical.

Steven R. Weisman: What does that mean again?

Morris Goldstein: Countercyclical means that we would make the capital requirement lower during downturns, and we'll make it higher during the boom periods, so that it helps to stabilize economic activity, not the other way. There's the introduction of leverage ratio. We've also had agreement on higher liquidity standards including quantitative standards for that, for the first time.

They got much closer together on reform of executive compensation. We made some progress on OTC [over-the-counter] derivatives and some on cross-border resolution. So all those elements, I think, [are] moving in the right direction.

Steven R. Weisman: How long is it going to take to flesh these principles out and come up with some numbers?

Morris Goldstein: I think probably by the end of next year on bank capital standards, to get agreement on the numbers and then try and have implementation by end 2012. I think that

schedule is fine, since you don't want these things implemented while you're still fighting to get out of the recession. I think on some of the other elements, we probably can get agreement on the specifics sooner than that.

Steven R. Weisman: Who negotiates all that?

Morris Goldstein: Each country will be doing it on a national level. For example, we hope to have a comprehensive financial regulatory reform bill passed to Congress by the end of this year or early next year. On the international elements there will be negotiations in the relevant standards setting committees, whether that's the Basel Committee on banking supervision or whoever the standards setting committee associated with that reform is.

Steven R. Weisman: So this was a step forward on that. What about the issues of the architecture of the various groups that oversee the world economy—the G-20, the IMF, and the World Bank? Were there any steps forward in the governance areas?

Morris Goldstein: I think there were. I mean, they agreed formally on making the G-20 the premier forum for international economic cooperation. And I think that makes a lot more sense than the G-7; you have the relevant players at the table and the people invited are those with the largest weights in the world economy, so that makes sense. They also agreed to a shift of 5 percent in the voting power from the advanced countries to the emerging and developing countries. Again, I think that will be helpful with the IMF's legitimacy. And in the area of economic stimulus, we're still climbing out of our global recession. But as they said in Istanbul, poverty is remaining very deep and ever deeper in the developing world, and in the United States unemployment is still creeping upward.

Steven R. Weisman: What is the status of the stimulus efforts as you can see in the G-20 summit?

Morris Goldstein: I think they made the right call there as well. It's basically a decision to maintain the stimulus until the recovery is much better established. We certainly need to do that. If you can look at emerging market exports, they've bottomed out. But they haven't really recovered very much yet, so we need to continue to do that. They can talk about exit plans, but at this stage it made sense to reaffirm that they're going to continue the stimulus.

Steven R. Weisman: With the latest unemployment numbers in the United States, by the way, we're beginning to hear more calls, among some, for another stimulus next year in the United States. Is it too early to start talking about that?

Morris Goldstein: I think it's too early to make a decision on that. I think we'll have to wait for the numbers, and we'll see whether we get a strong rebound as some have been suggesting. If it turns out to be weaker, then I think it will be appropriate to talk about considering some additional stimulus. But for right now, I think we ought to wait and see what the numbers provide.

Steven R. Weisman: In Pittsburgh, what were some of the disappointments?

Morris Goldstein: Well, there was a call for strong, sustained, and balanced growth and they introduced

what they call the new framework to achieve that, but it turns out it wasn't a new framework at all. What it was is the old framework of multilateral peer pressure, which we've tried numerous times over the past two decades with very limited results.

Steven R. Weisman: Just to remind our listeners and readers, pressures on whom to do what?

Morris Goldstein: If global growth is going to be sustained, we're going to need a shift in demand from the deficit countries to the surplus countries, that is, the countries from balance of payments deficits and balance of payments surpluses. So we need much greater domestic demand expansion in Asia, emerging Asia for example, and we need exchange rates that will facilitate that. So we need the currencies of the Asian economies, for example, to go up.

Steven R. Weisman: Particularly China?

Morris Goldstein: Particularly China will need the dollar probably to move downward somewhat further. And to get that, we basically have the same old system of plans and promises. But you don't really have any levers or incentives or sanctions to move that forward. And so I would characterize this so-called new framework as the triumph of hope over experience. They've tried this just a few years ago with the launch of the so-called multilateral consultations and produced very little. We've had great difficulty in getting the IMF to be forceful in naming and shaming countries that weren't living up to their obligations. And yet again, the IMF is being asked to do this but there's no indication that they will. So I thought this showed real lack of imagination and I would view it as a negative.

Steven R. Weisman: In the area of trade a lot of analysts, especially here at the Institute, were predicting that trade was going to be a big issue discussed at Pittsburgh and yet it doesn't seem to have been.

Morris Goldstein: It looked to me kind of disappointing. They reaffirmed their pledge on antiprotectionism, and said they wanted to complete the Doha Round. But there was no conviction to it; there were no new measures, offers, anything very significant on that. So again, I would have to characterize that as a negative.

Steven R. Weisman: Just from your experience in looking at these sessions, what is your sense of how critical the G-20 countries were of the United States following its actions on tires against China and other steps?

Morris Goldstein: I thought they were relatively restrained. I mean, they clearly wanted to stress the positives, they wanted to congratulate themselves on having pulled the world economy away from collapse and going over the edge—with some justification, I think. But they clearly wanted to minimize any disputes, so we really didn't hear very much criticism.

Steven R. Weisman: Morris Goldstein, thanks very much for giving us your thoughts on this. See you next time.

