G-20 Summit: Neither a Disappointment nor a Triumph

Morris Goldstein says the most positive contribution of the G-20 summit meeting is that it sets in motion a process of reform, with details to be filled in later.

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Steve Weisman: Welcome to Peterson Perspectives. This is Steve Weisman at the Peterson Institute for International Economics. I’m happy to welcome back Morris Goldstein today. Morris has been at the IMF and has been studying international financial regulation for many years here at the Institute. This year he has offered proposals for reforming the international financial architecture and regulatory regime.

We are assessing the G-20 summit that occurred over the weekend of November 14 and 15, for which expectations were not especially high. Do you view the summit as meeting those modest expectations?

Morris Goldstein: Yes, modest expectations. I think the summit was neither a large disappointment nor a triumph. I think a major factor is that it’s difficult to really reform the global financial architecture without shared, strong leadership from the United States. At this meeting, you couldn’t really get that because the outgoing Bush administration couldn’t commit its successor to any plans, and the incoming Obama administration didn’t really have those plans set out yet.

Steve Weisman: What do you think were the positive features of this summit? Was the summit itself a good idea?

Morris Goldstein: I think it’s a helpful idea. I think the plan of having it at the G-20 leaders’ level rather than at the G-7 or G-8 was a good one, and just reflects the evolution of economic power toward the emerging economies. So that’s simply realistic, a better forum for discussing these issues than the G-7 or the G-8.

Steve Weisman: There was no obvious discord at this summit. Were you pleased or surprised about that?

Morris Goldstein: I think it was a good thing that there wasn’t. The last thing financial markets and confidence needed was acrimonious finger-pointing, so we thankfully didn’t get that. They kind of danced around the issue of the origins of the crisis without doing any damage. They also made a 12-month pledge for no protectionism. I think that was useful.
Steve Weisman: They talked in general terms about reforming regulations and about the fiscal stimulus. Was that positive?

Morris Goldstein: I think on most of the major issues, they were at least leaning in the right direction. They were for a fiscal policy stimulus, they were for monetary easing, they were for continued vigorous efforts to keep financial institutions from becoming insolvent, and for helping emerging economies get better access to credit denominated in foreign currencies. So they were on the right side of those issues.

Steve Weisman: And trade—was that dealt with in an effective way?

Morris Goldstein: I think the no-protectionist pledge was enough. We'll have to see how that's implemented, but I think that also made sense. In my view, the main show here was crisis management and crisis prevention, and they did stay on that track.

Steve Weisman: They issued some pretty broad principles for reform. Were they too broad?

Morris Goldstein: I thought they were a bit too broad. This is kind of inevitable at an initial meeting, but in this area, the substance really is in the details. It's one thing to say, "I'm for looking at the liquidity arrangements for banks." It's entirely another to say, "They've not been holding enough liquidity and we need to have an international quantitative minimum." Or it's very different if you say, "We want to do something about bank capital," versus saying, "We want to raise the minimum for let's say 8 percent of risk-weighted assets to 15." And on and on. I think they could have given somewhat of a stronger signal where they were going on some of these issues; otherwise, it gets to be a bit too vague.

Steve Weisman: Some people are saying that stronger signals about tightening those principals on liquidity and capital requirements would have sent a worrisome signal on the economy. What's your view of that?

Morris Goldstein: I think that risk is overplayed. When they implement those things, it will be after the crisis is over and they will be phased in. So I don't think we have to worry so much that we're going to do things on the reform front that are going to be counterproductive to getting out of the crisis.

Steve Weisman: Tell me about some of the other regulatory areas, such as conflict of interest or executive compensation, that you think they might have been more specific on.

Morris Goldstein: Again, they say they want to reduce conflict of interest, but they don't tell you how to do that. It would be better if they indicated or at least gave a signal that what they're looking toward is breaking off the consulting business from the rating business. On executive compensation, where we want to go is toward sensible deferred-compensation plans. And we want to give an incentive to firms that implement them with a capital charge so that they
don’t simply lose employees to firms across the street that’ll do that.

I thought in general they put too much emphasis on expanding regulation to areas where we didn’t have it, and not enough on improving it where we do have it. For example, the largest losses during this crisis have been in the areas where we’ve had the most regulation. It’s the Citigroups, it’s the Merrill Lynches, it’s the UBSs that have had the losses, and they didn’t say that much about that.

Steve Weisman: That’s certainly one of the ironies, isn’t it?

Morris Goldstein: I would say so. But in some ways, it sounds better to say, “Well, we’ve got these areas that we haven’t explored.” And that’s true in the cases of the clearing house for OTC derivatives in the United States, it’s true for independent mortgage brokers. But in general, some of the biggest failures were in the areas where we did have regulation and we didn’t enforce it properly.

Steve Weisman: That was a point made by a lot of the emerging-market countries that came here for the summit, wasn’t it?

Morris Goldstein: And rightfully so. I think we did have a major regulatory failure during this crisis that contained acts of omission and acts of commission.

Steve Weisman: Let’s come back to the issue of the stimulus and also another issue, of replenishing IMF resources. They weren’t very specific on either of those, were they?

Morris Goldstein: Well, they didn’t really get new commitments. Some thought they would. China, of course, announced the large fiscal stimulus just before coming, and I guess that was its contribution. China didn’t offer any money to the IMF at this time. And in general, if it was a pledging exercise, then they didn’t get what they hoped to get. So both on fiscal policy stimulus and on funding the IMF, they wound up with somewhat less than some were hoping for.

Steve Weisman: You’re a student of the IMF. You’ve been immersed in this. Do you suspect that there were at least behind-the-scenes discussions of future resources for the IMF?

Morris Goldstein: Oh, I think there were discussions, and it may be that some countries have told the Fund that if they need additional resources, call them up and resources will then become available. But they decided not to announce and make a precommitment at this meeting.

Steve Weisman: Do you think that’ll be good enough?

Morris Goldstein: I think that will be OK. I’m less convinced than others that we need an enormous increase in IMF resources, particularly if some of the countries make use of more of their reserves before they go to the Fund.

Steve Weisman: I know you think that the IMF has a facility that could be used.
Morris Goldstein: Where I think they missed an important opportunity was to endorse a revival of the IMF’s compensatory finance facility, which is a window that used to be very active, and which provides immediate upfront disbursement to a wide variety of developing countries that, next year, could be suffering a temporary shortfall in export earnings. So that’s one they could activate quickly—it would be very helpful—and unlike this new short-term liquidity facility, it’s not restricted to a small group of exceptional performers. It doesn’t divide the IMF into A and B lists with conditionality and without. So I think that would have been a good one.

Steve Weisman: They’re meeting again in April. Presumably, by then, there will be more specifics. So what do you think?

Morris Goldstein: I think that’s when we’ll know whether we have a real reform exercise or something that’s much less. By that time, the Obama administration ought to have its vision, at least in rough draft, about where they would like to see the architecture go. We’ll then have some of the recommendations from these finance ministries and working groups so we’ll know better whether these are really the kinds of recommendations that are going to cut some ice, and we’ll know more about how successful we’ve been in trying to get out of the crisis or whether we need more on the crisis-management front.

Steve Weisman: The G-20 is an unwieldy group. But as I understand it, they have kind of a troika of leadership. Can you explain that?

Morris Goldstein: You need some individuals to at least manage the process. What they seem to have decided was to take the current chair and the chairs in the two succeeding years. The current chair of the group is Brazil, next year it will be the United Kingdom, and the year following, it’ll be South Korea. So those three countries act as a sort of troika to keep the thing moving forward and to keep the organization the way it ought to be.

Steve Weisman: We’ll be watching for the next meeting in April and hopefully talk to you before then for Peterson Perspectives. Thank you, Morris Goldstein, for joining us today.

Morris Goldstein: Thank you.