



Looking for Reassurance from the G-20

Michael Mussa assesses the prospects of coordinated fiscal stimulus, new regulatory standards and other reforms at the G-20 summit on the global financial crisis.

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Steve Weisman: Welcome to Peterson Perspectives. This is Steve Weisman at the Peterson Institute for International Economics. Our guest today is Michael Mussa, Senior Fellow at the Peterson Institute, and we'll be talking about the prospects for the upcoming summit of the G-20 nations in Washington on the weekend of November 14 and 15.

Welcome, Michael. Thanks for joining us.

Michael Mussa: Good to be here.

Steve Weisman: The G-20 is holding what really is an unprecedented summit, and it's happening at a time of major financial and economic crisis around the world. How urgent is it for them to act in response to the crisis?

Michael Mussa: Well, action is urgent at the level of the individual national governments and many policy measures have been announced and implemented by key governments. And it continues to be very important for them to move forward on existing initiatives. Monetary policies seem really to be well in hand and they're beginning to move more comprehensively on fiscal policy and need to continue to do so.

Steve Weisman: What's your latest assessment of the global economy right now?

Michael Mussa: We're pretty clearly in recession across virtually all of the industrial countries at the present moment, and developing countries are not in recession as such, but are clearly slowing from growth of around 7 percent or higher in the most recent years, probably down to 5 percent or less next year.

Steve Weisman: How necessary is it for the G-20 as a whole to embrace some sort of detailed commitment on fiscal stimulus, and how big should the stimulus be overall?

Michael Mussa: I don't think it's really very important for the G-20 to have specific numerical commitments country by country. What's important is that individual

countries that have the room to act do so forcefully—and we've seen the Chinese announce a major policy package. I think we will see more from the United States under the Bush administration and more afterwards under the new Obama administration.

Steve Weisman: Speaking of the Chinese package, it was announced over the weekend. Will this package strengthen China's hand at the summit, and what's your assessment of how big the package actually is going to be?

Michael Mussa: The package's announced size is about \$300 billion a year for two years. No doubt some of that is simply reiterating policies which are already likely to occur, but there's probably another \$100 billion a year or so of additional policy measures beyond and above what the Chinese would otherwise have been doing, and that's very significant relative to the size of their economy. So it's an important step forward by a country that clearly does have a lot of room to move on the fiscal front.

Steve Weisman: Now in return for coming to the table with this newly announced package, will China be making any demands or requests of the other countries, like a bigger seat at the table or at the IMF?

Michael Mussa: Those have been sort of continuing requests or demands of the Chinese government, and I would expect that they would reiterate them on this occasion, pointing to the need for major emerging-market countries to have a greater voice in the global economic affairs going forward. And the fact they're using the G-20 forum on this occasion rather than the G-7 or G-8 forum, I think, speaks to recognition of that principle.

Steve Weisman: Is the G-20 the best forum that we have now for dealing with this problem? Some people are saying it's an unwieldy group. Yet there are so many countries that don't want to be left out. Should this summit address the issue of changing the future architecture of decision making on the economy?

Michael Mussa: Formal decision making of the IMF, of course, involves, in principle, all 185 members, but they do have weighted voting power. The countries involved in the G-7 account in total for something like 90 percent of world GDP. So if you need to have a group that's not too big—there are 80 some countries—and not too small, or excludes a third to a half of the world economy, which are the emerging-market countries, then the G-20 is about as good as you can do given that it already exists in some sense. But it doesn't have formal decision-making authority.

Steve Weisman: Maybe "G" should stand for Goldilocks, not too big, not too small.

Michael Mussa: Perhaps, though as I keep reminding people, the story is Goldilocks and the

three bears, and right now, the three bears seem to be dominant.

Steve Weisman: What are your hopes, though, Michael, for the G-20 launching anything really specific in areas of your interest, which is, among other things, financial regulation? Is it realistic given the division among the players that they can do something that's impressive to the global markets?

Michael Mussa: Well, I think what they can do is they can launch a process that will, over time, over a sequence of meetings and consultations, hopefully lead to something constructive in terms of regulation of global capital markets. But it's not going to happen at this meeting. This is going to be an agenda-setting meeting, at least in that area, rather than a decision-making meeting.

Steve Weisman: Under the Bush administration, the United States seems to have been wary—or unenthusiastic might be a better way of putting it—about this summit. What is their main concern as you understand it?

Michael Mussa: Well, of course the Bush administration realizes they are on their way out and the new administration has not yet arrived. So the United States is not in a position at the present time to participate particularly effectively in such an international forum because we're at the handoff period between administrations. So the Bush administration is going to, I assume, try to be reasonably constructive and it will not, however, undertake commitments that it thinks it cannot fulfill, or seek to commit its successor administration to something that they have not indicated that they're prepared to go along with.

Steve Weisman: Does the United States have a different agenda on issues of either the stimulus or regulation from, let's say, Germany and France?

Michael Mussa: On the issue of the stimulus, the Bush administration is probably less keen on larger-scale fiscal stimulus than at least some of the Europeans, not necessarily all of them, and probably less keen on it than the Obama administration will likely be.

On the issue of financial-sector regulation, my guess is that not only the present Bush administration but also an incoming Obama administration will be more reserved in their approach on these questions than some Europeans might like, though the Obama administration would likely be more positively disposed toward regulation than the outgoing Bush administration.

Steve Weisman: So will the United States be sort of the odd man out on some of these issues, do you think?

Michael Mussa: No, not entirely. When you're talking about the G-20 countries, there are

going to be important differences within the industrial countries that are represented, and also between the industrial countries and a number of the key emerging markets.

Steve Weisman: Do you have any concerns that they'll do something wrong or discordant at this summit and that that might send a negative signal to the markets?

Michael Mussa: I think it's unlikely; it's possible if they get into the blame game—you know, here's the United States, largely responsible for this and so forth—then there's likely to be a note of discord. But generally, at international meetings of this kind, they seek to avoid that type of acrimony. It doesn't do anybody any good. There certainly will be some differences, but they'll probably be resolved by saying that, for instance, in the area of fiscal policy, there's a general desirability of more expansionary policies and that each country needs to decide within its own boundaries what is reasonable and appropriate.

Steve Weisman: They might not be expressing blame at the summit, but a lot of the countries do blame the United States for originating this problem. I think some of that came up in Sao Paulo over the weekend. Isn't that correct?

Michael Mussa: Yes, indeed. But I think it's not productive to try and make it part of the official communiqué; it will certainly be expressed around the edges of the conference and the media will certainly pick up on some of that.

Steve Weisman: You've been in a lot of international conferences for the years that you were at the IMF and in the years that you've been studying these. Isn't it going to seem a little odd for all these leaders that'll be coming to town that President-elect Barack Obama will not be there? How will that affect the atmosphere?

Michael Mussa: Well, perhaps it will be a little odd, though as President-elect Obama has said, "We have one president at the time," and I think, rightly, he doesn't want to be present at a meeting where President Bush is also present. That sends confusion about who is really in charge. He will take over on the 20th of January at noon and then this problem will be resolved, and the rest of the world will just have to live with the fact that this is the handoff period between administrations in the United States.

Steve Weisman: Do you think he'll at least have the emissaries or people there to be watching the proceedings?

Michael Mussa: My guess is that he will have some observers so that he can be well briefed on what is going on in making preparation for his own administration. But I think that those observers will decline to be drawn out on what the views of the Obama administration are. They're there to listen, not to talk.

Steve Weisman: Well, we're glad to have you as an observer who will listen and talk to us. Thank you very much, Michael Mussa, for joining us on Peterson Perspectives.

Michael Mussa: You're very welcome.

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