



An A-minus for the Pittsburgh G-20?

Edwin M. Truman finds that the G-20 summit accomplished more than might have been expected on a future growth strategy, financial regulation, and global governance.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Ted Truman, senior fellow at the Institute, is here to assess the outcome of the G-20 summit in Pittsburgh. Thanks for joining us, Ted.

Edwin M. Truman: My pleasure.

Steve Weisman: Ted, how do you grade the accomplishments of the summit?

Edwin M. Truman: Well, I'm a tough grader, but I still give them about an A-minus. It certainly had a lot more content than I expected, they covered quite a lot of ground, and there were more specifics than I expected to come out of it.

Steve Weisman: What was the most important accomplishment?

Edwin M. Truman: I think one interesting accomplishment was the statement that the G-20 is now going to be the premier forum. That's not important as a matter of self-congratulation. It's important because the G-7, the premier forum in the past, agreed that the G-20 should, for economic issues, be the forum in the future.

That is a real mark of change in terms of the system as a whole, and they've institutionalized it by having the two summits set up in Canada and Korea in 2010, and France in 2011. So this is now a full-blown game and they won't be able to come back from it.

Steve Weisman: Still, the picture of them sitting around that gigantic hemisphere of a globe had a Strangelovian look to it. I wonder how much a group that large can really accomplish.

Edwin M. Truman: There is the plenary, and then there is the working group. It's important to engage leaders as informally as possible on this process because that engages them in the substance of the issues, even this question of the "framework for strong and sustainable, balanced growth."

Steve Weisman: Let's talk about that.

Edwin M. Truman: There you had a bunch of commitments to principles and to a process, by the leaders. Although it's certainly possible that one or more of the important leaders could walk away from that process and say, "Well, we didn't really mean it, what we said in Pittsburgh," it's going to be more difficult than it would have been before

Pittsburgh. They've all recognized that it's the problem. They have a shared objective of sustainable and balanced growth and what all that means. And they could be held to that commitment.

Steve Weisman: What does it mean for the United States?

Edwin M. Truman: I think it means for the United States, and I may be a strong version of this, it means that the United States has committed to put its fiscal house in order once the recession is over. And they have engaged in that and made that promise, not just to the American people and to the United States Congress, who may be part of the solution as well as part of the problem, but they made it to the world.

That means other countries can say, "you promised in Pittsburgh." Moreover, in the political-economic process here in Washington, in the country, the people who were part of the President's commitment in Pittsburgh, can say we promised in Pittsburgh. And if you want to go back on what you promised in Pittsburgh, that's fine, but you have raised the potential for criticism of your leadership in the process.

So it's a commitment device all the way around and similarly, it's a commitment device for the Chinese...

Steve Weisman: How so for the Chinese?

Edwin M. Truman: They have the same process too. So it's not just a question of whether or not they're cooperating with the International Monetary Fund or what their exchange rate policy might be relative to the standards of the IMF.

It is a commitment at the leader's level. And in some sense, so many leaders aren't heavily engaged in economic policy issues in many countries. And the very fact that you teed it up to that level, in my view, means that it's more likely that they will, as politicians—politicians don't like to break their promises...

Steve Weisman: Except when they have to.

Edwin M. Truman: Well, every once in awhile, they have to say, "Take back. Read my lips."

Steve Weisman: What's the mechanism for this leaders' commitment, as you put it? There was talk of peer review. There was talk of; I think the words were "candid evaluation" of each other's economic policies. But what's the mechanism for them doing that?

Edwin M. Truman: They've partly kicked it back to the finance ministers, which is fine. So the finance ministers are going to sketch out a bunch of objectives. And then, along with the IMF, they will review those objectives and the policies in terms of those objectives and see whether the objectives are compatible. And then, assuming they are compatible, see whether the policies are achieving those objectives going forward.

And you have peer review processes now. Most of them now take place either in the OECD just for the industrial countries, or in the IMF executive board. This is a bit outside that forum, but it involves the forum. So it could be seen even as augmenting the Fund's role as well. And there's some scope for the countries to say, to have some claim about whether people are living up to their commitments.

Steve Weisman: The other agenda item for the leaders' declaration was financial regulation. How much progress did they make on that?

Edwin M. Truman: In many respects, they didn't make too much progress. But they succeeded in getting over this issue of compensation.

Steve Weisman: How?

Edwin M. Truman: They adopted a set of guidelines for the implementation of the principles that had been agreed to in April. And those guidelines are quite detailed. They do not involve rigid caps.

Steve Weisman: Rigid caps on compensation.

Edwin M. Truman: On compensation or bonuses or any other form. I think that's the strength of that part of the agreement—they very much tie the compensation issues into other issues: capital and other dimensions of the risk management, other dimensions of the way the financial institutions run their business. I think that is a sensible way of proceeding. It may be less than what the politicians wanted in terms of headlines in the tabloids, but I think it is a reasonably sensible way of proceeding, and it allows them to move forward on issues of capital and liquidity standards. There [was] some considerable compromising. They accepted broadly the principle, the question of liquidity and the leverage, they accepted in principle the leverage ratio, they accepted in principle the process that it's just not only the quantity but the quality of capital. The details actually they worked out down on the road. They made some progress. They blessed essentially the process of going forward and worrying about "too big to fail," which involves these capital issues but also involves the resolution authorities, which is a very thorny issue. By moving the compensation issue aside for the time being, with a revisit down the road—that was part of the compromise. They are able to address a number of other issues with fairly rigid timetables about what they do when. As always, the proof will be in the pudding. Most of the other aspects of financial reform are so arcane that the average citizen, other than wanting things better, does not necessarily get excited about Tier 1 capital. Their eyes glaze over.

Steve Weisman: Circling back to the governance and steering committee issue, parallel to the G-20 decision to make itself the steering committee of the economy, there was also movement on the IMF and World Bank governance. That's an issue you are very interested in. How much progress did they make toward adjusting the governance to reflect the rising power of the emerging economies?

Edwin M. Truman: I think they made significant progress. I would like to see more, but the very fact that they were able to agree among themselves on a shift to voting power from the overrepresented to the underrepresented countries or towards the developing countries and emerging market countries—that is agreeing on a number at the level of the leaders—means that when it now gets negotiated further down, they have a target. And it's even a minimum number so in principle, it could be bigger. I would have liked it to be bigger. But the very fact that they have a number is very important.

In the process, in terms of the IMF, they got final agreement on putting the NAB, the New Arrangements to Borrow, in place, and that was being held up because of this governance issue. So what happened was the key emerging market countries—

China and Brazil and Russia, not India I think but there's dispute about that—were saying, “We're not going to commit to the NAB, New Arrangements to Borrow, until we are satisfied that we get what we want on the governance side.” And there are a few other countries who probably felt the same way but weren't as prominent as that—Korea and several of the other larger emerging market countries.

So now you have the \$500 million New Arrangements to Borrow in place, which completes what was agreed in April, but actually moves the ball down the field in terms of further changes in the international financial institutions.

Steve Weisman: A final question on trade. A lot of us were expecting a contentious session, maybe even a blow-up over trade, partly fed by the American decision to raise tariffs on Chinese tires just before the summit. Did the blow-up occur? Did they even talk about it?

Edwin M. Truman: I'm sure they talked about it at some level but my sense is that, even what I've read so far, it was not the kind of blow-up that one anticipated. And I think the reasons for that are two.

One is the Europeans must have known that they were about to announce themselves, their own action against China, which they did after the Pittsburgh meeting, which is at least as questionable in terms of its merits as the one that we did, since it was a pre-announcing before there was going to be a surge in trade that isn't expected to be there.

And more generally the point is that all 20, all the countries involved, were sinners. And therefore, if you get into the finger-pointing business, then you're going to have to point who's got the biggest finger or the loudest voice. Although you could imagine the meeting breaking up over something like that, these people are politicians and even though we on the outside wring our hands and regret that the G-20 countries have not been able to more systematically and conscientiously implement their commitments, I think in the end they recognize that they were all sinners, and they didn't have anything really to gain by arguing about which level of hell they should be assigned to.

Steve Weisman: But the prospects for protectionism, growing out of these various reciprocal trade actions, is...?

Edwin M. Truman: It could be better. I think there is some substantial risk of tit for tat, and there is some frustration in many sources about the lack of progress on Doha and other forums of negotiation, though evidently there are a variety of views about where you go from here.

One important dimension I think is what happens to the global economy. So to the extent that the global economy recovers, then some of the pressure, domestic pressures, on countries to take, to protect injured parties will be removed. And we could hope that that would be what one could look forward to. Meanwhile, it does seem they have basically agreed to a nonaggression pact on this area.

Steve Weisman: Ted, thanks very much.

Edwin M. Truman: My pleasure!

