



Doubtful Prospects for a Grand Bargain at the G-20

Morris Goldstein calls for the Obama administration to press China for a cap on current account imbalances in return for IMF reform—but the prospects are doubtful.

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Steve Weisman: The G-20 finance ministers and central bankers met recently to try and reach agreement on a lot of contentious issues globally. Morris Goldstein of the Peterson Institute is here to talk with me—this is Steve Weisman, about what has been agreed to, and what may still be agreed to, before President Obama travels to Seoul for the summit of the G-20. Thanks, Morris.

Morris Goldstein: I'm delighted to be here Steve.

Steve Weisman: The secretary of the treasury, Tim Geithner, went to Seoul at the end of October and there was agreement on a number of issues, including the future of global imbalances and IMF reform. What did they achieve?

Morris Goldstein: One of the concerns was about imbalances and about currency wars. If you look at the communiqué from that meeting of Finance Ministers and Central Bank governors, they said many of the right things. They wanted to move to more market determine exchange rates, they wanted to refrain from competitive devaluation of currencies, etc. But the problem was, they didn't really define, in any quantitative sense, an excessive imbalance. And they don't have any graduated set of penalties that would get imposed on a country that did have an excessive imbalance. So in the end I think the result is [that] they have a lot of language. But it doesn't look to me like it's going to be strong enough to change anyone's behavior, particularly the Chinese.

Steve Weisman: Why didn't they get the agreement? Isn't it a simple matter that Secretary Geithner had hoped to get something along these lines with the Chinese and maybe some others didn't go along?

Morris Goldstein: Yes. They don't seem to be willing at least at this point to embrace a specific current account imbalance cap, such as 4 percent of GDP. We've seen reports in the papers that the Chinese are maybe warming to this idea, since their current account surplus now is a little over 5 percent. They may think they could get the 4 percent without too much trouble. But so far, it has apparently been very difficult to get the majority of the G-20 to embrace a hard cap.

Steve Weisman: Is it naïve to think that the Chinese are saying, "We'll get there or we'll make progress, but don't put it in a communiqué because we don't like binding rules"?

Morris Goldstein: Well that may be what they're thinking. But the record is that they haven't been doing it. I mean we saw their current account [surplus] go up steadily from 2003 to 2007, and in 2007 it hits almost 11 percent of GDP. Now it's down again, but the worry is as the recovery from this crisis proceeds, it's going to go back up. So just relying on them, on their good intentions, hasn't worked that well.

Steve Weisman: What's your sense of what the administration's proposal was?

Morris Goldstein: I think where he [Geithner] is moving -- and I would support this -- is to say to the Chinese and some others, look, you have this large surplus. It needs to come down, and if you're not prepared to commit yourself to bringing it down to a reasonable level, we can't really go along with some of these governance changes that we have been supporting that would increase your roll in the international financial institutions.

Steve Weisman: Namely the IMF [International Monetary Fund].

Morris Goldstein: Right. Particularly the IMF. I think that's a reasonable grand bargain that they should broker. We shouldn't just say, yes, we'll increase your role and your voting power and a number of other things in the IMF and we'll just wait and see what happens on imbalances. There needs to be a deal here. The US Treasury ought to stake out a line that says, yes, we'll go further on the governance changes, but you need to deliver your part on imbalances.

Steve Weisman: What are the chances of any progress before the summit on November 11-12?

Morris Goldstein: I think it's possible they might be able to get an agreement with the Chinese on a number, something like 4 percent. I would think it's going to be harder to get agreement on a set of graduated penalties or sanctions if a country doesn't meet its imbalance target. Those penalties are important, because we've seen lots of other agreements, including those in Europe, where countries were tied to specific targets, and then in the end they didn't deliver. When things became difficult, the penalty structure either wasn't there or, if it was there, it wasn't imposed. In the end, countries make commitments and they don't carry them out.

Steve Weisman: Has the United States had any success at all in lining up other countries in the G-20 South Africa, India, Brazil?

Morris Goldstein: I think they're getting a little bit of support. But they clearly don't have enough or they would have been able to get this done earlier. The Chinese currency manipulation has been going on now for 6 or 7 years. They've had a hard time getting together a coalition of the willing on this that would be willing to stay publicly that China and some others need to do something.

Steve Weisman: What's South Korea's role? They want a successful summit.

Morris Goldstein: At first, I thought they weren't being constructive in the sense that the Finance Minister said he thought it would be "inappropriate" to discuss exchange rates at this meeting. I don't know where he thought they should be discussed instead -- maybe at a Korean soccer match or something else. But he didn't think a G-20 meeting was the right place. Then all the concerns about currency wars broke out, and that clearly became an untenable position. The US wanted to discuss it and a number of other countries wanted to discuss it there. The Brazilian Finance Minister talked about it and clearly it became too big to be ignored. Now I assume it will be on the agenda. So the Koreans have agreed to that, I think.

Steve Weisman: Coming back to the issue of the “currency war.” A lot of these countries are worried that the so called quantitative easing by the Fed -- the purchase of treasuries -- would send the dollar’s value down. This is being seen in some places as a competitive devaluation in effect. What’s your view?

Morris Goldstein: I don’t think so. One has to define what elements are in “beggar-thy-neighbor” exchange rate policy. But if a country has a very weak economy, a weak recovery as in the US, I think you have to leave open the option for it to have easy monetary policy, including quantitative easing if it needs it on domestic grounds. I would make a distinction between that and persistent, heavy, one-way currency intervention along with sterilized intervention. That really has no purpose other than to drive the exchange rate down. There’s not a big domestic purpose for that currency intervention. So I think I would not regard the quantitative easing as a competitive depreciation. Another question is whether it will be effective and whether the US ought to be doing it. But I don’t put that in the same camp as, say, Chinese currency intervention -- so long as the US recovery continues to be very weak.

Steve Weisman: When Secretary Geithner again proclaimed that the strong dollar was still in the US interest, what was he trying to signal?

Morris Goldstein: I think he’d like to have the best of both worlds. He’d like to be able to do the quantitative easing but not have the dollar fall out of bed, and not look like he himself is engaging in competitive depreciation. I think the statement about the strong dollar doesn’t carry that much weight in the present circumstances, since most observers find the dollar is still slightly over valued and they need it to be somewhat weaker.

Steve Weisman: So as Obama goes to Seoul, does he come in with a strong hand or is he going to be on the defensive on these issues?

Morris Goldstein: I think it’s kind of the middle. I think he’ll get some support. They may have to start with a sort of milder version of what I would like. Maybe they can just get agreement on quantitative caps for current account imbalances. They might not be able to get a graduated set of penalties for those who exceed those caps, but if they get no more than they got in the Finance Minister’s meeting, namely just language saying that we’re against competitive depreciation, then I think he gets very little.

Steve Weisman: Morris, thanks.

Morris Goldstein: Thank you.

