20/20 for the G20

Jean-Marie Harribey

The G20 summit in Washington on November 15th kept all its promises.

The pledge not to limit the free flows of capital was met: indeed the G20 is committed to "ensuring that regulation is efficient, does not stifle innovation and encourages expanded trade in financial products and services."

The pledge not to say a word about tax havens was also upheld.

The pledge not to attack the derivatives market was even better kept as the G20 hopes to "strengthen the resilience of credit derivatives markets" and to "expand derivatives market transparency and ensure that the infrastructure for derivatives can support growing volumes."

The pledge to make "transparency" and the improvement of accounting norms the first and last of regulation was repeated over and over. The just price will therefore remain the market price.

It was a foregone conclusion that the G20 would insist on "respect for private property," "competitive markets and financial systems" and "a modern and increasingly globalised financial system": done.

There was no reason to doubt the soundness of the diagnosis about what caused the crisis. The G20 states that the early decade was marked by "a prolonged stability" yet says in the same sentence that "market participants sought higher yields without an adequate appreciation of the risks, and failed to exercise proper due diligence." Here is an admirable example of G2O coherence.

One could have feared that the G20 would abandon or relax in some way its rigidity with regard to monetary and budgetary policies. No worry – the recommendation to “stimulate domestic demand” is immediately constrained by the necessity of “maintaining a policy framework conducive to fiscal sustainability.”

Did the G20 vaguely hope to establish itself as the auto-proclaimed government of the world? Only grumblers could entertain such a thought, given the assertion that “regulation is first and foremost the responsibility of national regulators.” One breathes more freely, since national authorities tendered their resignation thirty years ago.

Was there a danger for the G20 to be overambitious? Nay, they showed lucidity to the extent of warning that “we must avoid over-regulation that would hamper economic growth and exacerbate the contraction of capital flows, including to developing countries.” Cancel the banks’ and speculators’ debt, yes, but cancel the debt of countries in the South and the same banks may lose a source of profit; one is never careful enough.

Would the G20, led by the Bush –Sarkozy pair, with Obama keeping total silence, dare to apply to itself the transparency demanded of financial markets and abandon its stereotyped language? Not to fear: it is a relief to read, “Private sector bodies that have already developed best practices for private pools of capital and/or hedge funds should bring forward proposals for a set of unified best practices.” We suggest using this maxim as a red thread in the teaching of economics, apolitically of course.

The bill for the poor people of the world at large will be stiff , but the G20 has well deserved its 20/20 mark.

Translated by Alice Hodgson, Coorditrad