THE BROOKINGS INSTITUTION

# THE G-20 FINANCIAL SUMMIT:

# WHAT'S AT STAKE?

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P R O C E E D I N G S

MR. ANTHOLIS: Thank you all for coming today. It's a very exciting weekend here in Washington with the G-20 Summit coming up. It's back to the future in a sense. On the one hand, this is the first leaders meeting of the G-20 after almost 30 years of G-7 meetings. The G-20 has come into its own and it's something that we take a small bit of pride here at Brookings for. In fact, one of our panelists who we'll talk about later today, people have been urging a G-20 for some time at Brookings, and to see it actually coming is quite exciting.

But it's back to the future in the sense that there was something similar to this 11 years ago in the midst of the Asia financial crisis. There was a quick pulling together of many of these same countries. And the fact that it took 11 years for this group to be branded and come together in the midst of yet another global financial crisis is a sobering thought, but hopefully something that we'll be addressing in the future.

We are thrilled to have some of Brookings best scholars here today working on the issue. And I'm going to quickly introduce the panel. And rather than doing opening statements, I'm going to sort of fire off with a question or two for each of them and then try and turn it over to you all for questions and answers.

I'm going to start in the middle of the panel with Colin Bradford. Colin, raise your hand so people know. And one of the reasons for that is that Colin and his colleague, Johannes Linn here, have been writing about the G-20 for quite a number of years.

Colin is a Non-resident Senior Fellow here. His research focuses on global governance reform and international economics. He was previously the Chief Economist at USAID.

Immediately to my right is Eswar Prasad, who is a Senior Fellow here at Brookings, and also a Professor at Cornell University. He was previously Chief of the Financial Studies Division at the IMF, and before that, the head of the IMF's China Division.

His research interests span a wide range of issues on globalization, as well as exchange rate policies in emerging markets, with a particular emphasis on China and India's economies.

Wing Thye Woo is a Senior Fellow and holds the New Century Chair in International Economics in our Global Economy and Development Program, and also has been part of the John L. Thornton Center on China Policy here at Brookings. He's also Professor of Economics at the University of California Davis. He's worked on a wide range of issues, including East Asia's economy, with particular emphasis on China, and as an advisor to the Treasury Department, lived through the Asia financial crisis 11 years ago, and so we're thrilled to have him back.

And then finally, on my far right, Mauricio Cárdenas, who's the newest member of the team, who is the Director of our Latin American Initiative, and also a Senior Fellow here at Brookings. He was formerly the Minister of Economic Development and Transportation and Director of National Planning in

Columbia, and his research focuses on international development and economics, particularly in Latin America and the Caribbean.

I'm going to start with Eswar. Eswar, you've written a bit in a publication that we have in the back about regulation and not getting regulation wrong; what do you mean by that? Give us a sense. There's going to be a lot of focus this weekend on new global financial architecture and regulation. What does that mean and what should we be looking for?

MR. PRASAD: Let's start with the remarkable fact, as you pointed out, that it is the G-20 that is meeting rather than the G-8 to deal with an international financial crisis. And this is truly important because it means that countries like China, India and Brazil, which always deserved a seat at the table, have now just joined the table.

The big issue is whether they have the influence that goes with it, and I think that will require a much more substantive change in both the way the major economies of the G-8 deal with these economies, bring them into the decision-making process, and particularly in the context of international institutions like the IMF, actually allowing them to have much more of a say.

But if they're going to have a say, the question is, what can be done by this group together? Having the G-20 leaders here and the very senior leaders who have come here stand together I think has very important symbolism, and the symbolism is important because one of the issues we're dealing with right now, it's not just the collapse of real economies and the financial sector in certain economies, but a generalized collapse of confidence, and having these leaders stand together, I think that's a very powerful symbol that these leaders are ready to do something and throw what they can at the problem.

There are two dimensions to the problem, of course, one is the macro economics, the other part is the financial system, and I think you cannot separate these two out. What they can do substantively I think is macro economics right now. China has already announced a fairly large stimulus package, various other countries are following, and I think there is a strong case to be made that coordinated action on this front can provide much more of a bang for the buck than individual countries acting together.

But then the much deeper issue is what we have brought up, the financial sector regulation. And this is not easy. Ultimately we have to recognize the fact that financial markets around the world – across countries, and within countries - have reached a level of sophistication. That is going to take a while for us to discover and to work our way through. In the midst of the crisis, we are trying to understand how this thing could have unraveled so quickly. Now, crises are tremendously useful things in terms of putting in place certain reforms. They're, of course, very painful. But in that opportunity, one can think about how certain systems can be reformed.

My view is that that is right, but the financial system regulation is not something that can be done easily in the heat of the moment. There are certain aspects to financial system regulation that I think we understand are going to be much more important. One of the issues here is that if you think about the way we regulated the financial system in the U.S., for instance, we all know the old analogy about the drunk looking for the keys where the light was.

I mean, essentially, we have a certain part of the financial system, the banks, and I don’t mean the off balance sheet operations of the banks, but the specifically regulated parts of the banks which were tightly regulated. And it gave us a feeling of comfort that at least the part of the financial system that was not regulated perhaps could infect this part of the system that was well regulated. So I think one of the lessons that comes out is that regulating one part of the financial system can actually give us a certain level of comfort that, in fact, may be somewhat deceptive and can, in fact, reduce the effectiveness of the market monitoring mechanism. So then the question is, do you help -- by essentially providing more light in the parking lot, which is going to take a while, or do you allow for the fact that you are going to have a part of the financial system that is going to be difficult to regulate, and then think about how to prevent it from infecting the better regulated part of the financial system.

Frankly, I don't think we have the answers right now. I don't think the notion of a global financial regulation, which seems like a very sensible response to the fact that you do have very interconnected financial markets, I don't think it's going to work very well.

But I think what the international community can do is think harder about the lessons we are learning from this crisis, come up with more robust principals, and then think about how to set them up in a way that individual countries can apply them. And on top of all of this, I think you do need to decide who will maintain the rules of the road. And also the road itself, not just in terms of the financial system, but more importantly, in terms of the macro economics, because one of the other things that's become clear in the context of this crisis is the macro economic imbalance, in a sense, fed into the financial system weaknesses to essentially proliferate and become much worse.

So let me just say that in answer to your question, I don't have a good answer, and I don't think we should be trying to resolve this whole regulatory problem right now. We do have a very basic problem of getting these economies out, but we should start thinking about the deeper issues.

Now, these issues are complex, and I think framing them in the right way is going to be a very important start to solving the problem.

MR. ANTHOLIS: Maybe I can use that as a pivot to Colin in talking about how and if the G-20 is equipped to do that. One would imagine that the emerging market countries that have stepped into the mix are in need of or are eager to understand what a framework for this would look like and to be part of that decision-making process. Have all the years that they've wanted to be in this game prepared them? Are they ready to do this?

MR. BRADFORD: Well, I think so. I mean I would build on what Eswar says in the following way; I think clearly Korea, in 35 years of rapid trade and economic growth, Japan, and China, each of those economies, which are quite different among themselves, have had a different relationship between the role of the state and the role of the private economy, and they have a different type of financial oversight, supervision, and regulatory regimes.

And I think the opportunity that's presented by a G-20 meeting rather than a G-8 is -- although it could have been presented there, too, in fact -- is the idea that could come out of this weekend, which is not to decide how to do it, but to set in motion processes whereby officials who deal with supervision, oversight, and regulation of financial markets in their economies come together under the auspices of the IMF, let's say, in sort of policy level dialogues in which they say, look, we need to figure out how in each of these three domains, supervision, oversight, and regulation, what the experience has been in our various economies, what each of us could learn about weaknesses and strengths in each context, and how it is that these officials could draw down on the lessons of these differing experiences to strengthen the institutional structure and norms and standards that apply in each country over time, so that you can effectively get somewhere between the sort of laissez fair position, which obviously the Bush Administration seems to be taking, and the more regulatory approach that the Germans and the French seem to want to take in this meeting.

So I don’t think it’s a question of having an ideological debate about this, I think it’s a question of trying to have a pragmatic discussion among officials who have operational responsibility, with the help of inputs from academics and other people with ideas, and private sector actors, as well, so that, in fact, you can move this agenda forward in each national context in light of the comparative experience that's happening in the other countries, which have very, very different experience, and not to say very successful experience, namely in Asia.

MR. ANTHOLIS: Wing, maybe that's the perfect leaping off point to turn to you. You know, China already has stepped up and announced this $500 billion plus stimulus package, but there's a regulatory piece, there's also the governance of the international institution piece, including what one friend referred to as asking for representation without taxation, you know, are they going to become equity stakeholders in the international financial system in the same way that industrial countries are. Give us your thoughts on how China will play into what we've heard from Eswar and Colin.

MR. WOO: Let me first note that an equally important reason for having the G-20 meeting rather than the G-7 is not just that the center of gravity of the world economy has shifted, it is equally important that with the end of the Cold War and the rise of new problems of global climate change, the U.S. international agenda is no longer identical to that of Western Europe. So I think that a G-20 meeting makes great sense in this context.

While we are clearly in a situation where we need emergency room macro economics, now is not the time to talk about redesigning the Titanic when the Titanic is sinking, now is the time to talk about how to keep the Titanic afloat and save the passengers.

Here China can play two roles; the first role is to keep its own growth rate high, and hence, as a byproduct benefit the rest of the world. The second role that China should play is to use its vast foreign exchange reserves to stabilize some of the countries directly, and, as a byproduct, help to stabilize its own growth. The Chinese, as you said, have started a stimulus package of $586 billion. This typifies the reaction in most of East Asia, which is boosting common expenditure and cutting taxes.

There is, however, a serious flaw in this joint East Asian approach. The serious flaw is that, take the example of Korea, what would happen is that Korea will now, with this fiscal stimulus, have less to export, and, at the same time, Korea will import more. In Korea’s current account, the only way to prevent this constraint from binding on outer East Asian countries like Malaysia, Korea, Taiwan, less so in China, is for there to be a simultaneous fiscal expansion in the rest of the world, as well.

For the East Asian strategy, a fiscal stimulus, to work, the rest of the world must fire its fiscal expansion? simultaneously. This is the first task of the G-20 meeting. There must be some kind of coordinating mechanism to make sure that all the fiscal – of the world are firing simultaneously.

Now that I have raised the issue of the trade balance constraint for individual country, I would like to say that the second task for the coordination of G-20 is to agree that countries will not introduce new policies to promote (inaudible) and to restrict imports. (Inaudible) neighbor policies have to be explicitly put in on a G-20 agenda of coordination. Therefore, now is not the time for China to introduce new VAT rebates on its X box (inaudible) additional rebates since July of this year. And now is not the time for the U.S. to ask for a large Renminbi appreciation from the Chinese. The situation now is to maintain the existing exchange rate and trade policies while pushing hard for fiscal expansion in the world.

On the second role of China using its foreign exchange reserves, it is something that China has not emphasized, but clearly the interesting thing to note is that there is an existing arrangement in East Asia whereby East Asian countries pool their reserves and could draw on each other's reserves if they need to defend their currency from unwarranted speculative attacks.

The case of Korea in the last month is very instructive. Korea chose not to draw upon this existing facility. The reason is because drawing upon this existing Asian facility would require that if Korea draws more than 20 percent of its quota, it would have to go under IMF supervision. Right now no Asian leader could survive politically if he puts his country under IMF conditionality. So, we have a situation where you've got a financial police-fire fighter, which a huge part of the world does not want to use except as a last resort. That's why the Koreans finally are paid a swap arrangement with the Federal Reserve.

Now, what it really means is that Asia has to remove this IMF cross from its existing swap arrangements. Asia now is in a different position. It has enough foreign exchange reserves collectively to protect a subset of its members' currencies from speculative attacks. In other words, the second role that China should play in stabilizing the current global financial crisis is to help set up an Asian financial facility so that at least Asia would not fall with them to financial contagion. And whether the AFF, the Asian Financial Facility, would be waft would depend very much on whether the IMF could be improved both in its performance -- in fact, any additional resources given to the IMF should be given under conditionality unless the IMF is able to show that it is improving its cost effectiveness in fighting financial fires and more efficiently in doing so. The second trench should not be allowed to be drawn. And, furthermore, the IMF should specialize in its core functions -- surveillance function and balance of payments assistance -- now the one to pick on the new additional activity of world global financial regulator. I think that is putting hope ahead of experience in terms of its (inaudible) funds.

MR. ANTHOLIS: Well, we all know that hope is not a strategy , so --

MR. WOO: But change is a strategy.

MR. ANTHOLIS: Change is a strategy.

MR. WOO: So, that means --

MR. ANTHOLIS: A successful one.

MR. WOO: That's why I think that if there is to be another G-20 summit, that is where the agenda would have to be. What kind of world financial regulations do we want. And one way to increase performance, by the way, is competition. Setting up an Asian financial facility would be a good boost to Asia's sense of self-esteem in its ability to compete.

Thank you.

MR. ANTHOLIS: Mauricio, from that range of issues one -- if one thinks about Latin America, one sees a mosaic. There are countries like Brazil that seem to be doing pretty well, weathering the storm quite well. There are countries like Venezuela and a few other energy-producing states where the cold shower or cold bath of falling oil prices are probably going to change internal policies as well as possibly or probably foreign policy. And then there are countries that will be under pressure to decrease public spending and could put a lot of people on the verge of poverty. Which one of those Latin Americas should be focused on, or should we focus on all three, and how should we think about the region?

MR. CARDENAS: Well, thanks. Thanks very much for your question. Let me say something first before I go into the specific issue of Latin America.

And I think we all know that crises are opportunities. We know that at the personal level, at the business level, at the national level, and now at the global level. So, I think the question is what's the opportunity? Now, underline this global crisis. And to what extent the G-20 meeting is going to make that opportunity arise, and many people say that the opportunity is for the creation of our financial super regulator, a global regulator that will somehow coordinate financial supervision and regulatory policies. I don't think that's what's going to come out of these meetings.

I think countries are not in a position to surrender their sovereignty on this issue. It doesn't happen yet in Europe, and it's not going to happen at the global level. I think the opportunity is a different (inaudible). I think the opportunity that would probably be captured during this weekend's meetings is the opportunity to reform the multilateral banks and particularly the IMF.

We know that hard times provide a unique opportunity to make decisions that for some reason are difficult in the good times, and the decision that I think needs to be made now is to make the IMF more capable of responding, and that means that the IMF would need to be capitalized. The IMF today has a capacity of only $250 billion to respond, and that's something that can be easily used in one day if countries need that. So, we have to raise the capital to about a billion dollars. And we also have to change the governance of the IMF. I think this crisis is showing that the veto power of the U.S. does not work for the benefit of the world. Maybe things would have been different if the U.S. government had listened to the IMF, and that governance structure could change by increasing the shares of other countries in the IMF and particularly some of the countries that are going to be sitting at the table during the G-20 meeting. So, I think that's the opportunity that is related to the crisis.

And let me also say that crises not only bring opportunities. They also bring a lot of pressure from the public, and rightly so, to respond in a pragmatic way, to basically stabilize things, to prevent the crises from becoming bigger, and I think most developed countries have responded in a very pragmatic way. The U.S. government certainly has done it by providing fiscal therapy -- help to the financial sector by also making the Federal Reserve lower the interest rates and provide liquidity. And that has been followed by other countries – China’s financial fiscal stimulus package, for example. We've seen that in the UK. We've seen that in Germany. We've seen that in Japan as well. But we're not seeing that yet in the developing world. And the reason we're not seeing that is that it's much harder for a developing country to adopt counter (inaudible) measures. It's much harder when you are a country with a central bank that does not have the levels of credibility that central banks in the developed world have or when you have a government that is not able to borrow in unlimited ways, like the U.S. government can. It's much harder to adopt these stabilizing policies. So, the G-20 countries here -- we have to talk about that, how to allow these emerging countries and developing countries to be able to basically expand their government expenditures and lower their interest rates without the IMF or the international financial markets penalizing them. I think this is a very important issue that to me underscores an asymmetry in the international financial order.

And to finish with your specific questions on Latin America, I think Latin America in general is in a difficult situation, because it's not only the effect of the financial crisis on capital flows that is very evident, but it's also the effect on the commodity prices, and as you know Latin American steel depends heavily on commodities. That's its main source of exports. So, these two forces will result in a deceleration of economy growth. The current forecasts talk about 2 percentage points of lower growth next year, and that of course creates an excessive (inaudible) and social tensions and creates political instability, and I think this is something that should be an issue of concern, because it could also have an impact -- a negative, indirect impact -- on the U.S.

MR. ANTHOLIS: Let me follow up on that issue of commodity prices. I mean, I think a year ago if you asked people in Washington about their concerns about China -- for instance, there was a great concern of China going to Africa and Latin America and locking in various commodities markets -- any senses in the midst of the crisis of whether or not there's a sort of massive Chinese pullout, or is there a sense that China's going to stay engaged as a long-term player on these kinds of issues -- as a constructive force?

MR. CARDENAS: Well, the one thing that I think is very positive about recent trends in Latin America's economies is the high correlation with China's GDP growth. If you look 10 years ago, that correlation was nil. Today it's about .3. That means that when China grows, Latin America grows. And some countries grow more than others. So, as long as China continues to grow -- and let's say that the new projections for next year are about 8 percent -- as long as that's the case, that's very good news for Latin America, because that means that commodity prices will continue to be relatively high, certainly above trend, and that means that there'll be investment from China coming to Latin America. So, I think this is good news. The way in which our economies have diversified it certainly has made them more resilient, and I think this is important. That's why it's also a key issue for discussion whether this 8 percent forecast for China's growth for next year is reasonable or whether we could actually see some surprises coming from Asia next year.

MR. ANTHOLIS: Let me turn the questions back to Colin and then open it up for the audience.

Colin, you've spoken in the past privately about sort of the politics within the G-20. Give us a sense of this week's meeting. You know, there's the U.S. and Europe, which we've all watched for years in the G-7, those of us here in Washington, and the Japanese, but give us a little sort of inside sense of what the dynamics among this group of 12 new members, and certainly people are going to be looking at how India and China act in a group, but what else can you tell use about on the inside of the group?

MR. BRADFORD: Well, I think we'll see this weekend -- and perhaps we won't -- but I think the issue that a number of us have already brought to light here is the relationship between the economic issues on the one hand and the institutional representation and institutional capacities to address the issues on the other. And I think the vital thing that has come to the fore in both this transition from the G-8 to a G-20 at heads of state level and in the conversation that will take place on Saturday and has taken place in these halls and many others about the Bretton Woods reform of the IMF and the World Bank, both of those represent the same problem, and that is how to integrate Asia into what has been a Trans-Atlantic biased world of the IMF, the World Bank, and the G-7/G-8 summits. And in one go here on this weekend by convening a meeting of G-20 at heads level, and by the fact that almost certainly there will be another meeting of the G-20 at heads level early next year once the new President is in place in the United States, and probably again even during of the course of the rest of that year, is that I would argue that the G-20 now essentially replaces the G-8 as the global steering committee, and the G-8 becomes a Caucus, a transatlantic caucus, a regional grouping that prepares for that. Now, the problem in the front is exactly the same -- is that 49.5 percent of the voting shares in the Fund, as all you know, are represented by the United States and Europe. Only 5.6 percentage of the voting structure of the IMF is in the hands of China and India. This is ridiculous. It just doesn't make sense in a world in which Asia's wanting to be a partner in this enterprise, and I think that the dynamics that are really underneath this -- Bill, which I know you've been concerned about -- is that -- the curious point is that you can't expect Asia to be a real player, partner, and participant in global decision making unless there's room at the table for them, unless the voting shares are congruent with their weight in population, in GDP, in trade, in finance, and in general cultural clout, if I can put it that way, in global society and the global economy. So, making the Europeans to see the writing on the wall and stop the white knuckle -- the holding on to their chairs -- there are eight chairs at the IMF, and there are 33 to 34 percentage points of voting chairs in the IMF, and yield up some real space -- I mean, like 5 to 10 percentage points of space for Asia to become a real partner in the IMF -- is -- and to have the Europeans and Americans decide to open the prerogatives they've had in the past to appoint the head of the IMF and the president of the World Bank rather than open it up to merit-based competition, these kinds of moves look like -- to the naïve eye they might look like idealistic moves. In fact, I think they're urgent, pragmatic, real politic moves that are absolutely necessary in order for

China, Korea, Indonesia, and even Japan for that matter to feel as if they are in fact real partners and participants on some sort of equal level with the transatlantic powers in global finance, in grade, in global growth, in global health, in global poverty, and not to speak of energy and climate change which is just around the corner. So I think we're moving in a very positive way because I think de facto what's happening this weekend is the G-20 is replacing the G-8 as the global steering committee and here we will be able to have a group of counties that are seen around the world as representing in a much more fulsome way the world itself rather than the transatlantic.

MR. ANTHOLIS: Eswar wanted to get in and then we'll go to the audience for questions.

MR. PRASAD: In order to know how to solve the financial regulations problem, we may not know how to get out of the crisis, but one thing we can all agree upon is that we need a better IMF. In fact it's too bad that Katie Couric forgot to ask Sarah Palin.

I'm sure even she would have said that we need a better IMF.

MR. ANTHOLIS: Also what it stands for do you think?

MR. PRASAD: It's an opportunity as Mauricio pointed out. These two issues in my view need to be thought of together, the capital and the legitimacy which comes from giving adequate working rights to the new powers and I think separating these two issues, which is the way we'd thought about it to a good extent, is really not in the cards. This is a time when the IMF, to be an effective fire fighter, really does need more resources. As has already been pointed out, $250 billion in this world of $700 billion bailouts and trillions of dollars in cross-border capital flows just doesn't cut it. So I think we have a very good opportunity now to come up with a mechanism where we can tie in countries that have emerged as bigger powers putting more capital into the IMF in exchange for more of a voice.

But this cuts to the more fundamental issue of what the role of the IMF should be, and Wing has correctly pointed out that we may be asking too much of the IMF. Having been an IMF staff member, I can assure you that it's not an evil imperialist organization. It responds to the desires of its members and it is the desire of the members that the IMF look at a lot of these things. So the question is whether there is a vacuum out there for an institution of this sort that can manage the macroeconomics and the financial system. And I think we have come to a point now in the evolution of the global economy where these things cannot be separated. In fact, there is a very deep irony if you think about one of the pieces of tinder that allowed this crisis to get going which was the extreme virtue of the Chinese which is one way of thinking about their high saving rate, their high current account surplus, which in a sense allowed the U.S. to run relatively profligate policies and that virtue is now coming back to hurt the Chinese via what happened in the U.S. and the explosive effect on the financial system.

But also the fact that we cannot disentangle the financial system and the macroeconomic policies perhaps means you need arbiters on both fronts to set the rules of the game. My view is that the Fund can be much more effective in terms of macroeconomic policies. We cannot separate them from the financial issues, but unless we get the macroeconomics right, it isn't going to work well. And here I think we need to think about this new world where the U.S. and those who have the 49.5 percent of the world as Colin pointed out are not hectoring the others to do the right thing. There is a common interest here and allowing these important players to have influence at the table I think is going to be much more relevant as we go forward in bringing these common interests together in terms of keeping the macroeconomics sound and then I think we have to tie in the financial part of it, but ultimately, until we get the macroeconomics right, it's going to be very difficult to get away from the potential that financial system weaknesses can become much more explosive.

MR. ANTHOLIS: We'll now take questions.

MR. KEIDEL: I'm Albert Keidel from the Carnegie Endowment. Thank you for a great program. I wanted to ask the panel about the kinds of institutional changes we might see coming out of this meeting. We've talked a lot about the IMF and that historically quite a role in the financial sector, but I think as a number of you have pointed out we're now also moving into a very serious real economy crisis as it spirals downward, and the World Bank's original name was the International Bank for Reconstruction and Development. Is there some way to specialize between the two where the World Bank, which is newly born possibly out of this meeting with a mandate really not just to work with poor countries and poverty levels, although that's extremely important, but also to have the capability to address the global crisis in terms of effective macroeconomic demand.

In terms of the governance of these bodies, I'm wondering what you think about the difference between changing it now given these circumstances or designing a formula by which it would continually change over time as a certain combination of economic factors evolves and particularly with the growth of the Asian economies and in particular China so that it's not one more once and for all redefinition but, rather, a process in which it's redefined.

Finally, behind this is the role of the U.S. dollar which is clearly base money for the world right now. We're seeing the strength of the dollar and the U.S. Fed making money available to central banks around the world on a scale to keep the dollar weak that humbles our criticism of China for trying to do the same thing again in the name of stability. How do we solve these institutional problems on the realistic foundation of the U.S. dollar as the only really effective base money for the kind of expansion in world liquidity that we're going to see?

MR. WOO: I think the question of how do you make institutional changes, one thing for sure, my prediction is Asia will not be pushing for this ownership restructuring that is talked about largely because there is no consensus within Asia on what its position ought to be. It has everything to do with the fact that China has not made up its mind yet on what its role in the world ought to be. This is why in general China takes a very passive stance in international organizations. In WTO negotiations, China has clearly benefited the most from the existing system, yet it's not working hard to protect multilateral free trade. It is because China knows it can continue to do well within the existing system and it does not want to be seen to be in the position of challenging the United States and its role as global leader. And because of this concern of not being a challenge to the United States, China has kept back on the quality and the quantity of its voice in International organizations. This is why all this talk about needing to restructure the Executive Board to give more presence to the new powers, as far as Asia is concerned, that initiative would not come from Asia largely.

What Asia is more concerned about is that if we do increase the size of the IMF reserves, it should not be the only monetary fund in the world that should be funded. There should also be a quiver of other financial facilities in the world, for in the same way that there's the World Bank and the African Development Bank, the Asian Development Bank and the Inter-American Development Bank, the IMF could have fellow travelers on the road of fire fighting.

To come back to the question of what would China like to see at the G-20 meeting, clearly it is to prevent another financial market meltdown which means that there has to be harmonized international regulations to prevent international financial centers from engaging in the race to the bottom. All financial regulators are in agreement that the U.S. is under-regulated, but because of the presence of the London market there have been letters to the "FT" by

U.S. financial leaders that we should not strengthen financial regulation in the United States. I think the Asian agenda at the G-20 meeting on institutional changes is a very modest one.

MR. ANTHOLIS: Mauricio?

MR. CARDENAS: Just a brief comment on that angle of your question that deals with the competitive depreciation. Are we seeing beggar thy neighbor policy by some countries allowing their currencies to depreciate? I think that was true during the first half of this year when you saw the euro getting stronger and the dollar weaker, but to me that was just a reflection of the fact that the Federal Reserve was lowering interest rates whereas the European Central Bank kept rates high. Now that we are seeing more coordinated action at least between the central banks of Europe, the U.K., the Federal Reserve, and the Bank of Japan, you're not going to see that much competitive changes in the exchange rates as a way of taxing the crisis. The issue of China remains, but coordination in monetary policies to me is the response to that part of your question.

MR. VAN AGTMAEL: Antoine van Agtmael of Emerging Markets Management. One brief comment and then a question. The comment is just from the point of view of a market participant on this G-20, my sense is that market participants expect as a minimum four things, and if they don't get it I don't want to be around on Monday morning. One is basically a serious coordinated fiscal stimulus in the order of at least a trillion dollars, they want a number, and so they want more than a photo-op or a symbolic kind of we're all on the same boat statement. That's one.

Two is a clear commitment that something is going to change about these voting rights, not just talk, but a clear commitment. It can't be done during this meeting, but a clear commitment. Three is as you already said some form of emerging markets whether it has to be Asian or an emerging market, but some form of emerging market swap facilities of sizable proportions. Fourthly I think some kind of, it may be subtle but nevertheless, admission that the United States was at the center of this crisis and that the rest of the world were not perpetrators but victims of this crisis. I think these four things are necessary to give markets some kind of confidence that things are moving in the right direction as a minimum.

My question. Last year the talk by everyone was that the IMF was too big because there were no problems. Now the question I have particularly for all of you is: is the IMF too small? And do we need something bigger than the IMF, particularly if within the IMF you cannot do anything major, and I'm not talking about 2 or 3 percent, about voting rights, do we need to create something new where there really are serious voting rights?

MR. PRASAD: Let me start with the fourth of the points you made. In fact, I think the least-constructive thing the G-20 could do right now is to start thinking about assigning blame. I think one of the big concerns right now is that there might be attempts to role back certain things. In fact, the way I would put it is that this would be a very good opportunity in fact to make sure that we don't relapse into any form of trade protectionism which can be a very broad category including the sort of devaluations that Mauricio has talked about. In fact, I think it's a good opportunity for these leaders to reiterate their commitment toward a more open agenda which I think ultimately is where a lot of benefits could come from.

The other concern I have is about financial protectionism of various sorts. Given that this crisis has come to the shores of many countries that feel that they had nothing to do with the crisis, there might be a temptation to think about capital controls on one side, I know you're not recommending this, on the other side you have in the U.S. this notion that having the Chinese or others come in and buy our assets is somehow a bad thing. I think the free flow of capital ultimately has been helpful, but it does tend to exaggerate problems that are in the system, so if you don't take care of the root problems then it will just make things a lot worse.

In terms of the specific issue about the IMF, I think what this crisis has shown is that the IMF needs more resources in terms of money, but it needs a somewhat more narrowly defined mandate and, like I said, some more legitimacy, and those are the things that have been lacking. It's not the number of people at the IMF that matters, and I think it's in that sense that the IMF needed to shrink, but it does need to be able to lather up its resources much more effectively.

This crisis has been different in one very important way which we did not fully anticipate, which is that typically the IMF money served as a catalyst for private-sector money to come in. The IMF would provide its Good Housekeeping Seal of Approval and private money would flow in, and what we have learned now is that we cannot count on that anymore. This crisis has been very broad and perhaps future crises will be as well given how tightly these global markets are interlinked. Perhaps crises are going to have this effect that private capital can no longer be trusted to follow IMF capital and therefore IMF resources become much more important.

But again going back to the points that were made earlier, giving the IMF a lot more resources without changing the nature of the institution both in terms of the voting rights within the institution and the specifics of its mandate, I think that wouldn't get us very far.

MR. ANTHOLIS: Wing and then Colin.

MR. WOO: I sign on to all four of your proposals. I think it would be a mistake not to identify clearly the causes of the present crisis. After all, Eswar, you have blamed China's high savings for stifling off -- keeping the markets so cheap that the U.S. overborrowed. If the fault lies in China, then what ought to be done is to cut off its ability to export. That would be exactly the wrong thing. So it is important to identify the source of the crisis.

I would say it is true that Chinese savings might have kept mortgage rates low, but the point is that at the same time there were all these financial market innovations, the subprime market innovation, that kept mortgage interest rates low. Edward Gramlich, the late Federal Reserve Governor, had pointed out very well the reason why the U.S. financial mortgage market boomed so much, it's because of financial innovations that were not adequately supervised. I fully support innovations of all kinds, be they on the production side or on the financial side, but just like genetic engineering of the food supply, you need regulation of new products. So I would say the fault for the crisis rests exactly in absence of financial regulation in the U.S. and incompetent monetary policy that focused on CPI targeting without attention to asset bubbles. Bernanke 10 years ago wrote a paper which says even if a bubble exists, keep your eye on the CPI and everything will be hunky-dory. This is not just China’s over-savings leading the world down to the deep doo-doo we are in.

MR. ANTHOLIS: Eswar, respond, a quick word from Colin, and then I want to get a few more questions in from the audience.

MR. PRASAD: I agree.

MR. ANTHOLIS: Usually we have violent agreement on the stage at Brookings. So we're all enjoying this.

MR. PRASAD: He didn't even know what he was getting into it. He thought it was going to be a mild, sedate panel.

MR. WOO: The truth is what will set us free. So that's what I want.

MR. PRASAD: Yes, we're all begging for the truth, Wing, but you're absolutely right that laying the blame for the financial crisis on China is not what I intended to do. I was pointing out that there is an irony to the Chinese through their virtue, essentially having been a bit.

But to me there is a striking fact which we've all referred to in this debate, the notion that somehow the U.S. dollar still remains the standard of value for the world at large.  And, at a time like this, when in any other country, if the financial system was going through this sort of meltdown, the currency would be plummeting; it doesn't happen in the U.S.  So just there's something special about the aspect.

To me, what I see from that actually is that the financial markets in the U.S., even at the time they're imploding, there is one part of it that is relatively strong:  People still seem to trust the U.S. Government, and the U.S. Government debt is still considered the safe instrument.

Ultimately, financial markets in many of these other countries, including the emerging market economies and including China, are not very well developed.  So I see the saving issue in China as essentially something that may have been a symptom of the lack of adequate financial market development. Here, again, one has to draw a very strong distinction between what one thinks about in terms of financial innovation in a country like the U.S. versus the very basics of financial development in a country like China or India.

This is why I think this notion of global regulation of the finance system exists because the initial conditions are very different. Here, I will note that the emerging market economies have, in a sense, responded much more maturely than the U.S. In the U.S., you have this notion of short-selling somehow becoming one of the prime culprits, and you have the short-selling being shut down. It makes very little sense.

China and India are responding much more sensibly, mind you. They're saying they're not going to look for innovations. They're going to go back to basics. Well, the basics are really important. We cannot, because of the crisis, stop thinking about financial development and financial inclusion which means bringing more people into the ambit of the financial system. Those things have to go on, and I think those are very important priorities.

There is in this debate a bit of confusion between this notion of innovation on the one side and very basic financial development. And, I fear that if we start trying to argue that there are problems with financial development in the U.S., that it reached a level where unfortunately things fell apart, that somehow all the financial development is going to be implicated. So I would argue that there is, in fact, a fundamental difference between the initial conditions and how countries should be responding to this notion of trying to allow the financial markets to flower but in a very limited way.

MR. ANTHOLIS: Colin?

MR. BRADFORD: Yes, just a couple points. I mean, first of all, I think we should be clear about the fact that this crisis has revealed much more severe fissures in institutional and regulatory supervision and oversight structures and processes within economies than it has between them.

And so, we don't really have to expect out of this weekend anything in terms of a global financial regulatory authority or anything of the sort because I think the way that would happen is by the process I indicated before, where you have national officials developing innovative reforms in these three domains in the financial markets and the role of governments in them within countries, which then leads to a global economy which is much more stable, but not that it would come from the IMF or that it would be uniform in any way, but rather that it would be idiosyncratic but nonetheless based on experience, comparative experience in the various countries. That's number one.

Number two is I'm a little bit concerned about the argument that seems to arise in Anglo-Saxon countries in economics, which is that this is not the time to worry about regulation, oversight and supervision of financial markets because of the fact that we're in a downturn and we're in a crisis and that if you start inserting government into this financial arena, that you are somehow going to dampen further or deepen more the crisis that we've already got.

I think if you don't act now and you don't initiate now, more importantly, a set of processes in which governments, especially Anglo-Saxon laissez-faire capitalist governments like our own, we don't really face the music and then face the experience that other countries have successfully had in meshing markets with governments. It's not an either-or dichotomy as we economists are wont to make it seem. I mean this is not a choice between a state-run and market-run economy. It's a choice about how, in fact, the government can operate to facilitate a market economy.

And so, I think that dialogue is vitally important for this country. I think what it requires is an administration that is better at listening than talking, and I think we're about to have one of those.

I think it's a moment in which it's a political moment over the next year in which you can foresee that the United States, and I think Britain would participate in this since we're the main culprits, I think, but not the only ones and really try to jumpstart this. There's a need to assert public responsibility for national economic and international economic life.

The idea that somehow we can persist with the notion that we shouldn't touch financial markets because they're too complicated and the players are private sector people and they know best and, in any case, competition, if it carries out properly, will be optimal has clearly been proven in this case to be wrong and insufficient. What we need is not to jump in and over-regulate but to prudently and pragmatically set ourselves on a process whereby we do something in this arena.

MR. ANTHOLIS: Mauricio?

MR. CÁRDENAS: Well, just a quick comment on Antoine's last question, which is do we need something bigger than the IMF? I do agree that we need a big IMF, bigger than it is, but not something like a new entity, not something like what some people expect the new Bretton Woods, Bretton Woods II.

I think this is about a recalibration of what we have, which is the IMF at the top with more capital. The question is how is that capital going to be raised, and I think this is one of the issues that's going to be discussed during the weekend. Apparently, the Saudis are willing to bring it up. But if it's just the IMF acting as an intermediary, I don't think it's going to solve the problems that we have on the governance side. That's why my suggestion would be to take this opportunity to make the reforms at the IMF.

Now do we do something in addition to the IMF? I think this is the right time to suggest creating initiatives at the regional level for Asia and Latin America to allow countries to deepen their capital markets and to issue debt in these regional markets, which can also act as a cushion for this type of crisis.

So I think it's the IMF with more capital plus the development of regional markets both in Asia and Latin America.

MR. ANTHOLIS: Wing wanted to get a quick one, and then I'm going to cluster three or four questions from the audience.

MR. WOO: I think that Antoine's four suggestions should be operationalized for the G-20, setting up a global financial secretariat, and I propose that it not be put under the IMF largely because of East Asia's aversion to that institution.

Is the IMF too small or too big? Clearly, there are two ways to increase the supply of global public goods. One is increase the size of the supplier. The other one is increase the number of suppliers. I think these are not either-or. You could do both, and we could afford to do both.

MR. ANTHOLIS: The Von Otmell system, okay. I'll take four questions from the audience -- this gentleman right behind Antoine.

QUESTIONER: My name is Midri Anoyak, and I'd like to ask basic questions. What's the reason of this crisis? Is it an accident on the road of prosperity or are there some fundamentals behind this and why has it happened suddenly?

Why have none of you mentioned the Wall Street market? Market with papers, not with products and services is the reason. Otherwise if you don't understand the fundamentals, the reasoning, you cannot improve anything.

It’s my opinion it’s a foolish idea to create a Homeland Security Department to fight terrorists, as is increasing the number of departments to heal this financial crisis. I don’t understand, honestly.

And, my question is this: Is it an accident or are there some fundamentals behind this?

MR. ANTHOLIS: Let me take two or three other questions, and then we’ll turn to the panelists. The woman in the peach sweater.

QUESTIONER: So the elephant in the room that I think this gentleman somewhat referred to is that the present international monetary system is hopelessly bankrupt, and the idea of addressing this situation without addressing that, you can imagine.

So the proposal on the table of putting the present international monetary system through bankruptcy proceedings in order to salvage the physically necessary assets of this system and letting go of the speculative assets of such folks as Soros who created the ‘97-‘98 Asian currency crisis is the immediate step on the table. So if someone would respond to that.

That can be the basis, a new credit system as founded on the U.S. Constitution of setting up a new international monetary system.

MR. ANTHOLIS: The woman in the front row here in the white.

QUESTIONER: My name is Sandra Singer.

One of the panelists mentioned that an opportunity would be to reform the bank. So to what extent is fractional reserve banking the cause in this crisis and perhaps contributes to the disparity between G-20 countries and developing nations, and what is the possibility for change in this area?

MR. ANTHOLIS: Then there was the gentleman in the bank with the turtleneck.

QUESTIONER: Zhou Zhong from Samsung Research Institute.

I think there are a lot of things we can talk about, the causation and outcomes. But let me talk about because this is a financial crisis, we are focusing on the IMF and new Bretton Woods systems. The European countries were brought up. One of you wrote about that.

But this is about the poll. My question is: To balance our argument or debate or talk about the global change, let's focus on the WTO system. How does the IMF, at the same time, the WTO has to be changed or do we need any kinds of balanced changes in world economic systems and order?

That's my question. Thank you.

MR. ANTHOLIS: Anybody hear a question out there that they really wanted to immediately get to? Mauricio?

MR. CÁRDENAS: Yes, I think these are very serious questions, and these are very serious answers. I want you to understand that what I'm talking about is not who caused this or what should be changed to resolve these fundamental causes but more what can be done to avoid larger damage.

It's very clear that the problem had to do very significantly with financial regulation and supervision here in the U.S., not so much for what people think, that there are certain financial institutions that are not regulated. I think the regulation exists. I think it's more a matter of applying, but that's going to take time.

It's going to take time to change that. It's going to take time to think about where the adjustments to the regulatory framework here in the U.S. are because it's easy to put the blame on Wall Street, but at the end of the day it's the payments system, and the payments systems is fundamental for this economy and for any economy. So we have to think about smart ways of adjusting regulation here in the U.S., and for that purpose I'm sure the best minds can work on that.

But at this point the concern for me is not that. The concern is what happens to the rest of the world and how we can prevent this from creating a major, major global problem? That's the chapter we're looking at. It doesn't mean that we're not thinking in terms of the deeper causes of the problems. It's just a different level of preoccupation.

MR. ANTHOLIS: Eswar?

MR. PRASAD: So these are very deep and difficult questions, and let me try to wade in at the shallow end.

One thing the crisis has shown us is that we do need more clear rules of the road, and we also need people to enforce these rules of the road. But the problem is that, going back to this gentleman's question, the fundamental issue is that people are going to work in their self-interest. So the big question is how do you set the rules of the road such that you can harness the self-interest in a particular way?

What we have seen is that one country or one actor in the system not thinking about its consequences and others has a very significant effect, and this is pervasive at different levels in the financial system within a country and at the country level. We should have had much more effective enforcement at the country level.

I mean we've had this discussion about the IMF, and the IMF's fundamental role, of course, was to provide surveillance of macroeconomic policies. But the problem is that the IMF does not really have levers that it can use very effectively when a large, systemically important country, be it the U.S. or be it China, adopts certain policies that may be in its interest in the short term, but ultimately are not in its long-term interest. So setting an arbiter that in a sense can think about these longer-term interests of the world at large and prevent a systemically important player from taking policy actions that ultimately have very negative consequences for the entire world community, I think is a tricky part.

On the financial regulation, I think Colin has said it just right. We cannot, at this stage, say that regulation could potentially make things worse. We need to start thinking.

But there is again this potential for a knee-jerk reaction to say: We need a lot more regulation because there was this part of the system that was not regulated. So let's bring it all into the regulatory ambit, and then we'll be safe.

That, in fact, is I think a bit of an illusion that we can, in fact, regulate all of the system because again, human nature being what it is, you regulate one part of the system and people flood outside the system to an unregulated part and ultimately we don't need to think about how to structure the regulation in a much more sensible way. And I don’t pretend to have the answers, but again, framing this issue in the right way in terms of thinking about how you regulate your principles that can account for this leakage from the regulated part of the system, and how you prevent it from affecting the regulated part of the system is the big issue. But again, this is an answer at the very gentle and shallow level and trying to think about how you come to grips with the actual regulation without it coming back to bite you. It’s a difficult question, and we have to start thinking right now. The notion that we have the luxury of waiting for a while before the dust completely settles down before we even start thinking I don’t think is the right answer. But again, there is a risk that we could do too much in the heat of the moment.

MR. BRADFORD: Well, I think it’s certainly not an accident, to go to the first questioner. I think that what we’ve had actually -- but it wasn’t sudden either -- what we’ve had is a gradual evolution of a combination of different problems at different levels. One is the global imbalances between the U.S. and China, revealing essentially an imbalance in what we call the "real economy" that is to say taxes and spending, a fiscal deficit which mirrors itself in a trade deficit in the United States, surplus, public, and private savings in China generating a trade surplus in China and accumulation of reserves. These are big imbalances that really shouldn't have gone -- they went -- they were noticed, and they were commented upon in surveillance exercises, at the Fund, and elsewhere, but nothing actually was done about it. There was no real effort -- and this has happened before where national governments are not willing to adjust their policies, in big economies at least, in a way which enables them to adjust them to the requirements of what the world needs them to do rather than what they need to do for themselves.

So that was one set of problems. The other was the issue of derivatives, which was a bundling of these security packages in ways that nobody could tell really what they were buying. Talk about a lack of responsibility. There was no real link between the lender and the borrower in the end. It was completely broken by this kind of financial instrumentalization and bundling and securitization of mortgages. That clearly is a practice that needs work and needs to be remedied. There's the whole question of adequacy of capital ratios. There's a Basel Committee, in fact, that's part of the BIS, which is a committee on banking supervision which looks after capital adequacy. There are 13 countries in this committee; 10 of them are European, two are North American, and one is Japan. There's not a single emerging market in this committee. And this reveals the connection between the regulatory mishaps that we've encountered and the institutional mechanism, the chief international institutional mechanism, which is meant to oversee them. So you have a compounding of financial, macroeconomic, institutional, and even instrumentalization of financial methods, which have all sort of combined on themselves and unfolded since the summer of 2007 into this crisis. And so it's not that the system in a certain sense needs to be remade; you just need to take these different pieces of it -- the macroeconomic expansion, simultaneous and coordinated, addresses the macro imbalance side. You start dealing with the regulatory side. You start dealing with the coordinated aspects of injecting enough finance so that you put a floor under the degree to which the financial crisis deepens still further. So even though they're fundamental and cumulative, it doesn't mean that governments and private actors and institutions can't deal with it. And I think what we're doing this weekend is taking steps towards addressing each of these things together for the first time, really, the real and financial side, as Eswar pointed out, the institutional side with the governance and who are the players and who are the participants and what sort of weights do they have. Just by the fact that there's a G-20 meeting at all symbolizes that. And from that I think -- as I've indicated twice now -- you can expect down the road some progress, some gradual, incremental, but steady and I think significant progress on the regulatory supervision and oversight front.

MR. ANTHOLIS: I think we’ve got time for two more questions. This gentleman here in the front with the striped tie.

QUESTIONER: Thank you for taking my question. My name is Hiroto Watanabe from Japanese newspaper (inaudible). Yesterday President Bush had a big speech. His message was something like the U.S. style -- American style of free market capitalism is forever. But the other concern is how President-elect Barack Obama will change, will shift, from that position. But during the actual campaign, Mr. Obama didn’t take a position on how to reform the U.S. financial system, or how fix global financial crisis. So are those relationships is keeping distance from G-20 meeting so I want to ask the speakers, what do you think is the principal agenda of new administration regarding the reform of the international financial system? Thank you.

MR. ANTHOLIS: And since we've got about eight minutes left, if I could ask you each to do two minutes. Then I'm going to bridge off that question with a slight additional one which is: and when will we know that the new administration has taken a new approach? What is a sign for you on global financial issues that the new administration -- that change has come?

MR. BRADFORD: I'll start off by saying that I think we're on the cusp of a new bipartisan era. But I do think that in the background and the shadow behind this era and revealed by the speech yesterday is the reason why there was a clear mandate for the next President of the United States, which I think is because the United States public realizes that the policies and directions and conduct of the Bush Administration were not consistent with American interests. And so, I think that what one of the changes that you will see -- it's impossible to answer your question of what does the Obama Administration think or what will they think about this -- but what I think you can expect, and my take on why the President-elect has chosen to make such a clean and clear demarcation line of January 20 and not before is precisely because the country has been off on such a wrong footing that he does not want to confuse the one administration with another. The American public and the world public expect a new and different set of policies, objectives, and style, and tone from America. And he does not want to confound anybody's impressions about what he's up to. So the first thing I think you can expect -- which is very germane to what's going to happen this weekend and the form that it's taking -- is that the administration will listen and be more responsive precisely to where it is that America's actions fit into the larger global context. That has been entirely missing in the last eight years. And I think that is the abrupt change that you won't notice so immediately because it takes time to absorb what it is that is in the U.S. interest, but is also in the larger global interest. And I think -- unless I'm misreading him, which I don't think I am --

I think that Barack Obama is very keen to shape his policies based on what’s in America’s interest, but in relation to the larger global interest. And so out of that I think you will see very substantial changes in policies in every region of the world, toward every region of the world, and towards the global challenges in particular. And that you will know when, in fact, change has come because it will be clear to everyone, but it may not come for a while.

MR. ANTHOLIS: Wing? We’ll work from the center out.

MR. WOO: I think the single biggest change will be that the next summit that he’s called to is the G-20 summit instead of G-7 summit and instead of just focusing on narrow national economic interests, the focus will be on global energy and climate change issues. I think that is what you can see, a more inclusive and wider agenda that goes beyond national level.

MR. ANTHOLIS: Mauricio?

MR. CÁRDENAS: I'd like to make two comments: One in regard to this last point and one more directed to responding to your question. I think you're right in terms of convening the G-20, but I would urge for a reform of the G-20. I think Europe can speak with one voice. I think that will free four spaces in that group of twenty, and we need the Indonesias of the world. We need the Pakistans of the world. We need all the countries to have their voice. And there could be a steering committee of G-7 or G-8 countries where Brazil, China, India are included. So I think that's an adjustment to the G-20 that will be functional and will allow these other problems -- energy, trade, the environment -- to move ahead.

In response to your question on yesterday's speech by President Bush, I also read it. And I have the impression that Libertarians are taking a hard blow from these crises. But I would also warn as Paul Samuelson did at 93 in an article he published yesterday in *Spiegel Magazine* in Germany that there is a risk of moving too far to the left. This is not the time to worry about distributional issues. This is the time to adopt pragmatic responses to the crisis, and I think the challenge is to stay in the center, to put it in political terms. The measures that have to be adopted are challenging enough. Reforming the regulatory framework for the financial sector and basically providing the stimulus to these economies. Is it going to be to big Detroit corporations? Is it going to be the homeowners? Who's going to get that? And these are the challenges today, and we should put distributional issues a little bit on the side while we get the economy back on track. That would be my suggestion.

MR. ANTHOLIS: Eswar, the final word?

MR. PRASAD: There is a fundamental shift coming, but I don't think the fundamental shift is going to be in terms of a divorce from the basic free market principles that have generated American dynamism. But I think it's more the idea of allowing this sort of dynamism to simply generate and essentially meaning what you say, and let me be very clear about what I mean by that. The Bush Administration did take this philosophy of allowing the market to flow, but it worked in a very strange way. On the one hand, you did have implicit government intervention in many parts of the economy, including in the financial system. Of course, this is not the fault of the Bush Administration, but you did have one part, including the government-sponsored enterprise creating a distortion in the system. It was made worse by another part of the system where essentially you had a Wild West sort of capitalism being left to flower without any rules being created or rules being enforced. I think there is going to be a substantial calibration of rules under the new administration. Two words? Putting the government involvement where it really ought to be, which is in terms of creating the right sort of rules whereby this free market dynamism can be harnessed, but without creating this much more generalized risk.

But again, going back to an earlier thing -- it’s not just the financial market that needs to be taken in isolation. It's macroeconomic policies. And to put it in another nuanced way, the macroeconomic policies of the last eight years have been absurd, and they have generated in a sense a very dangerous situation where these financial market exorcists have been enough to propagate and take on a life of their own. So I think the macroeconomics is going to be taken care of. I, again, have full faith that we'll have a much more sensible and balanced set of macroeconomic policies, and that I think is ultimately what will generate a lot more stability. In addition to a particular view of the financial system where innovation and the rules are very clearly defined and more importantly being enforced, not selectively, but in a much more sensible fashion.

MR. ANTHOLIS: I want to thank our panelists. They are, as you can tell, a terrific group. And I want to thank the audience. The number of hands that were up during this session was a real sign of how much these issues are really seizing all of us. So, appreciate you all for coming, and we'll see you at the next one.

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