78th Plenary Meeting of the Group of Thirty
Federal Reserve Bank of New York
Thursday, November 30 – Saturday, December 2, 2017

SUMMARY OF DISCUSSIONS

Thursday, November 30

Dinner Speech by Jonathan Haidt
Professor of Ethical Leadership, New York University Stern School of Business

Professor Haidt spoke about how social forces, tribal loyalties, and the psychology of religion are implicated in many of today's biggest problems, where groups conflict with other groups. Looking at two topics - populism and poverty - he suggested how an understanding of moral psychology can help economists and policy makers see forces at work which otherwise tend to escape notice - including those that shape thinking in today's universities.

Friday, December 1

The Global Financial Crisis at its 10th Anniversary: Lessons for the Future

The Plenary observed that the financial system had been greatly strengthened by enhanced capital, supervisory policies, and other interventions and mechanisms put in place following the crisis. Significant risks remained, particularly in market-based finance, and arising from the rise in leverage globally.

Participants noted the varied international experiences in dealing with the crisis, which partly reflected differences in degrees of freedom afforded to the various authorities. The experiences also illustrated the need for a systemic view of the economy and markets, and correspondingly for a broad arsenal of regulatory, monetary and fiscal policy tools.

Participants also observed that collective belief in the risk of future crises was prone to move in long cycles, as memories of past crises fade. Crises hence tended to take actors by surprise, and come from unexpected quarters. Robust frameworks for dealing with a systemic crisis when it actually occurs were hence essential. In particular, there was need for credible, ex-ante frameworks that build legitimacy and enable authorities to take necessary actions in crises.

Shifting Corporate and Investment Behavior to the Long-Term

The Plenary noted the importance of efficient long-term capital allocation for growth. However, the evidence was not settled on the extent to which market demands on corporate management, forward quarterly guidance, or bonus systems, had skewed corporate decisions towards the short-term and been counter-productive to innovation and the long-term health and success of firms.

Participants discussed various tools that could help shift focus to the long-term. One option was for asset owners/managers to have proxy votes. Investors' direct engagement with firms' management may also be effective. The role of the Board in ensuring that leadership and culture was focused on long term health, and sustainable strategies, remained critical in all of this.

Managing the Monetary and Financial Trilemmas

Participants discussed evidence on the extent to which global markets and interconnectivity were constraining countries' monetary and financial policies.

The discussion drew on recent research findings on the US dollar's preponderance in the pricing of global trade (which had been accentuated by the globalisation of supply chains), and on the 'stickiness' of dollar denominated prices for imports and exports outside the United States. At the same time, on the financial side, the dollar was dominant in global capital flows, investments and debts. US monetary and financial policies hence had significant spillovers internationally, particularly for emerging market economies, even with relatively flexible exchange rates.

Some emerging economies appeared to have been able to manage these challenges by avoiding the "corners" of the monetary trilemma (ie with regard to exchange rate flexibility, domestic monetary autonomy and openness to capital flows). However, there was still limited understanding of the policy trade-offs and the challenges in taking "intermediate" approaches. There was also a need for an agreed international framework to determine what might be acceptable or undesirable capital management measures in different circumstances.

A Conversation with Randal Quarles (open to the media)

Vice Chair for Supervision, Federal Reserve Board

Vice Chair Quarles addressed the United States' stated goals regarding regulatory changes, expressing support for judicious review and possible adjustment to the existing supervisory and regulatory regime. In addition, he stressed his support for the international forums necessary to coordinate regulation across borders.

Saturday, December 2

Winner Takes Most? Implications of a Divergent Corporate Landscape

The Plenary discussed developments that had led to winning actors securing an increasing share of markets.

Globalization, certain technological advancements, digitization (with more products having zero marginal cost) and network economics had increased the opportunity for winners to dominate markets. Additionally, the growing performance gaps between winning firms and the rest appear to have been reflected in increased income inequalities in the workforce in some countries.

Participants examined evidence that certain types of innovation and new business creation have declined. Some were not convinced that this meant that business dynamism as a whole was declining. There was also concern that more businesses would face difficulty in obtaining financing, since most would not succeed in a "winner takes most" corporate landscape. However, there was some doubt as to whether such a scenario was likely.

Participants discussed policies aimed at eliminating local protection of incumbents and rent seeking, so as to promote competitive markets. More broadly, there had to be fresh and fundamental thinking around anti-trust policies in the context of a new, digitalized environment, and around the ownership and exchange of data.

Demographics and Wages: Implications for Inequality over the Long Term

The Plenary discussed the factors which had resulted in a reduction in the bargaining power of labor in much of the advanced world over the last few decades. These included demographic trends, the opening up of China and Eastern Europe to global trade, and institutional factors such as the decline of unionization and fissuring of the labor market (with contract arrangements replacing traditional employment).

Some held the view that this dynamic may now have crested in many economies. Outside of Africa and India, there will be slow growth and eventually declines in working populations. The effects of globalization may also have peaked. These factors could put upward pressure on wages, ending a long period of stagnant earnings. However, increased wage pressures may be partly offset by increased adoption of labor-saving technologies such as robotics. The demand for labor could continue to fall as more processes, especially in manufacturing, were automated. This could pose greatest challenge in regions of the developing world with young and growing working populations.

There was also a view that real wage growth may have been underestimated, given present statistical methods. At the same time, it was noted that major surveys had captured a major decline in confidence of inter-generational wage mobility.

Participants discussed various options for addressing the challenges of demographics (especially the need to support a larger retired population and expanded healthcare systems), inequality and declining employment opportunities for some segments of the workforce - each of these being a major political challenge. It was generally recognized that the retirement age had to be raised over the long term, although there were political and physical limits to how far this could go. Efforts to mitigate inequality had to address the large educational divides in many countries, and growing gaps even among college graduates. These involved both government and private sector, and federal and local, initiatives. Other policy measures discussed included tax reforms, strengthening of appropriate social safety nets, and new approaches to competition policy as discussed in the previous session.