80th Plenary Meeting of the Group of Thirty
Hosted by the Federal Reserve Bank of New York
Thursday, November 29 – Saturday, December 1, 2018

SUMMARY OF DISCUSSIONS

Thursday, November 29

Opening Dinner
The Jungle Grows Back: America and Our Imperiled World
Speaker: Robert Kagan

Dr. Kagan spoke on the themes and arguments raised in his latest book, *The Jungle Grows Back: America and Our Imperiled World*. He underscored his concern that the retreat of America from global norms, and the historic leadership role it has played since establishing the post-World War II international institutions and system, would result in the decline of the liberal world order.

Friday, November 30

The Global Economy: Addressing a Future Downturn

Panelists discussed various challenges facing policymakers and global markets, and the tools that could be applied in a future downturn.

The monetary policy space available to central banks in a future downturn was more constrained, in large part to the lower neutral rate of interest. Participants also discussed the extent to which the low inflation, low neutral rate environment could persist over the medium to long-term. They discussed the scope for innovation as central banks continue the search for new and unconventional policy tools such as negative interest rates, and the need for monetary policy frameworks to evolve, with deeper knowledge on the effectiveness and characteristics of such unconventional policies.

Participants also discussed other policies to support growth, such as fiscal policy via recapitalization, automatic stabilizers, and countercyclical fiscal policy. Macroprudential policies could also be applied, and its integration with monetary policy improved. It was also noted that in many economies, the period of post-GFC recovery had not been accompanied by sufficient structural reforms. Such reforms, including those which could boost labor participation and productivity, had the potential to raise the neutral rate of interest.

Participants agreed that additional downside risks may be emerging, including those related to protectionism and trade tensions, and possible sharp changes in financial markets. Some believed that policymakers should focus on tail risks, which would have a larger impact on growth, instead of modal or base-case risks. New risks may also emerge, including those from the non-bank sector and technological developments, and policymakers must continue work on the resilience of the financial system, as well as enhance detection of the new risks. Continued international cooperation and coordination were critical in this regard.

Central Bank Digital Currencies: Aims and Prospects

Participants discussed the possible disruptive effects of digital currencies on payment systems and traditional finance. Technology entrants were taking rents away from banks. Another prospect was the proliferation of private 'stablecoins'. Central banks were likely to prefer developing instant bank account payment systems to retain control over their currencies, failing which they might resort to creating CBDCs.

Participants noted that central banks already had digital currencies at the wholesale level in the form of bank reserves. Additionally, investors can hold savings and make payments from accounts, such as through the U.S. 'TreasuryDirect'. While retail CBDCs offered certain benefits such as lower costs and higher transaction speeds, there were myriad issues to consider—including central banks' ability to command trust once they inadvertently monopolize the banking system and their capacity to assume public utility functions conventionally associated with commercial banks such as customer due diligence; and the changing nature of bank runs.

Participants emphasized the need for central banks to engage industry and the public on the potential of digital currencies. On the potential for CBDC to facilitate instant payments, some participants highlighted the importance of defining the significance of instant payments, and assessing the potential benefits to economic welfare.

Participants also discussed security issues. Digital currencies are potentially much more secure than paper currency, but high concerns remain regarding cyber-attacks, including state sponsored attacks.

Openness and Achieving Domestic Policy Objectives

Participants discussed the extent to which openness in the global economy had resulted in reduced macrofinancial autonomy. Evidence appeared to suggest increased transmission from U.S. monetary policy to countries around the world.

Participants discussed the monetary policy trilemma in this global macro environment. It was generally held that the exchange rate regime choice still mattered. In other words, there was not just a simple dilemma between open capital flows and sovereign monetary policy.

On monetary policy in 'source countries', there was discussion of the case for authorities to take into account the foreign impact of their policies, and to focus not only on possible spillbacks into the source economy but on the spillover effects that constrained other countries' policy space and could sometimes be to the detriment of the global economy.

Participants debated whether it was possible to have greater monetary policy coordination, or whether there were other mechanisms of coordination necessary. Considering the sovereign nature of domestic policy mandates, some participants suggested that it might be more practical to prescribe policy boundaries rather than policy decisions, as countries were unlikely to adopt close monetary coordination unless faced with a crisis of significant proportions.

Gala Dinner
Speaker: Michael Bloomberg

Mr. Bloomberg provided his reflections on the real challenges facing the United States, and the need for effective approaches to the issues of inequality and minority rights, a declining education system, and fiscal matters.

Saturday, December 1

Global Trade: How Do We Move Forward

Participants discussed the developing trade tensions between the U.S. and China and other states. The U.S.-Mexico-Canada Agreement (USMCA), which had yet to pass the U.S. Congress, was seen as a modestly positive step away from a clash among close allies. While there had been disruptive effects from changes in trade over the years, it was noted that trade was not an issue that played out in the recent U.S. mid-term elections, and it did not seem that the public had a deep underlying hostility against free trade.

Participants observed that the tensions in the U.S.-China relationship will unlikely be resolved in the short term. Some were of the view that while the U.S. could undertake further measures to try to contain China's rise, it was unlikely to be effective. China has developed both economically and technologically, and would not abandon its aspirations to develop even further. While its required reforms, including financial services liberalization, may take time to implement, China was likely to persist in these reforms in order to achieve its development aims. Some also thought that China will seek to uphold the multilateral system, rather than to upset it.

Looking ahead, it was possible to envisage that U.S. and China will make concessions that would be of mutual benefit. This would address some of the short term challenges, but not fully resolve underlying issues. In the longer term, there is a need to move from rivalry to mutual respect, which would involve rethinking the global order.

AI, Jobs and Shared Prosperity

Participants discussed how accelerating AI technological developments will likely be disruptive to certain economic sectors, but also open up opportunities in others.

Participants discussed how technological advances may result in increased concentration of wealth, with more industries characterized by "winner takes all" outcomes. There could also be a hollowing out of the middle class, with the job market becoming increasingly bimodal. There could be a growth of low-productivity, low-wage jobs in which people continue to be employed at low wages even if these jobs could be automated technologically.

Some participants opined that there was too much pessimism and determinism. For example, the number of people who have entered the middle class globally in the last 20 years is likely to have exceeded the number of people who have entered the middle class in the prior thousand years. Moreover, it was not a given that technological trends will lead to the natural hollowing of the middle class. One example was health care, where there are many middle class jobs created in the U.S. Technological advances could also lead to new goods and services.

Rather than view *artificial* intelligence displacing jobs, *aided* intelligence can help workers to make less mistakes, and make better and faster decisions. To ensure that workers were able to benefit from, rather than be displaced by, technological advances, it was important to develop the needed workforce skills. This also meant re-gearing education systems more fundamentally.