



GROUP OF THIRTY

Consultative Group on International
Economic & Monetary Affairs, Inc.

81st Plenary Meeting of the Group of Thirty

Hosted by the Banco de España

Thursday, May 23 – Saturday, May 25, 2019

SUMMARY OF DISCUSSION

Friday, May 24

Populism and Economic Nationalism: Domestic and International Implications

Participants discussed populism and economic nationalism as a recurrent, but increasingly pronounced, feature of national and international realities. While varying across countries, the factors explaining the rise of populism included heightened unemployment following the global financial crisis, job insecurity and wage stagnation of the middle class, increased inequality, and a perception that the democratic process had been captured by elites. The rise of the digital economy had also accentuated a clustering of talent in major cities, leading to wider geographical disparities within societies. Over time, these divergences had self-reinforcing economic effects. Participants, however, observed that not all forms of populism were negative – for example, where populist forces were supportive of the democratic process and transparency, or sought to answer legitimate public demands.

Participants were concerned about the rise and implications of economic nationalism, and the move away from a rules-based international order. The solutions had to begin at home, and included reforms in education and skills training, and in tax and other fiscal policies. However, fixing domestic problems was a necessary but not sufficient condition to redress the rise of economic nationalism.

European Integration: Architecture and Prospects

Participants discussed current and future challenges facing European integration. There had indeed been increased interest in European rather than country-by-country issues during the recent European election campaigns, centered around economics, integration, and immigration.

Participants discussed the challenges of greater fiscal and economic integration, and Eurozone reforms that included completion of the banking union. Given the size and complexity of the EU, some participants were of the view that a consensus-based approach was too high a barrier to adopting necessary reforms. A multi-speed Europe could be a practical necessity, leveraging coalitions of the willing where they existed on specific issues.

Some participants noted that the benefits from integration had often been nationalised electorally, while the EU paid the political price for challenges, quite often of a national origin. EU institutions and national leaders had to counter this paradox with communications that built support for greater integration. Participants also discussed the EU's potential to contribute as a values-based power, exerting leadership over issues such as climate change.

Saturday, May 25

Innovation and Financial Risk

Participants identified two general-purpose technologies as offering considerable opportunity for financial regulators, markets, and economies. AI could improve SME financing, while distributed ledger technology could help revolutionise payments. However, participants also noted that innovation could inadvertently increase risks, such as procyclicality, operational risks, AML and KYC challenges. It was also important to guide technological innovations to benefit society, and overcoming or mitigating biases in AI-based decisions.

Regulators would have to be open to new players as well as new approaches by traditional players; conversely, firms had to accept greater regulatory oversight in certain areas. A level playing field between incumbents and new entrants was necessary to foster competition and achieve that important balance between innovation and stability. Some participants suggested that regulators should be more concerned about BigTech, and the “winner takes most or all” nature of the networks on which it thrived. This had the potential to pose an existential threat to the banking industry, with implications for financial stability – more so than FinTech, which tended to improve existing processes in financial services.

Improving the Functioning of Labour Markets

Participants discussed various pressures in global labour markets including stagnant wages, increasing skill mismatches and shortages, job-displacing technologies, geographic divides within countries and regions, and their linkages to populism and economic nationalism. Innovative solutions were needed to support workers and the economy, and encourage social cohesion. There was also a particular need to lower barriers to entry to good jobs for the youths, who still faced issues of underemployment, and develop alternative pathways to employment beyond the traditional education system.

Participants considered instruments that could facilitate the matching of demand and supply of labour, including stabilisation instruments such as a social insurance scheme and better wage bargaining mechanisms. In a European context, these could increase worker mobility, and strengthen support for a common social policy and common identity. There was an exchange of views on the potential and challenges associated with an EU-wide unemployment insurance and the “Austrian backpack” (compulsory employee savings transferrable across jobs). Participants noted the resistance to increasing national fiscal commitments to the European Union, even if most states would benefit from a harmonized unemployment safety net. An EU-wide unemployment insurance scheme was also complicated by the fact that countries had divergent labour market conditions.