82nd Plenary Meeting of the Group of Thirty
Hosted by the Federal Reserve Bank of New York
Thursday, December 5 - Saturday, December 7, 2019

SUMMARY OF DISCUSSION

Friday, December 6

The Future of Macroeconomic Policy: Responding to Medium and Long Term Challenges

Participants discussed macroeconomic policy options in slow growth conditions, driven by structural and demographic factors. Sustained periods of low interest rates across advanced economies have created greater room for fiscal policy. There were suggestions for expanding automatic fiscal stabilizers, for instance through varying taxes on spending, more programs that are triggered based on macro conditions, and making infrastructure expenditure more countercyclical or at least acyclical. Other ideas included structural policy initiatives such as those to encourage greater participation in the workforce and immigration, expanding social insurance, and increasing investment in areas with high social returns such as the environment, education, and healthcare.

Participants noted that macroprudential risks may materialize from various sources, such as the search for yield in a low-for-long environment, new types of debt finance, and developing technology risks. Participants noted reasons to be cautious about the effectiveness of macroprudential policy in safeguarding financial stability, given the current scope of the toolkit. Macroprudential instruments, mostly designed to strengthen the resilience of banks, might not address emerging risks outside the banking sector or the build-up of underlying vulnerabilities.

Participants recognized that challenges and long-term risks also related to the ageing of societies, widening inequalities including across regions, competition between different economic systems, and climate change. These issues will have an impact on growth. Possible responses included greater local empowerment and place-based policies as part of efforts to build domestic consensus for the market economy, as well as a rethink and strengthening of the global economic architecture.

The Climate Crisis: Finance, Global Adjustments and Growth Paths

Participants discussed the financial sector’s role in mitigating the climate crisis. Some participants suggested that it was both technologically and economically feasible to make the transformative shift towards a zero-carbon economy by 2050, given the rapid fall in the cost of renewables and energy storage, and possible routes to decarbonization across different sectors in the economy.

Participants discussed the transition path for financial markets, which would require enhanced reporting requirements (as established by the Task Force on Climate-related Financial Disclosure and increasingly demanded by investors) and enhanced risk management. Participants also suggested that advancement of the climate agenda would require public and private leadership, simple and coherent public communications, redistribution policies to secure buy-in, as well as a focus on return.

Participants discussed the case for carbon pricing as a key policy mechanism to incentivize the transition to a zero-carbon future, as well as border adjustment taxes to prevent unfair competition between countries. Participants also noted other measures, including carbon regulations and support for R&D in technological change.

Roundtable on Central Bank Digital Currencies and Global Stablecoins

Participants debated a possible framework for understanding the case for digital currencies and stablecoins, with a view to informing a G30 study on the subject. Participants recognized the possibility of digital currencies improving existing payment systems, including enhancing financial inclusion and lowering the cost of cross-border payments, but emphasized the importance of being clear about the problems that the global financial community was seeking to address with digital currencies.

Participants also discussed the risks that may result from the use of digital currencies, including the disintermediation of financial systems, implications on tax collection, cybersecurity, and money laundering and terrorism financing risks. There would be different challenges and risks posed by permissioned and permissionless systems and currencies. Participants recognized that private digital currencies, if widely adopted, could also have significant effects on economic and monetary policies especially in smaller economies.

Saturday, December 7

Capital Flows and Exchange Rates: Evolving Thinking

Participants discussed the evolving thinking and research on capital flows and exchange rates, and the different pressures and dynamics on countries sending and receiving capital flows. To mitigate the impact of volatile capital flows, participants noted that governments have used different macroprudential tools and capital flow measures and considered their effectiveness.

Participants examined how capital flows had changed in response to the regulatory shifts required by the post GFC reforms. Those prudential reforms had contributed to a contraction in cross-border banking flows and lending, which had made banks more resilient and secure. However, this contraction had reduced access by emerging market firms to financing. Participants recognized that there were both direct and indirect effects of prudential reforms, including some effects that were unintended, with implications for the maintenance and smooth operation of open global capital markets.

Sustaining Liberal Democracies

Participants noted that the concept of liberal democracy only dated back to the 1930s around World War II, much more recent than the concepts of liberalism (first used following the Napoleonic wars) and democracy (dating back to ancient Greece). The idea of liberal democracies came together as a viable concept, and the conflict between liberalism and democracy softened, as both found a common foe in Nazism. The politics of redefining liberal democracy was profoundly difficult because it would involve the identification of non-liberal allies and picking enemies, and would require an innovation of liberalism and new ideas.

Participants also discussed the global rise of populism, its plausible causes, and its challenge to liberal democracies. These trends had called into question the assumption that the advance of liberal democracy was inevitable. Participants noted that recent electoral victories in several countries suggested that democratic norms could not be taken for granted or viewed as being resistant to erosion. Some participants suggested that there was a need to ensure that the living standards for the average citizen could grow in a noticeable way, and giving them the sense that elites were held accountable for the same rules.