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Thanks, Jim. First of all, I want to thank the organisers for inviting me to this wonderful conference. And I am honoured to be part of this terrific panel.

In considering the panel's topic -- global economic governance -- it is worth reflecting on where things stand right now with regard to economic performance and the outlook. As Angel Gurria just mentioned, the OECD -- like the IMF -- is anticipating that global growth in the coming quarters will have slowed. In this case, growth will remain below trend fully five years after the 2008 onset of the global crisis.

A principal economic policy response to the onset of the crisis was an unprecedented, large-scale, concerted international effort to boost demand through expansionary budgetary and monetary policies. The goal was to offset a widespread contraction in private sector spending that reflected households' intense deleveraging efforts in response to the crisis, following a long expansion that in most advanced economies had been marked by rapid credit growth. The current sluggishness reflects continued weak private sector demand growth in most developed economies, coupled with an inevitable end to the post-crsis budgetary expansion, and in some cases, the onset of fiscal contraction.

Notably, both household and corporate sectors in most developed economies at present are in financial surplus. This is most unusual: Contrary to popular opinion, the household sector in the aggregate typically is a net saver, while the corporate sector typically is a net borrower. To have both sectors in surplus underscores the ongoing, generalized lack of confidence and provides a direct explanation for why developed economy growth remains sluggish, especially in the context of waning fiscal support. In most developed economies, corporate investment has remained weak and in many country cases it currently is weakening further, despite histocially-low interest rates and unprecedentedly accommodative monetary policy.

Do these less-than-encouraging circumstances indicate that there is a problem of economic governance that is inhibiting the private sector, as Jim's question implies? I'm afraid that my answer is the all-too-typical economists' response: 'Yes and no.' "No," because there are some important shifts occurring in the global economy -- especially with respect to private sector behavior -- that are not growth-supporting in the short run, but that are not related directly to governance issues. "Yes." because -- at least to some degree -- economic policy cooperation has become less convincing than it was immediately following the onset of the crisis. Moreover, there are specific issues with regard to financial sector reform -- involving governance issues -- that remain unresolved and therefore are undermining private sector confidence and inhibiting activity.

In broad terms, there are three broad shifts -- deleveraging, rebalancing and reform -- that are underway regardless of governance issues. First, and most immediate of the three is the force of deleveraging. As I mentioned already, most major economies had experienced periods of rapid credit growth and increased leverage in the lengthy expansion that predated the crisis. While rapid credit expansion helped to support growth in the run-up to the crisis, it is not surprising that the rapid drop in credit availability once the crisis began exacerbated the speed and depth of the ensuing downturn. At present -- well after the crisis first emerged -- credit deleveraging is occurring at very different speeds and to differing degrees in different economies. In fact, in some economies -- notably the United States -- it is not clear whether additional deleveraging of private sector balance sheets is still desired or needed.

Of course, the amount of private sector deleveraging likely to be required depends in each case on the size of the prior leverage build-up, among other things. Naturally, those sectors and economies where credit growth was most dramatic are suffering the biggest pull-backs, but it also appears that those economies where credit intermediation is based more on capital market sources -- in other words, through the sale and purchase of marketable securities -- have experienced more rapid (but not necessarily deeper) deleveraging relative to those economies where traditional bank lending remains the principal source of credit. Thus, the specifics regarding both initial conditions and the nature of the financial system appear to have represented a powerful determinant of the speed and depth of the post-crisis deleveraging process, and an explanation for the differences between the deleveraging process in major economies.

Most notably, US corporate deleveraging essentially is over, and the business sector at present is in general in relatively favourable financial circumstances. In contrast, in the EU and the Eurozone in particular, there still is an overwhelming reliance on traditional bank finance. Thus, it is not surprising that the IMF has estimated thats expected future deleveraging in the European banking system will total up to or more than 8% of total outstanding credit. In other words, the deleveraging process in the eurozone does not appear to be anywhere near complete, and this inhibiting factor may not be highly susceptible to influence by near-term policy measures.

A second fundamental force post-crisis is the need for sectoral rebalancing evident in many economies. Kemal just described this aspect very eloquently. Inevitably, reestablishing the basis for sustained strong global growth is going to require sectoral shifts in the economies of both surplus and deficit countries alike. In simple terms, growth in surplus economies will -- over time -- rely relatively more on domestic demand growth, while the opposite typically will be true for deficit economies. The process of sectoral shift creates uncertainty and tension, both domestically and internationally. Nonetheless, from the current vantage point, some additional rebalancing appears to be inevitable, even though the crisis also served to reduce international imbalances, albeit through a generalized compression of demand. Although the adjustment process will not occur instantaneously -- and it might even tend to slow overall growth in the short run -- in the longer term the rebalancing process will help to set the stage for sustained growth.

Regarding reform, recent Eurozone strains have reflected a dramatic divergence of competitiveness within the Euro area, but in the opposite direction from what had been anticipated when European Monetary and Economic Union first had been debated and then created. Initially, it had been anticipated that the peripheral Eurozone countries would benefit dramatically from lower interest rates and liberalizing markets, and that the resulting acceleration of investment and structural reform would improve their competitiveness relative to the core countries. In fact, the opposite occurred during the past decade or so.

As a result -- and as is very widely recognized -- substantial improvements will be necessary in the peripheral Eurozone countries' underlying economic performance if stability is to be re-established and sustained, regardless of financial and/or governance arrangements. This also is true internationally -- at least to some degree -- where a reduction in previously-worrisome payments imbalances so far has occurred mainly as a response to very slow demand growth in the advanced economies. A rapid return to more normal growth rates in the advanced economies almost certainly would once again increase international imbalances, at least in the short term.

Accompanying the need for economic rebalancing is a parallel imperative for improved economic efficiency -- in economic terms, for increases in total factor productivity. In fact, the slowdown in investment growth in many advanced economies has been reflected in a slowdown in productivity growth. Such a slowdown -- if sustained -- would result in reduced growth potential. Thus, improved economic performance almost certainly will require faster investment growth. And, like the need for deleveraging and rebalancing, economic reforms will be needed regardless of governance issues.

Of course, improved economic performance also can occur as a response to the kind of structural reforms that Angel Gurria has just discussed, in addition to increased private or public investment. And structural reforms in general involve governance issues. However, the relevant issues tend to be specific to the type of reform involved. As a result, they don't lend themselves to the kind of broad discussion that we are having today, even though they can be important in the aggregate.

At the same time, an important consideration that has not been recognized widely is that even in the largest and rapidly-growing emerging economies, total factor productivity growth has been relatively slow. The strength of their growth typically has reflected other factors -- including high investment rates and favorable terms of trade -- rather than rapid underlying productivity gains. As a result, sustained good performance of these economies also will require significant reforms over an extended period.

I would like to turn now to the issue of financial sector reform, since this is precisely an area where governance issues are front and center. I will review this topic quickly, before coming back to the bigger picture.

The principal governance reform adopted in response to the onset of the crisis in 2008 was the formation of the G20 Leaders Summit process. And, since the crisis had been triggered by financial sector instability, it was appropriate that financial sector reform was one of the three key goals -- along with restoring global growth through economic policy cooperation and reforming the international financial institutions -- endorsed at the initial G20 Leaders Summit, held in Washington in November 2008.

The Leaders process specified four broad reform goals with regard to the financial sector. These encompassed; 1) Regulatory reform; 2) Supervisory reform; 3) Creation of a resolution mechanism to deal with the "Too Big To Fail" problem, and; 4) An assessment process that will insure that agreed reform measures in fact are implemented as intended. Moreover, the reform effort began with substantial momentum, and achieved notable early success. In particular, the G20 Leaders mandated the formation of the Financial Stability Board (FSB), that broadened the countries and institutions participating in the "top table" discussions of financial reform issues. Strikingly, under G20 pressure, the ambitious Basel III Accord on bank capital adequacy was reached within 18 months, while the predecessor Basel II agreement took twelve years of negotiation (among a narrower range of country authorities).

More recently, however, the reform process has lost considerable momentum, perhaps reflecting developments in the broader G20 Leaders process. For example, the goal of the Basel III Accord was to bolster the stability of the global financial system, while helping to create a level playing field in global financial markets. Instead, there is a broadening controversy as to whether the Accord mainly would add complexity to the calculation of bank capital requirements, without enhancing systemic stability. Moreover, the prospective speed of implementation of the Accord likely will differ substantially among key markets. There is even growing doubt whether Basel III standards ever will be fully implemented in the United States.

Other key aspects of regulatory reform -- such as so-called "perimeter issues", regarding whether all systemically important financial institutions will be made subject to effective regulation -- have not been solved fully. This includes critical issues such as the regulation of "shadow banking" institutions like hedge funds. Another unsolved issue is creating convincing coherence in the reforms to be applied to banks, insurance companies, pension funds and other asset managers. It is not completely clear who is even responsible for making these reforms coherent at an international level.

Another key financial sector reform effort is that of assigning contingent risks -- that is, who will pay the cost of an institution's failure? The G20 Leaders agreed at their 2009 Toronto Summit that the costs of resolving any future financial sector crisis should be borne by the financial sector itself, but there is no agreement yet as to how this will be accomplished. The current focus is on creating a process of "bailing in", or making an institution's creditors bear the costs of its failure. However, many critics wonder whether the current focus on bailing-in essentially is just shifting the financial burden from future income (as was the case previously) to current savings (as would be the case under a "bail-in")? It remains uncertain how much has been accomplished in terms of enhancing systemic stability.

In response to the crisis, and the lack of any clear mechanism for dealing with the failure of a single financial firm operating in multiple jurisdictions, the authorities in many countries have acted in one way or another to "ring fence" the local operations of such firms, in order to insulate local operations from the impact of potential strains elsewhere. But such measures -- taken in the name of enhancing systemic stability -- may be creating a renewed source of "home bias' in the financial system. In this case, it is not clear whether systemic stability will have been enhanced. At the same time, such measures could be creating difficulties for the financing of multinational firms and institutions. In this context, it is not clear whether the identification and special capital charges attracted by the so-called global systemically important financial institutions (the G-SIFIs) is helping or hindering the process of recovery.

Notwithstanding the incomplete state of the financial sector reform process, some important shifts are taking place in financial markets. In particular, an historic shift in European markets appears to be underway, with large, financially- and commercially-solid firms increasingly turning to securities markets for funding, instead of traditional bank loans. In the long run, this should make markets more efficient. In the short run, however, this shift may have distributional effects, as it will leave small and medium enterprises (SMEs) completely dependent on bank financing -- as has been the case previously -- while larger corporations will have gained new financing options.

In the interest of completeness, it should be noted that there are substantial financial reform challenges facing emerging economies, as well. The sustained strong growth that is expected -- in fact, is being counted on -- from the dynamic emerging economies will require substantial and economically efficient investments. However, these economies at present lack deep and effective market-based sources of long-term finance.

The broad message should be clear: Consensus forecasts of the near-term global growth outlook are modest at best. Several key post-crisis shifts are underway -- especially in the advanced economies -- that will help to set the stage for stronger future growth, but that are not directly dependent upon shifts in global economic governance. Improved financial sector prospects also would help support stronger growth, and in this area, governance changes are critical for success.

At the same time, financial sector reform represents one of the three basic policy goals of the G20 Leaders Summit process, which is itself the principal governance innovation stemming from the 2008-2009 global financial crisis. While substantial initial progress was made in defining the prospective content of such reform, the latest developments appear to point to a loss of momentum. Moreover, financial reforms appear to be far from complete, even in terms of design, and there is controversy whether the current process is going to succeed in achieving the basic reform goals of enhancing systemic efficiency and stability while creating a more level playing field in international financial markets.

The principal conclusion is that a renewed focus on the reform of global economic and financial governance will be required if the basic reform goals are to be achieved. Failure to do so risks leaving the global system in a halfway house of uncompleted and still-problematic institutional change. This would be a very unsatisfactory legacy of a crisis response that began with promise, imagination, energy and initial success. I am confident that we can do better.