JOHN LIPSKY

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I am very honored to participate in this important meeting, and to be part of such a distinguished panel. In my opening remarks, I will posit that the current trends toward increased geopolitical friction and new trade protection threatens to disrupt the existing international financial system and to undercut the prospects for sustained global growth.

My principal conclusion is that a more cooperative and coherent multilateral approach to setting macroeconomic and financial sector policies will be required in order to achieve shared economic success. In my view, whether such an approach is possible will be a defining issue for the coming decades. In many ways, this would represent a return to the much more cooperative environment that animated the response to the Global Financial Crisis, leading to the formation and early success of the G20 Leaders process.

The post-World War II Bretton Woods system was intended to create a rules-based international monetary system that was flexible both in terms of policy setting (that is, a stable but flexible system that would "facilitate the expansion and balanced growth of international trade") and in terms of governance (in which voting power in the newly created multilateral institutions was to be based on the members' relative "economic weight", a measure that was to be reviewed at least every five years). My point here is that the shared intention of IMF members to boost global growth through expanding international trade produced a parallel agreement to radically reduce barriers to cross-border international financial flows. Because the primary post-World War II economic challenge was seen as restoring the international trading system as well as the necessary financing channels, no serious effort was made to create a framework to govern cross-border capital transactions. After all, such transactions hardly existed in the immediate post-war period.

As we all know, from the mid-1990s to the onset of the Global Financial Crisis in 2007, gross international capital flows grew much more strongly than underlying international trade. However, systemic flaws in the operation of global markets — including poorly drawn perimeters of regulation, and inadequate supervisory oversight — contributed directly to the Crisis, and the ensuing Great Recession. Recognition of these flaws — among other systemic weaknesses — motivated the formation of the G20 Leaders process, and to the creation of the Financial Stability Board, in order to promote financial system resilience and reform.

Fourteen years after the first G20 Leaders Summit, progress has been made on enhancing banking sector stability through the cooperative work of the FSB. However, the same cannot be said for capital market regulation. In broad terms, the growth of new forms of non-bank financial intermediaries suggests that both the perimeter and form of financial regulation needs renewed attention. And there has been extremely limited progress toward establishing the G20's Common Framework on Debt Treatment as a successor to the Paris Club — despite the imminent threat of a new wave of debt defaults among vulnerable emerging and developing economies. Most importantly, the international political arena has become dominated by new geopolitical frictions. At the same time, these frictions have been reflected in measures that have resulted in new trade restrictions, and new financial sector sanctions. And this at a time when global growth is slowing and the risk of recession is rising.

I hope my description of these challenges makes clear why I have concluded that renewed focus on a more cooperative and coherent approach toward setting macroeconomic and financial policy is needed to avoid creating new risks of protectionism and reduced efficiency of international financial markets. Such negative developments inevitably would reduce potential growth and increase economic volatility.

Picking out two specific systemic tests, I would point to the near-term challenge of making the G20 Common Framework — perhaps with some modifications — a success in providing needed debt restructuring. In the medium term, the G20s Framework for Strong, Sustainable, Balanced and Inclusive Growth — the principal, albeit little known G20 forum for agreeing appropriate economic policies in a cooperative and coherent fashion — needs to be far more forceful and effective than is the case at present. The FSB, in turn, needs to make new progress towards more effective capital market rule-making. Whether all this leads in the long run to new and effective forms of finance — including the possible emergence of a multipolar financial system — should and will be decided by market forces.

In sum, since the desire to expand global trade on a multilateral basis was the inspiration for strengthening the global payments system, new trade protection and the proliferation of financial sanctions and other arbitrary barriers threatens to undermine the economic foundations of the rules-based system's historic success in producing global economic growth.

As the great American Francophile Benjamin Franklin told his colleagues drafting the US Constitution: “We must all hang together, or most assuredly, we will all hang separately.”

Jean-Claude Trichet, Vice Chairman of the Académie des sciences morales et politiques, former Chairman of the European Central Bank, Honorary Governor of the Bank of France

Thank you very much indeed, John. Again, I take it that you are asking the world to continue to go in the direction of shared rules, shared values on the economic front. You seem to be quite confident that we can continue to proceed, which in a world that has never been that challenged, is again a demonstration of confidence.