

29 April 2010

I have been thinking why I find this report so good and I believe it is because it touches upon major elements of the post-crisis global 'new normal' that is already emerging. So I read Kay's report as an effort to identify this global new normal - both the desired new normal and the 'avoid to' new normal.

I have four comments. First, this new normal is largely unknown. Most likely we will have to cope with more expensive capital. We will see the US economy converting into an economy of savers and the Chinese economy converting one day into our economy of consumers. It is not clear whether this will bring new balance or new imbalance.

What will this mean for Europe? Will Europe become a hostage of this new imbalance or will we decide on our own where to go. Let me also say that it was not only the US that very clearly benefited from low prices. It also allowed us to have, in spite of low growth, a high level of consumption.

Second, the reforms of the global system will not be a one-off exercise, it will be a long process. The challenge is to keep the momentum for a steady progress at global, European and national levels to improve regulations but also to avoid self defeating behaviour such as fiscal free riding or beggar-thy-neighbour protectionism. The risk of giving up on reform and protecting own interests will stay with us for as long as the deficits and debts will be limiting our capacity to grow.

For all those reasons, we have to promote a global system that would reward outward-looking and market-driven strategies. What should be protected is certainly the openness of the global economy. The open trading system has to survive.

Third, if we want to have a working sustainable global system, it must be reformed in a way that would include concerns of all participants of the global economy, the poorest as well. If somebody's interests are not going to be protected, the system will be challenged by them.

And fourth, balance between risk aversion and growth. If I read Kay correctly, she says that how the new global financial system will look is still up for grabs. But let me say that if I were to identify today what should be its major benchmark, it would be its capacity to make fundamental contributions to growth, to provide vehicles for saving, to broaden access to growth financing, to direct capital to the best uses. It should strike a better balance between risk aversion and growth; better as compared to what, in my view, might emerge as a result of current reforms.