Jodie Ginsberg

The Global Economic Crisis: Lessons Learned and the Way Forward

2009 Canada-UK Colloquium

Rapporteur's Report

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School of Policy Studies, Queen's University
British Committee, Canada-UK Colloquia

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The Canada-UK Colloquia

The Canada-UK Colloquia are annual events that aim to increase knowledge and to educate the public about the advantages of a close and dynamic relationship between Canada and the United Kingdom. These conferences bring together British and Canadian parliamentarians, public officials, academics, private sector representatives, graduate students, and others. The organizers focus on issues of immediate relevance to both countries. One of the main endeavours of the colloquia is to address these issues of mutual concern through engaging British and Canadian experts in dialogue.

The colloquia are supported by the Department of Foreign Affairs and International Trade in Canada and by the Foreign and Commonwealth Office in the United Kingdom. The conferences are organized by the School of Policy Studies at Queen's University, this year in collaboration with the Institute for Research on Public Policy on the Canadian side, as well as by the Canada-UK Colloquia Committee on the British side, from which an executive board, the Council of Management, is elected annually.

The first colloquium was held at Cumberland Lodge in Windsor Great Park in 1971 to examine the bilateral relationship. A British steering committee, later to become the Canada-UK Colloquia Committee, was launched in 1986. The Queen's School of Policy Studies assumed responsibility for the Canadian side in 1996, succeeding the Institute for Research on Public Policy. Previous reports can be found at www.canada-uk.net.

Message from the Right Honourable Alistair Darling, MP Chancellor of the Exchequer

I am writing with my best wishes to the participants in the 2009 Canada-UK Colloquium. Britain and Canada are long-standing partners and allies in many areas, and economics and finance remain key fields for cooperation. In particular, there are valuable lessons to be learned from the individual experience of each country's regulators and banking industry in facing up to the recent financial and economic challenges.

As both our countries emerge from the immediate crisis, it is right that we should pay full attention to those worst hit at home in terms of its social cost and abroad in the most vulnerable economies of the developing world. Nor should the financial and economic crisis divert us from achieving a fundamental shift in our patterns of production and consumption, in order to prevent disastrous climate change. I know that the Canada-UK Colloquium will also be addressing these questions, as well as purely financial and macroeconomic issues.

About the Author

Jodie Ginsberg is Reuters' UK and Ireland Bureau Chief. Based in London since 2007, Jodie is responsible for all political, general, and financial news from the region, running a team of 45 writers, photographers, and editors from offices in London and Dublin. As well as television and radio appearances for the organization, she has hosted numerous public events for Reuters, most notably chairing a debate between the three candidates for London Mayor in 2008. Jodie previously headed Reuters' Dublin news operations as Chief Correspondent, Ireland, from where she observed the last years of the Celtic Tiger boom and the start of IRA disarmament. A graduate of Cambridge University, Jodie started work as a metals correspondent for Reuters in London before taking up a posting as southern Africa correspondent in Johannesburg, South Africa. Jodie has also worked for Reuters in Nigeria and the Ivory Coast. An English-Speaking Union Capitol Hill scholar, Jodie previously worked as a congressional intern at the US House of Representatives in Washington DC and as an English teacher in southern France. Jodie is a trustee of St. Bride's Appeal Fund and serves on the UK Committee of the International Press Institute. She is married with two children.

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Preface

This Rapporteur's Report summarizes the November 2009 Canada-United Kingdom Colloquium on "The Global Economic Crisis: Lessons Learned and the Way Forward." Seldom, if ever, has the annual Colloquium chosen a topic of such global and continuing importance.

It is highly appropriate that this topic should be examined in a bilateral discussion between specialists representing a wide range of interests from two G8 countries: the United Kingdom, a country that found itself in the eye of the storm generated by the near collapse of the banking system, and Canada, a country that managed to avoid the immediate effects of the crisis whether by good fortune or prudent stewardship. The discussions summarized here went well beyond regulatory issues affecting only Canada or the UK, and the report concludes with a long list of policy recommendations addressed to governments and the financial services industry. Learning the lessons of what in many ways was, and continues to be, a unique crisis remains urgent as is the need to devise effective measures to avert or minimize future crises.

We would like to express our admiration and thanks to the author of the report, Jodie Ginsberg, for marshalling the complex and wide-ranging issues that were discussed, and for reporting them in such an erudite and readable style. Her task was made easier by the thoughtful presentations made by our speakers at the Colloquium, to whom we are enormously grateful for stimulating such interesting debates among a distinguished group of participants. It is also a pleasure to

record our appreciation to Christopher (Lord) Tugendhat for his incisive chairing of the proceedings.

The remarkable success of this year's Colloquium is due to a small group of people. The special advisers to the Colloquium, Nicolas Maclean in the UK and John Curtis in Canada, assembled an exceptional group of presenters and participants. We are as always very appreciative of the counsel provided by Andrew Burns as honorary president of the UK committee and Mel Cappe as chair of the Canadian advisory body. That the event proceeded so smoothly at multiple sites in the heart of one of the world's great cities was a tribute to the detailed planning of George Edmonds-Brown. The Canadian team was ably coordinated by Erica Maidment.

Special thanks are due to our sponsors in 2009, Thomson Reuters and TD Bank Financial Group, who supported the Colloquium so handsomely and whose representatives were prominent throughout the proceedings. We also thank the Foreign and Commonwealth Office and the Canadian Department of Foreign Affairs and International Trade for their continuing support of the Colloquium, the Corporation of London for sponsoring a dinner at Guildhall, and the Canadian High Commission for hosting a dinner at Canada House. We are also indebted to Stuart Fraser of the City Corporation for hosting and speaking at the Guildhall dinner, to Vince Cable, MP, for delivering the keynote address at the dinner, and to Professor Ray Barrell for his address at Canada House.

A particular feature this year that effectively turned the Colloquium into a three-day event was the pre-Colloquium briefing sessions. Our thanks are due to John McFall, MP (chairman of the Treasury Select Committee); to David Gauke, MP (Shadow Treasury Minister); to Spencer Dale, Andrew Bailey, Paul Fisher, and Andy Haldane (executive directors of the Bank of England; to Helen Alexander (president) and Ian McCafferty (chief economist) of the Confederation of British Industry; and to David Strachan (director of Financial Stability at the Financial Services Authority) for their detailed and frank observations on the current financial and economic position in the UK.

If there is an overriding lesson to be learned from the crash, and one that was emphasized repeatedly at the Colloquium, it is the need for better communication among regulators, politicians, and practitioners. Whilst the neglect of this vital commodity may not have been the principal cause of the crisis, its absence at crucial stages in the events leading up to the crash certainly exacerbated its effect. Unless communication is improved in the future, the prospect of averting future financial and economic crises will be that much more difficult.

We hope that readers of this report, particularly those who are in a position to shape events, will take this message away with them together with the other no less important messages to be found within these pages.

Philip J. Peacock
Chairman
British Committee

Robert Wolfe
School of Policy Studies
Queen's University

Executive Summary

Few topics remain headline news on a daily basis for any length of time. Only those that herald real seismic shifts seem to have the capacity to surprise us again and again. The financial and economic crisis of the past 18 months is one such subject. Just when we seem to get a handle on the issues and implications, a new surprise challenges already-shifting assumptions. So it was appropriate that as participants gathered for the 2009 Canada-UK Colloquium, a report on bank governance in the UK (the Walker review) was overshadowed by news that Dubai's government-owned investment company was suspending debt repayments, a suspension that shocked world markets.

This report is the product of several days of intense discussion among regulators, bankers, business leaders, trade unionists, politicians, academics, journalists, and other experts from the UK and Canada. Although the Colloquium is bilateral in nature, discussions were very much international in perspective. This reflected the nature of the crisis and the nature of the solutions that participants felt would be most appropriate in tackling it.

The key message from participants was this: a future financial crisis is inevitable. What policy-makers, regulators, politicians, and individuals must do now is work together domestically and internationally to reduce the next one's severity, while at the same time addressing the kind of world they want to shape in the process. This means the following issues need to be addressed with urgency.

The system is still opaque—more needs to be done to improve communication among all players (regulators, policy-makers, businesses) and to improve the way in which data are mined and shared

Information supply is outpacing the ability of regulators to analyze and understand it. Effective early warning systems will require increased transparency and sharing of information from and among financial institutions, regulators, and governments.

Better domestic and international regulation is crucial; enforcement can help mitigate the effects of financial crises, but countries need to be wary of overregulation

Areas that participants felt needed particular attention in the short term were

- microprudential changes, mainly involving changes to capital and liquidity requirements;
- introduction of macroprudential systems that consider the systemic impact of organizations' behaviour and would allow microprudential rules to be adjusted depending on broader economic conditions. Macroprudential regulation of the UK financial system could be achieved through enlargement of the role of the Bank of England's Financial Stability Committee, with enforcement powers for the Financial Services Authority (FSA);
- banking structures, in particular the importance of addressing the questions of "too big to fail" and "moral hazard"; and
- corporate governance. Focus on the question of remuneration has distracted from the wider, and perhaps, more central issue of the role and responsibilities of boards and shareholders. These need to be examined much more closely.

The crisis was international in nature, and shoring up the financial system and global economy against future shocks requires continued improvements in cooperation

The Colloquium focused in particular on the importance of freer multilateral trade and investment; strengthening global financial organizations such as the World Bank and International Monetary Fund; reducing global imbalances; and addressing the role played by emerging economies, notably China and India.

Participants expressed considerable interest in the following suggestions:

- a Chinese Marshall Plan that could support sub-Saharan Africa and the most vulnerable less-developed countries around the world;
- regional funding by the International Monetary Fund and the World Bank, in addition to the current pattern of single country programs and support; and
- an expanded role for Special Drawing Rights (SDRs) to reduce dependence on the dollar as global reserve currency.

In dealing with a crisis that has passed, governments risk hampering sustainable future growth

Building for the future was considered central to the challenges posed by the global economic crisis. Clear exit strategies, the social costs of any stimulus withdrawals, and investing for future growth with a consideration for environmental pressures and changing educational needs, must all be at the forefront of policy-makers' minds. Participants also felt greater consideration needed to be paid to "well-being" as a measure and outcome of success rather than measuring success merely by material or GDP indicators.

A Note on the Report

Since one of the other recurring themes of the Colloquium was the divergence between information and knowledge and the need for transparency, I have tried to eliminate jargon throughout this report and, where necessary, have referred to texts that may shed further light on a particular topic. Most comments in the report are unattributed as discussions were held under the Chatham House Rule, although in some instances speakers or participants have agreed to be quoted directly.

I am aware that many readers of this report may be experts on some or all the issues discussed and for whom some sections go over already well-trodden ground. However, I have taken the view that, since others may be new to some topics, it is useful to provide some basic explanations.

The Global Economic Crisis: Lessons Learned and the Way Forward

Jodie Ginsberg

CAUSES OF THE CRISIS

Canada-Europe Roundtable for Business co-chair Bill Emmott, former Bank of Canada governor Gordon Thiessen, and Professor John Helliwell, Arthur J.E. Child Fellow of the Canadian Institute for Advanced Research, were tasked with exploring the causes of the current crisis and lessons learned.

Most participants agreed there was no single cause, although Stuart Fraser, policy chair for the City of London, summed up as follows: "The basic building blocks to this disaster were not new—frankly they are always the same whether it is Tulip Mania or Dotcom. People simply ignore common sense and greed takes over."

In addition, a number of speakers identified these common factors:

Accumulation of risky assets and a culture of reckless borrowing

Investors sought higher yielding—and riskier—assets in a low interest rate environment. Consumers borrowed higher and higher amounts as debt accumulation became the cultural norm. Even politicians encouraged individuals to borrow: one speaker highlighted a speech by George W. Bush in which he exhorted Americans in 2003 to live

the American dream by buying a home. A number of senior officials, such as Alan Greenspan, have said since the crisis that too many policy-makers relied too heavily on the belief that financial markets could and would self-regulate.

Increasing complexity of financial products

A frantic search for yield led to the explosion of the highly complex and poorly understood structured credit and credit-derivative market. Poor quality assets were increasingly bundled together and sold on as higher quality assets.

Opacity of the financial system

No one was aware where, or how much, risk was being held, nor how interconnected the system was. This continues to be a cause for grave concern. Participants heard repeatedly about a flood of information and data that as yet regulators and others seem unable to mine or analyze effectively and in a timely fashion.

Gaps in regulation / failure of oversight ("no one took away the punch bowl")

The highly intertwined nature of the global banking system meant few regulators had the entire picture of an institution, and regulators failed to share information among themselves. Boards and shareholders did not always question risky business models closely enough—and in many cases actively encouraged them. Ratings agencies often failed to understand the products they were rating, and information provided by auditors gave "snapshots in time" rather than a full range of possible scenarios.

Global imbalances

Participants agreed that the large US current account deficit, allied to current account surpluses elsewhere (such as China), played an important role in exacerbating the crisis. There was no consensus on how great a role such imbalances are likely to play in the future.

Psychology

The length of the economic boom lulled people into thinking that the nature of economic growth and financial cycles had changed forever. Individuals behave unpredictably in times of crisis, thus it is not always possible to predict precisely how markets may react to any set of unexpected data. This was considered especially important in understanding that changes to regulation, banking systems, oversight bodies, and others must be with a view to limiting the damage of any future economic crisis rather than with the expectation of preventing it.

WARNING SIGNS AND LESSONS TO BE LEARNED

None of the participants believed it would be possible to eliminate a future financial crisis. Indeed, Ted Price, of Canada's Office of the Superintendent of Financial Institutions, observed: "The seeds of the next crisis are already sown." Participants identified a list of warning signs that may herald a financial crisis. In the following sections, this Report considers how policy-makers might better identify and act on these.

Possible indicators of an incipient banking crisis:

- rapid financial innovation
- increased deregulation
- housing market bubbles
- banks economizing on capital
- pervasive mantra of "this time it's different"

Crucial factors in formulating rules and policy post-crisis:

- The world is deeply interconnected and capital markets are inextricably linked;
- Information flow is outpacing the capacity of current structures and systems to monitor it. Non-bank financial institutions

need to be measured and monitored, and may even need to be controlled;

- Domestic and international organizations tasked with monitoring and enforcing financial and economic stability are outdated and inadequate, and need new mandates and structures;
- Imbalances will eventually erupt, although the capacity of policy-makers to address them effectively may be limited;
- Although all countries were affected negatively by the crisis, recovery is much more uneven; and
- The issue of "sustainability" will be of continued and increasing importance.

REACTIONS TO THE CRISIS AND CURRENT POSITION

Governments, policy-makers, and regulators took unprecedented and swift action to deal with the financial crisis. Central banks slashed interest rates, and then used extraordinary monetary tools such as "quantitative easing" to inject more liquidity into the system. Governments bailed out individual banks and other financial organizations and provided massive stimulus packages to revive their economies.

Participants agreed that while there was a collective failure to prevent the crisis, the swift action by all players—and in particular the globally collaborative nature of that action—prevented the crisis from deepening. As one former senior Canadian official put it, "I think the policy response has been remarkably successful: a very serious economic downturn has been averted." However, this observation was coupled with this warning: "The extraordinary measures taken to get us out of this mess will make exit more difficult."

Where Are We Now?

Modest recovery

Underway in most countries (although the UK is lagging other G7 economies). Figures released at the end of November showed Canada's economy edged out of recession in the third quarter of 2009 after three consecutive quarters of contraction. The Bank of Canada had anticipated that growth would accelerate in the fourth quarter and into 2010. In contrast, Britain's economy shrank 0.2 percent in the third quarter of 2009, although it was expected to return to modest growth in the fourth quarter.

Participants heard that recovery was likely to be fragile, particularly in those countries that had resorted to huge fiscal stimulus packages during the crisis. "In the UK, it is difficult to see where drivers for strong recovery will come from. It is difficult to see where sources of demand will emerge that will provide anything other than lacklustre recovery," said one speaker. Corporate investment in the UK is expected to be cut back in 2010. Public sector cuts are likely as the government seeks to bring down the UK's huge annual deficit (currently 12 percent of GDP compared to around 3 percent in Canada). Nor is a rapid recovery in domestic consumer spending considered likely as consumers continue to save more or reduce debt.

Some participants were concerned that any premature rise in interest rates could cut short a recovery, but expectations were that monetary policy, in the UK at least, would likely remain "very accommodative" for some time to come.

Unemployment

Although not at historically high levels, unemployment is rising. The UK jobless rate stands at around 7.8 percent (compared with 8.8 percent in 1991 and 9.6 percent in 1981), while in Canada it is 8.6 percent compared with 10.3 percent and 7.6 percent in 1991 and 1981, respectively. However, some sectors of the workforce are being disproportionately affected. Youth unemployment in the UK is at a record high of 19.8 percent, with young white males and "visible

minorities" disproportionately affected; self-employed and part-time workers are especially vulnerable.

Protectionism appears to be on the rise

Participants raised concerns about "buy local" mantras, a lack of progress in Europe in opening up certain markets, and the failure of World Trade Organization members to achieve progress on the Doha Round of trade negotiations. Will rising unemployment drive further protectionism?

Slow pace of regulatory change

Some moves have been made to tighten financial regulation and improve governance, but a number of key issues (such as capital adequacy, liquidity yardsticks, banking structures) have yet to be resolved.

Timing of withdrawal of stimulus packages is key: Is the public ready?

Many large economies are being supported by high public expenditure, support that will have to be withdrawn in due course.

Global imbalances persist

The Chinese exchange rate in particular was a cause of concern for many participants—one described the failure to readjust the renminbi as the "sword of Damocles hanging over other countries"—although there was disagreement on how significant a problem imbalances presented and on the best way to tackle them.

Consumers and businesses are more optimistic

However, confidence indices show this optimism is fragile and caution is likely to prevail for some time. Some participants wondered whether we are likely to see a long-run shift to higher savings levels in countries such as the UK. One speaker noted that in Japan, during the late 1990s, companies and individuals remained pessimistic for longer than expected and continued to pay down debt, acting as a brake on the Japanese economy.

Development of emerging economies, notably China and India, continues apace

As several speakers noted, although the crisis was coupled—with all countries affected to some extent—the recovery is decoupled, with rapidly developing economies outperforming industrialized economies. The notion that developing countries are just places to reallocate productive capacity because of lower labour costs is an old one. The increase of professional classes, rapid technological development, and innovation all present major challenges to Western industrialized countries as they emerge from this crisis.

High oil prices will restrain recovery

The chief economist of the International Energy Agency said in November that oil prices would threaten a rebound in the global economy if they rise beyond current levels.

There is still much we do not know

The aftershock of Dubai World suggests there is still only a limited picture of how the financial system fits together, what stresses there are in that system, and where the risk lies. It is also impossible to predict exactly how individuals might behave in future crises, or the possible impact of any future geopolitical events. Keeping pace with information flow in an ever increasingly mobile and networked world continues to be a major challenge.

WHAT NEEDS TO BE DONE?

Participants were concerned that in many cases policy-makers were preoccupied with fixing past problems rather than trying to foresee future ones, and that governments were preparing insufficiently to put their economies on a sustainable growth path. As one participant put it, "We have a very large exit strategy problem." Ted Price, of Canada's Office of the Superintendent of Financial Institutions (OSFI), was perhaps the starkest in his assessment:

> There are literally hundreds of recommendations as to what should be done to correct the problems, but more and more you get a very real sense that regulators and central bankers are rushing to fix the problems of the past, and are not spending enough time thinking about what needs to be done to avert the next crisis. Many of the new rules are geared to avoid a repeat of what we have already seen, and I expect the next crisis will not look the same at all.

1. REGULATION: A Mixture of Prescriptive and Principle-Based Rules

Verena Ross of the Financial Services Authority and OSFI's Ted Price gave an overview of the work being undertaken by regulators globally to tackle the crisis, with Price exploring why Canada was not as hard hit as other G7 countries (see Factbox One). HSBC's Charles Haswell and TD Bank's Mike Pedersen looked at challenges for banks and possible changes in practice and regulation.

Corporate governance, a flexible regulatory system that takes into account systemic risk, and a proper exploration of the "too big to fail" notion were identified as areas that still need the most attention.

Participants agreed that improvements in regulation were crucial, and many expressed concern that change appeared sluggish: "It's very difficult to see much evidence that improved regulation is happening," said one senior politician. There was also concern about the risks, and costs, of overregulation. A UK business leader told participants, "Certainly we need better, although not necessarily more, regulation and more effective enforcement."

Others expressed concern that all businesses were being "tarred with the same brush" and worried that new rules and regulations might be imposed unnecessarily on non-financial service industries.

Most people were of the view that there was no "one size fits all" approach to regulation, although most seemed supportive of overarching international frameworks: "We risk serious regulatory arbitrage and possible tit-for-tat retaliatory action if measures taken in one country or one trading bloc are seen as protectionist or excessively severe by

others," said Stuart Fraser, policy chair for the City of London. He noted concern that new European Union regulations under consideration risked dismantling the useful parts of the financial system altogether in order to rid it of its weaknesses. It is vital that the EU should carefully consult practitioners from the financial industry among Member States and in the other major world centers, including in Canada and the USA, before finalizing any measures under consideration.

Capital/Liquidity

One of the results of the crisis will be new global rules on capital adequacy. These are expected to include

- an increase in quality and quantity of capital held by banks;
- improved leverage ratios;
- reconsideration of the Basel 2 matrix that favours residential property loans, while ignoring the illiquid nature of such assets;
- reconsideration of Basel 2's reliance on Credit Rating Agencies; and
- methods to allow firms to make general provisions against expected future losses and build up buffers in good times that can be drawn down in recession.

A number of organizations are currently fleshing out ideas in this area, such as the Basel Committee on Banking Supervision, although as one regulator noted the "devil will lie in the detail," much of which has yet to be worked on. A move from mark-to-market accounting to mark-to-funding has been proposed as an alternative way of measuring assets.

One speaker suggested that such regulatory changes meant that many may have to prepare for a world in which lower growth and higher stability are seen as a price worth paying (i.e., "a welfare gain"—see the subsection "Well-Being," below).

Like banks' economizing on capital, housing bubbles also tend to precede banking crises. Therefore, tighter regulation of housing finance could help to mitigate the effect of future crises, though the young and the newly self-employed should not be excluded from home ownership as a result. Housing finance innovation and greater flexibility in mortgage guarantees and structuring should be considered.

Participants also stressed the need to ensure that regulation does not stymie other financial innovations that help boost productivity and economic growth: "Fear and timidity kill the elixir that drives innovation and enterprise," said one.

Nor should regulation end up harming some of those hardest hit by the crisis. One participant cautioned of the risk "that to get a better regulated system we inadvertently shoot at the wrong targets," such as the young or newly self-employed, if self-certified mortgages were to be banned outright.

Enforcement, as well as regulation, was also considered key. Regulators must be able not just to spot that the punch bowl is being used too liberally, but to take it away.

Macroprudential Policy

Much focus in recent months has been on how to align the microprudential system outlined above with a more systemic approach, in other words using macroeconomic tools to help maintain financial stability. A so-called macroprudential approach would provide a policy lever that would allow credit requirements to be flexed depending on economic conditions.

The Bank of England put forward a discussion paper on this issue just days before the Colloquium in which it outlined some of the key issues. It concluded that "effective macroprudential policy instruments are an important missing ingredient from the current policymaking toolkit." It considered a number of mechanisms by which such a system could operate—including capital surcharges that vary countercyclically—but noted that a lot of further work is needed before any such system can be put into place.

HSBC's Charles Haswell proposed co-opting "heavyweights" to the Bank of England's Financial Stability Committee to analyze macroeconomic and systemic data and then set a target range for capital requirements, which the Financial Services Authority (FSA) would be empowered to implement, institution by institution, through an enhanced Basel Pillar II process. "The FSA would need to acquire the expertise to judge the risk weights in different business models, including those arising from remuneration policies, and to decide where in the range a given institution should sit," he said.

Banking Structure

Another topic that has come to the fore in recent months and is likely to be the focus of much attention in 2010 is the issue of "too big to fail." Haswell and others noted that size was not in and of itself an adequate indicator of risk and that the definition of a systemically important institution needed to incorporate both a commercial bank such as Northern Rock and an investment bank such as Lehman Brothers.

Treasury Select Committee chair John McFall told participants during a briefing prior to the start of the Colloquium that this was one area his committee was keen to address. Bank of England governor Mervyn King has raised the issue on a number of occasions. As he told the House of Lords Economic Affairs Committee on 24 November 2009,

> The really big question is to deal with this 'too important to fail' question and to ensure that whatever regulatory system we have, the most important question is do we have a structure of financial system and regulation that means that no institution can believe it is too important to fail and that if any institution makes a mess of things it will be allowed to fail?

This question is at the heart of the "moral hazard" dilemma: the need to ensure financial stability without encouraging a belief among banks that over-risky funding strategies, unwise lending, or weak management are guaranteed to be mitigated at the taxpayer's expense.

Despite the intense focus on the issue of "too big to fail," it seems unlikely that, in the UK at least, we will see any full-scale adoption of so-called narrow banking or Glass-Steagall style separation between commercial and investment banking. However, it is possible that a more conservative approach to risk and/or simplification of bank operations could offer a useful model in future (see Factbox One on Canadian banks; and notes on Governance, below).

Other suggestions put forward during the Colloquium included giving governments the ability to impose other severe penalties on mismanaged but rescued banks at a later stage, so that the threat of failure would not be the only sanction.

Governance and Remuneration

The Colloquium coincided with the publication in the UK of the government-sponsored Walker review into bank governance, which recommended strengthening the role of non-executive directors. This was described by a number of those at the event as an important first step, but many felt more needed to be done to ensure that boards were fully accountable and had the proper skill sets to oversee such complex organizations.

Boards of financial institutions must set and limit risk appetite as a central plank of their business planning, and directors need a deep understanding of the products and business of modern banking. Risk and compensation strategies need to be more closely aligned. However, some participants suggested that simply limiting pay would not in itself address excessive risk-taking, which in some institutions had become part of the culture of operation. Deferring a greater proportion of pay could be one option for tackling the thorny issue of remuneration.

A possible way to limit systemic risk would be to require financial institutions to establish "living wills" or plans for winding down the business should they fail. Work is in progress in this area at a national level, but an international resolution regime is seen as some way off—though vitally important, given the multinational nature of most major financial institutions.

A number of participants highlighted the need for shareholders to play a more active role in corporate governance. Shareholders need to interrogate risk/reward models and feel empowered to question senior executives. Several participants felt that poor business strategies were in many cases ushered through by powerful senior managers whom their colleagues, board members, and shareholders were unwilling or ill-equipped to challenge.

The role of ratings agencies was also questioned, with one speaker even suggesting that these should be brought under state control. Certainly there needs to be greater transparency about the way in which ratings are determined, paid for, and assessed to eliminate conflicts of interest.

Other suggestions for improvements in governance included a greater focus on ethics, with courses and examinations in ethics made compulsory at business schools and professional training bodies such as the Chartered Institutes. Economics and personal financial management could also be taught to all school-age learners as a compulsory module.

2. INTERNATIONAL EVOLUTION: The Changing Global Picture

The crisis showed that governments, regulators, and corporations were in many cases ill-prepared for the rapid pace of change taking place around them. Most participants agreed that while information was widely available, policy-makers lacked the knowledge to determine exactly where or how stress points would lead to failure. One particular example was the problem of leads and lags when central banks could usefully have lowered interest rates to forestall weakening domestic economies in some Western countries in the summer of 2008, but felt unable to do so while pressure on world commodity prices from fast growth in China and other BRIC economies meant that domestic inflation was still rising.

Improved international collaboration and cooperation was viewed as one of the most positive outcomes of the economic crisis, although participants noted that more needed to be done to strengthen organi-

zations like the International Monetary Fund and to coordinate fiscal and monetary policy exit strategies. The role of emerging economies in the post-crisis era provoked a great deal of discussion, and differences emerged over the importance of global imbalances and the ability of countries to tackle them. There was also concern about a creeping rise in protectionism.

A number of speakers focused on the evolving role of multinational organizations and corporations. David Craig, Thomson Reuters' chief strategy officer, looked at the way in which multinational corporations were developing new ways of working in advance of changes in regulation and in anticipation of even more networked, mobile global employees and consumers. Thomas d'Aquino, president of the Canadian Council of Chief Executives, wondered about the effect the crisis had had on attitudes toward business in general and the possible implications of an increased state role, which would undermine the dynamism of business and might "crowd out" finance for the private sector.

Economists Meghnad Desai and Manmohan Agarwal explored the changing role of emerging economies, particularly China and India, and the challenges their development posed for both Western industrialized nations and for some of the world's poorest economies.

Finally, Chatham House chair DeAnne Julius considered the changes that may need to be made to global financial institutions such as the International Monetary Fund and the potential role of Special Drawings Rights (SDRs) as an international reserve currency, while former Cabinet secretary and head of the Public Service of Canada, Kevin Lynch, looked at the payoffs of prudence and social safety nets.

One participant noted that the world is still dominated by the notion of the nation state as the key building block, and this "psychological" factor could hold back rapid progress toward a path of sustainable growth. John Helliwell asked if the time was right to start changing the definition of "them" and "us," and commented that times of global crises argued for a larger construct of "us."

Trade and Investment

Participants in the early sessions of the Colloquium returned frequently to the question of free trade and the impact of the crisis on the push for ever greater trade liberalization. Though it was agreed that protectionism had not returned in the same way as it did following the 1930s financial and economic crisis, there were causes for concern: "The reality is that we have seen protectionism on the rise across the world," noted one business participant. "Buy American" clauses in the US stimulus package and similar measures elsewhere were considered unwelcome developments.

While some participants sought to give explicit endorsement for bilateral trade deals such as that currently being negotiated between the European Union and Canada, the majority sought to stress the importance of multilateral trade negotiations. Bilateral agreements sometimes produced an unwelcome trade diversionary effect, though it was noted the proposed Canada-EU Agreement was based on the MFN (most favoured nation) principle.

There was disagreement on the ability of the World Trade Organization to conclude its Doha round and indeed on the capacity of the WTO itself to fulfil its goals, although, as one speaker noted, countries have not resorted to policy responses inconsistent with their WTO commitments.

One speaker drew attention to the fact that those countries less affected by the current crisis are less tightly linked to international markets, and "hence it would seem strange for a conference on the financial crisis to recommend increases in trade intensities without checking first that the current system is adequately resilient to likely shocks."

A business participant noted that trade liberalization continued apace in emerging markets and that regional trade pacts in particular were helping to boost trade and development (East Africa was given as a recent example).

The importance of opening up trade in a way that boosted sustainable development—a recurrent theme of the Colloquium—was also considered. One suggestion was for the United States to drop its tariff

on the import of Brazilian ethanol, which has long been produced successfully and sustainably from sugar cane.

International Institutions

G20

The Colloquium noted the growing importance of the G20 as an organization over that of the G8. "The G20 has remarkably quickly achieved liftoff," said one participant, who believed the G8 formulation could cease to exist fairly rapidly and that the United States, which chairs the G8 in 2012, might even decide during its chairmanship year to discontinue G8 summits.

If the G20 is indeed to take centre stage, then it will need to find a more assured voice on issues like trade and the environment over coming years. There was general concern that, while the world's most important problems (such as health, climate change, terrorism, or financial and economic systems) increasingly require global solutions, it is not clear that the world's international governance processes and bodies are evolving adequately to address this need. The discussion indicated that, in many cases, countries were dealing with these issues on a national basis in response to domestic political pressure.

International Monetary Fund / World Bank

Participants agreed the International Monetary Fund needed to adapt to the new economic and financial environment. Much has been said about this need over the past year, but it is still unclear what changes are likely to be made, when they are likely to be implemented, and perhaps most importantly, who or what are likely to be the drivers for change.

The group felt international peer review and pressure would be central if the effect of any future crisis were to be successfully mitigated. Participants suggested that the IMF could play a role in

- developing a policy monitoring system for early warning through peer review and peer pressure. This would require

greater transparency among countries and businesses, improved information capture by regulators and policy-makers, and a far better understanding than at present of what data should be analyzed;

- negotiating a rebalance in IMF quotas to reflect G20 importance. IMF quotas determine the level of subscription each member country pays to the IMF, voting power, and access to finance; and
- encouraging the IMF and World Bank to negotiate deals with regional groupings in addition to those just on a single country basis.

Manmohan Agarwal noted that there was scope for developing countries to increase growth in the world economy, but that while as a whole these countries were important potential contributors, individually they were not. “If the IMF coordinated a response to a set of countries, that could have a big effect.”

Global Imbalances

Most participants agreed that global balances, while not the cause of the current crisis, certainly exacerbated it. There were differing opinions on what should—and could—be done to tackle them. Although the weakness of the Chinese currency has been singled out elsewhere as a key factor, participants focused less on this than on what might to be done to move China to a more domestic demand-led economy.

Lord Desai suggested that the way in which the Chinese were handling the currency issue suggested that they were not in a hurry to reorient their economy in this direction. He did not believe exchange rate movement would change imbalances but said an artificially low Chinese exchange rate was a misallocation of resources.

Other economists agreed that it was not clear that a stronger renminbi would of itself drive up Chinese spending. Simplistically, imbalances could be tackled if the United States saved more and the Chinese saved less, but Agarwal noted that savings levels depend in part on the age structures of a country’s population and are difficult

to change through policy. Moreover, if the currency were revalued and Chinese exports fell, worried Chinese consumers might decide to save even more.

Several felt that the process of a greater share of China's economy coming from domestic demand was already under way but would take time. One participant noted that high individual savings in China could be explained partly by a lack of official social support but that reform in this area had now started.

Agarwal suggested that a higher level of Chinese spending could be achieved through a "Chinese Marshall plan" in which the Chinese government would mediate Chinese savings into investment in the world's poorest countries, both through a massively increased official development assistance (ODA) program and through the Chinese Sovereign Wealth Funds. This idea generated a great deal of interest and apparent support from participants, although some warned of China's diplomatic track record and lack of transparency in parts of Southeast Asia, Africa, and Latin America.

Other participants pointed to the need for an increasing flow of global ODA and emergency relief to come from all BRIC economies and the Newly Industrializing Economies in general, at a time when Western budgets were more constrained and growth rates flagging. Another suggestion was the creation of an asset by the IMF into which the imbalances could be directed to allow for "serious multilateral treatment of surpluses" that would direct them where most needed.

Global Power Shifts

Rapid advances in developing countries

"China and India are emerging as stabilizers for the world economy," Lord Desai told participants, but he and others warned that the development of more advanced manufacturing capabilities of research and development and technology in these countries presented a challenge for Western industrialized nations, who could see aspects of production shift away permanently from the West. "One long-run

factor of this crisis may be an even greater deindustrialization in the industrialized countries than there was before." However, there was also concern that China could be "another Japan" (i.e., long talked about as the "new United States," leading global consumption, but never able to fulfil that potential).

Agarwal questioned the notion that Chinese growth alone (which in any case participants suggested would be on a lower path post-crisis than we have come to see as trend pre-crisis) could pull the world economy out of recession. He noted that household consumption in the United States accounts for 17.5 percent of world demand, while that of China accounts for just 2 percent of world demand. If the United States increased its savings rate by 5 percent, then Chinese consumption would have to double to compensate. "There is no record of any countries doing that (doubling consumption) over the long period, let alone over the short term," he said, concluding that global recovery would not be possible without recovery in the United States and Europe.

Participants wondered, in any case, if rampant growth in China and elsewhere were desirable given the possible destabilizing pressure on world resources. Spikes in energy prices and food riots prior to the peak of the financial crisis remind us of this as a very real possibility.

Multinational corporations

Participants wondered if the focus on the role of countries and global imbalances may be the wrong way to consider globalization and the risks and benefits it presents to financial systems and to the world economy, suggesting that a focus on intra-firm trade and the role of multinational corporations could be more helpful. As one speaker noted, "we ought to be able to remap globalization as firms rather than countries." This is an interesting topic worthy of deeper consideration by policy-makers and business leaders in future. Business leaders, in turn, expressed concern about the growing role of the state and the implications that this might have on the costs and ease of doing business.

Shift from US dollar as reserve currency

DeAnne Julius suggested that the time had come to prepare for a shift away from the US dollar as the world's dominant reserve currency and to build up the role of Special Drawing Rights (SDRs) issued by the IMF. She noted previous currency crises had shown that macroeconomic problems in the country providing the reserve currency asset will cause severe disruption at some point. Julius suggested

- expanding the supply of SDRs through a substitution account, whereby China and other countries with surpluses could exchange their foreign exchange reserves for SDR reserves, and for regular new SDR allocations in line with the growth in global GDP;
- expanding demand for SDRs as a currency, both for trade in oil and other commodities and in financial markets, through SDR bonds in which the IMF's role is expanded to allow it to hold SDR accounts for private companies and act as a market-maker for SDR-denominated bonds; and
- evolving the SDR basket at five-year intervals to include other large convertible currencies such as the Brazilian real and Chinese RMB if and when they became fully convertible and freely floating.

Development of the SDR's store of value should be a first goal, but ultimately it would be a means of payment, perhaps through accounts lodged with the IMF. However, it is unlikely to take the role of a global currency carried in consumers' pockets.

3. BUILDING FOR THE FUTURE: The Role of Governments, Social Considerations, and Measurements of Happiness

While there was a great deal of focus at the Colloquium on the role of international organizations and international cooperation, participants acknowledged that ultimately it would be decisions taken at the domestic level that would have the greatest impact. As former Quebec finance minister Monique Jérôme-Forget reminded participants, "All politics is local."

In this final section, the report explores the role and challenge for government in the wake of the crisis, focusing on those governments looking to bring their budgets into balance from deficit. Although Canada has a much smaller deficit than the UK, many participants felt that the risks many governments faced in dealing with the crisis were similar, that is, short-term cuts should not come at the expense of long-term investment.

One major issue was how governments with high deficits would manage to juggle deficit reduction (so-called fiscal consolidation) with a need to invest for a future in which pressure on resources, continued environmental degradation, and rapid industrialization in developing countries will be the norm.

Understanding the social impact of the crisis in terms of unemployment, and the potential for widening the gap between society's haves and have-nots, is central to the broader question of sustainable growth that many participants identified as the key goal in the wake of the crisis.

These considerations lead in turn to perhaps the biggest unresolved challenge of all in the post-crisis world: how to establish the kind of society we want to create, and how to measure its successful achievement. Several participants challenged the notion that we should aim for a return to wealth creation, measured by production, as an absolute goal and suggested that perhaps a more nuanced approach that sets well-being as a target should be the ultimate aspiration.

Fiscal Policy and the Challenge for Government

One key feature of the crisis has been the seminal role played by governments in tackling it. Although some participants worried about the increased role of the state, others noted a shift in public expectations for governments to better prevent such crises and to better protect populations from fallouts. Many of the preventative mechanisms have been discussed above. As the economic crisis hit, governments around the world injected billions in public money to support economies and prevent recessions from becoming depressions. The UK government propped up banks with public cash, becoming the major shareholder

in several of them in the process. As one speaker noted, the basis of the recovery has been the replacement of private money with public money.

The massive accumulation of debt has left governments with a major exit strategy problem. Withdrawing the fiscal stimulus too fast risks undermining economic recovery; withdrawing it too slowly risks embedding structural deficits and inflation. The prospect of major cuts—or halts—in public spending also comes at the very time when industrialized nations need to invest for sustainable growth and to give workers new skill sets, including language and cultural training for new global markets.

A well-articulated debt reduction plan is considered crucial by many UK politicians and business groups, concerned that without it the UK faces possible threats to its sovereign debt ratings and to sterling. "We are very worried that unless we have a credible plan, we will be at risk and have to raise interest rates to get debt away," said one politician. Employers' representative group the Confederation of British Industry said in October 2009 that the government needed to balance its public finances by the 2015/16 tax year—two years earlier than planned—to avoid undermining investor confidence.

Lessons from the Canadian experience

With a general election due in Britain by June 2010, UK participants were keen to hear the lessons of Canada's successful debt reduction program in the mid-1990s, which saw the government deficit eliminated in just four years (see Factbox One). Canadian representatives identified several features:

- the collaborative experience – departments identified their own budget cuts, officials and politicians worked together, and the Cabinet strove for unanimity on planned cuts;
- the crucial role of the Prime Minister in championing the plans;
- the need to identify not just what to cut but where to spend, though participants also noted that Canada's deficit reduction had taken place against a very different global economic backdrop; and

- the strategic nature of cuts – some areas of public spending had not just been reduced but totally eliminated, if deemed unnecessary for state provision. This was in marked contrast to previous British public spending cuts on principles of "equal misery" among different departments and bodies, regardless of strategic priorities.

However, the UK's fiscal position—a likely 12 percent government deficit—is weaker than Canada's was at its worst, when it hit just over 9 percent. Canadian participants also noted that federal governments had had longer to prepare the public for cutbacks and warned of the difficulty a minority government could have in pushing through an ambitious deficit reduction program. Although minority governments are rare in the UK, recent polls have raised the issue of a "hung parliament." (A ComRes poll published in the Independent newspaper on 1 December 2009 showed that support for the opposition Conservatives had fallen three points to 37 percent, with Labour steady at 27 percent and the Liberal Democrats up two points to 20 percent. If repeated at the general election, that would leave the Conservatives six seats short of an overall majority in parliament, resulting in the first hung parliament in Britain since 1974.)

FACTBOX ONE

Lessons from the Canadian Experience: Is Boring the New Sexy?

Canada had what one participant described as a "good crisis." Its banks and economy were not as heavily affected by the financial crisis as those of other G7 countries. Participants suggested that the following factors may have been responsible:

A less exposed financial economy in Canada

The housing collapse and recession of the mid-1990s left banks "gun shy," so they were late to join the hunt for yield through riskier assets or avoided it through wise management decisions.

A more conservative bank and consumer culture

Executives receive a large proportion of their pay in deferred equity; they are often paid bonuses on the basis of whole company performance (including customer satisfaction levels). However, one banker did suggest that the issue of pay has been overemphasized, stating that a competitive culture encourages people to take risks regardless of reward.

Canadians more conservative on borrowing

Canadians hold half the credit cards of US counterparts. A culture of more restrained borrowing and spending can offer protection during a rapid downturn.

No mega banks

Several Canadian banks were prevented by their government from merging more than a decade ago. Some participants suggested this helped to insulate the Canadian banking system since banks were not able to pursue the mega deals or complex international revenue streams that subsequently harmed many international counterparts in the downturn.

Conservative regulatory requirements and fiscal policies

Banks are limited to a 20:1 leverage ratio; mortgage insurance is mandatory on high loan to value mortgages.

A swift and "sensible" reaction to the crisis

The Central Bank was quick to provide short-term financial support, the government did not need to inject capital into any Canadian banks, and there was timely and effective cooperation between the main players.

Populism and fiscal responsibility

A major challenge for governments in the short term will therefore be marrying popular support with fiscal responsibility. Participants were concerned that politicians were not stating the magnitude of the problem baldly enough. A number of Canadian participants in par-

ticular warned that "efficiency savings" or "re-engineering" of public services were unlikely to be sufficient to deliver the level of savings needed and that the public should be prepared for the possibility of major cuts in front-line public services such as hospitals and schools.

"Governments are not explaining the magnitude of the problem," said one participant. "When markets realize that people aren't going to buy into this, then you will have a big problem."

Others talked of a "dramatic need for political leadership" and expressed concerns that, with the beginnings of a fragile economic recovery, people would start to think things are already fixed. Many pointed out that Canada spent a decade preparing the public for the need for tough fiscal action. The UK does not have that luxury.

Tax

The Colloquium heard several calls for more concerted action to deal with tax havens, although rapid international progress in this area was noted. The UK's Trades Union Congress has called for a system of taxation in which the rich pay a "fairer" share, more is done to close tax loopholes, and a new transaction tax is introduced across financial services (e.g., the so-called Tobin tax) in addition to a new 0.05 percent tax on instant sterling transfers in the UK.

Social Costs

Trades Union Congress leader Brendan Barber and former Quebec finance minister Monique Jérôme-Forget both presented on unemployment and the social cost of the crisis. The clear message from the session was the need to keep the current and emerging workforce connected to the working world. Hefty cuts in public spending and reductions in back-to-work programs, training, and education could dent recovery and inflict permanent damage on countries that have failed to invest as smartly as others in "future-proofing" their economies.

The Colloquium felt that in the UK and elsewhere, monetary and fiscal policy had helped to restrain the growth of unemployment dur-

ing the current crisis. One estimate suggested that 0.5 million jobs in the UK, and 7 to 11 million jobs globally, had been saved by various stimulus packages. Examples such as Britain's Future Jobs Fund, which aims to create 150,000 additional jobs and targets 18–24 year olds, and Quebec's special program that assists workers following the closure of a business, were cited as successful models.

Businesses and workforces have also proved more flexible than in previous crises, opting for shorter working hours, periods of closure, and similar measures to keep the workforce employed.

However, Barber in particular warned that withdrawing public support through rapid and radical fiscal consolidation would have damaging effects on employment and the economy, and he suggested that higher levels of public spending in the UK should be maintained for at least the next two years. "A policy of early and deep cuts would have devastating consequences," he said, and would undermine public services, undermine any recovery, and leave deep scars on communities hit by recession.

Monique Jérôme-Forget reminded the Colloquium participants of the very real social cost of job loss, pointing to research showing a link between rising suicide rates and rising unemployment. She spoke of the need for initiatives that focus on the individual—a remark echoed by other participants, who noted that as unemployment, particularly in the UK, has hit young people (especially young males) and visible minorities the hardest, any policy response needs to be sufficiently targeted.

The effect of unemployment on visible minorities could in fact be disproportionate given their connections to the diaspora. Correspondingly, tackling unemployment in these communities could have greater positive impact.

Some participants questioned whether it was the role of governments to take on the role of primary employers, rather than merely to encourage employment, and felt that over-reliance on the former would stifle innovation and leave economies more vulnerable to future shocks. Participants suggested that businesses could work with governments in this regard, for example, by offering some free services to unemployed workers to keep them linked to the world of work.

Other mechanisms include those proposed by former Bank of England Monetary Policy Committee member Danny Blanchflower, who has suggested that in the UK national insurance contributions for youth under the age of 25 be removed and that the school-leaving age be raised immediately to 18. Consideration also needs to be given to better protection of self-employed and part-time workers, and to the more general erosion of workers' rights and contractual conditions, including for pensions, as employers cut costs and liabilities during the recession.

One participant suggested more imaginative and innovative ways of maintaining the skill base such as taking individuals off unemployment insurance and redeploying them in communities where their skills are needed and could benefit the broader community as a whole.

Investment and Innovation

Throughout the Colloquium, participants returned to a concern that in seeking ways to extricate ourselves from the crisis, we are simply looking at reinvestment in the "old economy." Many were worried that governments would look to slash spending to reduce enormous public debt burdens at a time when investment was needed to prepare for major shifts in global political and economic power, and to find more sustainable ways of operating, given finite resources and environmental damage.

There was concern that the big public debate was not how to avoid mass unemployment and nurture the recovery but how to pay down the deficit. "We are naïve if we think we can simply take action by reducing deficits and by reducing spending," said one participant. Many participants believed that fiscal stimulus packages should be used to help create jobs for the future, build sustainable infrastructure, and create low carbon economies.

Participants likened the need to invest for the future to rearmament by the United States after the 1930s Depression, investment which helped to restore growth. "Should we be arming ourselves, for example, for the challenge of low carbon?" asked one.

Participants identified the following issues that need to be addressed.

Balanced, sustainable growth

In the UK, a move to rebalance the economy to move it away from a dependence on financial services is expected to be a feature. "We got hopelessly out of kilter in the UK with our reliance on financial services," said one business leader. Emphasis in the UK was expected to be on supply-side policies such as transport, infrastructure, education, training, and R&D.

It was thought that any UK government would be unlikely to target particular sectors to drive growth, as active industrial policy in the UK did not have a history of success. Governments would therefore be reluctant to attempt to favour particular industries or companies, having picked the wrong ones in the past.

Given the ever-increasing demands on finite energy sources such as oil, investing in sustainable methods of energy production and on improving infrastructure were also considered central to growth strategies going forward.

Innovation and diversity

In addition, a number of participants called for a much more radical rethink of "what work we are going to do in the West" given the likely deindustrialization of industrialized nations as countries such as China and India pick up more and more of the manufacturing chain. An environment that encourages innovation is seen as key to success.

Thomson Reuters' David Craig said global corporations were already moving very quickly to redeploy in the "new global normal" and that some countries risked being left with "generations of people who haven't been employed or learned to invent or innovate."

A number of participants suggested that the crisis itself could herald an opportunity for innovation. As one participant noted,

> The consolidation of the USA Defence industry in 1960s led to the opportunity for innovation and added momentum to the embryonic Silicon Valley. In 1990s recession, the restructuring of the Aerospace industry and Precision Manufacturing sector led to a release of en-

> gineering and scientific talent that moved into starting many new companies in the animation/Hollywood creative industries and into biotechnology companies which needed process engineering.

The dotcom collapse also helped Internet entrepreneurship to flourish.

Fostering innovation requires action both from companies and governments: successful companies will be those who continue to explore better ways of working, new products, and new technologies; successful governments will continue to invest in all levels of education, blue-sky and business-aligned research, and help to fund start-up and other small and medium-sized enterprises.

If one of the causes of the current crisis was a "herd-like" mentality, and a fear or failure to ask obvious or difficult questions, then having a more diverse group of decision-makers could also help to avert similar crises in the future. Although progress has been made in this regard, more needs to be done to broaden representation at the board and senior management level.

Well-Being

In this final subsection, the report addresses a thread that ran through the entire Colloquium: What kind of future are we building toward? "We need a new and different kind of global economy," the TUC's Brendan Barber told participants. This "different kind of economy" would be driven by the spending power of ordinary workers, Barber suggested. He noted that Canadian labour productivity had gone up 37 percent in the last 25 years but median real wages had not risen at all. Over a similar period, wage contribution to the GDP had fallen to 53 percent from 65 percent.

The view that we need to make a decisive break from the "business knows best" attitude of the past three decades echoed a fear from a number of business participants at the Colloquium that the crisis had tarnished public attitudes toward all business. One participant urged that "a more inclusive form of capitalism" was now needed, while another questioned whether there had to be an inherent conflict between capitalism and social responsibility.

Implicit in all this was the question of whether the production and distribution of goods and services was the end goal of society or whether a greater focus on well-being (or "Gross National Happiness" as in Bhutan) might provide better outcomes for all.

"A good crisis shouldn't be wasted," John Helliwell told participants. "It should be the chance to press the reset button." He noted that a number of studies have been undertaken on measuring well-being, and that well-being has been proposed as an outcome rather than traditional measures such as profit growth. For example, the Commission on the Measurement of Economic Performance and Social Progress, chaired by Professor Joseph Stiglitz, has proposed shifting the focus in statistics from production measures to measures of well-being and sustainability. Among its recommendations, the Stiglitz report has suggested that income and consumption should be considered when assessing material well-being, that both objective and subjective measures—such as political voice and social connections—were important, and that measures of well-being ought to be put in the context of sustainability.

One participant asked whether it might be possible to recalibrate society—to prepare people for a kind of war-time or post-war sense of being content with what they have, to adopt lifestyles that embrace slow food not fast food, to "make do and mend" (see Factbox Two). Another worried that by searching for ways to encourage the Chinese and others to spend more, we were simply encouraging greed and refuelling the possible causes of this crisis.

Some ways of "recalibrating" might be the use of school education programs to instill ethics and give learners a basic understanding of economics, as well as public information programs to improve financial literacy, such as the UK's planned Consumer Financial Education Body independent of but linked to the Bank of England's Financial Stability Committee and the Financial Services Authority.

FACTBOX TWO

Personal Commitments

Participants were asked to suggest one commitment they would make personally or that they would like to see effected to bring about lasting change post-crisis. Here is what they said:

- Use the financial crisis as an opportunity to redesign domestic policies with greater emphasis on sustainability (in social, human, economic, environmental, and political terms), resilience, and well-being
- Ask more questions
- Promote understanding of the “Law of Inverse Credibility”: the more dominant the corporate leader, the greater the risk of weak internal governance, among staff, management and non-executive directors
- Promote understanding of the “Index of Reality on the Ground”; that is, note microeconomic evidence from individual corporate experience, which often runs ahead of aggregated macroeconomic data
- Treat your economic and financial lift/elevator rides as social events waiting to happen, not as short-term prison sentences
- Try random acts of kindness
- Do at least 10 percent pro bono work a year, and encourage your colleagues and staff to do the same
- Support charitable NGOs more actively at a time of greater social need, especially as most charities have been hit by declining investment returns from equities, debt instruments, and cash deposits
- Walk more, turn off lights and taps
- Do more to show colleagues they are valued
- Work harder to create a diverse workforce at executive senior management level through training and outreach programs

CONCLUSION

During the opening session of the Colloquium, participants were invited by John Helliwell to sing "If You're Happy and You Know It, Clap Your Hands" as part of a discourse on happiness. After a faltering start the group gave a spirited rendition of the first verse, actions and all. It would perhaps have been useful to try the final verse as well, which involves hand clapping, foot stamping, nodding, and shouting simultaneously—because that's the trick policy-makers now have to achieve.

Successful negotiation of this crisis will involve an approach that creates an improved national and international rule structure against the backdrop of significant adjustments in monetary and fiscal activity. And all this must be achieved with an eye to the longer-term goals of promoting well-being and sustainable development in a rapidly changing geopolitical environment.

It is clear that another crisis will erupt at some stage; yet we are, we hope, on the way to a better understanding of when and where that might be, through improved regulation, better global cooperation and, perhaps, a greater degree of humility about all that is not known.

It is clear that an increasingly mobile, increasingly networked society faced with ever-increasing amounts of information must find better ways to distill, assess, and share knowledge, and that industrialized economies must actively find new skill sets if they want to grow sustainably in the future, given the rapid development of countries such as China and India.

What is less clear is how the global picture will play out on a country-by-country basis and how political manoeuvring will affect both short-term economic recovery and the longer-term development of society. Will fixing yesterday's problems set even greater hurdles for dealing with the problems of tomorrow, or can we indeed set the reset button?

The tasks for governments and others are therefore complex but can perhaps most easily be understood in terms of three core areas of work: regulation and governance, international cooperation and information flow, and sustainable development.

Regulation and Governance

1. Capital and liquidity requirements for financial institutions should be reassessed regularly and, when required, updated swiftly. Off-balance sheet items should be included in definitions.
2. Complementary systems of macroprudential regulation should be introduced at the domestic level, with a longer-term goal of creating global oversight mechanisms to take into account the profound interconnectedness of major firms internationally. In the UK, this macroprudential supervision could be achieved through an enhanced role for the Bank of England's Financial Stability Committee or Monetary Policy Committee and the Financial Services Authority.
3. Governance within financial institutions should be improved as a matter or urgency, with boards required to have a deeper understanding of the working of financial institutions and more robust risk/reward policies, and with shareholders encouraged to play a more active role.
4. More consideration needs to be given to the role and structure of ratings agencies, with a view to regular external review and assessment of ratings and reconsideration of the current model in which agencies are remunerated by the organizations they rate.
5. Ethics should be made compulsory in business courses; economics and finance education should become standard within secondary education.

International Cooperation and Information

1. Governments and international bodies should continue to work to bring down trade and investment barriers and to eliminate protectionism.
2. The role of global financial institutions such as the International Monetary Fund should be strengthened, and an early

warning system and peer review mechanisms—as discussed by the G20—should be introduced.

3. The International Monetary Fund and the World Bank should be encouraged to consider regional assistance as well as country-by-country deals to enhance the benefits of such support, particularly for least developed countries;
4. Global imbalances should be addressed where feasible, including timely exchange rate adjustment and a shift to Special Drawing Rights as a reserve currency.
5. China should consider a Marshall Plan-style official development assistance (ODA) and investment program, which could help less developed countries, particularly those in Africa, and could help to address global imbalances.
6. More detailed work needs to be done on assessing and monitoring the risks presented by multinational corporations and on ensuring that these corporations have robust "resolution" plans for times of crisis. Vastly improved mechanisms for information sharing and data-mining are crucial to this process.
7. Central Banks should coordinate withdrawal of liquidity from the system to avoid destabilizing bond markets.

Sustainable Development

1. Governments need clear and coordinated exit strategies to bring down deficits and sustain economic recovery.
2. Governments should take into account social costs such as long-term unemployment when determining how to tackle crises.
3. Much more must be done to forge sustainable growth paths, foster innovation, and prepare Western industrialized nations for an expected process of deindustrialization in the West.
4. Achievement and measurement of well-being needs to move to the centre of objectives.

APPENDIX

PROGRAM

THE 2009 CANADA-UK COLLOQUIUM

The Global Economic Crisis: Lessons Learned and the Way Forward

Thursday 26th November

9:00 a.m. **Rt Hon John McFall**, MP, Chair, Treasury Select Committee
Committee Room 8, House of Commons

10:10 a.m. **David Gauke**, MP, Shadow Treasury Minister
Committee Room 8, House of Commons

12:00 p.m. Bank of England – Meeting and buffet lunch
Spencer Dale, Executive Director and Chief Economist, responsible for Monetary Analysis and Statistics; **Andrew Bailey**, Executive Director for Banking Services and Chief Cashier; **Paul Fisher**, Executive Director for Markets; and **Andy Haldane**, Executive Director for Financial Stability

3:00 p.m. **Helen Alexander**, **CBE** President, and **Ian McCafferty**, Chief Economist, Confederation of British Industry

4:30 p.m. **David Strachan**, Director of Financial Stability, Financial Services Authority

7:00 p.m. Reception and Gala Dinner at the Guildhall hosted by the City of London Corporation

Host & Speaker: **Stuart Fraser**, Chair of the Policy & Resources Committee

Keynote Speaker: **Vince Cable**, MP, Liberal Democratic Party Shadow Chancellor of the Exchequer

Friday 27th November

Chair: **Lord (Christopher) Tugendhat**

Location: ***Headquarters of Thomson Reuters, 30 South Colonnade, Canary Wharf, London E14***

8:45 a.m. **Introduction**

Philip Peacock, Chair, Canada-UK Colloquia; and Professor **Robert Wolfe**, Canadian Coordinator, Canada-UK Colloquia

8:50 a.m. **Opening of 2009 Colloquium**

Rt Hon Stephen Timms, MP, Financial Secretary to the Treasury

9:00 a.m. **Chair's Opening Remarks – Lord Tugendhat**

9:05 a.m. **Session 1: Where Do We Stand Now?**

An assessment of the nature and causes of the economic and financial crises, of the current recovery packages and macroeconomic policies, and of the extent to which current trade and investment policies are helping global recovery

UK: **Bill Emmott**, Joint Chair, Canada-European Union Business Round Table

Canada: **Gordon Thiessen**, former Governor, Bank of Canada; **John Helliwell**, Professor Emeritus of Economics, University of British Columbia, Arthur J.E. Child Foundation of the Canadian Institute of Advanced Research

10:30 a.m. Break for tea and coffee

10:45 a.m. **Session 2: More Effective Regulation of Financial Institutions and Products, and Better Corporate Governance**

UK: **Verena Ross**, Director of the International Division, Financial Services Authority; **Charles Haswell**, Group Strategy and Planning, HSBC

Canada: **Ted Price**, Assistant Superintendent, Financial Institutions Canada;

Mike Pedersen, Group Head Corporate Operations, TD Bank Financial Group

1:00 p.m. Lunch at Thomson Reuters

2:00 p.m. **Session 3: The Microeconomic Situation: Corporate Views**

UK: **David Craig**, Executive Vice President and Chief Strategy Officer, Thomson Reuters

Canada: **Thomas d'Aquino**, Chief Executive and President, Canadian Council of Chief Executives

3:30 p.m. Break for tea and coffee

3:45 p.m. **Session 4: Unemployment and the Social Cost**

UK: **Brendan Barber**, General Secretary, Trades Union Congress

Canada: **Monique Jérôme-Forget**, former Quebec Finance Minister and current Special Adviser at the Canadian law firm Osler, Hoskin & Harcourt LLP

7:00 p.m. **Reception and Gala Dinner at Canada House**

Hosted by **HE James Wright**, Canadian High Commissioner to the United Kingdom

Speaker: **Professor Ray Barrell**, National Institute of Economic and Social Research

Saturday 28th November

9:00 a.m. **Session 5: The Impact on Developing Countries and BRIC Economies, and in turn Their Impact on the Global Economy**

UK: **Lord Desai**, Professor Emeritus, Centre for Global Governance, LSE

Canada: **Manmohan Agarwal**, Senior Visiting Fellow, Centre for International Governance Innovation

10:30 a.m. Break for tea and coffee

10:45 a.m. **Session 6: The Way Forward?**

The next crisis? Is an early warning system feasible?
Towards the next G8 and G20 meetings. Priority issues and recommendations

UK: **Dr. DeAnne Julius**, CBE, Chair, Chatham House

Canada: **Kevin G. Lynch**, former Clerk of the Privy Council and Secretary to the Cabinet

12:45 p.m. Lunch at Thomson Reuters

2:00 p.m. **Rapporteur's Report Followed by Discussion**
Jodie Ginsberg, UK Bureau Chief, Reuters London

3:00 p.m. Closing Remarks by Colloquium Chair, **Lord Tugendhat**

7:30 p.m. Informal farewell dinner at Marriott Hotel, West India Quay, Canary Wharf

LIST OF PARTICIPANTS

CHAIR

Lord (Christopher) Tugendhat

RAPPORTEUR

Ms Jodie Ginsberg
Bureau Chief, UK and Ireland, Reuters

UK MINISTER OPENING THE COLLOQUIUM

The Right Honourable Stephen Timms, MP
Financial Secretary to the Treasury

UK ADVISER TO THE 2009 COLLOQUIUM

Mr Nicolas Maclean, CMG
Chief Executive, MWM (Strategy)

CANADIAN ADVISER TO THE 2009 COLLOQUIUM

Mr John M. Curtis
Distinguished Fellow, Centre for International Governance Innovation and Adjunct Professor, Queen's University

SPEAKERS: GUILDHALL DINNER 26 NOVEMBER

Mr Stuart Fraser (Host)
Chairman of the Policy and Resources Committee, City of London Corporation

Mr Vince Cable, MP
Liberal Democratic Party Shadow Chancellor of the Exchequer

SPEAKERS: CANADA HOUSE DINNER 27 NOVEMBER

HE Mr James Wright (Host)
Canadian High Commissioner to the United Kingdom of Great Britain and Northern Ireland

Professor Ray Barrell
Director of Macroeconomics and Senior Research Fellow, National Institute of Economic and Social Research

BRITISH SPEAKERS (in order of presentation)

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Co- Chair, Canada-EuropeEU Business

Ms Verena Ross
Director of the International Division, Financial Services Authority

Mr Charles Haswell
Group Strategy and Planning, HSBC

Mr David Craig
Executive Vice President and Chief Strategy Officer, Thomson Reuters

Mr Brendan Barber
General Secretary, Trade Union Congress

Lord Desai
Professor Emeritus, Centre for Global Governance, London School of Economics

Dr DeAnne Julius, CBE
Chair, Chatham House

CANADIAN SPEAKERS (in order of presentation)

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Former Governor, Bank of Canada

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Mr Ted Price
Assistant Superintendent, Financial Institutions Canada

Mr Mike Pedersen
Group Head Corporate Operations, TD Bank Financial Group

Mr Thomas d'Aquino
Chief Executive and President, Canadian Council of Chief Executives

Ms Monique Jérôme-Forget
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Dr Manmohan Agarwal
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The Honourable Kevin G. Lynch
Former Clerk of the Privy Council and Secretary to the Cabinet

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Mr Thomas G. Bata
Chair, Bata

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Senior Fellow, London School of Economics

Mr Graham Bishop
Chair, GrahamBishop.com

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House of Lords

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Mr Rob Marris, MP
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Social Mobility Foundation

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Mr David Crane
Canada in the 21st Century

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Co-Chair, Canada-EU Business Roundtable

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