U.S. Hopes for Global Accord on Financial Reforms

By Edmund L. Andrews
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WASHINGTON — As President Obama prepares to host the leaders of the Group of 20 nations at an economic summit meeting this week in Pittsburgh, American officials say they are optimistic about reaching agreement on strategies to rein in practices that led to the current financial crisis.

Though differences persist, administration officials said a rough consensus had been reached on broad lessons from the crisis. The firmest area of agreement at the two-day meeting this Thursday and Friday is likely to be on the need for higher capital reserve requirements at banks and other financial institutions.

Requirements on capital reserves — safety cushions against losses — are at the heart of the risk-taking behavior of financial institutions. Higher reserve requirements mean that institutions have less latitude to leverage their investments with large amounts of borrowed money.

The Treasury secretary, Timothy F. Geithner, has been circulating a lengthy framework of principles for requiring institutions to build up bigger cushions to guard against investment losses and the risk of cash shortages caused when the credit markets seize up.

American officials said on Tuesday that they were also confident about reaching agreement with European leaders on how best to regulate compensation for finance industry executives. French officials have been pushing for specific caps on bonuses, an approach that American and British regulators consider too rigid.

But French officials have signaled in recent days that they do not expect agreement on specific caps. And European officials appear to agree with American policy makers that the most important goal is to clamp down on huge bonuses that reward short-term results without holding executives accountable for a company's long-term stability.

The third and most difficult area of discussion involves how to prevent the kind of huge global economic imbalances that many analysts believe were central to the bubble-and-bust cycles of the last several years.

The biggest imbalance of the past decade has been the gap between the soaring indebtedness of the United States, with its consumer economy, and the mounting surpluses of China and other countries whose growth has relied on exports.

Export-dependent countries plowed trillions in surplus profits back into the United States over the decade, supplying a flood of cheap money that kept interest rates low and aggravated the huge speculative bubble in American home prices.

American officials said they had no expectation of establishing any enforcement mechanism over the policies of individual nations. But they said they hoped to persuade the Group of 20 to support more balanced growth strategies, and officials were discussing proposals calling for governments to monitor each other through a “peer review” process in collaboration with the International Monetary Fund.

Mr. Geithner said the goal was not force countries into changing their policies but to get them to agree on what was in their long-term self-interest. “The central insight is to force people to look forward,” he said, “to look at the size of the imbalances and at the risks building up.”

For the United States, that would mean increasing investment and savings while slowing the growth of consumption. For China and other Asian nations, that would mean relying less on exports for growth and doing more to stimulate consumer spending at home.

Some outside experts were skeptical that any pledges made in Pittsburgh would amount to more than platitudes. Simon Johnson, a senior fellow at the Peterson Institute for International Economics, noted that Group of 20 leaders were not even trying to set timelines for ending their emergency economic stimulus measures.

Eswar S. Prasad, an international economist at Cornell University, said there was still “a chasm on macroeconomic issues.”

“China continues to see the proposed framework as an underhanded ploy by the U.S. to shift attention from its massive fiscal deficit,” Mr. Prasad said.

But analysts said many governments were shocked so badly by the current crisis that they were already re-evaluating their strategies out of pure self-interest. In the last year, Chinese leaders have carried out a huge domestic spending program that has been a leading contributor to global growth.

Though American officials insist they are not trying to cut a deal with China, the United States is also pressing hard to give China and other fast-growing emerging countries a bigger share of voting power at the International Monetary Fund.

China, India and emerging economies have been pushing for a bigger role for years, contending that their voting power in monetary fund decisions has lagged behind their influence in the global economy. American officials agree, but European governments would be the losers in any rearrangement of voting rights and they have been reluctant to go along.

White House and Treasury officials, for their part, have not tried to push European and Asian leaders into highly specific commitments. Mr. Geithner has refused to propose any specific capital ratios for banks, for example, saying that leaders should simply agree to nail down such numbers by the end of 2010. In part, that is a nod to European banks, many of which have higher debt level ratios than American banks.