Shadow G*n* Meeting,

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Thursday Session II

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A. Credit Interventions

a(i). are the credit guarantees and lending by government unfair trade practices? Were they necessary? Can or should developed countries provide compensation to developing countries? In the United States and some other countries, governments have taken on an increased role in lending. Was this necessary?

- Credit guarantees etc only UTPs if confined to “national firms”, (i.e. national treatment principle) but this does not seem to be the case.
- However note that OECD/WTO rules require such schemes to “break even” (to prevent subsidy)
- Government lending (or rather asset rediscounting) was/is necessary to restore confidence.

a(ii) In some cases, this seems to be done without adequate credit assessment. What is the magnitude of risks that this poses to the U.S. and other countries engaged in the process (both in terms of credit allocation, long term budgets, and interventions in the functioning of the market economy)?

- Not clear what “adequate credit assessment” is here as this is systemic uncertainty.
- Immediate crowding-out not a problem as credit demand is low.
- Longrun fiscal overhang is the real problem (particularly if inflation and growth are low). And inability to resell assets without halting market recovery.
- Intervention in market economy (e.g. re-segmentation of asset markets) needed anyway.

b. How much concern should there be about the lack of transparency?

- Contagion effects on all assets in a class, and all liabilities issued by an institution, if some are purchased at a discount; central banks have always needed secrecy and discretion for OMOs.
- This should not prevent ex-post checking on fraudulent practice, corruption etc.
- The issue is one of distribution of losses, rather than transparency as such – eg pension funds versus stockholders. This becomes more acute when public banks are involved.

B. Are current/proposed bail-out/stimuli/credit guarantees programs sustainable?

a. What risks are posed in the long term by the growing balance sheet of the Fed and other central banks? How worried should we be about long term inflation? A double dip recession?

- Risk is not so great if held long term; but this will require tax funding; especially as economy recovers.
- But if re-privatised who will buy? Foreign ownership way out elsewhere – but acceptable in US. Sovereign funds already buying US bank stock.
- Long-term inflation not a concern at present as demand is low; collapse of dollar is.

b. What risks are posed by the growth of debt/GDP ratios?

- Economic theory gives no indication; depends on market appreciation of fiscal strength and future growth.
- The issue is the “govt balance sheet” and thus the asset value (or *net* debt position); and how marked to market and when.
- For what is worth, long US yield curve indicates that markets do not see this as a problem yet...