

G20 Toronto summit unlikely to achieve major reform, Rotman study suggests

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Coordination of financial regulations makes sense for countries trying to minimize the effects of global financial uncertainty, says a paper from the University of Toronto's Rotman School of Management.

But the "prospect for effective cooperation is not encouraging," says the paper, adding the G20's size "may be a problem." That's because the more countries there are trying to coordinate their policies, and the more varied their financial structures, the less likely they are to get agreement, reducing the chances of successfully harmonizing regulations governing the group's [financial institutions](#).

Based on that, "we should not expect too much of the Toronto summit," of the G20, scheduled for June 26 and 27, says Paul Masson, the study's co-author. Prof. Masson is a research fellow and adjunct professor at the Rotman School, and is a former adviser to the Bank of Canada as well as to the International Monetary Fund.

"Many regulatory issues are complex and need to be adapted to individual countries' systems." Prof. Masson says. "Harmonization may not be the best solution in all cases given the structural differences."

Using two different mathematical models, Prof. Masson and co-author John C. Pattison show that coordination is a logical choice to deal with growing uncertainty as well as when countries are trying to balance their interests in maintaining economic stability while keeping their banks competitive. When the economy is uncertain, coordination allows policy-

makers to make choices minimizing potential spillover effects from one country to another. It also works when countries are trying to balance their interests during a crisis, because countries put more value on [financial stability](#) due to suffering a common shock.

However, without an enforcement mechanism, cooperation "may break down," the authors point out, and once the current crisis is over, "governments may well no longer possess the political will to finish the job."

The study was published in the *Journal of Economic Asymmetries*.

The G20 was created in 1999 and represents established and emerging market economies. It has replaced the G7 and G8 as the main forum for international economic cooperation in response to the toxic spillover effects of the 2008 financial meltdown.

More information: The complete study is available at:
www.rotman.utoronto.ca/newthinking/G20reforms.pdf

Provided by University of Toronto, Rotman School of Management

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