Justin Gest: For the Global economic crisis, the G20 has emerged as the primary form where global leaders convene to plan a global response. Hi, welcome to the Hot Seat, I'm Justin Gest. With us to discuss the most recent meeting in Pittsburgh, Pennsylvania, is Professor David Held. Thanks very much for being here.

David Held: Pleasure.

JG: Alright, let's begin with the circumstances. Reflecting on the economic crisis, how serious do you think is its stage right now? Do you think it's stabilising?

DH: The first thing to say about the financial crisis, which broke in October last year is that it is probably the most profound crisis of the global economy since the Great Depression. There is no question that it is a crisis of profound multi-dimensional consequences that links together two economic sense of problems: a banking crisis, the financial crisis, on the one side, with the crisis of the real economy on the other and these two things re-enforce each other in a very negative downward spiral. The credit crunch, which reached, I suppose, its moment of symbolism with the failure of Lehman brothers, froze the banking system and that of course re-enforced a recession that was already developing. The fall in GDP, it's interesting to note, across the world's developed countries is faster and has been faster during the last year than during the Great Depression.

There is one sobering thought that we should bear in mind: the Great Depression was never an economy or a world economy falling off a precipice; it was a staggered series of declines over time. And we cannot yet say with confidence that we are through the worst. The financial crisis is stabilised at vast cost to the tax payer, in the sense that the cost of the crisis has been postponed into the future through debt, public debt. So, that is true. And the economy, the world economy, overall has stabilised. There are fines of strong growth, but not in the West interestingly enough, from Asia.

And here is an interesting final reflection: In the past the world has depended on the United States economy to bounce out of recession to drag the world out. Today we depend on China and Asia. And this reflects a change in the balance of global economic power. The world is no longer simply driven by the West. Economic growth, on a global scale, is powered by the Gulf, and by Asia, in particularly China. The Asian countries are coming out of the crisis rapidly. China's growth has returned to very sustained high levels. And I think that what this means for the future is that we are on the verge of a repositioning of global power away from the G1 and the G5, G6 and G7 toward s a multi-polar complex of the political and economic world.

JG: So perhaps that would explain why the G20 is now the central site of debate.

DH: I think it is, you know, of a profound significance and happened very fast. Most of the levers of global economic policy have been tightly in the control of the G1, as I called, United States and Europe, since 1945. 1945 and there's post-war settlement locked to the bretton woods of institutions, put the United States and Europe in the driving seat of the World Bank and the IMF. This went all the way through to crucial regulatory committees for the banking system, the Basil committee and so on, all locked into western economic interests and an expression of western views about economic policy. So we might say that the whole origin of the so-called light-touch regulation, which allowed the banking bubble to build up and build up and build up was a Western conception, particularly Anglo-American conception of appropriate regulation globalised across the world through these regulatory mechanisms and institutions. This has fallen now flat on its face. But there's a recognition with this that the economic world is changing, that Asia is increasingly critical to the bounds of world economy, that without China key things cannot be made to happen, key rule systems cannot be made to change. So the G20 is a serious and I think quite profound recognition that the world's key economic fora now have to reflect a diversity of voices, including the core of the world developing countries. This is a very big change from 1945. 1945 its the core post-war powers that embed themselves in the architecture of the UN institutions and the bretton woods institutions. This has essentially crumbled with changes in the balance of economic and I think political power as well and the G20 is one crucial recognition of this shift.

JG: Alright, then looking at Pittsburgh, what do you think where the primary achievements made?

DH: I think the first thing to say is that a lot of global fora are talking shops in the loose sense that there is a lot of rhetoric but not enough action. I think we have to give now credit where credit is due. The London G20 meeting followed by Pittsburgh have suggested a really serious intention to change institutional structures and rule mechanisms in four key areas. And I think these are serious indicators of policy change. The first, we have already talked about G20 but I just want to mention it again, is that it is now recognised the G20 will be the primary organisation for global discussion of economic policy. The G7 and G8 will remain important for security issues but the G20 will be the entrenched organisational force for deliberation of economic policy. That's a very significant change. It will rotate presidency of, the G20 will rotate on an annual basis to different countries and they will meet every year into the future. One significant change.

Two: on bank capitalisation and bank regulations there are also significant developments. Banks will now be required to hold much more considerable reserves than they did in previous eras, which should stop some of the high leveraging taking place, which was characteristic of the previous decade or so. Bank bonuses have also been addressed with banks now required not to award bonuses in excess of a certain percentage of their turn over and with the provision to claw back bonuses should banks do badly or even fail.

Finally, the IMF has been boosted quite considerably both by extending is board to encompass china and other powers on a more regular participatory basis, by re-capitalising the IMF in a significant way and by making the IMF the centre of peer review of the G20's economic policies. So the economic policies of each of the FG20 countries are subject to review by the G20, a review carries out by the IMF. So in these four areas, bank regulation, bonuses, IMF and peer review among others there are quite substantial changes. Now, whether these changes will be effective depends of course on individual countries. And I am concerned that although these are substantial changes and we should welcome them, the enforcement mechanisms for these changes rests on a country by a country basis. So countries can create excuses or means for saying that they are going to put these issues into effect but actually not do it. And the only mechanisms of ensuring that the countries will do these things is peer pressure, black reports, negative comment, negative global press concern. Sometimes this is important. Sometimes peer pressure at the level of country-wide pressure is significant. But I'm afraid that without some kind of more serious institutional enforcement either by the G20 or by the IMF some of these policies, good as they are and well-intentioned as they are may not bite as deeply as we would like.

JG: Then what are the next steps?

DH: Well, one interesting step that the G20 has signalled and I think this is a very intellectually and politically exciting phenomena, pushed particularly by Angela Merkel and Germany is the idea that the financial crisis be paid not by the tax payer as it is being currently but by the financial markets themselves. Now, this is an interesting theoretical thought. Karl Marx always argued and I might put the point a little polemically but going back to the old Marx that the state was an executive committee for managing the affairs of the bourgeoisie. And in this sense, he was right. Here we have this catastrophic global capitalist crisis and who pays the bill, we pay the bill, the tax payer pays the bill, the middle classes and the working classes pay the bill in public dept into the future. And public expenditure cuts will be the order of the day in the years to come. The burden currently is on the tax payer. But the Germans and others have suggested that we should introduce a financial market tax to draw out revenue from the financial markets to put back into national treasuries to defray and mitigate the costs of the global financial crisis. This is a very exciting idea. And it goes back to James Tobin and the Tobin tax and idea that James Tobin, an American, put on the table two decades or so ago. He argued that financial markets can heat up too quickly. One way to calm them is to have a transaction tax. And he pointed out that the small transaction tax. Could raise billions and billions for investment in public goods. So this was an idea launched as it were on the world a long time ago. That everyone has neglected or actually dismissed rather cynically, specially policy makers, specially intrenched interests, specially bankers. But interestingly now, it's back on the table. And if it were to happen, and it's a big-big if, I think it would be a very interesting development and the beginnings of the raising – potentially- of a global source of tax on financial markets, which could be used either to defray the costs of the financial crisis in particular countries or as a development pot to put into developing countries to help to defray the worst costs and impact on the poorest countries or to be used for global public goods. It's a very exciting idea. Will it happen? I don't know.

The broader and last point I would make is the issue of enforcement. The global financial crisis has costs hundreds, hundreds of billions of pounds. And in fact it's quite interesting to know that the global in one year alone has cost ten times more than the world spends on arms and the military. And the world spends already on arms and the military seven hundred times as much as it's spent on global health. So the global financial crisis has cost ten times as much. These are astronomical figures. Will the regulatory changes, will the policy changes, welcome as they are, bite deep enough to slow the banking system down, to slow the financial, global financial transactions, and help put money back into public goods, nationally, regionally and globally? This all depends on enforcement. Will the enforcing mechanisms be strong enough? Frankly, I doubt it. And there is another worrying thing, which again, interestingly enough, although I am not a Marxist, Marxism would predict, to go back to Ralf Miliband, who once taught at the LSE, he argued that the state is a capitalist state, because the very same people who people economic classes, people the political classes, and it is interesting to note here that this very same bankers who were in charge of the banking system, that partly triggered the crisis, most of them are now in place advising states at the highest level how to get out of it. So are they likely to recommend tough enforcement mechanisms that will bite sufficiently? I doubt it.

JG: Alright, that will do it. Professor David Held, you are off the HotSeat. Thank you very much for being with us and thank you for being with us for this edition of the HotSeat.
Please, tune in next month.