Lessons for the G-20 Summit

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Alvaro Vargas Llosa

When the world's most powerful treasury secretaries and central bankers convene later this week at the Group of Twenty summit in London, they should address head on the primary source of instability in international financial markets: U.S. government policy. The Federal Reserve's loose monetary policies, the guarantees of mortgages sold by Fannie Mae and Freddie Mac, Congress's strengthening of the Community Reinvestment Act in 1999--these and other policies and programs from Washington, D.C., have spread financial pathogens to Wall Street, to Main Street, U.S.A., and to the economies of countries across the globe, according to Independent Institute Senior Fellow Alvaro Vargas Llosa.

"The G-20 should also bear in mind how much regulation already exists and how ineffective it has been," writes Vargas Llosa in his latest op-ed. "The list includes enormous powers given to the Federal Deposit Insurance Corporation in 1991 and 2002; the Sarbanes-Oxley Act that expanded the authority of the Securities and Exchange Commission; the obligation of financial firms to value their assets according to current prices, however undervalued they may temporarily be; the 31 pieces of regulation administered by the Fed; and a big expansion of the budgets of all the regulatory bodies in the last five years."

The G-20 should also address the long-run dangers of government bailouts of major financial firms, which shelter them from market discipline and encourage poor management and excessive risk-taking. As Vargas Llosa puts it, "No regulatory deterrent is more powerful than the fear of failure, but that has been effectively removed from large parts of the financial system."

"Has the G-20 Learned the Lesson?" by Alvaro Vargas Llosa (3/25/2009) Spanish Translation

Lessons from the Poor: Triumph of the Entrepreneurial Spirit, by Alvaro Vargas Llosa