

## DEBATES

### **Jacques Mistral, Head of Economic Studies, Ifri**

Madam?

### **Nadia Salah, Managing Editor of the Eco-Médias Group**

As there are not many women, I claim the right to the quota, therefore two questions.

Nadia Salah, I am Managing Editor of the Eco-Médias Group, which to which belongs the economist who asked you a question a short time ago.

First, a very small question for Mr. Derviş about the concentration of wealth. I would like to know how wealth behaved in the middle classes . Does this behaviour prompt any further thoughts to your wish to “redistribute” incomes?

A slightly more complex question for the regulators. I hear small-scale bankers – there are still some left in the world – say that Basel III spells the end of the banker. These people are not always talking nonsense. Since small banks do not present systemic risks, since they do not have decision-making chains that are completely unempowered as we see in the large banks, would it not be necessary to differentiate between the ratios of Basel III, between small financial institutions in which the decision-making chain is still accountable, and the others? Thank you.

### **Kemal Derviş, Vice President, Global Economy and Development, Brookings Institution**

Your first question is, I think, really important when one looks at the behaviour of income distribution over the past decades. There was a period, sometimes called the *governance of capitalism* period, in which increases in productivity were translated into a very big rise in household incomes in Europe, the United States, all over the world. From the eighties, one sees that there is a concentration, that the rise in productivity continues – in America, and even accelerates at the end of the nineties – but wealth is not shared nearly as well and is highly concentrated at the top; really concentrated, with percentages similar to those of the twenties. I do not want to go into the political or ethical discussion today, as that is not our subject. One can wish for better distribution without linking it to how macroeconomic policy is conducted. I think the question arises if this concentration of incomes – not in all countries, but in a lot of countries, and especially in China and the United States – does not present a new challenge for the macroeconomic policy, because the latter has a structural problem of sustainable demand itself and, secondly, it may also experience high volatility in demand, because studies show that demand which comes from the highest incomes is much more volatile.

Now, I believe that this issue needs to be raised. I believe that it needs a lot of work. Besides, there are many reasons for this phenomenon: it is partly technology, it is the nature of technological change, it is partly the institutions of the labour market and it is partly trade and globalisation. All of that plays a part. There is no easy solution, but I feel there may be a kind of impotence in traditional fiscal and monetary policy, which we see in the United States especially. I wonder if that is partly linked to this problem. We do not have enough time to go into all the details and I believe there are no easy answers, but I think the problem should be raised more often.

**Xavier Vidal-Folch, Deputy Director, El País, President of the World Editors Forum**

Thank you Kemal. For the small and large bank?

**Jean-Claude Trichet, President of the European Central Bank**

May I say a word perhaps? On what you have just said, Kemal, I am struck by the fact there are effectively very deep-seated reasons for these disparities in incomes and remuneration. Technology plays an important part. We are in increasingly complex knowledge economies. So there is probably a tendency towards inequality due to economic and technological progress itself, but there is also a problem of values.

I find it striking, for example, if I compare Japan and the United States, that there is an enormous difference – although I stand to be corrected by President Kuroda – between levels of remuneration and the packages offered to top level executives.

I have no basic explanation other than core values. Besides, even in the United States, one sees a very large number of wealthy people give away their fortune to foundations and charity organisations, which is a clear indication that values in our democracies, it seems to me, are really fundamental in this regard and that we are at a turning point.

With regard to Basel III, I would say that it *has* made a distinction – that it *will* make a distinction since it is a work in progress – between systemic banks and small banks. Besides, Basel is setting a minimum. The banks – the largest or systemic banks – may very well find themselves below the minima as a result of the decisions taken by the supervisors.

Finally, we are giving ourselves time; this is a point I would like to stress. We need to keep a sense of balance over a medium and long-term perspective, and also to have a sense of transition. We are in 2010; we will have new regulations from Basel III due to become fully effective in 2019. So we are giving ourselves nine years to get from one point to another. This shows, I believe, the concern of those taking part in these exercises to find a good compromise between a robust system and one that does not harm the recovery which needs to be consolidated.

**Haruhiko Kuroda, President, Asian Development Bank**

I have just one comment about the economic disparity, or income inequality in Asia. You may know that Japan developed quite fast, recording 10% growth annually in the 1950s and 1960s. Income distribution actually improved at that time. Then the four tigers, Korea, Hong Kong, Taiwan and Singapore, developed quite fast, again recording close to 10% growth in the 1970s, 1980s and 1990s. Again, their income distribution actually improved.

However, since then, income distribution is not happening and inequality is expanding. This includes Japan and the four tigers. As you know, China and India have been growing rapidly in the last couple of decades and have seen serious income distribution problems. The gap between higher income people and lower income people has widened tremendously. By the way, this is not just in Asian countries. Almost throughout the globe, income distribution has significantly deteriorated in the last couple of decades. Although there is a significant cultural and societal element, as Jean Claude Trichet mentioned, strong technological progress may tend to widen the income gap between rich and poor. Also, globalisation may have contributed to this trend.

Of course, governments with appropriate policies and strategies can counter and cope with this situation. However unfortunately, in the last couple of decades, practically all countries have aimed towards higher growth, which is not always inclusive growth. This is in developed as well as developing countries.

**Jawad Kerdoudi, President of the Moroccan Institute of International Relations**

My question goes to Monsieur Trichet. As you know, the Moroccan economy is closely linked with the European Union. Unfortunately, due to the low economic growth of the European Union, we have suffered falls in our exports to the European Union and also a fall in direct – mainly foreign – European investment in Morocco.

So my question is this: firstly, why is our growth rate in Europe lower than in Asia and the United States?

My second question: what is the Central Bank doing to boost growth in the European Union and what are the growth forecasts for the European Union for 2011? Thank you.

**Jacques Mistral, Head of Economic Studies, Ifri**

Mr. Trichet?

**Jean-Claude Trichet, President of the European Central Bank**

This is a very broad question. A first observation on the last part of your question: we published our growth projections quite recently. The IMF has also published its growth forecasts for Europe. To give you orders of magnitude, we estimate that we are in a period of great uncertainty. So we are publishing bands. I can give you the midpoint of our band, which everyone recalculates. As far as this year is concerned, we have growth of 1.6%, 0.6% more than we thought, than what our colleagues thought four months ago. The IMF, for its part, calculates 1.7%, 0.7% more than it thought a few months ago.

So we observe a phenomenon which is a happy phenomenon, objectively, but we remain very cautious. This is of course a very modest growth, and we certainly do not regard it as an indication that we have reached a satisfactory growth rate.

Next year – since you asked me for 2011 – our midpoint is 1.4. The midpoint of the IMF is just a little higher. It is also higher than what we thought three or four months ago. That's one answer.

A second answer. We ourselves at the European Central Bank, as well as, I must say, all of the national central banks in Europe – without exception moreover, whether in the euro zone or outside the euro zone – are putting enormous emphasis on the need to continue very actively with the structural reforms that should allow Europe to raise its growth potential. It is too low from our point of view and, of course, it creates huge complications for all sorts of things, including efforts to reduce unemployment and create jobs, and also many other factors such as pensions that are harder to finance if the pace of growth is slow.

I leave it to you to assess what is happening in terms of structural reforms in Europe. The least one can say is that there is resistance, which is coming from our societies themselves. Some are committed to the reforms to varying degrees, but we are urging all countries to be as active as possible since, regardless of the short-term difficulties associated with these reforms, they are the ones that will, over the medium and long-term, give the growth that we need and that Morocco wants.

There is a third point which has a three-pronged effect. I ask you to think about it for a moment. I stand to be corrected by President Kuroda. When I take the large industrialised countries and do the sums, not of their growth in absolute value, but of their growth per capita, over the last 12 years, surprisingly I see almost the same growth per capita in the United States, Japan and Europe. It is not very good, around 1%, a little bit more, a little bit less. This is the rate of growth per capita in the large industrialised countries that I am talking about – I see that you agree, Mr. Kuroda. What does it mean? It means that your comment is still true. The United States is growing quicker than Europe and Europe itself is growing a little faster than Japan, but what lies behind this is population growth. In Japan we have very low population growth, in the United States dynamic population growth, in Europe we are in between the two. This does not



mean that the absolute value of growth is of little importance. A miniscule population growth is an enormous handicap and of course it may also be seen as an enormous handicap from the point of view of a friendly country that trades and has commercial and financial relations with Europe, such as Morocco. This, I think, is my way of commenting on your question.

**Rahma Rachdi, journalist, The Open News Agency**

My question is addressed to Mr. Trichet and is about *global governance*. Mr. de Margerie explained yesterday that global governance should be based on an understanding between nations. Mr. Labecker spoke to us this morning about consensus. You yourself have talked about “informal and formal dialogue”. It is obvious that, with such high stakes and given the size of the partners involved, whether institutions, great powers or nations, nothing can be relied on except good intentions and goodwill towards each other. My question is: what method of arbitration would be used and do you have in mind an example of a criterion for sanctioning wayward parties in the establishment of this new world order? Thank you.

**Jean-Claude Trichet, President of the European Central Bank**

That is a very good question. I think that Kemal maybe has an answer himself. I would say that in all institutions, whether the United Nations Organisation, the Bretton Woods institutions, other institutions or the World Trade Organisation, there are rules, procedures and methods for voting. One may have regrets about them, approve of them, one may say that some have rights of veto or dominate, like the UNO, etc., but in the end, there are rules and they can be applied.

When speaking of “informal governance”, one necessarily relies on the nations themselves, in their sovereign aspect – Westphalian, as I said – and on other entities that are autonomous or independent. So one relies necessarily on consensus, it seems to me. One does not militarily force a country to change its *standards and codes*.

I believe that your question is better addressed, maybe, to the UNO and to its basic function which is not economic and financial, but strategic. I don't know.

**Kemal Derviş, Vice President, Global Economy and Development, Brookings Institution**

Maybe it would be useful to remember that the World Trade Organisation, in fact, has rules that are perhaps a little – how should I put it – stronger. I think maybe we should have paid homage to the WTO in the last few years, because, despite a very difficult crisis – and I expect it to go on, because there are even greater pressures there – in the end, trade has not been terribly weakened. There has been a drop in trade, obviously, because of demand, but the rules have been followed. There has not been, shall we say, a widespread break-down of the rules of free trade. Obviously progress still needs to be made in the area of services and in many other areas. There are many things to do, but I think the fact that there have been some rules and that the powerful nations themselves – the most powerful countries within the framework of the WTO – abide by these rules, voluntarily – or at least by being part of the Treaty framework – is an example that may eventually also be applied in other areas.

**Xavier Vidal-Folch, Deputy Director, El País, President of the World Editors Forum**

Thank you Kemal for that information. I have a dozen or so requests, our time is nearly up, we only have a few seconds. But even so, the three over there, here in front and over there, please put your questions very briefly one after the other and then you will be given a joint answer.

**Philippe Chalmin****Professor of Economic History and Director of the Master of International Affairs, Paris-Dauphine University**

You haven't said a word about monetary instability. Without contemplating a return to the Treaty of Westphalia, or Bretton Woods, do you think that the good times – or the moment – when the central banks got together at the Piazza or the Louvre can return and give us better visibility in terms of stable balances in the world's main currencies? Thank you.

**Afifa Dassouli, journalist, *La Nouvelle Tribune***

I am a Moroccan journalist at *La Nouvelle Tribune*. My question: in our country we consider that we are an emerging country, going by how we meet certain criteria, notably growth; yet Morocco has applied to be part of the G20. The response has not been positive. What are the criteria that Morocco does not meet? Can you give us hope that one day a North African country will be part of the G20?

**Abdesselam Abouddrar, President of the Moroccan Central Authority for the Prevention of Corruption**

I have a comment and a question for Mr. Trichet. The comment relates to his thoughts on the growth rate *per capita*. Surely it is time for Europe to consider radically changing its immigration policy to boost growth. This is the question that was put by Mo Ibrahim just now.

My question is that the banks have been given nine years to implement Basel III. You have spoken about speed; it only took a few days to spend hundreds of billions of dollars for the bail out. Is this normal and are the prudential measures sufficient? The requirement has risen to 7%; specialists talk of 20%? What is your opinion on this?

**Xavier Vidal-Folch, Deputy Director, El País, President of the World Editors Forum**

Thank you. I ask Monsieur Trichet to reply on monetary instability and growth *per capita*. I ask the others to say something about the Morocco G20 story, and the final comments of Jacques will close proceedings.

**Jean-Claude Trichet, President of the European Central Bank**

On exchange rates, briefly. We all consider and of course I firmly and seriously believe that excessive volatility and misalignments in currency markets are adverse factors from the point of view of world stability and growth.

Secondly, I have always said and I repeat, as the US authorities say, that a strong dollar against the other major free floating convertible currencies is in the interest of the United States. I have always said that I shared this opinion and that I approve of it.

Thirdly, regarding emerging countries which, as we have seen during the introductory talks, have large surpluses and which have said they would start to move towards greater flexibility in exchange rates, this we approve of and we think it is one factor – as President Kuroda mentioned – for re-establishing a favourable balance for growth and job creation at world level.

On the growth rate *per capita*, the question is in fact direct: *if you Europeans think...* I believe that it is quite true, that the problem of European population growth is a major one. There are several ways to get a more dynamic population growth: certainly immigration, certainly also policies that are more child-friendly. These also involve services being provided so that mothers can effectively have the career they seek and also the role of mother. In short, these are major subjects that we are faced with, and the question is very relevant.

**Xavier Vidal-Folch, Deputy Director, El País, President of the World Editors Forum**

Fathers too? Not only mothers!

**Jean-Claude Trichet, President of the European Central Bank**

Yes, of course. Both! You're right.

**Haruhiko Kuroda, President, Asian Development Bank**

I have two points. The first is on global imbalances and necessary currency realignment. I really think that cooperative solutions to this issue are far better than non cooperative solutions. I think that the international community must find ways to resolve this issue as swiftly as possible. The US dollar was over valued vis a vis the Japanese yen and Deutschmark in the early 1970s, particularly after the famous Nixon shock. It was the G10 which arbitrated and came up with a solution to this necessity of global currency realignment.

Then in the mid 1980s, the US dollar was again over valued. It was of course the G5 which produced the famous Basel Accords. Then in 1987, the Louvre Accord was made, which was the outcome of the G7 Finance Ministers' Meeting. As you know, the Italian Finance Minister did not participate, so it was G6, but it was formally G7.

Now, I think those informal governance or consultative processes that Jean Claude mentioned will continue to be very important. Of course, the International Monetary Fund (IMF) is at the centre of the international monetary system. However, when major currency realignment is necessary, 185 6 members of the IMF cannot engage smoothly in negotiations about the realignment of major currencies.

However, this time, the necessity of realignment is not among G3 or G7 countries, the necessity is for alignment between the G3 currencies and emerging currencies. I should also refer to it as smoother realignment of all the emerging currencies, without creating disruption between emerging currencies. It is probably best for the G20, which includes G3 countries, as well as major emerging economies, to discuss and come up with better cooperative solutions.

Secondly, in relation to demographics, I agree with Jean Claude Trichet. Basically, Japan has a zero population growth, or I should say that it has started to decline slightly, while the US has a population growth of about 1%. There is a GDP growth in Japan of 1.5%. This is the same as the 2.5% growth in the US, as far as per capita income growth is concerned. This does not mean that Japan does not require any structural reforms, including immigration policies that are more liberal.

**Kemal Derviş, Vice President, Global Economy and Development, Brookings Institution**

Very quickly about emerging countries, on the comment by Jean-Claude Trichet. Jean-Claude, there are really two types of country there. There are countries that have surpluses in their current account and which do not appreciate, indeed, which accumulate reserves, and then there is the different problem of countries that unfortunately develop current account deficits, such as Turkey now, Brazil and many others. This is somewhat similar to the phenomenon in Spain, we could say, where the pressure on exchange rates is happening against the background of a deficit. That is much less sound, I think. There is a problem there.

A final point on the G20 and Morocco. The G20 cannot become the G40 or the G50. This is not possible, but as I'm sure you are aware Madam, the G20 has always invited countries representing regional groups – Africa, Asia, etc. – to. One can fully expect that Morocco, at some point, will represent a group, whether African or, for example, the Arab countries which are not very strongly represented. In that context, it could happen, but if the numbers are increased –



and there are many countries: the Scandinavian countries, the Central American countries – the G20 would lose its functionality.

**Xavier Vidal-Folch, Deputy Director, El País, President of the World Editors Forum**

Thank you. Jacques, a final word?

**Jacques Mistral, Head of Economic Studies, Ifri**

The organisers, in their wisdom, knew that there would be many questions at the end of this meeting. We have a second session, this afternoon, in which we will take forward the debate on the smooth operation of the financial sector, the coordination of economic policies and the mechanisms of governance. I'll see you at 3:30 pm for that.

In conclusion, please join with us in thanking the members of the panel.

**Xavier Vidal-Folch, Deputy Director, El País, President of the World Editors Forum**

Thank you all, it has been a real pleasure.