



DEBATE

Nicolas Barré, Deputy Managing Director, *Les Echos*

If I understand correctly, long-term issues can sometimes be handled very efficiently by the private sector and local authorities than by Governments. That is interesting. This is also supposed to be a discussion, so I would like to give you the opportunity to ask questions.

Meir Sheerit, member of the Knesset, Israel

I have two questions for the whole panel. One is, what would you suggest we do in order to change the distribution of the fruits of growth? As a matter of fact, one of the speakers says that 90% of the income of the United States goes to 1% of the population. It is as if a bomb is going to explode between the poor people and the very rich people. The gaps are growing larger in every country in the world, especially those whose economies are growing. The fruits of that economic growth are not distributed to the lower layers of people. What would you suggest that Governments change this distribution of money? Second, what do you think about the bit coin?

Nicolas Barré, Deputy Managing Director, *Les Echos*

Who would like to handle the issue? By the way, 95% of the increase in income has gone to the richest 1%.

Kemal Dervis, Vice President of Global Economy and Development, The Brookings Institution

Quality education and a good health system will help. A human-resources system that is equal for everybody and gives equal opportunity to everybody is extremely important. The private sector can play an important role here, but the State has to continue to play a very crucial role. We had some results regarding France the other day. Despite the egalitarian culture and philosophy in France, which is quite admirable, the actual functioning of the education system creates greater inequality. I will give you an example, because this is not just happening in France. In the US, you have the best universities by far in the world. You have fantastic institutions, but you now have to pay USD40,000-60,000 a year to send your children there. There is USD1 trillion in student debt and a large part of the school system is not performing at all well. That is one angle.

The other angle refers a little bit to Henri's point about demography, and I want to link it. One has to rethink social policy and the social contract. The process of ageing is bringing new challenges, but also new opportunities if it is handled correctly, as Henri said. One has to look at life as a process where education, work, leisure and retirement are much more dynamically linked throughout life. They must be financed in a healthy way, with an eye to equal opportunity and a greater balance of income distribution.

Finally, there is a global-governance side to this. I know nobody likes high taxes, but sufficient tax income is needed if the communities and the State are going to deliver the social insurance and solidarity that is needed. It is important to have a fair tax system that is good for incentives but also produces enough revenue. There is a global-governance side to this. We have heard of multi-national corporations legally, not illegally, minimising their tax burden by shifting their base. They claim that all their intellectual property is created in Ireland, because they have a special tax deal in Ireland. There are things of that sort. It is hard for single countries to pursue the social and economic policies that are needed for greater balance. It has to be done with a stronger international framework.

Jacob Frenkel, Chairman of JPMorgan Chase International

I am very glad that Kemal started with the issue of education and the long-term issues. However, I think that this leads to the question of what we should do now. There are two things I want to emphasise. If we agree on what not to do, it



is already more than 50% of the way. The greatest temptation for politicians is to take from those who have and transfer to those who do not have. It looks like a good social policy, but we need to be careful not to destroy the entire incentives systems of savings and investment. That is why we need to reconcile the fact that those who save and invest are capable of keeping most of the benefits. However, by the same token, those who are under-privileged know that society allocates resources to improve their chances for the future. That was discussed here before.

Let me put some numbers to the last point that Kemal made. Today, we can look at the US budget and that is what I want to look at. You take interest payments out of the budgets, which are not discretionary. If you look at the US budget ex interest payments, 25% of it goes to social security and another 23-24% goes to healthcare. 52% of the budget remains for everything else, including education, infrastructure and defence. Fast forward 20 years and do nothing to the regulations and the laws apart from consider the effects of ageing, and do the same exercise.

In the year 2035, which is around the corner, social security will still represent 25% of the budget ex interest payments, but healthcare will represent 40%. This means that there is a little over 30% for everything else, including education, defence and infrastructure. There is no way that this circle can be squared. Citizens will recognise that they need to expect fewer services from the Government. Or they will recognise that they have to pay for a higher proportion of the services that they get. There is no way to find any other middle ground. This means we need to either revisit the social compact between Governments and their citizens or increase the efficiency of use, with less waste. However, we need to increase the pie, not distribute it but increase it. That is where education comes in.

Pascal Lamy, Honorary President of Notre Europe

Unsurprisingly, I am more on Kemal's side regarding that. The fact is that inequalities are growing. The reality of globalisation is that poverty is greatly reduced by globalisation, but inequalities are growing. Even in systems like those of Europe, whose tolerance for inequality is much lower than in other continents, inequalities are growing. Our social systems are regressing. In most countries, the progress that was made in recent decades, for instance in social mobility through education, are moving back.

The answer to this distribution question and this system of inequality is first of all a political, philosophical, moral and ethical choice regarding what is the proper level of inequality. I happen to think that it is not only a moral issue. There is also an efficiency issue. I personally think more egalitarian societies are more efficient than less egalitarian societies. I know other people believe differently. However, it is a question of how you can concretely improve access to health, education, housing and culture. That is not only through a tax system. It is a question of re-processing a number of social services and public services. This is in order to make sure that this access is wide for those who due to their origins cannot reach the proper level to develop themselves.

Henri de Castries, Chairman & CEO of Axa

I will make one or two quick points. Often, excessive accumulation is due to lack of transparency and lack of competition. Rather than using taxes, you can think about the ways you can increase transparency and competition, which I think is sometimes a better way. The second thing is that I think inequalities are less acceptable when the pie is not growing fast enough. When the pie is growing fast, it may widen for a while but it is probably more acceptable. I think the issue we have in many European countries centres on the fact that the pie is not growing anymore, which is making the situation less acceptable. I have a big reluctance to see taxes as the remedy. The city in the US where the Gini coefficient is lowest is Detroit. Does it mean it is a model? I am not sure.

As far as bit coins are concerned, it is going to be a long time before they become an asset class for insurance companies, at least for us. However, they reveal one thing and maybe it is a slight caricature. In a world where interest rates are artificially depressed for savers, the search for fancy alternatives and asset classes that are sometimes way too exotic is increasing. This is dangerous.

Il SaKong, Chairman, Institute for Global Economics

I would like to respond to the question about what we can do about the income distribution and governance. I am sure the polarization and income distribution issues will be with us in the coming years. That is because of the accelerating globalization and the deepening knowledge society. These two trends have so many merits and therefore we are all for them. However, the downside is that when these two big trends combine, they may lead us to polarization and worsening income distribution. The polarization and distribution problems are not just specific to any particular country, but they are global, of course to different extents.

How can we deal with it? In the short term, we can use taxes and many other things that previous speakers spoke about. However, the real fundamental solution should be found in the education system reform, including the system for continuous training and retraining. For example, in today's world, as soon as you graduate from a four-year college, what you learned would become obsolete in a very short period of time. The education system itself has to be reformed so that people can be re-educated on a continuous basis. This does not just mean taking extension programmes in the evenings. We need to take a fundamental approach towards the education reform. At the same time, strengthening the social safety net is a must. I am referring particularly to the emerging economies. This should be done as much as those countries can afford fiscally.

There is a second point regarding what we can do. I think it was Milton Friedman who said a long time ago that it takes a crisis to implement a reform. The G20 came about thanks to the crisis. The global community had a sense of urgency so it came up with the G20. As the sense of urgency recedes, the unity and leadership dissipated within the G20. How can you then resolve this? It is a collective leadership forum, so someone has to gather leadership within the collective leadership framework. Someone has to take that leadership. Australia will be the chair country for 2014 and there is a need for the G7 countries in particular to cooperate with the Chair in this regard.

Daniel Daianu, Member of the Romanian Academy

I would like to make three comments. There is not necessarily an issue of income distribution but an issue of fairness. Income distribution may become more skewed, but if people get a sense of fairness in society, that is fine. This is the big issue. When markets are rigged and big companies do not pay their due and do not pay their taxes, then we have a huge challenge. This is an issue which has to be addressed.

Secondly, there is the issue of the international regime, which was raised by our friend from South Korea. This is a real issue about the international regime and the decision-making process. Last but not least, the financial sector may be improving, but there is the issue of over-finance. Jack Lew made a very recent statement in this regard. What should be done about down-sizing finance? Excess finance is a destabilising factor in itself. What should be done about it?

A participant

Je voulais juste faire un commentaire. Je trouve qu'effectivement, c'est très intéressant de parler de tous les problèmes internationaux. Je trouve ça formidable. Effectivement, le G20 est aussi un groupement qui permet de discuter de tous les problèmes internationaux. Il y a un vrai problème de gouvernance, que vous avez soulevé, et ça c'est vrai, mais il y a aussi le problème de la dichotomie entre nos réflexions et celles qui se passent au niveau du gouvernement, qui ne sont pas forcément en cohérence, puisque nous sommes toujours dans des clivages, et que les choses n'avancent pas. Et donc ce n'est effectivement pas forcément un problème de distribution de richesses, mais surtout d'une restructuration fondamentale à faire et donc de bousculer les systèmes dans lesquels nous avons évolué depuis des années, et qu'aujourd'hui effectivement de nouvelles émergences arrivent. Il ne faut pas en avoir peur, mais au contraire, c'est elles qui vont nous permettre peut-être de nous remettre en cause, et il est temps justement que les réflexions que nous avons aujourd'hui fassent que des réformes en profondeur soient entreprises et que des



réflexions telles qu'on connaît aujourd'hui pendant 3 jours soient multipliées par des ateliers où les pensées puissent un peu se concrétiser, pour que les politiques arrêtent de nous parler... une langue de bois.

Mo Ibrahim, Chair of the Mo Ibrahim Foundation

I think the issue of inequality has not been dealt with comprehensively. We say that instead of redistributing, they let us increase the pie. What is the point of increasing the pie? We increased the buy hugely over the last 30 years, but if most of that went to the top 1%, then what is the point of increasing the pie? What actually happened was that there was a serious redistribution of wealth over the last 30 years. Just think of Bush's taxation. He gave USD1.5-2 trillion gave to the top 1%. That was supposed to be a temporary measure and it is still going on now.

The top 1% captures the Tea Party, the Tea Party captures the Republican Party, and the Republican Party captures the Congress. When this happens, you end up in a very opaque situation. The salaries of the CEOs in the US are equal to 450 times the average salary of people working for them, according to the *Financial Times*. This raises a question to be asked. In the UK, it is about 300 times and in Europe, it is 200 times. People have redistributed the cake already over the last few years, because these numbers far exceed what was there before. There is an issue here.

People have redistributed. When we come and talk about distribution, they say, 'Let us not distribute the cake, but grow it.' However, you guys have changed the ratios and any growth in the future will go to the top 1%, which is not right. I feel that there is a moral issue. I am one of the people who may sometimes regret the collapse of the Soviet Union. The Soviet Union created a pressure on us to behave. There was a model there for equality, rightly or wrongly, and that put a lot of pressure on us to behave reasonably on these issues.

Why have things started to go downhill since that pressure has gone away? We believe that we are now the masters of the universe and we are impeccable. Then we went on and created all this mess through the way we redistributed wealth and we had new masters of the universe. That situation needs to be dealt with. If we are not going to deal with it, there is going to be another Lenin rising out of the storm. We better behave before it gets too bad.

Fred Smith, Founder and chairman of the Competitive Enterprise Institute (CEI)

This panel was on macro policies, harmonisation and good governance, which are all well and good. However, history suggests that it is often micro-policy reforms, such as transportation regulation. The United States brought the railroad industry, which was totally bankrupt, into viability. Competition has made some city states in America do much better than other city states. Some states do better than other states in the United States. There seemed to be a feeling that if we only had harmonisation, then we would have a better world. Harmonisation is the enemy of competitive pressures that ensure that policies make sense. I guess we will be talking about that. When you hear the term harmonisation, I think you should reach for your revolver.

Nicolas Barré, Deputy Managing Director, *Les Echos*

Thank you all very much.