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Thank you very much, Xavier and Jacques. Excellency, colleagues and dear friends, it is a great pleasure and a great honour to be here among you for this third conference. I took part in the first two and still had the chance to be on the panel with Mr. Trichet – a great honour for me – and with Mr. Kuroda today.

Yes, I went to Washington, as Xavier said, to the Brookings Institution, but I also have an affiliation with a university in Turkey. I have come from Istanbul and the influx of capital is enormous. The great worry today – for example in Thailand, in Indonesia, in South Africa, in Brazil – is the influx of capital which is flowing to the country and appreciating the exchange rate. Exporters worry about it. It is a global phenomenon. Therefore I am also going to talk about emerging countries, in more general terms.

First of all, why governance? Because there is interdependency. This interdependency is growing mainly through trade. Trade creates an obvious interdependency at the level of fiscal and budgetary policies. So one of the reasons for coordination is that, if a country increases, for example, its budget deficits to pursue a reflationary policy – as was done 18 months or 2 years ago – and if others do not do so, part of this demand goes towards importing products from other countries. In fact, there is a kind of "prisoner's dilemma" in the sense that all countries have an interest in not spending too much in the hope that others spend. They keep their own debts down and benefit from the spending of others. So there is a channel of significant interdependency which becomes greater and greater as the share of external trade in GDP increases, and this trend is growing in all parts of the world.

A second obvious interdependency is in monetary policies. It can be seen today: extremely low interest rates, especially in the United States, but also in other advanced countries – including Japan, somewhat less in Europe – creating a very large influx of capital into emerging countries. Some theorists would say "never mind, let's allow exchange rates to float", but it is not as easy as that. Very unstable exchange rates create other problems for macroeconomic management. Therefore there is also a great deal of interdependency at the level of interest rates and monetary policies.

When I started working at the World Bank in the early eighties – late seventies – I remember that we had gone through a rather similar but contrary phenomenon. America had decided to control its inflation; interest rates were raised sharply in the United States, and emerging countries especially in Latin America, which had borrowed at variable interest rates, found themselves with a huge increase in debt. Although this was not the only reason for the crisis in the eighties, it created an enormous debt crisis in Latin America and throughout the world.

Today, we have the opposite phenomenon. Extremely low interest rates generate another kind of problem for emerging countries. I would like to give this as an example of interdependency.

I went to a meeting where an important American official, who had taken decisions of this kind in the early eighties, was asked: "Have you thought about all the effects that this has caused?" He replied: "To be honest, not really". It is a fact that national officials often think about their domestic policy first – which is normal – and afterwards may consider the international effects. I think a joint approach is very important and must be taken more often.

Second point: the situation as presented after the annual meetings in Washington and before the summit in Seoul. I have not said anything about supervision in the financial sector; in 10 minutes I would not be able to do so. Rather I am going to concentrate on macroeconomic questions. I believe that what we have seen in the past few weeks, with this fear of a currency war and the imbalances in many trade balances and current accounts, will be central to the discussions in Seoul; and also, obviously, all matters to do with coordination in fiscal policies.

I think that the situation today is different from the one in London 18 months ago: the crisis was still in full swing, the challenge for fiscal policies was expansion, but expansion harmonised in the best possible way. The debate was "how to harmonise expansion".

Today, rising debt in many countries, especially rich ones, is creating a new dynamic, a new set of problems. It is clear that one cannot simply continue with an expansionist policy, but I think that the need for coordination is still there. That is to say, that there is a need to try to consolidate and control the rise in debt, but in such a way that countries still with some fiscal leeway can use it; those that do not have that leeway obviously must move towards consolidation and a much more restrictive fiscal policy. However, all countries should not, all at once, start adopting a restrictive policy. This would create many problems when growth remains extremely fragile especially in the industrialised countries.

So the problem is, in a way, the same as in London, but in a different context; with a need for consolidation, yes, but a need for a different strategy of consolidation for different countries and regions and in accordance with the fiscal leeway that each country has.

As regards monetary policy, I think I will leave that to Mr. Trichet, but I think that, for emerging countries, there is a real problem with the influx of capital and pressure on exchange rates. Obviously, the fact that China is not absorbing part of this pressure by letting its currency appreciate puts even more pressure not just on the euro, but also on the currencies of developing and emerging countries. This is really a very serious problem because, for production, for forecasting, for stability in economic policies, just to say simply that exchange rates should be allowed to float, I think, is not a good enough response.

Finally, I would like to get onto a third subject that has not been discussed much, but which was discussed with Dominique Strauss-Kahn and Juan Somavía in Oslo a few weeks ago. I think that there is a link between income distribution, the miss-distribution of domestic incomes, if you like the internal balance of certain countries, the extreme concentration at the top – especially in the United States, but also in China – and the macroeconomic problems. Raghuram Rajan has written a very good book called *Fault Lines,* in which he analyses among other things the situation of the US economy from that point of view. The fact that there was an extreme concentration in the top 1%, whose share went from nearly 8.5% of US national income at the end of the seventies to 24% two years ago. We do not have the latest figures yet, but that is enormous, 0.1% sharing nearly 12% of national income.

I think in fact that this creates a structural problem for effective demand. You are going to tell me that in the United States, there was too much demand. Yes, but this excess demand was financed in a very unhealthy and unsustainable manner with credit card debt, with mortgage debt that was transformed into demand. This was not sustainable.

In China, the problem is similar, but the effects are different: insufficient mass of real income in the population and in households and therefore, in this case, too great an emphasis placed on exports.

I think that this is an important subject. In Europe, it is less so. Income distribution is less concentrated, but I think that, in China and in America especially, there is a link between the macroeconomic problems and the concentration of income. I am not going into the ethics of income distribution or policy choices, etc., but quite simply, I believe that some thought should also be given to its links with the macroeconomy.

A final point on governance. I have just read on the plane from Istanbul an excellent paper written by Jacques Mistral. There are proposals with which I am in complete agreement. One of the key proposals, one of the key approaches, when one looks at the G20 and the Monetary Fund, has to do with the links between the two mechanisms of coordination. I think that, even though the problems are really global – the Secretary General has even reminded us of this – there are still many human beings and countries that are not in the G20. There is some legitimacy therefore in universality.

The IMF obviously has a system of governance with weighted voting, which needs to be reformed. I accept the hypothesis that there will be reasonable reform of the weightings; even so, the IMF has the great advantage of having the whole world represented in it. No one is excluded. Good governance of the International Monetary Fund, I believe, is essential for good world economic governance.

I think that this should be done through a Council, at ministerial level, as was proposed in the report by *Trevor Manuel* a year ago. In fact I think that it would probably be a good thing for the G20 of Ministers of Finance to be made into a Ministerial Council of the IMF, not in the same way, but so that there would be only one Ministerial Council which would be part of the governance of the IMF and the G20 itself would remain, but remains as a G20 of leaders or heads of state or of governments.

So there would be no duplication between the G20 and the IMF Council. There are many questions that are not strictly financial or economic but which need to be discussed by heads of state and government: global warming, security problems, food security, and development aid. There are many things that I think the leaders should concentrate on, rather than continuing with a sort of duality of G20 Ministers of Finance and IMF Council. I find that in the next two years, this would be a better arrangement. It would be clearer and healthier to have this financial governance set firmly within the framework of the IMF, and to have the G20 composed only of leaders, dealing also with the very important economic questions that arise, and for the G20 of leaders to continue in that way with no contradiction arising. This, I think, would add legitimacy to governance. Thank you very much.