DEBATES

Thierry de Montbrial, President and founder of the World Policy Conference

We are going to take some questions, but not too many, but with all the hands going up, I get the impression there is still quite a buzz in this room; so the debates might be continued this evening.

I give the floor first to the well-known Mo Ibrahim – who incidentally I am extremely pleased to welcome – and who, may I say, will be our keynote speaker tomorrow at lunch.

Mo Ibrahim, Founder and Chair, The Mo Ibrahim Foundation

I enjoyed the present and earlier discussions very much, but I felt that there was a big elephant in the room, which we avoided. This financial crisis was not caused by the Central Banks. Perhaps the regulatory bodies should have been a little sharper, but it was not your fault. It is the banks, and we did not hear about governance in the banks. They are the only private sector companies in the world that do not go bankrupt when they fail. They come to us and, as taxpayers, we have to bail them out. What about the fiduciary duty of the board members of those banks? UBS, Citibank, Royal Bank of Scotland – a lot of the people took risks and later we heard board members say 'I really did not understand these complex instruments'. Why did you not resign? Why were none of them sued in court? What does it mean to have fiduciary duty? Where is the governance in the banking system? That was the problem. I don't think that it is regrettable. Yes, you can sharpen up your act a little bit, but that was the problem and it was in the private sector and that is where the money is really. What is your view on that?

Jean-Claude Trichet, President of the European Central Bank

I think that that is, of course, a very good question and I would have the following comments. Firstly, I would just confirm that what was done by the Central Banks on the one hand was extremely rapid and bold and by the Governments on the other hand was huge and I also have to say quite rapid. Had it not been rapid, we would not be here to discuss this because we would probably have had a great depression – not a great recession, as we had, but a great depression. Your question then might be a question not only for the banks but also for all the productive and corporate sector because we might then have had a drama in all the corporate sector, whether it was financial or non-financial. We therefore have to be aware of the danger – the immediate danger – that authorities had to cope with.

Your question is a very good one. From time to time, I have the reverse question. Why are you imposing on banks a dramatic increase of the standards and capital requirements and requirements of any kind when most of them did not behave improperly and when we are being punished for the bad behaviour of a few institutions that were the trigger of the problem? I would say to them 'Do you realise that on both sides of the Atlantic – just to give you an order of magnitude – the Governments – the taxpayer – had to put on the table 25-27% of gross domestic product (GDP) of taxpayer risk just to avoid the collapse of the system – the collapse of the financial system and the collapse of the global economy? 25-27% of GDP, which of course was not spent to that extent and of course it does not correspond at all to losses of that extent and in some cases, some countries will make a profit out of it. Nevertheless, the taxpayer had to step in and take that risk.

What I am telling them is that it will not happen twice. It happened once; our democracies will not permit it to happen twice. Our decision-making processes – executive branches, not to speak of the Parliaments – will not accept earmarking 25% of GDP to the support of the financial system again. You therefore have to understand that we have to be sure that the system in a future permanent regime is solid and reliable and does not present the element of fragility and the absence of resilience that had been observed in the past. That does not mean that we are not able to organise transition - I explained that this morning - but it means that it is about your question on the fact that we cannot accept being put in that situation again – and it is true for banks in general and the financial system in general, which proved a degree of fragility that is not acceptable. It is also true, of course, for the financial institutions that are systemic.

Your question was more directly about those who were the trigger and whether they paid for it. I think that it would probably be very difficult to find any institution that was at the heart of the problem in any country that has the same top people today – the same board, the same Chief Executive Officer (CEO) and the same Chief Financial Officer (CFO) and so on. There has therefore been some kind of activation of governance. However, I fully accept your question as a very pertinent one. I had a question this morning on the fact that our rules were too tough and that we were too tough on the bankers. You therefore can understand why we really have to do the job. We were teased permanently by the industry, telling us again that we were too tough. We are not – we think that we are not.

By the way, our new rules would be the minimum standards that will have to be applied the world over, but those are the minimum. Nevertheless, as I said this morning, I think that it is heartening to think that at the level of the emerging as well as the advanced economies, we could work out, in quite a short span of time, rules and regulations that are bold and increasing. To give you an order of magnitude, the minimum capital requirement for the most loss-absorbing element has gone from 2% to 7% and even in some respects 2%, through various means, could in some cases be down to 1%, according to the previous rules. For those particular institutions, it will be a multiplication of seven which will have to be presented over a period of nine years from today to 2019. I think that one of the most striking successes of the present global governance – informal global governance – has been that we have been able to do this in quite a short span of time. It does not mean that we can be complacent in any respect. We have a lot of hard work to do – a lot, a lot, a lot – on non-banks, on the systemically dangerous, if I may say so, institutions and on the incentives, namely the remuneration of bankers, and so on and so on.

Thierry de Montbrial, President and founder of the World Policy Conference

I am now going to give the floor to Lionel Zinsou, to Jim Hoagland, then to Hubert Védrine.

Lionel Zinsou, Chairman, PAI Partners

Mr. Chairman, a question that draws inspiration from our Moroccan hosts and the place where we are.

There is a continent with 6% growth, a trade balance in surplus – the same as China – and a balance of payments in surplus – 500 billion of foreign exchange with your colleagues from the central banks. It is a continent that has nearly the GDP of India and the highest population growth of the next 25 years. It happens that we are on that continent.

That continent is financed in euros and, basically, issues currencies that are either directly linked to the euro or tied to baskets of currencies representative of its external trade, that is trade with the European Union. It is probably the nearest continent to being an auxiliary zone of the euro in the future, with a very strong growth element.

It does not quite belong to the EMEA zone, nor quite to the yuan zone, which does not exist, although China has become, individually, the number one trading partner for 45 out of the 53 countries. That continent is obviously Africa.

Does this continent figure in the thinking of the European Central Bank as a force and as a growth element?

Jean-Claude Trichet, President of the European Central Bank

Yes it does, due to its success. In any case, as regards growth, surpluses in current transactions, the accumulation of that representation – as it were – of prosperity which are the reserves you are talking about; all of that means that

Africa, which was in really big trouble over the long term, has not been left behind, but has kept up with the tremendous rise of the emerging countries.

I must say that, a long time ago, when I was President of the Paris Club, I remember there were a number of African countries with severe problems. Nothing is more comforting than to see the entire continent in strong growth. It is an achievement. For me, it is clearly an achievement which is in line, in symbiosis with the incredible rise in power of the emerging world, which used to be called the "developing world". It is also, probably, a mark of real progress in governance, since our main subject is governance.

The determining factor of good macroeconomic governance is always the results. If there are such results when there were no equivalent results before, it is probably because significant progress has been made. It is also that the lessons of experience are always very important.

I saw Latin America in a tragic situation. Now, it is strong economically. We remember the Asian crisis. It was not so long ago. Seeing the growth of Asia is incredibly reassuring. So I would say yes, we do acknowledge Africa for its success.

The link between Europe and Africa is obviously very important. As regards the euro itself, as you know, some countries have agreements with a European country that tie them closely – even very closely – to movements in the euro, in the form of a different currency, but in name only. They are very close to the euro.

I make no pronouncement on the future monetary and financial strategy of Africa. I know that a lot of thought is going into monetary unification of the African sub-regions. We are involved ourselves, in various ways, in this process. We can only encourage Africa to move towards economic and financial unity as soon as possible. It seems to us that the virtues of a large open market are incontrovertible and that this continent – which has had remarkable success in both absolute value and by comparison with its previous situation – would have a lot to gain by even closer economic, commercial, monetary and financial unification.

Jim Hoagland, *Washington Post*

Thank you very much for those remarks. I wanted to follow up on your rather striking declaration that this will not happen again – this cannot be allowed to happen again. Do you think there is in place today and already exists a structure that makes sure that this will not happen again? If not, what are the one or two most important things that need to be done now to get that structure in place? Finally, when you say to the bankers that you will not allow them to be too big to fail again, what is the evidence that they believe you?

Jean-Claude Trichet, President of the European Central Bank

First of all, I am absolutely convinced that it should not happen again, and again my main observation is that if it happened again we would not be able to give the same response as today's response because of the incapacity of having our own democracies – I am speaking for the Governments – on board. I make the working assumption that Central Banks could rapidly decide themselves, if needed. Central Banks never forget their own responsibilities in the medium and long term. We took decisions that were extremely bold, but without losing our sense of direction. In our own case, where our mandate is extremely clear and our definition of price stability is equally clear, I was extremely happy to see that the anchoring of inflation expectations during the whole period of the crisis remained very, very good – in line with our definition, less than 2% but close to 2%, which, by the way, protected us very well from the materialisation of inflationary risk as well as against the materialisation of deflationary risk.

What judgment can I make on what we are doing right now? I would say that we have, crucially, an immense improvement which is necessary in the private sector itself. We are back to the first question I had. That is extremely important. Of course, the lessons have to be drawn from what has happened. I take it that risk management by private institutions has improved a lot. They have to continue to improve a lot. Governance has to continue to improve a lot – private governance has to continue to improve a lot.

Let us take the responsibility of the public authorities. Public authorities have two main pillars for their strategy. One is the reinforcement of standards and the reinforcement of rules and regulations, the setting up of new supervisory methodologies, both at the micro level and macro level. There, work is in progress everywhere in the world. The rules and standards – I already mentioned Basel III. I trust that it is one of the main elements where we can see global governance working. There was a consensus. We have a large consensus and we are able to deliver. However, there is no complacency and a lot of hard work is needed to continue. Again, we have a lot of areas where we have not yet achieved hard work – for instance, systemically influential institutions that are big and very interconnected and so on. That is something that is not yet solved and, of course, your question is very much on that front.

We have all the issues of more transparency of the non-banks – of markets, in particular derivatives markets and credit derivatives going back to platforms that permit the appropriate transparency. We have the need to be clearer and apply the new rules the world over in terms of what we have called pudically bonus, which means remuneration, and remuneration should not reward short-term risk to the detriment of firms and the system itself. I then trust that we still have a lot of hard work to do.

Therefore, to sum up on this element of our strategy - which is how do you make the financial system much more resilient? - I would say that a lot has been done and a lot remains to be done. There is no time for complacency at all. Thinking that it is business as usual, right now, is plain wrong – plain wrong. It is not business as usual.

If I may, you then have the second major pillar, which is the coordination of macro policies, and there I would also say that we have an emerging consensus on the strategies. It seems to me that depending on the various countries that are concerned by the systemic there is a great deal of convergence on the need to rebalance domestic demand in favour of the domestic demand of countries that have a big surplus in the current account and currencies that are not appreciating as rapidly as they could. You then have the problem of the advanced economies that have a structural deficit in the current account and agree that they have a savings problem to solve in the medium and long-term perspective. In both cases, therefore, I have to say that you have a good deal of crystallisation of strategic ideas. I would say that in Europe nobody is challenging the fact that we need structural reforms. We are more or less balanced as regards the current account, but we need structural reforms, and that is absolutely imperative if we want to contribute to a prosperous and stable global economy.

You also have the case of countries that are themselves emerging and growing rapidly and have either surpluses or deficits, but currencies that are more flexible. Then, again, there is a diagnosis which has to be made on all these issues that are perhaps more complex in their case than in the case of those which are plain, with a low level of the currency, and big surplus countries or advanced economies with a deficit. The problem there, I would say, is not necessarily working out the elaboration of a consensus on the strategy or a consensus on the pace of the strategy and the rapidity of the implementation of those strategies, because if we are not doing that sufficiently rapidly then we have the recipe for the new major difficulty that your question wanted to eliminate. I would therefore say that this is perhaps the most difficult problem.

You are an American citizen. You know better than anybody to what extent are own democracies – it is the same in Europe – are inward looking, concentrating on their own problems and having enormous difficulties incorporating into their decision-making process that superior interest which is the stable, strong and sustainable growth of the global economy. It is extremely difficult. It is a question, I have to say, of communication of first importance.

Thierry de Montbrial, President and founder of the World Policy Conference

I have pleasure in giving the floor to Hubert Védrine, who I'm sure you all recognise.

Hubert Védrine, former Minister of Foreign Affairs

Jean-Claude, I have two questions. Actually it is a request for you to clarify what you said – if your duties allow – on the question of the economic governance of Europe and specifically the euro zone.

On the first point, you said that you wanted to go as far as possible in changing the rules of governance, beyond what the Commission has already proposed and not necessarily accepted by the member countries of the euro zone.

Can you say how far? What does “as far as possible” mean?

In the last analysis, who decides what? What does the Commission decide? What do governments in the euro zone decide? What does the Parliament decide?

Will it be done within the framework of the Treaty or is it that we are in a “tangential” process of ending the Treaty? That is my first question.

Second question: governance is not simply who decides, but what is decided.

Is it conceivable that, in the euro zone, all member countries will adopt, not just a culture of stability, but an economic policy like Germany’s, which is the impression given by Germany in some statements?

Is this not inconsistent, given that Germany largely benefits from the fact that the other members of the euro zone do not have the same economic policy as it? Much of its advantage – notably in exports – is based precisely on the fact that the others are not able to implement the same stringent policy for stability or do not want to.

First question: who decides?

Second question: what might be the ideal polysemous economic policy in the euro zone?

Jean-Claude Trichet, President of the European Central Bank

Regarding the first question, briefly, we think that there is a need to go further in the matter of quasi-automaticity in launching the procedures for excessive deficits, to take the example of the Stability and Growth Pact. It must be done almost automatically and more quickly.

In our experience, the current procedures and those we see proposed are not, in our opinion, automatic and quick enough if we want to avoid – this was Thierry de Montbrial’s first question – finding ourselves in highly abnormal situations, of course within the single currency zone of course.

Another example that I can give: we think that the sanctions themselves should be more severe, that, in supervising losses of competitiveness within the euro zone, we must also have quicker, more automatic procedures.

We also think that the Commission itself perhaps should have even more influence and autonomy in some areas, which it itself does not demand.

In short, it is in a whole series of areas; we see it very precisely and specifically in the document that I leave here, all of that is reported there. We feel that there is a real need at the present time to go as far as possible.

In any case, it is clear at this stage that the Treaty is not going to be changed any time soon. If the countries set out to change the Treaty, there are many other things that could be done. As far as we are concerned, at this stage, we really want to go as far as possible within the framework of the present Treaty.

On the policies pursued, we had rules and we have rules. I do deplore the fact that some countries have not followed them. I deplore the fact that others have not been supervised closely enough. But on the whole, as I said before, the euro zone in particular, but also the whole of Europe, is in a better budgetary situation, in terms of consolidation among all euro zone countries, than Japan, than the United States of America or other large industrialised countries.

There must have been reasons for that. The Stability and Growth Pact – although I stand to be corrected by Joaquin – has played a role, otherwise we, in the industrialised countries, would not be in a better overall situation than others. This is a first point.

We are in a single currency zone, we must have a framework. Supervision must be exercised. These are not countries X, Y or Z – besides, there is no country X; there is a *continuum* between countries that are managed very carefully, those that are managed less carefully and those that are not managed at all. There is a *continuum.*

As for the criticism of the policy of some countries, for example Germany, may I remind you that unemployment in Germany has fallen since the crisis began. Its legendary good management surely had something to do with that. Maybe we should always remember that. I believe that things do not necessarily appear exactly the same as I observe myself.

All countries in the euro zone must improve their supervision very substantially. They have two responsibilities: a responsibility for their own policy and the responsibility they have as members of this Supervisory Committee of others. They have learnt the hard way that the others need to be supervised, otherwise there will be problems later on, as we have seen recently.

Basically, may I say that we are putting our message across as clearly as possible. I am convinced that the lessons of the crisis, at the level of the Council and the Parliament, are following their natural course. Basically I have confidence in Europe's capacity to take the decisions required of it.

Thierry de Montbrial, President and founder of the World Policy Conference

I am going to take three questions and then we'll stop. Alas, time passes. I do believe that Mr. Trichet has still not eaten his main course.

I am going to hand over to Mr. Thorat, from the Bank of India.

Yashwant Thorat, Former Chief General and Executive Director, The Reserve Bank of India

All of us central bankers are one big club. At the risk of incurring your displeasure, may I ask you a question as to the work we are now doing in Basel, which is trying to over-correct the mistakes that we made earlier. You have rightly said that there are three points that central bankers must look at: the timing of intervention, the degree of intervention, and the automaticity of intervention. I get a feeling from the participation in Basel that what we are doing now is trying to go on the other side and over-correct the system. I do not refer to the non-banks, but I refer to other players in the banking system, where we are now trying to bring in such stringent regulations that it may impede growth itself.

Jean-Claude Trichet, President of the European Central Bank

Again, we are under criticism, my colleagues and myself – as you know better than anybody – from those who are saying that we are too kind, too gentle and too benign vis-à-vis the banking sector and those who are saying that we are too tough and too rigorous and that we are hampering the recovery and the consolidation of the present recovery. I would not suggest that inasmuch as we have criticism coming from both sides it means that we are right – it would be too simple for me to say that. However, all our colleagues, again all over the world, with all the wisdom and observation coming from all over the world, both Central Banks and heads of supervision, after having discussed this a great deal, decided that what we now have on the table is both sufficient in terms of minimum requirement – as I also have already said to Jim – as regards reasonable confidence in the solidity of the system in a permanent regime and that the transition is sufficiently long – and the criticism of us for having a long transition has also been very strong – to permit the recovery not to be hampered either in the emerging world or in the advanced economies. Again, I can only say that this is the world consensus as has been thoroughly elaborated by those people. I myself trust that it is the appropriate solution in the circumstances.

Thierry de Montbrial, President and founder of the World Policy Conference

Second last question, then the last question for Monsieur Villepelet.

Federico Fubini, journalist, *Il Corriere de la Sera*

My question is on monetary governance. I have not quite understood where it is that sensitive subjects such as exchange rate volatility could be discussed. Apparently, the G7, even though it still meets, in a way belongs to the past, and the G20 seems to me to be too big to talk discretely. I question whether there should not be a work group of four or five that could do this.

May I put another small question on unemployment: do you think that printing money in hundreds or thousands of billions – as somebody is thinking of doing at this moment – could help reduce unemployment?

Jean-Claude Trichet, President of the European Central Bank

As you have said yourself, the primary forum for global governance is the G20. The major free-floating currencies still exist. They are the major free-floating currencies in the advanced economies, from practically all of them, and it certainly calls for appropriate discussion between them when the time comes. However, you know that we are in permanent contact. Therefore, I do not think that I have anything else to say on your first question.

On your second question, we are very, very keen in considering that the consolidation of recovery depends enormously on confidence. It is true for the confidence in the capacity of Governments to work out appropriate sound medium and long-long term fiscal policies and we consider that this is complementary to the consolidation of the recovery. I would also say that it is absolutely necessary that we have the consolidation of confidence in medium and long-term price stability. As I said, the anchoring of inflation expectations is very important at all times, particularly in times of difficulty, because it is a good protection from the deflationary risk. That is therefore my comment on your question.

Serge Villepelet, CEO of PricewaterhouseCoopers France

Mr. Chairman, I am going to put a question I was asked by my three children and could not answer.

About ten days ago, there was an excellent television programme which showed the department in Bercy that regularly holds debt auctions. We saw the man in charge, the State bank account and the auction. It was very well done. That day, the auction had gone well and somewhere there was a big sigh of relief.

If I understood correctly, the amount borrowed every day is 100 million euros. I suppose this also concerns the other big western countries. I watched the programme with my three teenage children.

Their question: what is going to happen? How is all this going to be repaid? Father's reply: inflation, stringency – even though for me, as an auditor, stringency is a rather positive word. Is it fiscal pressure? How do we eventually get out of all that?

I think we all owe our children very clear answers, because, after all, they are the ones we are leaving all this to.

Jean-Claude Trichet, President of the European Central Bank

Your answers were correct, except the first. Inflation is clearly not a solution. This was not a solution in the past; it is even less of a solution today, because if you were thinking of getting out of a situation like this by inflation, then you would immediately bring forward all expectations of inflation, by definition. Therefore you would increase, in an absolutely tragic manner, all market interest rates, which are not set by central banks but by the market itself: savers and investors meeting the demand for finance on the market. So you would have the opposite result to what was wanted, that is to say a spectacular rise in the cost of debt and in the difficulties of refinancing it. Therefore I completely reject that solution.

The response is: obey the rules that we have all agreed to. It's not a question of reinventing the wheel! All of us in Europe signed the Treaty of Maastricht. It said what had to be done. I must say that the rules that are explicit in the

Treaty have more or less become world standards, regarded more or less as optimum by a large part of the international community.

So that means making the necessary effort to cut spending gradually over the medium term and, if appropriate and if nothing else can be done, taking the very difficult decisions needed on revenues, if we still give preference to reducing spending. We believe that this is what is best and what optimises as much as possible the return to sound budget management in a perspective that is as favourable as possible to growth and job creation.

Nothing about any of that is easy, but it is necessary. We cannot leave our children and grandchildren with the burden of repaying what we ourselves spend today. No family would do that because it would make no sense. That said, we have had a serious crisis. It has had the almost automatic consequence of aggravating the problem of public finances. We are duty bound to take the measures necessary. That has always been the position taken by the European Central Bank.