



DEBATE

Kemal DERVIS, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

We will turn to the audience now; we have time for questions.

Volker PERTHES, Chairman and Director of *Stiftung Wissenschaft und Politik (SWP)*

I am Volker Perthes, from the German Institute for International Security Affairs. I would like to follow up in a question which Kemal Dervis raised with our two speakers from Mexico and Korea. This was regarding the representativeness and the composition of the G20. This is because I found both your answers remarkably conservative. It seems to me that once someone is in a club, he or she wants a club to be closed. You were speaking about outreach, saying that we cannot have everybody in the G20, which is true.

However, I very much remember that when we spoke about the G7 and G8 not being enough, our leaders, in Germany and Italy and in other countries, started speaking about outreach. They wanted to keep the club as it was and not have a new and more representative club. I would like to ask you whether you could imagine that if the G20 really is to be that steering committee for global issues. Its composition should be revised every five years, let us say.

Now I will be impolite. What is the rationale for saying that Italy or Saudi Arabia or Argentina should be there forever? This is if other countries grow faster and will have a bigger impact on the global economy in the future. One could think of every five years, revise the criteria on some regional quota and some quota of economic importance. That would probably also give an incentive to these countries to do their economic homework at home.

Meir Sheerit, Member of the Israeli Knesset for the Kadima Party

I am Meir Sheerit, member of the Knesset of Israel. Something has changed in the world, which has not been touched on in this session. This is the redistribution of wealth. What happens in the Middle East is a kind of trailer to what is going to happen in different places. It has started in the United States now. People do not accept the fact any more that there is a small layer of people who are billionaires and most of the people are on very low incomes in many countries.

Those different clubs, like the G7, G8, G20 or whatever clubs, are as a matter of fact the kinds of clubs where people inside them try to take care of themselves. I remember that just last year, the G20 was in a situation where it almost opened monetary war between different countries. This is because things were handled and they were sure of where they were going. I wonder about the G20 or G7 or all these kinds of clubs, except the OECD.

Last year, it came out with a report on the members of the OECD called Better Policies for a Better World. It tried to check on different parameters for every country: what kind of health they had and what kind of education, what kinds of services. It was certain things; it was not just GDP or debt or anything else. It was about what kind of society we have in every country.



Thus such an issue is relevant to what the G20 is doing. I am afraid that if we do not face those issues, the G20 could be irrelevant in the future. In the end, every country has to deal with its own problems and implement the right policies. Somebody said in the past, 'I do not want to be a member of a club that has agreed to accept me.' I wonder if the members of the panel could tackle this issue of redistribution of wealth.

Karsten LANGER, Chairman, European Private-Equity and Venture-Capital Association

My name is Karsten Langer. I am currently the Chairman of the European Private-Equity and Venture-Capital Association. My question concerns the G20's approach to coordinating global financial regulation. The last three years have seen more regulation introduced globally into financial markets than the previous 25 years. No-one, but no-one in this world, understands the cumulative effects of all of this regulation.

As we know, regulation takes time to have an influence. We all understand about the global de-leveraging that is going on in the economy, because of Basel III, Solvency II and all these other regulations that are being introduced. These are part of the problem of not being able to put the growth back into the economy. My question is; does the G20 have an evaluation of the cumulative effects of all of this global financial regulation on its agenda? This is in relation to creating growth in the economy.

Riad Tabet, President of Batiliban-France

Mr President, every time I hear people talking about the crisis I note that they do so only from the point of view of the money and financial markets. And yet to identify the structural causes of this crisis we need to analyse it in greater depth and from several points of view. Since the 1980s, many states, notably the members of the G7, have relocated their means of producing tangible assets to emerging countries for various reasons, including cheaper labour costs. The increase in the production of tangible goods in these countries has generated more wealth and this has led either to higher growth or to the creation of fictitious financial instruments which have caused the current asset bubble. Should we not return to the creation of real wealth by stimulating the production of tangible goods in developed countries? Today, with the G20, the emerging countries have come to the rescue of the G7 countries, which are experiencing a deep crisis.

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We will come back to the panel. Very briefly, there have been four points. There has been another question on the legitimacy-inclusion issue, which we discussed already. It was Volker Perthes on the first question. The second one was on financial regulation and about the level of progress that has been made on the consolidation of all these changes in the programme. There was a very important question. There is a real worry that a huge amount of resources is concentrated on the top 1% of the world. In the US, the statistics are quite dramatic.

The G20 must also take a more social role. I know that the Labour Summit, some of the Cannes Declaration and also the work in Korea on development try to do that to some degree. However nonetheless, there is a lot of misery and a lot of hardship for people in the adjustment process. Is the G20 really doing enough to address this issue? Finally, in terms of rebalancing growth, are there any further points on that, in terms of real productive capacity? We will start with Lourdes first; then we will go the other way. You do not have to address every question, just the one you want to address.



Lourdes ARANDA, Sherpa of Mexico to the G20, Vice Minister of Foreign Affairs of Mexico

I would rather choose the first one, which said we were too conservative. I am supposed to be a diplomat; that is why I try to be as diplomatic as possible. I do think it would be ideal if we could review the membership. The same is the case. Probably if the membership of the G7 had been reviewed on time, or if the Security Council's membership could have been reviewed on time, things would be different. However, it is very difficult, if you are a member of the club, to put in place some rules so that you might eventually be kicked out.

We will be talking about the organisation of the G20; eventually we will discuss it. However, I do believe it is going to be a very difficult issue. Probably in the long-term, there will have to be a new grouping, depending on what the economy looks like in 20 years. This is when the Martian friend of Mr Frenkel comes back and looks at the economy in 20 years. Probably, some of the economies will have grown and others will not have grown so much.

Let us be very candid. The G20 will probably stay as it is. We will include five countries every year and we can incorporate their ideas. Mexico has another position, in working groups, advisory Ministers' meetings, labour meetings and in other meetings that take place within the G20. We will incorporate other countries which have something significant to say on some of the issues. If you talk about food security, you have to have countries that have been stricken by drought or countries which are very productive.

We are thinking of an Agricultural Ministers' meeting to include different sets of countries that are not in the original group. It does not mean they will come to the Summit, but it means that we will listen to them to different degrees, in different areas. If you are talking about energy efficiency, we can bring other countries into it. That is a way of trying to diminish the problems you create with having a closed grouping. I am very frank; I do not think there will be any possibility of establishing the clause, even though it could be presented by some of us.

On the issue of more regulation and what the cumulative effect is on growth, I do not think that having more regulation necessarily has to be in contradiction with recovering growth. The problem is that we still have not been able to deal with different issues on how to recover growth. However, I do believe that effective regulation, not more regulation is the key point. It will probably avoid this second crisis we are in right now at this moment. Those are the questions.

II SAKONG, Presidential Envoy of the Republic of Korea

I also want to add to what has just been said by Ms Aranda. Regarding membership, I think you are right that there are all these different, valid reasons why this composition may not be ideal. However, the thing is, to be blunt with you, discussing the membership issue is like opening Pandora's Box. The dilemma is that everybody wants to be in it, but everybody wants to keep it small. You cannot just keep them all.

As was said, as time goes on, I suppose there are very obvious reasons to change this composition, but G20 happened to be there. That is why the 20 leaders gathered together. Actually, it is not just G20; many others are included. In any case, as of now, in my view, the G20 is yet to prove itself as an effective steering committee. Therefore, I think membership should be controlled for some time to come. In fact, two years ago, the G20 Sherpas decided that additional guests should not go above five.

The other issue with the new agenda included this distribution issue. If we see it from this perspective, it answers this question. G20's major objective is to achieve a strong, sustainable and balanced global growth. How can you have sustainable growth when the global development gaps are widening and the income distributions are worsening? It should be an important agenda for the G20; there is no doubt about that. Also, there is the imbalance with the emerging world as well. Again, how can the global economy have sustainable growth when the development gap is widening? This should be a concern of the G20.



Jacob FRENKEL, Chairman of JPMorgan Chase International, former Governor of the Bank of Israel

I will start with the issue of the disparities in the distribution of wealth and income. This has been brewing for years and it has developed over decades. Whether we want to or not, it will not be solved in one day. The key issue is one which you were dealing with when you were a Minister. The key issue involves providing equal opportunities to all members of society, particularly in the area of education, vocation gaining and the like. It is the reality that not everyone has the same potential, but everyone should have the same opportunity.

I want to caution against one thing. Whatever the rules of the game are, they should not be impacting and exposed retroactively. The whole essence of the capitalistic system is that people make decisions; they invest, they forego consumption in order to secure a better future. According to some rules of the game, if society wants to change it, it is perfectly fine. However, this should not be through retroactive legislation, but rather through charting a new way for the future.

This brings me to the question of the regulation that we have here. First, I want to agree with my colleague that the issue is not always new regulation. More and more, as we look at the previous crisis, we notice that the failure was in enforcing the existing regulation. The supervisory authority was asleep. Yet, when we are adding new regulations and some are needed, we need to ensure that there is a level playing field. This is so that you are supporting the global market place rather than pushing towards a fragmentation.

Regarding the issue of the cumulative effect, let me say that as far as I know and as far as I heard from some policy makers, the cumulative effects are not very well-known and defined. Here, there is an analytical question and a philosophical one. We are on an aeroplane; we have a problem, we are in the middle of the flight and we need to fix the aeroplane before landing. That is the issue. You cannot just go ahead without making changes, but you must be aware that not all of those changes can be made while you are in flight.

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This is a good place to stop. We are all on this aeroplane together, flying towards the end of this great discussion. Obviously, we have huge challenges, but let me thank this panel, the wonderful panellists.