

## DEBAT

### **Nicolas Barré, directeur délégué de la rédaction, *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, membre de la Knesset, Israël**

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, directeur délégué de la rédaction, *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-président de la Brookings Institution responsable de l'économie mondiale**

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, président de 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, président d'honneur de 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, PDG d'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, président de l'Institute for Global Economics**

Je voudrais répondre à la question de « que pouvons-nous faire à propos de la distribution des revenus et de la gouvernance ». Je suis sûr que les questions de polarisation et de distribution des revenus seront présentes dans les années à venir. C'est en raison de l'accélération de la mondialisation et du renforcement de la société de la connaissance. Ces deux tendances ont de nombreux mérites et nous les soutenons pleinement. Cependant, l'inconvénient, c'est que quand elles se combinent, elles peuvent mener à une polarisation et une dégradation de la distribution des revenus. Les problèmes de polarisation et de distribution ne sont pas spécifiques à un pays en particulier, ils sont mondiaux, à des degrés divers bien sûr.

Comment pouvons-nous les gérer? A court terme, nous pouvons nous servir des impôts et de toutes les choses dont les intervenants précédents ont parlé. Cependant, la seule solution fondamentale se trouve dans une réforme du système éducatif, y compris le système de formation continue et de reconversion. Par exemple, dans le monde d'aujourd'hui, quand vous obtenez votre diplôme après un cycle de quatre ans, ce que vous avez appris sera obsolète sous peu. Le système éducatif lui-même doit être réformé pour que les gens puissent continuer leur éducation de façon continue. Je ne parle pas de longues sessions de cours du soir. Nous devons réformer l'éducation de façon fondamentale. Dans le même temps, nous devons absolument renforcer le filet de protection sociale, en particulier dans les économies émergentes. Cela devrait être fait dans la mesure des possibilités fiscales de ces pays.

Il y a un deuxième domaine où nous pouvons agir. Je crois que c'est Milton Friedman qui a déclaré il y a longtemps qu'il faut une crise pour mettre en œuvre une réforme. Le G20 est né grâce à la crise. La communauté internationale a ressenti l'urgence et a créé le G20. Alors que la sensation d'urgence s'atténue, l'unité et la gouvernance se sont dissipées au sein du G20. Comment peut-on résoudre cela ? C'est un forum à gouvernance collective, donc quelqu'un doit rassembler la gouvernance dans le cadre de la gouvernance collective. Quelqu'un doit prendre les rennes. L'Australie aura la présidence en 2014 et on a besoin que les pays du G7 en particulier coopèrent avec la présidence dans ce domaine.

## **Daniel Daianu, membre de l'Académie roumaine**

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?

## **Un 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, président de la Fondation Mo Ibrahim**

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, fondateur et membre du conseil d'administration du 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.

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Thank you all very much.