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Thank you very much, Monsieur Trichet. It is a great pleasure and a privilege to participate in a panel with such distinguished practitioners and policy makers, past and present. What I will do is try to provide my view from my own academic armchair. I will focus on risks, on 'what to worry about in international finance'. Unfortunately, there is a lot to worry about, but I want to focus on two issues, one more immediate and specific and the other more general and abstract.

The first issue is Europe. Europe continues to stagnate, and the continuation of the crisis that began in 2007 is a cause of great concern not only in Europe but also for the rest of the world. European stagnation poses great risks. In my view, the principal reason for the continuation of the European crisis is, as M. Trichet indicated, that we remain in the aftermath of a severe debt crisis – in fact, the only sovereign debt crisis to hit a group of advanced industrial countries in all of modern history. There was one individual case of a sovereign debt crisis in an advanced industrial country, but there has never been such a coordinated series of sovereign debt crises in a whole set of advanced industrial countries. One of the principal effects of the debt crisis, which is still dragging down economic growth in Europe and in the rest of the world, is the overhang of accumulated debts, on both the creditor and on the debtor side. On the creditor side, we know that the financial system is still not working as it should be. There have been valiant efforts by the ECB since the crisis began, and coordinated efforts among central banks around the world, to counteract the impact of the crisis; but the monetary policy is not enough. Macroeconomic policy cannot stand on one leg. The financial system remains impaired by the burden of bad or questionable debts that continues to weigh on it. To some extent, the attempt to rebuild the balance sheets of Europe's banks, including the Asset Quality Review – which is necessary and needs to go forward – adds to the problems on the creditor side, because it makes financial institutions even more reluctant to extend new credits. There is also on the debtor side increasingly strong evidence of major corporate debt overhangs. There have been studies on the subject; Bruegel had a study out yesterday, I believe, looking at the UK and Spain. Virtually every study indicates that there is a tremendous impingement, not only on the supply side but on the demand side as well, as the corporate sector attempts to struggle its way through its own debt overhang. My own view, which I suppose in some European circles might be seen as fairly radical, is that recovery is almost certain to continue to flag unless and until there is some substantial debt restructuring. Banking union is an important step forwards. It is desirable in and of itself, but it is a poor substitute for serious debt relief. It is a second best and perhaps even a third best. In the first instance, as the crisis hit, debt restructuring was not available, and coordinated fiscal policies were not available, so banking union was the policy that was available to policy makers at the time. However, it is not going to solve what is, in my view, the underlying problem: substantial portions of the outstanding debts will not be serviced and cannot be serviced as written, and need to be restructured. We have previous experiences of this, Mr Trichet mentioned a book that I wrote at the outset of the crisis, which was called, somewhat pessimistically, 'Lost Decades.' It is still pessimistic but it seems increasingly realistic as we move forward, unfortunately. Latin America, as we know, stagnated for over seven years after 1982 until finally the Brady Plan allowed for debt relief, which started to bring that particular lost decade to an end. Japan continued to stagnate through many lost decades, in part because of the absence of real debt relief. I cannot help but mention something that my colleague Ben Friedman has pointed out. I alluded before to a previous experience of a major debt crisis in an industrial country and we have an experience of that, too, with both the provision and non provision of debt relief. In 1929, Germany entered into the most massive debt crisis that the world had ever seen, debts both in terms of reparations and to private creditors. Creditors on all sides refused to provide debt relief until it was too late, and we know what the impact was. After World War II, I think creditors felt that they had learned their lesson and gave Germany substantial debt relief, which allowed Germany to work its way out of the accumulated debts that it had built up in the course of the 1920s. Although I do not anticipate anything as dire as the experiences of the 1930s, I do think that Europe is in serious trouble. In fact, the European economy taken as a whole is doing worse now than it did in the seven years after the Great Depression. Seven years after 1929, that is in 1936, the European economy, taken as a whole, had recovered to about 3% above pre 1929 levels. We are now below pre-crisis levels, so Europe is doing worse than it did during the Great Depression. I am not talking about secular stagnation, about which I remain agnostic, but I think that there are clear sources of the current stagnation in Europe which have to do with the political inability or unwillingness to engage in serious debt restructuring, despite the fact that, in my view, it would represent a real Pareto improvement. However, there are major political and economic blocks to a resolution of the crisis in Europe, which causes concern both in Europe and around the world. So a continuation of the European crisis is the first risk, the specific and immediate risk.

The second risk is more general and abstract, and has to do with tendencies in international financial markets and macro economic trends at the world level. The great financial crisis that began in 2007 illustrated a series of important realities with the potential to create deeper problems. I want to focus on one. We now have international financial markets of extraordinary size, speed, and efficiency, and all these are very good things. There are great benefits in the ability to move money from where it is less needed to where it is more needed. However, the size and speed of international financial flows today also create an exquisite sensitivity to relatively small differences in yields across countries and across regions. These very small differences in yields can lead – indeed have led -- to massive financial flows, which then tend to exacerbate the underlying macro economic divergences. We saw this in the European case where divergences between Northern and Southern Europe led to capital flows; the capital flows then sped up growth in the peripheral European countries; which led to more capital flows, and so on. The region found itself in a virtuous or vicious circle, depending on your perspective: where macro economic divergences led to capital inflows which led to more divergences which led to more inflows. The threat that this process poses is that, as the cycle becomes self sustaining, it can create the conditions for a bubble which then bursts. Therefore, the character of global financial markets, in a world where there are still substantial economic and macro economic divergences, raises the spectre of going through a series of boom bust cycles, fuelled by these rapid flows of funds. After 2000, in fact, we experienced something that previously had been the sole domain of developing countries. Among developing countries going back to the 19th century, it was the case that capital movements were pro cyclical. Whether it was Argentina in the 1870s, the United States in the 1880s, or developing countries in the 1920s or 1970s, when the country was doing well, it would attract capital flows, but as soon as it ran into difficulties, capital would dry up. This exacerbated the cycle, leading to a series of booms and busts in developing countries. In 1944, Ragnar Nurkse said that the experience of developing countries had been that international finance was like an umbrella that was lent when the weather was good and taken away as soon as it started to rain. That is the situation that developing countries have faced. What we saw after 2000 was that a similar phenomenon came to be experienced by developed countries as well: pro cyclical capital movements fuelling credit booms and busts.

There are inherent dangers in such macro economic volatility, as seen in the continued aftershocks of the crisis. The process is particularly dangerous, both economically and politically, when so many financial institutions are systemically important. As we go through these boom bust cycles, there are great pressures on governments to step in, sometimes at exorbitant cost to tax payers. The Eurozone process certainly illustrates the broader trend where macro economic divergences have led to capital flows that reinforce or exacerbate these differences, leading to a boom and bust cycle. Another example is the experience of emerging markets after 2009, as interest rates plummeted towards the zero interest lower bound in the developing countries. The search for yield drove more and more investors into emerging markets. Between 2010 and 2013, there was one USD trillion in local currency borrowing by the dozen or so emerging market sovereigns and two USD trillion in foreign currency borrowing by the private sector in those dozen or so emerging markets. This was a great opportunity for them, it was the end of original sin in the sense that many emerging market sovereigns were able to borrow in their own currency for the first time in their history. But it also turned out to be the source of very substantial risks. The capital inflow appreciated currencies, which led to complaints about a currency war, in particular, from the Brazilians. Then, when the “temper tantrum” took place and capital fled the emerging markets, there was the threat – and in some cases the reality – of currency crashes. In this context, the global harmonisation of financial regulation is helpful, but it cannot counteract these very powerful financial forces. As in Europe, I think the real need is for some attempt to address the macro economic divergences to mitigate the impact of these massive capital flows.

These examples and more illustrate the point. In a world with enormous capital markets, small differences in macro economic conditions can lead to enormous capital flows. These in turn can create boom and bust cycles that are extremely difficult to control and that can have very costly financial, and more broadly economic, effects. So, in my view, there is in fact, plenty to worry about.