

DEBATE

Jean-Claude Trichet, former President of the ECB

Thank you very much indeed, dear Marek. Therefore, we had again, three remarkable exposition and I am sure that we will have a discussion which will be very stimulating. I do not see any hands, now; yes you have the floor sir.

Yusuf Irbec, Member of Parliament, Republic of Turkey

Thank you very much. Concerning the statement of Mr JUN Kwang-Woo. Four years ago in 2010 at the end of September there was a conference here in Seoul G20, Seoul International Symposium. In this symposium the speakers were emphasising that the fragile economies are saving less and in that area the saving percentage is almost more than 30%. For example, in Turkey now 13, 14% it is varying between 15 and 20% and therefore the economies here, the population means the consumption. The consumption and the production. If we calculate the increase in consumption and production in the next decades we see more increase outside of the OEC countries, in consumption and in production in India in China, in this area. Now I see that Mr Kwang-Woo was a little bit more pessimistic. If this is the case then the shift of the world economy is going in debt direction and what will be the according to you the destiny of the European Union and of this area? Because of the lack of the population to consume the produced goods is a big problem. Thank you very much.

Jean-Claude Trichet, former President of the ECB

Thank you. This side here of demographics being one of the major issues...

Daniel Daianu, Member of the Romanian Academy; former Minister of Finance of Romania

I would like to ask Bozidar something. If one reads Mark Carney's presentation at the Singapore Monetary Authority, after the Brisbane meeting, among several pretty relevant statements he made, there is one that goes along the following lines: that, apart from banks' total loss absorption capacity, which has been increasing due to more capital and liquidity requirements, we have to deal with a big issue of institutional culture. For5, if this stays the same nothing fundamental will change. I try to remember his wording, 'It is not about a few bad apples in a barrel, it is the barrel itself which is a problem'. When we see the magnitude of market rigging, market manipulation, the way the big guys in the financial industry behave, there is so much to worry about. And they keep complaining of too much regulation and supervision, that these regulations do not allow them to finance economic activity. There is so much wrongdoing in this industry, with habits of mind and of operating. How can one change this institutional culture? There is also an enormous lobby on the part of finance. Why should governments accept it? Mark Carney says that the system has to be simpler, fairer and more resilient. How can it be fairer if this is the case?

Jean-Claude Trichet, former President of the ECB

I think we have two problems of a different nature. We have certainly one problem which is very important, rules, regulation, good rules and good surveyance [sic] and good authorities surveying the banks and of course for the biggest appropriate bailing in possibilities in order to avoid catastrophe. Then you have the cultural problem and, I



think that when one speaks of rotten apples or rotten barrels it is very much the culture which is at stake. A culture of absurd or aberrant risk taking and also the kind of culture which emerges when you read the exchange of emails between traders, between market participants which are extremely puzzling because you see that their underlying reasoning is not correct at all. Therefore, in my own understanding we have an enormous process which is ongoing to change the culture of these financial institutions from top to bottom because it calls for a big implication of the top management and through all levels of management in order to not see again this kind of practice of aberrant behaviour of people.

Thank you very much Daniel. I think perhaps you could take note of this issue and we will organise the response. Do we have other... yes; you have to respond to this question please.

Jun Kwang-Woo, former Chairman of Korean Financial Services Commission (FSC)

Thank you. Good question from our friend from Turkey. This demographic change is, as I mentioned earlier in my previous intervention, a serious challenge for a country like Korea. Korea is experiencing very rapid aging, our life expectancy is already 81, and it is going up, very close to Japan's 83 or so. It is longer than 79 in the United States so it is already very aging society and is expected to become the most aged society in the world in a few decades. What makes things worse than the aging itself is a very low fertility rate in Korea. Amongst OECD countries, Korea is at the bottom; just 1.2 of fertility rate, yes. Indeed, we face exceptional challenges of aging population and low fertility, so we must find ways to regain our dynamism and vitality in this rapidly changing demographic structure. Now what that means is that up until recently during our rapid industrialisation period, we enjoyed so called "demographic dividend" but now we are starting to pay "demographic tax." It may be also useful to note that the pattern of demographic changes varies across countries and sub-region in Asia. Korea, Japan and China in the Northeast Asia became very rapidly aging societies. On the contrary, most ASEAN countries such as Thailand and Vietnam as well as India are still in much younger stage. Therefore, more room to benefit from the demographic dividend with rising work forces. What that means is that there should be more scope for intra Asian collaboration, leading to economic synergies. Let me give you an example. I have just come back from an official trip to Vietnam that has attracted the largest FDI from Korea. A company like Samsung Electronics has a huge plant in Vietnam, where it has just opened a second production plant. Its first factory alone employs some 50,000 people and if affiliated companies are combined, almost 200,000 employees, accounting for 18% of Vietnam's total exports. Yes, one, eight, 18% of Vietnam's exports. So, the bilateral collaboration in such an area is growing fast and there should be more scope for further cooperation. Just to give you a number, the average age of 50 million Koreans today is about 40. But Vietnam, for a total population of over 90 million, their average age is 27. Therefore, by combining those forces you can lower the average age quite a bit. Of course there are other ways to deal with the aging problem, including more open immigration policies. But, for now, strengthening economic ties with strategically important countries should be a way to cope with the rising demographic problem. Thank you.

Jean-Claude Trichet, former President of the ECB

Thank you very much; your figures are extremely impressive. Can I turn to Aso-san and then you Jeff?

Yutaka Aso, President of Aso Group

Thank you very much for your question and Abe-san will be very happy to be pointed in Seoul and he has delivered a clear message to all of us that we have to increase a number of female directors and so on and also the working condition have to be improved. The work life balance, because of the Japanese, once they married then husband when he move from Tokyo to Osaka, 100 person, all of them moved to Osaka together. Therefore, it is rather difficult for us to keep them in, from that point of view that is our excuse from the CEO point of view but now we are giving more flexible working hours, partly because, that is not the main point, partly because of the serious shortage of



workers, we do need a lot of hands and participation and brain. Therefore, the amazing figure is the unemployment figure is 3.6% unemployment rate but it is coming down and down. The ratio of job offers to job seekers is at the highest level in the last 22 years, it is more than one so everybody can get a job. Really we need a hand and that is not related to your question but the one after possibility is the ladies; we would like to see women's participation and giving more opportunity. Therefore, Abenomics has a clear message and due to his message we started to think what sort of ratio of the managers are female and so on, we will have to change it. However, one of the excuses for us, for CEO's, is even when we disperse overseas and to some university overseas and then coming back and marriage and moved with the husband they leave the company. Therefore, we are rather sad to lose them but we have to be more flexible, to giving them working time. Also Japanese are very bossy husbands is always so not taking care of their kids but they are giving more free time to the husband to take care of the kids, to help wives to work more better conditions.

Jean-Claude Trichet, former President of the ECB

Thank you very much indeed. Let me say that I give the floor to Bozidar, to Jeff and André Lèvy Lang. Bozidar.

Bozidar Djelic, Partner, Lazard; Former Deputy Prime Minister of Serbia

Ethics.

First of all, a response from the market. Over the period of five years the percentage of graduates from top MBAs in the United States joining investment banks has dropped rapidly. It went from 50, 60% depending on the year, down to 20, 25%. Where do they go? Is it a sign that actually the profit making opportunities in investment banking are capped? Could be, but they go to hedge funds and to high tech firms. Do they do it out of altruism? I don't know, I mean, you tell me. We are getting more and more reports about different kinds of behaviour of some tech firms trying to attack rivals... I guess what I am struggling to say is that bankers deserve all the blame directed to them. Bankers are people like other people, so I think they shouldn't be treated like creatures coming from a different planet. Therefore inducing ethical behaviour from them should come I would say, from a traditional mixture of punishment and incentives.

Punishment. I am curious as to what Jeff would say on that from the point of view of the United States. Some people say that Barack Obama had enough fuel and political capital to deal only with one of the two core issues: Wall Street and healthcare. He picked healthcare and after losing significant political capital during that debate, he did not have enough fuel to address Wall Street to the necessary extent. Now, in Europe, we might not have the same sort of control over political parties from the financial sector as may be the case in the United States with Wall Street. But, in Europe, we have the problem of internal competition between London, Frankfurt and Paris which, in many ways, is making things more difficult and therefore making excuses. Punishment of unethical bankers is progressing. But, look for example, at this trader in France where enormous effort was made by the entire system to present it as the exclusive fault of one person, in making sure that there are no class actions to protect the institution. The judiciary system obliged and therefore for all these billions there is somehow only one person to blame. Look also at the Libor scandal. Same story, there is enormous effort to show that actually this is just a few traders who are in there. Maybe punishment should be apportioned more broadly, over the people who have authority over the people doing unethical things. I am not saying that the CEO of the bank should automatically be put to prison for every folly that some of his or her employees but, I would say at this point in time, we are erring to too much on the side of individual blame. That is not helping improve deep down the behaviour of the bank.

Therefore, punishment is important. But I think even more important are the incentives and the simplification of the system. Let me try some realpolitik of this. It is so much more tempting if you can play with somebody else's money for your own gain. It is so much more tempting if you have no claw back options on your bonuses, on your property. It is so much more tempting if you are able to shift between different asset classes. Therefore, maybe the next step would be to make the financial system even more boring, even simpler and probably oversimplified. By saying that, of



course, one has to realise that not only dirty water may be thrown away, but also parts of the baby too. Because there are a lot of benefits in having the integrated banking system as we know it as well. So I am not giving a fully-fledged answer because that is impossible.

There will be other scandals in a few years. There will other problems and then other steps will be taken. A further simplification will be taken, further additional regulatory stance will be enacted at the level of Europe and then we will have made further progress. Therefore, people are not angels but people, even bankers, are not evil either. No more no less than others. It is just how you deal with them.

Jean-Claude Trichet, former President of the ECB

Thank you very much indeed. Jeff, you have the floor.

Jeffrey Frieden, Professor of government at Harvard University

Well, since Bozidar mentioned it, I feel compelled to speak on this particular issue, the role of banking regulation. There is what has been called the regulatory dialectic: problems arise, the regulators respond, then financial institutions find ways to work within the existing regulations to find their ways around them, and so on. The job of the financial system is to work within the regulations, which includes finding the cracks and holes within them. This is not illegal, and probably not immoral, but it does lead to problems like those that arose in the shadow banking system. It is also the case in line with the regulatory dialectic that there were massive attempts to reform financial regulation in the US. Dodd Frank is not a joke, but attention fades once the crisis fades and at this point all of the action on the regulatory front is happening at the micro level, with individual financial institutions trying to seize different pieces of the regulatory environment to mould them to their benefit. The broader point I would make is to say bankers are creatures of their environment. The environment they are creatures of are the macro economic environment and the regulatory environment. My students often say, 'Well, the crisis was caused by greedy bankers', and I respond that you cannot explain a variable with a constant. Bankers have always been greedy: that is their job. What changed between 2001 and 2008 that led to the crisis was not the morality of bankers, it was the macro economic, and to some extent the regulatory, environment. Between 2001 and 2007, the US borrowed between USD 0.5 trillion and USD 1 trillion every year from the rest of the world. Most of that went through the financial system and was lent out to households. This cannot help but degrade the quality of the asset base: the loans that were made were not as high quality as they would have been without that capital inflow. Therefore, the macro economic environment created the conditions for the kinds of misbehaviour that we saw. I do not want to let bankers off the hook, but I also do not want to let macro economic policy off the hook because it creates the conditions to which bankers respond.

I do want to move onto a somewhat different topic. I think of it as being the savings rate or the consumption rate; people talk about demographic trends. There is no question that there are characteristics of the north east Asian economies and the northern European economies that give great incentives for people to save. Demographic trends, in some cases undervalued or underdeveloped pension or housing finance, all give incentives to save, hence a disincentive to consume. However, there are also substantial disincentives to consume; simply pointing at demographics, which is something that governments cannot do very much about, lets governments off the hook. There are substantial disincentives to consume that contribute to the kinds of problems we have been talking about. Imposing a consumption tax in the midst of tremendous shortfalls in demand is exactly the wrong way to go. You want to be encouraging consumption, not discouraging it. Having weak real exchange rates at the time when you want to be encouraging consumption, again, is the wrong way to go. As for this example of Korea and Vietnam, it is true that one way of dealing with the imbalances would be to have immigration from Vietnam to Korea: trade, substitutes for factor mobility. However, that only works if the trade is bilateral. Therefore, it only has that impact if the Korean firms are investing in Vietnam and the Vietnamese affiliates are then exporting in parallel to Korea, but that is not what is happening. What is happening is the Korean firms are investing in Vietnam in order to re-export to North America and Western Europe. This does not resolve the underlying problem, which is the excessively low rate of consumption in



these societies, or excessively high savings rates. Yes, there are demographic reasons for the high savings rate but there are also important policy reasons. I understand that just as there is lobbying in financial markets there is lobbying in the manufacturing export sector and in other segments of society that keeps the savings rate artificially high but it is a very, very important problem and it implicates the entire international economic order.

André Levy-Lang, affiliate emeritus Professor in Finance at Paris-Dauphine University

Three very brief comments. The first one, as a banker, ex banker and current banker, I agree with what was said about the impact of regulations since the G20. I think there has been tremendous progress basically, in a nutshell, in terms of banking regulation. Additional complexity, many more forms to fill, many more things to control but overall, yes, and the situation is better. What is true is that there will be a growth in what I might call 'Shadow finance'; hedge funds, private equity and so on, this is going to be very significant. It doesn't create system, it creates, but it is a fact. Therefore, we have to realise that.

Second point, nothing to do with that, but about women. France is not in a very good situation today, as you know and there is a lot of 'France bashing' but there is one good point in France which is demography. We happen to be one country where we have, at the same time, very high participation of women in the economy and a relatively high birth rate, around 2%. [Inaudible] women. Explanation; it is very easy to have children a very good system of childcare to raise them, I should say. One positive thing about France is there so, at least we have this which is for the future, very positive.

Third point on monetary policy. I think it was Marek Belka said that monetary policy has one advantage; it gives time for governments to change and to adjust. That is a positive and a negative thing. When you can borrow for 10 years, money at 1% as we can in France, there is not that much pressure to do so called structural reform. I am afraid that one of the consequences of the situation today is that a number of governments, including our own government have really no pressure to change. I am not saying that I wish that this changes and we have a crisis to really create the pressure but the fact that we do not have this pressure means that we will have broadening differences between countries. The countries which adjust and use this time to make these structural reforms and the countries that do not. That, I think, is a great worry in Europe.

Thank you.

Daniel Daianu, Member of the Romanian Academy; former Minister of Finance of Romania

Jeff has mentioned macro economic policies in the United States. But I would also say that the regulatory framework has gone astray during the past decades starting with the rescinding of the Glass-Steagall Act and the Big Bang in the UK. Those measures I see as major policy blunders. The deregulation of financial markets has made them more unstable, gave them a penchant for trading and speculation and stimulated the creation of fancy financial products; all this was done under the prodding of Wall Street, of high finance, this is the reality. Mark Carney, as the President of the Bank of England and Chairman of FSB, President Trichet, know perfectly well what has been going on; policy capture has been real.

So, when it comes to reforms you are right, but policies are sub optimal. There is need to strike a deal, or a balance at one point in time, so that something to be done in a determined way now. Because, otherwise, deflation is going to conquer the whole territory of the Eurozone. Something has to be done on a more firm and bolder basis. We say inflation targeting, but, probably we should say "inflation creating targeting". What should be done to create inflation? What are the means to create inflation? Saying that we need inflation may sound a blasphemy to some, but the hard fact is that we need to create some inflation.

**Jean-Claude Trichet, former President of the ECB**

I think we all agree with that and paradoxically at the present moment we are in a situation where all major central banks of the big advanced economies have the same definition of price stability. Japan joined the team last year, 2%, the US joined the team the year before in 2012, 2% and the UK and the UAE also have, 2%. The paradox is that we are all below 2% at the present moment. Of course, some much closer to zero, including in the Euro area. However, I confirm under the control of Marek that we are all considering that we should not be over and above and with threats of inflation but much below and with the threat of deflation, that is clear. Now, you said, how to engineer inflation? We are at zero level as far as interest rates and with more or less unlimited supply of liquidity. There, is not a single advanced economy that can say there is a lack of liquidity, including in the Euro area where you have the liquidity insurance policy which makes it that any bank can have all the liquidity they ask for. So, to think that we can engineer inflation, it seems to me it becomes very difficult. Take the Euro area, you have the countries that have adjusted, now they are growing more or less, of course not sufficiently but all of them are in positive territory. Now, the countries that represent 40% approximately of the GDP of the Euro area, that have very good level of competitiveness, external accounts are pluses that are gigantic including in one country which represents 30% of the GDP of the Euro area, 7.5% of current account surplus, so gigantic. Therefore, competitiveness, enormous excess of savings and miserable growth. That is, of course, surprising. Say that the ECB introduces much more monetary accommodation, what will it change in 40% of the Euro area? Nothing because they already have all the money they want. Therefore, the only channel would be the decrease of the exchange rate but you said yourself that it was not necessarily very good for consumption.

Jeffrey Frieden, Professor of government at Harvard University

Well, I mean, all these things are inter related in important ways. I was just going to make an observation, because we were talking about this before. Not that the US is a paragon of virtue but there are interesting comparisons with the response in the US. Remember of course we had almost immediate bank recapitalisation and we had an almost immediate fiscal stimulus. Both were very controversial in the US and a third component of the US response which was not cyclical but structural, is that we are a more debtor friendly society than Europe, so it is a lot easier for households to send the keys back to the bank and get out from under their mortgages. However, the first two responses did have a sort of a virtuous circle. We have had in the US, since the crisis, just about 18% of accumulated inflation and that has reduced the debt burden. So, I think that if you are thinking about what the component parts might be we did have a substantial bank recapitalisation which had a big impact on the lending channel and we had a fiscal stimulus which did have an impact on spending and helped to prop up consumption. That might help explain the difference between the two areas, just as a matter of fact.

Marek Belka, President of the National Bank of Poland

Well, I do not think there were direct questions to me but some interventions sort of, came close to what I had spoken about so let me pitch in with some comments.

Well, deflation is, of course, something that we are afraid of, and we do not fully understand what the possible negative consequences of deflation are. Of course it is pretty straightforward: deflation is a disaster for heavily indebted countries. It is a big problem for those countries that have to regain their competitiveness, so lack of inflation deprives those countries of necessary nominal flexibility. However, we do not know and, this is a question more to the CEOs of companies from the real economy: how is deflation affecting business? How is it changing the planning process? Probably this is something that the Japanese would know, at least more than we in Europe. Short of the extreme situation of war financing, we cannot bring about inflation or necessary inflation if the wages are stagnant. Period. Without growing wages, forget about investment, forget about price movements. Then, we come very close to the issue of distribution. To a very difficult political and social problem. If we do not see this, we do not see the core of the problem.



Secondly, it is about that time for other policies that the central banks have provided to kick in. Of course, we know that some countries have used it, and some governments have wasted the opportunity. First, let me say something about policy mix, a decent policy mix. I remember from the old days of my studies that the ideal policy mix that we are talking about was disciplined fiscal policy and loose monetary policy. Does it still stand? Do we want such a macro economic policy mix in Europe? Well, I remember that after 2008, there was this universal call for fiscal stimulus. I think many countries reluctantly or enthusiastically followed suit. Well, in the case of Europe it was the markets that rejected fiscal, let us say, loosening out of hand. Yeah, it was the markets. Well, they had good reasons to do so, but it was the markets. We will not allow those bloody Italians to run high public debt, so Berlusconi had to go. The Italian government had to follow suit, had to obey the markets. Let us not forget about it. Another probably politically incorrect remark is, of course, there is hardly anyone who is against structural reform. Structural reform is sometimes treated as a panacea. Well, the only problem is that we do not really know what structural reforms are. There are so many things that can be captured under this term and, of course, do not take me wrong, I am not against it. I think my country is actually benefitting from a protracted period, maybe 20 years of a steep structural reform. Which was imposed on us by the European Union. We imposed it on ourselves because we wanted to join the European Union, there was an external force breaking social resistance, providing for political continuity, to do things that we thought were right. Most of them were right, some of them were wrong, but now we are benefitting from this. However, I have this impression that economists are saying, 'Okay, as far as monetary and fiscal policy is concerned, we are done, we cannot do more'. Now, it is the time for structural policies. Well, I think this means that they have nothing to say, they are basically pulling their hands up and withdrawing. They have nothing to say because they have no idea of how structural policies work. This is something we have, well, structural policy is the necessary adjustment to changing conditions. However, do not treat structural policies as, let us say, anti cyclical policies. This is beyond, really, the understanding of macro economists. Thank you.

Jean-Claude Trichet, former President of the ECB

Thank you very much. I am not sure that we would all totally agree on what you said but that being said we have a last choice question and then the wrap up and then we will give the floor to the speakers. You have the floor. This is the last question.

Yusuf Irbec, Member of Parliament, Republic of Turkey

Yes, concerning the statement or comment of Jeffry. The social security system in China is not better than in Japan but in Japan at the beginning of the '90s, the minister of finance made a statement. Maybe we are expecting to increase the taxes in four years. The reaction was enormous. The people began to think we should save because the taxes will be increased and this was the beginning of the crisis which lasted almost 15 years. Now, I think the precautionary approach of those populations are very different from the populations in Europe. In Europe they have enough debt but they are not saving. However, here if there were a certain fear that there will be an increase in the burden they are reacting too strongly. Do you share this opinion? Thank you.

Jean-Claude Trichet, former President of the ECB

Thank you very much indeed. What I propose, perhaps, is to give the floor to Mr Jun first, then perhaps to Aso-san, if he wishes, then to you Marek, then to you Daniel and Jeff.

Jun Kwang-Woo, Former Chairman of Korean Financial Services Commission (FSC)



I will try to be brief. First of all Jeff mentioned the importance of raising consumption to facilitate economic recovery, which I totally agree. One interesting example that I could share with you is that Korean authorities recently started thinking about how best we can encourage dividend pay-out so that it could add to consumption power to individuals. Although the law has not passed yet, it is kind of levying tax on excessive corporate reserves. Of course if they are used for productive investment that is fine; but if not, better be paid out to individuals so that more money could be spent and create virtuous circle within the economy. However, the best way to promote consumption is to raise public confidence in the government policy.

The second point is to do with the impressive progress the FSB has made since the crisis. I said I was impressed because this type of multilateral approach tends to lose momentum once a major crisis has been receded. Perhaps it is partly because there is an on-going crisis in Europe and elsewhere. In any event, those who have been actively involved in the FSB mission, I think, should be commended to produce such a fine tangible result. However, one point that I would like to inject here is that while we are fixing some problems, there is new problem coming out because this is a very prolonged exercise. I say this, there is private equity, hedge fund that you have mentioned already but the recent buzz word is Fin Tech, which combines finance and IT technology. Financial operation is undergoing innovation, as we can see in e commerce operators doing some banking businesses. For example, Alibaba does a lending business to small, medium term sized enterprises. As the Fin-Tech business is becoming an important part of the shadow banking, it has to be monitored closely for the stability of financial system.

Lastly, let me just give a word of support and encouragement to our friend from Japan. There are increasing calls for more to be done for Abenomics to succeed, or to put it differently, Japan may need more "arrows." Well, I hope the well-known "three" arrows are enough for the brighter future of Japan. Thank you.

Jean-Claude Trichet, former President of the ECB

Thank you very much indeed. Aso san.

Yutaka Aso, President, Aso Group

Thank you very much. I described the cash rich and I think that is very fortunate for cash rich for the private people, they keep their money in deposit it is part of their own sort of, rate. Therefore, the government, Abe san is trying to use that money into the stock market in a very natural way. So, the government for this purpose their topic of arrow E and the governance is constantly discussed and many new rules have been announced. For instance on the corporate side we increased the amount of dividend because the government say they are already in that kind of, stock value is important so from that indication we started to increase the dividend and also purchasing own shares from the market for the shareholders sake. That kind of movement. The tax system has changed and extended the total amount of entertainment expense which can be excluded from profit. That means to stimulate the money into entertainment for eating and drinking and that kind of thing also stimulates the money into the market. Also, as I described it, is really surprising. The Minister of [inaudible] came to the cement association and said, 'You are making a profit so please increase your wages'. That is very unusual approach and they did not force us but since we are making big revenue, so we did not give the base out but the older big bonus, that kind of thing. However, that kind of approach by the government to use those excess money into all the sort of, consumers and also inherited tax. Senior generations to youngers, under 30 years old using for education, give JPY 15 million deduction. That is very attractive. In these 18 months this USD 6 million has transferred from this generation to grandchildren generation, if their purpose is going to use for education. However, one of the issues is the USD 15 trillion deposit but I do not know exact number but 80% are older than me, so 60s, 70s, 80s, they keep it. Therefore, I do not think they do not use as much money into the market. That kind of combination is rather unique, I have to explain but we are in a lucky position that we are thinking of how to use that saving the money into the market. That is a big issue and I constantly mention, it will move. Japan will move.

**Jean-Claude Trichet, former President of the ECB**

Thank you very much indeed. You know that the Bundesbank is asking the unions to be more demanding in Germany vis a vis the entrepreneurs so the problem and this is Marek's remark, what can a central bank do for inflation if there is no increase in wages and salaries? This is something which is absolutely fundamental. Thank you very much indeed Aso san. Perhaps Marek, you would like to...

Marek Belka, President of the National Bank of Poland

Just one short remark. It is quite surprising how I am suddenly in line with Ian Sweidman.

Jean-Claude Trichet, former President of the ECB

Daniel.

Daniel Daianu, Member of the Romanian Academy ; former Minister of Finance of Romania

There are some ideas on creating inflation, but I am hesitating to ask Marek.

Jean-Claude Trichet, former President of the ECB

We are running out of time.

Daniel Daianu, Member of the Romanian Academy ; former Minister of Finance of Romania

Okay.

Jean-Claude Trichet, former President of the ECB

Yeah, it is the end of the session.

Daniel Daianu, Member of the Romanian Academy ; former Minister of Finance of Romania

"Helicopter money", I think Milton Friedman used this notion and Ben Bernanke did it too, when he made an assessment of what should be done in order to resuscitate the stagnant Japanese economy. I guess this is another blasphemy in the world of classical central banking.

Low growth should not necessarily be a problem if you think about steady state economics and the need to care about the environment. The problem with low growth is related to huge debt, to the debt overhang; there is so much overborrowing and economies have to grow to service debt. This is the issue.

**Jean-Claude Trichet, former President of the ECB**

The debt explains why growth was so affluent before. The growth was based on tidying up of debt.

Daniel Daianu, Member of the Romanian Academy ; former Minister of Finance of Romania

I agree. Over consumption, over borrowing, as many thought it is great to use any sort of funding for growth. Secondly, there is a divergence between the path the American economy is embarking on and what is happening in Europe. I think Jeff is right, but it is also true that policy making in Europe is much more complicated. Because the EU is not a federal state. The only federal institution is the ECB.

Thirdly, to paraphrase Mario Draghi, who is famous for the statement that whatever it takes to save the Euro should be done, I think that, in Europa, whatever it takes to avoid deflation should be done. Deflation is big threat in an area heavily indebted and with little growth .

Finally, I may have not listened carefully to one of the comments made during our discussion, but I think shadow banking creates systemic risks too. In my opinion, systemic risk is not about private versus public money. Systemic risk is about the magnitude of financial flows which move around and can destabilize economies. I also believe that big countries have a huge responsibility when it comes to their monetary policies. This is since the global financial cycle is very much driven by the monetary policies of reserve money centers. So, there are huge externalities, which are imposed on emerging economies. Finance ministers and central bank governors of emerging markets have reasons to complain about the effects of massive capital inflows and outflows. Helen Rey is right when she says that it is not a trilemma, it is a dilemma confronting emerging markets' policy makers; that emerging markets can hardly cope with massive flows, that their independent monetary policies are much dented in their efficacy by such flows.

Jean-Claude Trichet, former President of the ECB

Thank you very much Daniel. When I hear all our debate, we could also spend all afternoon; we are at the end of three hours of meditation.

Jeffrey Frieden, Professor of government, Harvard University

I was going to make the same point about shadow banking: I think it does raise systemic issues. However, let me instead make a more general point. I consider myself a political economist, not an economist, and I am heartened in some sense to note that virtually everything we have talked about in these past three hours are problems not in economics but in political economy. Because in many instances we can agree on what sets of policies should be considered or contemplated but there are political obstacles on many dimensions, whether they are within the European Union or among groups in society. When we saw this huge capital inflow into the major deficit societies, whether it is Spain or the US, that gives the financial institutions great incentives to go to their regulators and get the regulations relaxed and that is exactly what happened. In the US we have the experience in the aftermath of the crisis where monetary policy is politically controversial. Savers, retirees and those on fixed incomes hate the Fed because they have gotten used to earning 5. 6. 7 % real over 15 years and now they are earning zero. When I give talks publically, people stand up and say. 'How can you expect us to live with these low interest rates?' On the other hand if you are debtor, this is one of the things that has helped the US economy recover. On fiscal policy you have the people living in the regions where unemployment got up to 15, even 20% -- and we do have those regions in the US during the crisis -- that are benefitting from the fiscal stimulus. Meanwhile the tax payers who are typically the top quarter of the income distribution are bitterly opposed to the fiscal stimulus. Therefore, fiscal policy, monetary policy and financial

regulatory policy divide societies and give rise to tremendous political problems. Where we stand today is somewhat worrying because real wages are stagnant or declining almost everywhere, the financial system has in many instances been re composed and there is either the reality or the perception that the investing community is doing quite well. That I think is one of the things that has contributed to the great polarisation in societies and the great feeling that the political class has somehow failed to resolve the crisis in a socially acceptable way. In a broader political economy context I think the fact that we have been unable to come up with reactions to the crises that make sense both macro economically and are palatable politically is cause for concern, and I think the political situation both in Europe and the United States is really worrying on many dimensions.

Jean-Claude Trichet, former President of the ECB

Thank you very much indeed. All that you said is very, very important. This political malaise that we see and which is associated clearly with the stagnation of the medium wages and salaries in real terms, even in nominal terms as far as we see it now. Also of course the incredible increase of some asset values since the crisis is really something which is of great importance.

Listening to all that was said, I was thinking of two sets of figures. I think the German inflation before the Euro, during the 40 years before the Euro, average of inflation 2.9% since the Europe, average inflation between 1.4 and 1.5. Half of it since the Euro when everybody was expecting that, of course, inflation will gallop because the DM was merged with the drachma and the escudo and lira and so forth. Now, inflation today, 0.9 if I am not misled or 0.8, I do not know, it is less than one and it is something that nobody would have expected frankly speaking and we have to go back to something that will be more normal. Also another set of figures: which countries are today in current account deficit in the advanced economy? France, the US, the UK, Canada, Australia, New Zealand. France and all the English-speaking countries, all in deficit, all in economical deficit when we know that part of the problem in the crisis was coming out of, as you said Jeff, too much injection of external capital, financing something in the domestic economy. This is puzzling to say the least, and I suggest that we continue to meditate and reflect on that but I want to ask all of us to applaud the speakers.

Thank you.