



DEBATE

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

I am very impressed by the number of issues which have been mentioned, I did not mention myself what I put in my own paper, I tried to be comprehensive. We had Daniel giving us so many dimensions, so I think that we will have a very stimulating discussion now, following the rules I have already mentioned.

Let me only mention that in what I heard, I see a lot of interest and questions on why it is that the level of investment is so poor since the crisis, in many economies, not only the advanced economies, China being a case in point of the reverse behaviour.

I have been struck by the fact that productivity was mentioned by practically all the speakers, and I would like personally to ask a question on whether you buy, or not, the golden observation that we had a high level of total factor productivity increases from 1945 to 1973, first oil shock, then we had a low level of productivity progress from 1974 to 1995, then 1995 was the end of the Solow paradox, we could see an explosion of productivity, and we are back to the level of 1.92% that we had after World War 2; then since 2005 we are back to square one, to the level of total factor productivity that was the case from 1973 to 1995, a very poor one.

The problem is, are we, ourselves, in the normal situation that proved to be the case for 20 years from 1973 to 1995, or is it very abnormal that we are at that level, which is the intuition, and we should go back to the level we had from 1995 to 2005, which was only a ten-year period.

I myself am totally struck by these observations and I have enormous difficulty. My intuition is that the disruptive technologies that André was mentioning, the IT, the explosion of start-ups, all that we see, the artificial intelligence and the rest, will probably trigger an enormous amount of productivity progress and of total factor productivity progress, but we are not yet there. We are back to this Solow observation that we had a lot of investment in computers, but he did not see the consequence of this investment in terms of productivity progress.

It is, maybe, something which will be proved in the future, or not. At least, I am struck by the fact that there is no academic consensus on where, exactly, we stand there. Of course, we also have a large number of other issues mentioned in the real economy. With regards to the mention of the main issues in the financial sphere, I could note myself that there is of course structural difference between Europe and the US, which is a very important remark which you made André. I also see the absolute need to reduce leverage and to be sure that we do not increase the debt outstanding in the private and public sector as a proportion of GDP, and from that standpoint, John, I am frightened by the motto 'Spend, spend, spend' and 'Borrow, borrow, borrow'. I heard that before, and it was only paving the way for major difficulties. We have to be, it seems to me, very prudent and cautious.

Of course, the stress on equity, the absolute necessity of equity being a normal way of financing our economies is, it seems to me, very important.

A lot of other things could be mentioned, but what we expect is the contribution of the audience. I see that you are raising your hand, you have the floor.

Manuel MUÑIZ, Director, Program on Transatlantic Relations, Weatherhead Center for International Affairs, Harvard University



I just wanted to ask a follow-up question to something that Jean-Claude just said, so, if the panellists could do a little bit of a deep dive on the impact of technology on some of the trends that were mentioned here? I wonder if they could comment on the decoupling of productivity and hourly wages, what is driving that? Do they think that is, perhaps, behind the collapse in aggregate demand and ultimately in investment? What do they make of this thesis of secular stagnation that is linked to the impact of technology on the labour market, on the distribution of income, and how that is driving wage stagnation inequality and other issues? Sort of, it is a very large topic, but I would love it if the panel could comment a little bit on that interaction between tech, income, consumption and investment. Thank you.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much indeed. We will take a batch of questions of course. Please, monsieur.

Philippe RICHARD, Head of international affairs of Abu Dhabi Global Market (ADGM)

I would like the panel to elaborate a little bit about regulation, do we have a trend of overregulation in the banking and financial sector? I must say that personally, I think that it is not the case, but I heard many comments on that and if there is overregulation it has an impact on the open banking sector. We should clarify this point first, and Mr Kiyoto Ido has mentioned that we should move from regulation to dynamic supervision, having in mind that there may be too much regulation; I think that it would be worth spending a few minutes on that, thank you.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you for your question. Madame?

Virginie ROBERT, Foreign desk editor, *Les Echos*

I have a question, maybe for Mr Daianu, about the central banks, on the fact that we are going to have a diverging path in the near future with the Fed raising its interest rates and the others being very accommodative. What could the impact be, and are there any shortcomings to that?

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much. Please.

Uri DADUSH, Senior Fellow, OCP Policy Center, former Director of the International Economics Program at Carnegie, former Director of the International Trade, Economic Policy, and Development Prospects Departments, World Bank

Yes, I would just like to highlight three points of, let us say, relative optimism just to kind of rebalance the discussion a little bit.

- 1) Demographics have had a very big effect on long-term growth rates in recent years, including in the United States, sharp deceleration in the labour force.
- 2) Another factor in the long-term growth rate reduction which is overlooked in my view is what I call the end of transition, meaning with the fall of the Berlin wall 25 years ago, we had this huge inclusion of a large number of countries into the world economy. That has largely happened, and the productivity growth from that is waning, so that is a natural development, not one that should lead to pessimism.



- 3) Remarkable in my view, the relative absence of large balance of payments crisis in the emerging markets. I know there are some, I am very aware, but if we remember the experience of the late 1990s and the early 2000s, it is extraordinary that despite all these issues, the emerging markets have by and large remained stable with some very large shocks in Brazil, Russia etc. There is very little recourse to balance of payments help from the international organisations. There is some, mainly in the Middle East, but in fact all the big players are by and large managing on their own.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much for your observations, which will certainly call for comments as you were asking. Maybe we can take a fifth question in this first batch?

Moubarack LO, Special Advisor to the Prime Minister, Senegal, Chief Economist of the Prime Minister and Coordinator of the Economic and Social Analysis Unit, Senior Fellow, OCP Policy Center

I just want to raise the Solow paradox. How do you explain the difference of growth rate between the US and Europe if not this technology effect? As clearly explained by authors like Robert Gordon who showed that the difference of growth is mostly explained by difference in technology and IT corporations and production.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Same question on the impact on the IT, but on Europe particularly? No? On the advanced economies as a whole? On all the economies in the world I guess?

Moubarack LO, Special Advisor to the Prime Minister, Senegal, Chief Economist of the Prime Minister and Coordinator of the Economic and Social Analysis Unit, Senior Fellow, OCP Policy Center

It was clearly explained that in the US the IT produced effect all across.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Okay, thank you. That was the fifth question and we are totally, I would say, flexible. If you pick up one particular question which seems to you particularly interesting and you respond, I will ask the panellists to be very concise in their responses, but very generously I will give them three minutes each to comment on the questions we just heard. If they want to be longer they can negotiate with me, because I accept that some questions are really very pertinent and call for some further response.

Perhaps we can take the reverse order, and I know that you will have a lot to say so I will reserve more minutes for you Mr Professor. André?

André LÉVY-LANG, Affiliate emeritus Professor at Paris-Dauphine University, former CEO of Banque Paribas

Thank you, I will take two questions if I may, one is on the impact of technology and productivity, and the other one will be on overregulation. Is there overregulation of banks?

On the impact of technology, let me take an example. I invest in start-ups, and there is one I am interested in which does managing accounts receivable for companies using the cloud, basically. The impact is very simple. There are fewer jobs needed, and there is capital saved, so it is positive. The question is, what do you do with the people, right?



We do have a major problem in France, of education and training. We have a problem with primary education which is well identified, and we lack probably 10 000, 20 000 or 30 000 computer specialists, which we have to train. There are efforts being made in that direction.

That does not mean that it will solve the problem, but it is clear that there are things to be done very quickly: on the longer term regarding primary education and very quickly regarding training. There are schools now taking people with no diploma at all and just testing them to see if they are computer friendly, and they train them. Again, this is not a solution but it is true that there is a productivity gain there.

On regulation. I do not believe that the right word should be overregulation. I think that it is clear that regulation has to be implemented in order to avoid systemic risk and to avoid having the taxpayers pay for the failures of the banks.

It can work, as long as somebody, especially the shareholders or the state, or a combination, has fixed the key problems of banks before. Otherwise you get into a vicious circle. Banks have to raise capital, they are not profitable enough to do that, they do not find the capital, and you get into this situation where again, we have a couple of situations in Europe, which clearly cannot be solved just by the market, and we are in that vicious circle. That is one point.

The other point of overregulation is bureaucracy. The one bank I am involved in, as a member of the supervisory board, the cost of compliance, the cost of internal audits, the cost of everything which has to be done for regulation, has been multiplied by a factor of five or ten. Again, it does not break the bank, but it means that we spend more time on checking forms while I think the money should be spent, basically, on improving, which is already good, the quality of the people who monitor the system, in France the ACPR, but these are the key people.

The problem with the 2008 crisis in the US was clearly a problem of regulation, but also a problem of control and of proper functioning of the authorities who were supposed to do the job. I think that we put too much emphasis on the numbers and the forms, and we could put more emphasis on the quality of the people on both sides.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much indeed.

Who else, reverse order?

Kyung-Wook HUR, Senior Advisor to Bae, Kim & Lee LLC; Former Vice Minister of Strategy and Finance, Republic of Korea, former Ambassador of Korea to the OECD

I will pick up just two questions. One is the lack of a balance of payments crisis in many emerging economies since the Asian financial crisis, of course you are not missing the good balance of payment crisis in the emerging economies, but I guess there are a couple of reasons.

The lessons of the Asian financial crisis has cast a long shadow, and if you look at the reserve level of many emerging economies after this crisis, the level of the reserve has increased quite a lot. Of course, China is the major country, but other countries also at the same time. They are more careful about the account surplus and accumulated reserves even though sometimes they are criticised about this so-called savings glut. From their point of view, it is insurance at the end of the day. That is number one.

The other thing is that they now know the danger hidden in this short-term bank balance. The most capricious element is the short-term borrowing between the banks, that was the major problem and the IMF changed its view in 2012



about capital flow management. Now the G20 is talking about so-called capital flow management as part of their prudential measures. For example, in Korea the case we introduced a couple of measures following these *macro-prudential* principles, and it has been very effective in changing the structure of borrowing, it does not change the total amount of borrowing from abroad, but it just switched from short-term borrowing to long-term borrowing. I think the international community should look into this more carefully to get the best practice. Now, we see these effects. It has kept a cord of deregulation, I do not know in which direction it is going to go but it has to go with this more prudential capital flow management.

Another thing I have to mention is that it is not really a balance of payments crisis, but there is a liquidity contagion crisis. In the 2008 crisis, Korea had almost no exposure to the toxic mortgage debt, still we suffered from the creditability crisis, and it took the Federal Reserve to come up with a helping hand, with balance swaps for emerging economies, in other words a good balance of payments crisis is the one thing we can guard against because that is something where each country has to blame itself. This liquidity crisis, driven by this contagion or guilt by association or however you name it, it is something beyond each country's control and that is one of the reasons why the IMF came up with these new tools. We probably have to be more aggressive in exploring the options in central bank swap among the most advanced countries in the times of that kind of crisis.

On productivity, I just want to mention that sometimes productivity, at the end of the day, requires a lot of reform and regulation against vested interests. Unless you have a good political capital it is not easy. In Korea's case, we did not waste a good crisis in the Asian financial crisis. That has helped us quite a lot, but on the other hand it was over 20 years ago, and even though we do not regret it we have not had a good crisis since then and that weakens the political capital. Other than political capital, another factor can be market pressure. Again, we need a very active trade sector.

Another thing I have to mention is this rent seeking by the new type of companies, in other words, there is a concentration of businesses. We have seen cases such as between Samsung and Apple's intellectual property, a legal case, where you can see the traditional protection of intellectual property rights which drives the pharmaceutical industry may not apply to this new IT industry and we may come up with a shorter protection so that this knowledge-based capital that has this accumulative tendency may be shared more broadly, so that whatever technology gain we have on the IT sector can be translated into productive gain across the world much more rapidly than in current situations.

Thank you.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much indeed.

Listening to what you said on the balance of payment crisis and so forth, I am thinking of one of the issues which were mentioned in the fourth question. I was struck by the fact that when we had the dramatic Latin American crisis in the 80s, and we have some memory of that John, and others, when we had the crisis of other countries in Africa and the Middle East, when we had Poland, when we had the Asian crisis at the end of the 90s, we had a very strong adjustment. We had very important measures taken by all those countries, and it is my way to explain why we are not hit at the moment when the crisis hit the advanced economy.

They had done a lot of hard work, which had been recommended by the IMF and the international institutions and were challenged, of course, because it is always very difficult to adjust. They have proved extraordinarily effective in preserving the emerging world from this drama which was unfolding in the advanced economies.

One of my major fears is that in the case of the crisis of the advanced economy, which by the way was not apart from a few countries a crisis of balance of payments or sovereign risk crisis, but there was a crisis. The idea that we have to adjust is not really in the air.

The message for the advanced economy is more 'You are so important, for the entire world, that you should not adjust too much. Please, be as accommodating as you can'. It was not at all what was said to the emerging economies, I am noting that there is something there that might be a little bit worrying for the future.

Now I have Mr Ido, and then Mr Charafeddine, and then I promise that you will have some time at the end.

Please, Mr Ido.

Kiyoto IDO, Vice Chairman, The Institute for International Economic Studies, Japan

I would like to also take up two issues. The first one is the total factor productivity issue. As you know, the calculation of TFP is very difficult because, for one thing, TFP is calculated as a residual of productivities. The second issue I want to address is that recently, in Japan, the calculation of GDP itself has been put in question. I think that this issue is relevant all over the world, especially on how to calculate the value added in the services sector or that of the intellectual property business. In those areas, to calculate the GDP itself is very difficult.

We should always be careful in calculating, or evaluating, the TFP figure itself. Having said that, there may be several reasons for the deduction of total factor productivity. In the case of Japan in particular, there are two reasons.

Just as I said, in these days the participation of women and the elderly in the labour market has increased. Of course, the entire impact of those influences is reflected in the calculation of labour productivity, but I think indirectly it has also given some impact on the total factor productivity because there are now many women who have started to join the labour market and it takes time for them to learn business skills.

Another reason, in the case of Japan, is the change of working style. Under Abenomics, we are now trying to change the working style itself. Japan had been, for many years, notorious for its long working hours and very dedicated employees. However, working hours have been drastically reduced these days. It is also reflected in the reduction of total factor productivity.

So in the calculation of total factor productivity itself, we should be careful to evaluate the reduction. That is my first comment.

The second comment is related to my comment on static regulation to dynamic supervision. Of course, this concept has been shared now not only by my colleagues in Japan but also around the world, and the banking and financial business is a global business so we need some global standards with numerical guidelines.

On the other hand, the financial business is different country by country and sector by sector. Therefore, we need some numerical standards regarding the regulation of banks. At the same time, however, we should look to more flexible supervision depending on the economic situation, and we should change the style of the supervision. Furthermore, the recent very rigid regulation on the banking sector has shifted from banking sector to non-banking sector in financial businesses.

I think that we should be more flexible in regards to the regulation system itself.



Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much indeed Mr Ido.

Governor Charafeddine?

Raed CHARAFEDDINE, First Vice- Governor of the Central Bank of Lebanon

Thank you Mr Chairman.

There are three questions that can be of interest to me. One is on overregulation, the second one is on knowledge economy, and the third is on demographics. However, I decided to spend whatever time I have on demographics because the case we have is rather peculiar.

Lebanon's population has increased from 4 million to 6 million in the course of 2 years. That is not because we are over-productive, you know why John, that is because we have the Syrian influx, because of Syrian refugees coming into Lebanon. We are active, but we are not that active. We are productive, but we are not that productive.

This has really raised lots of concerns on so many different fronts. In the context of this forum I would restrict it to the economic dimension rather than going on to demographics, security, social and other humanitarian aspects.

The cost of the Syrian war has been over USD 12 billion for Lebanon, and when I am talking about USD 12 billion, we are talking about the cost reducing Lebanon's GDP, we are talking about an annual 3%, we are talking about a cost on our infrastructure, on everything that you can think of, and which is shared all of a sudden by 50% of the population.

The consequence on public finance and on human and social development is that we have more poor people in Lebanon now. We have almost 1 million Lebanese people, out of the 4 million, who are living under the poverty line, because our Syrian guests are sharing just about everything with us.

The job market has definitely been adversely impacted, in so many different ways. Health, education, they are all shared, so with the same schools, hospitals, services transportation system, electricity, of which we do not have enough anyway, but now we are sharing it with 50% extra of our guests.

Water and sanitation, education... We have 170 000 schoolchildren in our schools, we do not have 170 000 Lebanese schoolchildren.

The fertility rate is amazing, there are more Syrian births than Lebanese births and the solid waste issue, the electricity issue, the transportation, you know what, at the same time, the dispersed amounts. We have the internal funding, international donors such as the IMF, everybody is just pitching in. Lots of countries, Arab countries and otherwise.

The thing is, up until 2016, up until this year, the promised monies were over USD 7 billion, and what was dispersed was less than half. The gap is around USD 3.6 billion, and this is what is really needed just to make ends meet in that context, not to refurbish, not to really remove the impact of anything, just to keep the same level of services which we have.

That is not counting the long-term effect on so many different aspects. We are not counting the issue, whether those Syrian guests of ours will stay or not, there are so many different aspects, so, when the gentleman asked about demographics, all of a sudden I have a different twitch because demographics for us talks about a totally different thing. I wanted to take my time to talk about this, if there is any more time I will talk about the two other issues that are of interest to us, overregulation and the issue of FinTech or the knowledge economy.



Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much indeed. It was fascinating.

John?

John LIPSKY, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

I have just a few comments on what has been commented on already. First, a remark on technology: in line with your introduction, Jean-Claude, history shows that productivity trends associated with technological gains move in waves and not in a straight line. This is one of the reasons why my former Stanford Professor Paul David pointed out to Bob Solow – who once famously remarked that “You can see the computer age everywhere but in the productivity statistics.” – that part of Solow’s problem was that in his models, productivity growth was an exogenously derived constant. According to David’s historical studies, such as his seminal “*Computer and Dynamo*”, economic models assuming constant productivity gains provide no insight regarding how things work in reality, so there is no reason to think that such a model will provide any predictive power about expected productivity performance. Nonetheless, it is axiomatic to assume that if capital spending is deficient, productivity gains will suffer.

Secondly, the argument that technological advances exacerbate income inequality seems to have become accepted widely, even though I think it mainly reflects *post hoc ergo propter hoc* reasoning. I always thought that a principal benefit of new technology was that it makes the stupid smarter and the weak stronger. It is not obvious to me why it should produce increased inequality unless you can assert that the beneficial impacts of technology are accessible only to some and not to others. However, that is not borne out by the long-run history of technological advances. I therefore am cautious about accepting the notion that somehow it is technology that is causing increasing inequality. After all, in the US context, if we examine the earnings of the top 10% or 20%, the sharpest increase in inequality occurred in the 1980s, something that was noted at the time. But because this effect had not been anticipated by economists, ex-post explanations were developed, such as “skill-biased technological change”.

Similarly regarding the idea that international trade exacerbates income inequality, the last big trade liberalisation occurred in the 1990s, and the largest expansion of the US trade and current deficits occurred during the late 1990s. However, there were not at that time such widespread claims that trade and inequality were directly linked.

In my view, the reason for the current linkage in popular debates between technology and trade to inequality reflects the unexpected and persistent weakness of economic growth. I suspect that if growth were to accelerate, perhaps some of the perceived problems regarding inequality – that frankly do not have easy and obvious solutions – would not seem so pressing. In other words, when the rising tide lifts all the boats, other difficulties become less insistent.

I am optimistic that faster growth is an attainable goal, and I suspect that the financial sector could have a role in producing such an outcome. At least in the United States, capital raising takes place much more through securities markets than by conventional banking. Today, equity market investors appear to reward companies for share buybacks and mergers, and relatively punish those that announce significant capital spending programmes. It is worth asking why that is happening. Is it a reflection of deep uncertainty, perhaps the lingering of the heightened risk aversion that resulted from the crisis? Or perhaps it reflects population aging and an associated increased desire of investors for the safety of income, and reduced appetite for risk taking?

But perhaps it reflects developments in the financial sector itself. For example, there have been unintended consequences of well-intentioned reform efforts: You may have noticed that efforts to thwart money laundering and the



financing of terrorism have resulted in the widespread collapse of correspondence banking relationships internationally, a completely unintended result that officials have been very reluctant to recognise and act upon.

Also, I wonder if the very important post-crisis uncertainty about the effects of financial sector reform also has had a broader economic effect. That is one reason why I suspected that a emerging sense that the framework of financial regulation had stabilized would encourage greater investment and faster growth. However, it now looks as if that moment may not have arrived. If the United States is going to revise Dodd Frank reforms in a meaningful way – even if it is decided that the new changes are positive -- they also will inject new uncertainty – hopefully temporary -- into financial markets. And, the ongoing concerns regarding European markets are well-known.

Finally, I would like to add that one of the systemic issues still outstanding is a more effective approach to crisis prevention. However well-intentioned, I consider that the swap lines that the Federal Reserve provided to four emerging market countries in the crisis of 2008-2009 were not helpful in promoting systemic stability. To the contrary, they were systemically destructive because they placed the Federal Reserve's Board of Governors in a position of making systemically important decisions for which they had no background or clear mandate. I thought it was a mistake to have consciously avoided using the IMF for such a purpose, when the IMF had developed new facilities that could have been useful in just such circumstances.

If there is a justification for short-term crisis prevention instruments, and I think there is and that they still are lacking, the IMF is the institution where such decisions should be taken.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much. We did not expect from the previous Vice Managing Director such a remark. Thank you.

Daniel, you have the floor.

Daniel DAIANU, Member of the Board, Central Bank of Romania, former Finance Minister of Romania

You know, when the Deputy Governor of the Central Bank of Lebanon mentioned a 50% rise in the population, this was mind-boggling. In Europe, thinking, we have such a reaction, clearly, to a massive inflow of people for various reasons and I do not want to get into details but when you read or you listen to such numbers, I mean, an economy, a society, can easily be ravaged. I am asking myself, where do you find the resources? Because you have to help those people and provide, I mean, it is a critical mass of public services to all of them, not only to the kids. It is amazing.

This is something that we should ponder on much more, because we live in a world of a myriad of proliferating conventional and unconventional threats, with major adversary shocks. I am asking myself, how can we keep our societies robust and resilient when facing such shocks? We in Europe, probably, we should learn from you. 50% is amazing. I am asking myself, even if most of them do not decide to stay, but what if they decide to stay?

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

No, I mean, the working assumption is that they will not stay, they will go back to Syria when the time comes, won't they?

Daniel DAIANU, Member of the Board, Central Bank of Romania, former Finance Minister of Romania

Okay, but, welcome to reality.



When it comes to banking regulation, probably, I am a prisoner of my personal proclivities, but also being the central banker now, I also was a member of the European Parliament and I fought for enforcing a new regulatory supervision system. We did good work, that was behind all the endeavour, and I believe we are not yet there for various reasons.

I am wondering, if we do not succeed and revisit a new, big recession, Norbert Röttgen, who knows what he is talking about, he said very clearly that we are going to have a new recession, a new crisis, it is only a matter of when.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

I have to say, I was in full disagreement with this remark. Absolutely.

Daniel DAIANU, Member of the Board, Central Bank of Romania, former Finance Minister of Romania

Okay.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

If the reference was something which would look like what we had in 2010 or 2011, I think we are in a totally different universe, but of course a recession, certainly, and new challenges, certainly, but I would say if I may Daniel.

This idea that we are still with an existential problem in Europe with both the Euro being in great danger when time comes and the EU area being in great danger, seems to me to not be really accepted. We had the stress test, it was the worst crisis since World War Two, it could have been the worst crisis since World War One, 15 countries were in the Euro area at the time of Lehman Brothers, the 15 are still there and the situation of those who were vulnerable has been considerably improved in terms of current account, budget and so forth.

On top of that, four new countries have gotten into the Euro area since Lehman Brothers collapsed. The three Baltics, and Slovakia. We are 19 today whereas we were 15 before. I fully accept that a lot of market participants, observers, were thinking that we should explode, that we had to explode, that we were too bold and that in this dramatic shock of the worst financial crisis we should have been blown up, but we were not, for many reasons. I take it as a stress test.

I am not naïve, we have a lot of very tough challenges, we have to deliver growth and jobs, and we have to face up with the populist and nationalistic moods which we see in the US, UK and Europe. But, I would say the existential issue is of a different nature and does not seem to me to be the pertinent question.

I hope it was the right place to put my message, but I certainly agree with you that the challenges are gigantic.

Daniel DAIANU, Member of the Board, Central Bank of Romania, former Finance Minister of Romania

Right, it is just someone mentioned today also, during our discussion, the bailing-in procedures. Imagine if Italy had been forced to implement the bailing-in procedures. We are still, I think, we are to a large extent in the dark. I believe that the ECB, and with all respect to you because the ECB has saved the Euro area, that is the reality. It is not the institutions, of course the ECB is an institution, but I mean it is not the rules and the policy arrangements of the Euro area. The ECB was the line of last resort, the factor which saved the Euro area. This is the reality. I am asking myself whether, again, the case of Italy is emblematic for what could go really badly now.

When it comes to bank regulation, I believe that we have to continue. I respect your position, Mr Lévy-Lang, because I believe that if banks do not lend, for the very reason you mentioned, 80% of our economic activity is bank-based, it is not like the United States. We do have a problem.



On the other hand, we have the debt overhang. Europe is much more indebted, publicly and privately, and this is the irony in the world economy if you look at how much public and private debt is in Asia, for example, or even in Latin America, it is the reverse. It is a puzzle, if you do not know. That is the policy stance in the Euro area, the current account deficit in the Euro area is 3% of GDP, Germany is running a current account surplus of 9%, I mean it is a policy stance that is not right.

You cannot ask governments to institute austerity policies at the same time as they are running such a large current account deficit.

Then I will get back to your question. Imagine that the Fed raises the policy rate, we do not know the pacing of rising in the policy rate, but in combination with a more fiscally expansive policy, because of big infrastructure works, that would absorb liquidity from global financial markets. Most badly hit are going to be the emerging markets which are heavily exposed to the USD, but fortunately now many of them are in much better shape macroeconomically than in previous decades.

There is still a lot to do in Europe when it comes to completing the regulation and supervision, the devil is in the details, one has to look at the specifics of banking sectors.

When it comes to the productivity and circular stagnation or world dynamics, this is a huge topic and I am glad that John mentioned Paul Davis and we have waves. I remember the Kondratiev theory of long waves, which I believe is pretty illuminating. That hooks up with Schumpeter's view of how we have clusters of key technologies which shape the dynamics of the global and national economies.

Maybe, now, we are now on the downswing because of the financial crisis and because of the old technologies, but the new upswing is not yet in sight. In addition, we are going to have massive labour dislocation. To believe that we can turn, rapidly, people in their 40s and 50s, even in their 30s, from doing a range of jobs into doing another range of jobs, this is ridiculous.

We are going to have, I think, a cohabitation of slack and labour shortage as Mr Lévy-Lang has mentioned. We shed labour, but at the same time we have a shortage of people in other sectors. It is like in the old command system, in the communist economies, we have both shortage of labour and slack of labour at the same time. I believe that this is what is now, currently, in the market economy because of the pace of change. The pace of change is so swift that it is very hard to have people moving rapidly and changing.

There is a hell of a difference between producing pizzas and selling something in a store. While, previously, being an engineer and moving someone into a lab. There is no way to move someone to a lab as a researcher.

This is a challenge for most societies. Now, there is a topic which we have not touched upon here, and it is linked with protectionism and limits of globalisation. Personally, I think that, and this is a view that I have been espousing for years now, that we may have gone too far with globalisation.

It is fine to have free society, democratic societies, to have free borders when it comes to goods and services, to even have movement of labour because this is what defines open societies. But if we are not careful enough and we do not understand under how much strain a society can be, because of the intensity of movement of labour, of capital, then we might give out so much of what we define as social cohesion, and the underpinnings of a democratic society which is the middle class, then everything will erupt.

What is happening, I think, even before the eruption of the financial crisis, with the erosion of the middle class, it is showing up in social and political strain.



Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Daniel, with some absence of prudence I have told you that you will have a lot of time. Still, we are only ten minutes from the end of our session.

Thank you so much, when hearing you I was struck by the fact that you mentioned pace of change. It is the rapidity of the changes in globalisation, in the openness and restructuring of our economies, in IT and science and technology which our own people are telling us goes too fast. Could you slow down?

I interpret Brexit, I interpret Trump, I interpret the nationalist populist movement in Europe, in the Euro area, in all of Europe, as more or less the message 'Could you slow down?' Because it is very fast. But, I stop there.

Lorenzo GASCON, Vice Chairman of the Royal Academy of Economic Sciences of Spain

This is not a question, but just to remind that in the meantime, something not only but especially regarding the Euro, right now and after the Brexit referendum the European political union is not at the next corner but is very far.

But the Euro is here, in this respect I should like to remind that since the Roman times, there has never existed a unit currency without political union. Thank you.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

In the time of the gold standard it was de facto a single currency without a political union, but we are supposed to have a very solid governance of the Euro area, which comprehends SGP, MIP and of course banking union not to speak of the political aspect of it with the European Parliament and the rest.

I agree with you, solid governance at the centre is, of course, compulsory. Thank you very much indeed.

Lorenzo GASCON, Vice Chairman of the Royal Academy of Economic Sciences of Spain

But without, for example, fiscal harmonisation.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Taxation harmonisation you mean? Do you also call for commanding from the centre the national public spending of each country? No? Then you do not call for full harmonisation of taxation.

I mean, it is complex, but we cannot redraw the document right now but I take your point. Solid governance at the centre.

Uri DADUSH, Senior Fellow, OCP Policy Center, former Director of the International Economics Program at Carnegie, former Director of the International Trade, Economic Policy, and Development Prospects Departments, World Bank

Yes, also, a comment on the Euro situation. First, without a doubt there are very important problems. Everybody recognises that, and big imbalances within the Eurozone. Big challenges, I would say, especially the one that worries me the most is Italy, for many reasons.

But I also agree that a repeat of the existential crisis of the last few years is very unlikely, essentially because of the mechanism that was very important in causing the existential crisis, which is the unwarranted and one-time



convergence of interest rates in the wake of the creation of the Euro, which was very important in explaining the unwarranted housing and other booms in Southern Europe. That was a one-time effect of the creation of the Euro, it was wrong, the markets got it wrong, but this is not going to be repeated in the future.

The point is that insofar as we are able to deal with the existing situation and the current imbalances, etc. We at least will not face that kind of shock in the foreseeable future again.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much indeed.

Yes, please? And then Governor Charafeddine.

Moubarack LO, Special Advisor to the Prime Minister, Senegal, Chief Economist of the Prime Minister and Coordinator of the Economic and Social Analysis Unit, Senior Fellow, OCP Policy Center

I forgot to say that there is an excellent paper by the OECD on technology and productivity, saying that the key point is not IT investment, when you invest USD 1 in IT you have to invest USD 9 in non-IT, like organisation of work and many other aspects to have any real impact. I think we should keep this in mind.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much.

Governor Charafeddine?

Raed CHARAFEDDINE, First Vice- Governor of the Central Bank of Lebanon

Actually it was a comment that you made, that I would like to reiterate in response to what Daniel was talking about.

What we are witnessing with the election of President Trump, before that with Brexit, with the de-risking and with seven out of the G20 countries having those populist movements. We are witnessing de-globalisation and I think that the sky is the limit. That is the comment I wanted to make.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

At least we are witnessing, probably, I would say a freeze of the opening up of all markets, that is absolutely clear and we see that already.

Whether that will really transmit in the diminishing of globalisation, I have a difficulty to see how it could operate. That seems to me very complex, but the message that our people are sending us, 'Slow down', they even are telling us if I reinterpret what we are told, in major countries, 'Why do you increase contribution for pensions or diminishing pensions? We did not ask for that'. Still, it comes from the lengthening of the life expectancy, which is good. Nobody can challenge that.

From my own experience in two institutions, I can tell it is the domain where you have the most opposition. In that domain, also, they are more or less saying that we are relatively constant and satisfied with the previous state of the situation and why do you want to change?



And I have to confess that it is true that things are changing extraordinarily rapidly, and not surprisingly, that our people are not fully satisfied.

Of course, part of the difficulty comes from the fantastic success of the emerging economies and it is exactly what we had asked after World War Two. We are in a situation in which we have to manage formidable successes, science, technology, the rise of China and India, Mexico and so forth.

I see, John, that you have a point.

John LIPSKY, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

We have discussed a lot about Italy, and I am a little curious. One big change in the structure of the Eurozone since the crisis was the creation of the European Stability Mechanism (ESM), which has the power to directly recapitalize banks while avoiding the need to add to the home sovereign's debt. I am puzzled as to why this option is not being discussed in the Italian case, since it seems almost custom-made made for such a use.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Have we got an Italian citizen around the table? No? Well.

I daresay, from what I understand, is that of course as Spain knows when you have such an intervention you have conditionality associated with it. When the time was coming the Italian government did not want to have the conditionality which was associated with that, it was probably a mistake.

Now, your question is also why is it so difficult to get out of the situation?

In Germany, as well as in Italy, and there we are back to bail-in. Bail-in was mentioned by practically all the speakers and I have to say that seen from my personal standpoint, bail-in is fantastic if you do not have systemic problems, and that was the working assumption.

The working assumption was that we clean up the situation, we do not have any more systemic problems, then of course not only Lehman Brothers can collapse, but Citi can collapse, and we have no systemic impact.

The fact is that we are not in that situation yet. It is true that the Europeans have introduced rules that are very strict, in line with the concept of the single market and no unfair competition and so forth, but the result is that it complicates, in some respects, what has to be done with national capital and national public capital, clearly at least in the case of Italy.

That can be negotiated with the commission, so I do not think that Italy does not do anything because they have no money, or no capital. They could, certainly, intervene. They are prevented from that because it is the rule. The rule is that you should not do that, you should ask the creditors of the bank to take a hit, as has been theoretically considered as optimal, but of course it is a little bit more complicated.

I remain absolutely convinced that negotiation with the commission would permit to do what is obviously necessary. Even if we are in the best of the worlds possible, my understanding speaking as the controller of Entre in particular, is that it is clear, because the US paradoxically are more socialist than the European countries are.

Namely, Fannie Mae and Freddie Mac, introducing an element which is semi-public and which protects the banks from a lot of risks. They can concentrate on what is profitable, and their profitability. One always says that they were much more rapid in recapitalising and so forth, I take it that they are in a better structural situation.



Of course, this does not mean that the system was not very fragile. The difference between us and the US is that we tried to give liquidity to the banks on an unlimited basis, since the very beginning, and the US Fed gave since the very beginning a formidable help to markets in providing liquidity to markets in a way which was unseen.

John LIPSKY, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

Parenthetically, as you know Fannie Mae and Freddie Mac – the immense so-called Government Sponsored Enterprises (GSE's) – were intervened and have been under conservatorship – meaning that they currently are owned and managed by the government, in contrast to their previous odd situation of being publicly chartered but privately owned. As it turned out, their earlier, quasi-monopoly profits remained private but their huge crisis-related losses were socialized.

It appears to be possible that the new Administration will be interested in resolving that situation, which was intended to be temporary. In other words, it is possible that there will be an ultimate privatisation of those institutions where previously they were considered untouchable. It will be very interesting to see if this happens.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

Thank you very much indeed John.

Yes, please.

Philippe RICHARD, Head of international affairs of Abu Dhabi Global Market (ADGM)

Very briefly, I think that in Europe, if I may say so, we have been a bit slow in cleaning some of the balance sheets in some countries. That is a fact. In the US they have been much more reactive, since the beginning of the crisis, and I would add that one of the tools that is quite instrumental is securitisation.

Securitisation in Europe, unfortunately, does not work. It has not resumed. The US, after the crisis, has been using this tool as a way to clean the balance sheet and unload some of the assets. That is one of the elements I would put on the table.

Jean-Claude TRICHET, President of Bruegel; Former President of the European Central Bank

If we focus on Europe you would see that the concentration in some countries is very high, in other countries it is extremely poor, which is very abnormal. You would see that there are disincentives to cross-border restructuring, which is a paradox because we have a single market and it is supposed to be a single market of financial services and still when you purchase a company in another country within the Euro area you have a hit in terms of regulation, which is a burden.

We have lots of things. Do not forget, Europe is a work in progress. We are not a steady state at all. We are exploring things permanently.

I want to be absolutely sure that there are no remarks, observations of questions which remain in the table without being expressed because I think that the interest of such a panel is that we discuss as much as possible.

That said, I am not unhappy because it is 12:35 and we were supposed to close at 12:30, so if there are no more things to be said, thank you very much indeed.