

DEBAT

Gabriel FELBERMAYR

Thank you very much. You have mentioned Germany a couple of times, so I thought I would bring in the German point of view. I am Austrian, so I can say things that the Germans do not like to hear. Regarding the German banking system, there is a narrative that I hear all the time. The interest rates are so low and the margins are so low, and then there are regulations that do not allow us to take fees. That squeezes our income statements.

There is some truth to that, but what is much more striking in Germany is that the amount of deleveraging that we have already talked about was immense. The IMF criticized Germany's family-owned companies recently. This almost gave rise to rebellion, as they did not like it at all, but those family enterprises have financed the investment they made almost entirely out of returned profits. They did not go through their banks, which is what they typically did in the history of German capitalism, or go to public markets. It was retained earnings, and investment per se has been low. The little investment that has taken place was financed by returned profits and that is the first thing.

The second comment I would like to make is that we are now in the process of getting serious in Germany regarding carbon prices for the non-ETS segments. This means cars, transportation and buildings. The idea of a CO₂ central bank has been quite present in the discussions, I am happy to hear that Gollier has written about that, but it is also part of the proposal from my institute. It is part of something that the PIC Institute, the big climate change thinktank in Berlin, has advocated. There may be something that we should pursue as French and German economists.

The third point is about the Phillips curve. There is an interesting observation that is also just a couple of weeks old. There has been a revision in the German national accounts, and it shows that today, the share of wage income over GDP is as it was in 1992. We have had a relatively strong recovery of the share of wages in national income from 2010 to today. There has been wage growth. At the same time, the capital share has been squeezed. Maybe that is another side effect of low interest rates or of low capital costs. Of the total value added, more could be paid out to workers without prices going up, because additional wage costs have been absorbed by firms. These are my three points.

Jean-Claude TRICHET

Thank you very much, and forgive me if I was alluding to German citizens.

From the floor Two

Thank you very much. Allow me please to speak in French to be really concise and really precise. I beg your pardon.

Jean-Claude TRICHET

No, I am sorry because we have no translation.

From the floor Two

Ok, I will try it but I beg your pardon for my broken English.

I have 2-3 ideas. I am very impressed with H el ene's ideas about the carbon central bank. Yesterday, we heard about the amount of currencies circulating in the world. I read some weeks ago about some very localized currencies that enhance very short circuits. I am just asking. I have questions and I do not have ideas to propose to this distinguished panel, but my question is this today. My opinion is, the trade war dispute between the United States and China is underpinned by a currency war also, so is the world ready for an international central bank today?

Jean-Claude TRICHET

I see what you mean. I see the question. It seems to me that we cannot speak of currency wars when the Renminbi itself is not a convertible currency, so at this stage, the Renminbi is not yet at the core of the international system. Still, it is a currency which is very closely managed, and in a way, it is a currency.

Jeffry FRIEDEN

Trump has declared that at least part of the currency war is with the EU. His view, and you can see the logic of it, is that the ECB's monetary policy is aimed at keeping the euro weak and keeping the dollar strong. You can look at the Big Mac index and see that we have an unprecedented circumstance. Every currency in the world except Norway's krone and the Swiss franc, is 'substantially undervalued' relative to the dollar. In Trump's mind, there is a currency war, and it is with Europe.

Jean-Claude TRICHET

However, I would totally disagree, both with Trump and with your analysis.

Jeffry FRIEDEN

I understand, but if you want to understand the nature of the conflict, it is important to understand what the source is.

Jean-Claude TRICHET

Do we have other comments on that particular point?

Motoshige ITOH

This is not a question, just a comment on the chairman's discussion about the coordinated approach to inflation or deflation. We had a very good experience in the 1970s, when the government requested lowering the increase in wage to cover income policy. However, we made the same effort this time in the opposite direction. The prime minister has talked many times to the private sector about raising wages, but was never successful. There seems to be some kind of asymmetry about the decrease or the increase in this kind of policy.

I have one more point. Many people say that because the interest rate is so low, there is no opportunity for more monetary policies, so why not just have fiscal policy. Let me mention the case of Japan. We did have a very strong monetary policy, but because of that, there was almost full employment, so demand is enough so far in Japan. The problem is that in the total fact of productivity, growth rate is shrinking.

Obviously, it means that supply-side policy is very difficult because the government reach is very limited. Without discussing supply side policy or at least increasing productivity, especially in the face of the declining real interest rate, we can get out of this kind of difficulty. Maybe a demand dimension is necessary under the circumstances of certain degrees of global demand, but still, supply side is so important at this moment.

Jean-Claude TRICHET

Thank you very much for these remarks. Please.

From the floor Three

We have very interesting ideas and suggestions, and innovations in finance today. However, I am just wondering about the way we can sell some ideas to the politicians that we have today. What kind of politicians do we have? What kind of dialogue can we have? When you talk about inflation, we understand the weakness of the union in different countries and politicians today. This is what we have in the case of GM in the United States regarding this. It is very interesting to observe the way this something is going on. Something new is going on.



However, we can have those ideas, and I would see it as a very interesting technical proposal, suggestion or adaptation to the situation today. However, who will apply these policies? It is politicians. What is the link we have and can have with politicians today? If we come back to the crisis of 2008, it was completely different, because we had the world leadership we had. Today, we do not have this leadership. It is completely different. It is delegated between different persons dealing with completely opposite ideas. This is the question mark we have.

Jean-Claude TRICHET

This is a pure brainstorming session. I made the link between populism and the gigantic political pressure on the political sphere. There is leverage to perhaps go in the direction where wages and salaries could be more dynamic. Regarding the Japanese example, I would also say that I fully agree. If you want to have the various corporate businesses on board, it has to be done nationally and also within some kind of international framework. It happens, which is a miracle, that all central banks in the advanced economies now have the same definition of price stability, namely 2%. It could be an argument at the level of the G7, at the level of the G20 or whatever, to go further. I dare to say that because, as I said, we have the right to do anything and to say anything. From the floor Four

All day yesterday and today, the most-often-heard words were the US-China trade conflict. You can see that in the context of underlying hegemonic competition. Then this very session, finance and economy, should be more concerned about the global order and international economic cooperation. In that regard, I would like to make some observations and comments. The G20 was mentioned a number of times. Today, the political economists tend to go as far as to say that the world is in danger of falling into an inter-war period of what is called the Kindleberger Trap. What that means is that the global economy will suffer from not having enough public goods, and therefore, the world economy will suffer very much from it.

There is the US, particularly under the Trump administration now, and we have had discussions all day yesterday and today. Even after Mr. Trump, a similar socio-political and geopolitical situation will last. If that is the case, the US will be unwilling to provide public goods as it did before, while China is also incapable and unwilling to a certain extent. Then there is a much higher likelihood that the world will suffer from a great shortage of public goods. This may even lead to the Kindleberger Trap, if we are saying that it is a trap.

To avoid this trap and avoid this situation, the global community needs closer international cooperation. Who can do that without global hegemonic leaders? In that context, the G20 can be considered, because that is a legitimate forum for international cooperation, as it has the track record. John and I worked very closely throughout the G20. That was from the very beginning of the G20 endeavour in Washington DC.

When the G20 was created, there was a shared sense that we should not waste a crisis. Chancellor Merkel first used exactly that term. With that shared sense, the G20 achieved a lot. It had a record of saving the world from falling into a situation like the Great Depression. It helped ensure that the global economy also suffered what we call a Great Recession. At the last G20 meeting, I was very disappointed. The G20 could have done much more, and John knows this very well. When it was designed, it was supposed to be a process, not an event with photoshoots that just came up with rhetorics. It should have been a continuous process, which the world needs at this very moment, and in the coming years.

What I would like to say is that somehow, we have to resuscitate or revitalize the process. If the US is not willing and China is incapable, then like-minded countries, particularly middle powers, can do something about it. The next chair country is Saudi Arabia, I understand, followed by Italy. They can do something to revitalize it, so that we can save the world from falling into the Kindleberger Trap.

Jean-Claude TRICHET

Thank you very much. It is important to mention, as we are on the record, that there is a very large consensus here, saying that multilateralism is of the essence, even more now than before. You are absolutely right. The best informal grouping that exists for that is the G20. It was substituting the G7 on the occasion of the crisis. The G7 accepted that



the baton for the most important and pertinent informal grouping was passed to the G20. You are right to mention that the G20 has positives and negatives.

On the positives, I would nevertheless mention this fact about the work which is being done in Basel and the work which is being done in the Financial Stability Board. It goes through a lot of mechanisms and institutions that are very important in all these mechanisms. Then it goes to the G20, and there is a consensus with various rules, regulations and standards which are stamped by the G20, even today. We cannot say that it does not exist or it does not do the job. We can say it is not sufficient.

You are concentrating on the banks, but you are forgetting the non-banks, as has been said by a number of us. You can say a lot of things, but it is still there, it still functions, and in my opinion, it still produces added value in the global governance. We have a failure in my opinion, and John might have a sentiment on that, which is that on the coordination of macro policies does not work. The Secretariat is the IMF for this particular part of the G20 franchise. It is true that it is not at all encouraging.

The President of the USA himself says, 'The hell with multilateralism.' Still, in my memory, he participated in the G20 and in the G7, perhaps with some erratic behaviour. Nevertheless, he was physically present, and the US did not withdraw from the G20 or the G7. I do not want to be optimistic because we have a lot of very good reasons to be pessimistic. What I know in advance is ridiculous. When we have a new crisis, then you will see the G20 being very active and doing a lot of things with a sword in its back.

This is exactly what happened in '08-09, exactly that. When you have this sword in your back, you react. You are doing crisis management in a way which has been with a lot of defects, but we avoided the drama. That being said, I also draw as a provisional conclusion that we have a large consensus that thinks there is a probability of that a very grave new crisis will materialize, and that is also something that is very important in our meditation. Daniel, you had asked for the floor.

Daniel DĂIANU

Let me say something. I believe that the economic slowdown will continue. I also believe that we are kicking the can down the road. We need to be much franker and say we do not know. This is the stark reality, and this is why there are people who are thinking, in the end, we will resort to helicopter money. This is not only for the sake of raising the inflation rate, which has become an obsession. Inflation targeting relates to how to create inflation. It is not about price stability. It is about creating inflation.

Jean-Claude TRICHET

That depends.

Daniel DĂIANU

I am saying it. I am overshooting. Secondly, we will avert a big crisis next year, because of desperation. The resumption of QE is a reality already. There is talk about a new fiscal stimulus, especially where economists can undertake it. The central banks are banks that provide reserve currency, and there is fiscal space. What I fear, as you emphasized, President Trichet, is the liquidity issue, the Keynesian trap.

QEs are injections of base money. This never happened in history. We replaced quasi money created by commercial banks with base money. Never in modern history did we have such a huge introduction of base money into the systems. We still fear sudden stops, because liquidity can disappear all of a sudden, like water in the sand. I am asking myself if there will be a massive correction on the stock exchange.

Jean-Claude TRICHET

What could disappear?

**Daniel DĂIANU**

Liquidity. It can disappear. There are companies which sit on massive amounts of liquidity. What happened in the repo market in the United States shows the fear of not having enough liquidity. This is an issue. Who can provide liquidity when a new crisis strikes, who? Is it the Fed again, the ECB or the IMF? Can the IMF run it? It is pretty questionable. This is why Mark Carney came up with the idea of credit.

Secondly, there is investment. Jean, you are right. As Mervyn King said, there is radical uncertainty. Private companies are not going to make investments, even if we come up with a carbon tax. It is a price, but there are many prices. We can and we want to change the way we think about the future. I agree, but I am talking about radical uncertainty and the very low propensity to invest. That is only governments. Government can undertake massive public investment.

Jean-Claude TRICHET

Do you have another idea that you could float?

Daniel DĂIANU

There is what I think about Libra and why it should be more strongly regulated. The central banks and regulators are fully entitled to be more than cautious in accepting Libra and other assets. Facebook and other entities are huge. They can provide services to billions and billions.

Jean-Claude TRICHET

I take your point, and we did not discuss the cryptocurrencies and all the extraordinary ideas that are floating here and there, such as the crypto tokens, Libra and so forth. H el ene, I know that you have a very strong position, because everybody heard it. Perhaps you could say a word, since you are the rapporteur for our meeting. Perhaps you could say a word on that. This is because what you said publicly, and we all heard it, was very stimulating. I must say I very much share Daniel's view. There is something which is very dangerous there.

We have two more questions. Yes, please?

From the floor Five

There is one thing which I do not fully understand. I was listening to Laurent Fabius and Pouyann e this morning, and listening to the conversation that Jeffrey Frieden and Bertrand had today. It looks to me that the pricing of carbon could be a very simple way to introduce rationality in decisions. If you increase it massively, then things will change. Why do we not do that, even before creating the central bank?

Jean-Claude TRICHET

That is a very good question, but I am afraid we would spend quite a lot of time on it.

H el ene REY

The point of the central bank is precisely to have a target price, and you do not want only a spot price. You want a whole path, which is what the central bank could do very beautifully, like with inflation targeting.

From the floor Five

Good luck with that idea. It is a great idea.

Jean-Claude TRICHET

However, there are a lot of other questions, because what do you do with the immense coal production of the Chinese? How would we impose the price?

Hélène REY

You have tax imported carbon content at the border. This is something that is discussed in the in the proposal.

Jean-Claude TRICHET

Then it would be very good if you could circulate the reference, in order for us to plunge into discussion.

From the floor

I sat up in my chair when I heard Jeff Frieden talk about sanctions, because the Trump administration only has sanctions and tariffs as foreign policy tools. Then Jeff knocked me off my chair by saying he foresaw the distinct possibility of 1930s conditions coming in. Jeff, could you elucidate on both points?

Jeffrey FRIEDEN

I had a couple of things in mind. The first is the collapse of cooperation in the 1930s. This was both the cause and effect of the rise of mass dissatisfaction with the way that existing elites, institutions and political parties had dealt with the crisis. We have to understand that you have a bubbling up of discontent on the part of mass publics throughout the world, and an inadequate response. In a way, that is what we think of as happening in the late '20s and early 1930s. It is interesting to note, and I do not mean this to say we are now in the 1930s, although there are some indications.

I agree completely with Hélène that this is a classic Rogoff-Reinhart style debt crisis. Their average is 5-7 years for recovery. The Europeans have, in typical European fashion, done it so well that it has taken 10-14 years to recover. The credit channel is completely blocked, and all the indications that people have given go along those lines. I will take the analogy a little bit further, think back to what happened in the 1930s.

In the 1930s, one set of governments, undertook decisive action in response to these mass demands. They declared a bank holiday, decreed an industrial policy, and put 5 million unemployed people to work. They ran massive budget deficits for the first time in American peacetime history and they took the dollar off gold. There were all these major measures on the part of the Roosevelt administration.

Then there is a group of countries that did something very similar, the Nazis. Keynes said this in 1936 in his introduction to the German edition of *General Theory*. He was sorry to say, and he was very apologetic about it, that the Germans did exactly what he would have done in these circumstances. The point that I am trying to make is that action must be taken.

I very much like the ideas that Hélène and Bertrand floated. Either political leaders take it in a progressive direction or it is going to be taken from them by the populists, who are not going to give up when they fail. If the Trump administration is unsuccessful in providing what its constituents want, they are not going to declare defeat and say, 'Let us go back to the status quo.' They are going to say it is because of the bad international bankers, the multilateralists, the Chinese and the Europeans. They say, 'If we could only raise tariffs another 25%.

There is a sense in my mind of a bifurcation, just as there was in the 1930s. You could go in a social democratic direction in 1930 or you could go in a fascist direction. There was no other choice. At this point, people have to recognize that this is not just another recession, just like it was not just another cyclical crisis. There is a fundamental questioning of the very foundation stone of the post-war international economic order. It is not coming from the developing countries. It is not coming from China. It is not coming from the Soviet Union. In some cases, it is coming from majority populations in the advanced industrial countries, populations that are willing to stand behind political leaders that are promising results. These require undoing the international economic order as we know it.

If I want to think about it, I would deem it a call to action. We have long-term trends that have left many behind, and they want answers. We keep responding to those long-term trends by saying, 'Well, the answer is education. The answer is infrastructure. The answer is a variety of other things.' That is not the answer people want. I am not a politician, I am just an academic, but what we need is politicians who can provide a politically attractive alternative that

takes our countries in a direction that is acceptable to our people. Right now, we do not have that, and the times are very dangerous.

Jean-Claude TRICHET

We all agree that the times are very dangerous, but from time to time, I am thinking the US is the very place where populism is erupting and taking a dominant position. Maybe it will go on and on. What is the current account of the US? If I am not mistaken, it is -3.5% of the GDP. The US already spends much more than it earns, and when you look at the monetary policy, it is extremely accommodating, taking into account full employment. When you look at the fiscal policy, it is already extraordinary.

The recipe, if there is a recipe, is of a totally different nature from what was done in the '30s, it seems to me. There, you had to embark on a very strong, ultra-accommodating fiscal and monetary policy. It is already done. What is behind it? We have no time, but the question is, what do you suggest? You are an academic. You have a total right to suggest anything in the political sphere. Akinari wants the last word.

Akinari HORII

The analogy of the '30s is perhaps irrelevant at this moment, simply because in the '30s, the major problem was unemployment, in the US, Japan and Germany. Now, in Japan and the US, the unemployment rate is the lowest it has been during the past half century. The major problem is low wage increases, so why do we not address policies directly to that? That means incomes policy, as Motoshige has suggested.

It did not work because it was not structured well enough. For those who learned or studied economics in the '70s, we are familiar with TIP, meaning tax-based incomes policy, proposed by Sydney Weintraub and Henry Wallich. Henry was governor of the federal reserve board in those days and was a regular visitor to Basel when I was working there. Why do we not revisit TIP, tax-based incomes policy?

Jean-Claude TRICHET

It is an idea. This is brainstorming.

Jeffry FRIEDEN

Could I just say one thing? I did not mean to suggest that the economic conditions were similar. The problems are very different, but the fact that we face a crossroads is very similar. There are the kinds of ideas that people have been throwing around, whether it is universal basic income or tax-based incomes policy or the carbon price. All of these are things that I as an academic would encourage politicians to start thinking about and talking about. If we do not come up with some alternative, we are in real trouble.

Jean-Claude TRICHET

I think this is *le mot de la fin*. Thank you all for this very fruitful discussion.