DEBATE

Yann Coatanlem, Chief Executive Officer of DataCore Innovations LLC

Thank you, Mr. Chairman. There is a school of growing criticism of unconventional monetary policies and personally I am agnostic because I feel I lack all the tools to really make a determination for or against it. Do you have a view on it? Then, are you concerned by the other part of the criticism, which is that there is basically too much debt overall between governments, sovereign states, and private players?

Jean-Claude Trichet, Vice Chairman of the Académie des sciences morales et politiques, former Chairman of the European Central Bank, Honorary Governor of the Bank of France

We will take a number of questions and then the speakers will respond.

Bertrand Badré, Managing Partner and Founder of Blue like an Orange Sustainable Capital

I thought this conversation was quite interesting in what it did not say or what was hidden. I will not step into the inflation conversation, which I think is an important one, but I think there are even more important things behind inflation, as many have already said. I think we are feeling the compounding effects of traditional crises and we react with traditional tools in the familiar way. On top of that, there is the geopolitical shift we are considering, which basically makes these things more complicated than they were 15 years ago when the US and Europe discussed the future of finance, as well as the required climate transition. That is a lot to swallow, and I do not think we have agreed on a policy mix, nationally and internationally, to address these compounding effects and the social contract we want to discuss with people. These are very striking questions we have ahead of us, which should not just be addressed by the financial people, but I think it should be part of their thinking.

As part of this, to echo what Yann just said, I think we are also moving from a period where leverage was the name of the game, and it was pretty easy. You could borrow at zero and it was very easy to buy real estate, to do M&A and value Tesla at whatever price. Now we are moving to a balance sheet stress where there is nowhere to hide because it is very unlikely that the central banks will step in as they have done in the past. This is a complete change in the game, and I do not think we have really started to think about what it means going forward.

My third question is related to the real economy. Are we going to finally allocate capital properly? Meaning do we have the risk pricing mechanisms, and I am turning to André, that will properly allocate capital and properly price the risk and stop wasting money where it is not needed? That comes back to my point on the transition, etc. I think at a moment where more investment is needed than ever and capital is probably not scarce, but it is risk adverse, people will rush to buy US Treasury instead of investing in things that are really necessary for the world and necessary to repair the social fabric that Pierre mentioned, some of the points that John made. For me, this question is central. Are we heading in the right direction or is it just a blip and we will face inflation and not address the core issue, which is are we allocating our scarce resources where they are needed for the next 20 or 30 years? I do not have the answer.

Finally, of course, because it is me, I am a little nervous about all the discussions on ESG, so the focus on environmental, social and governance issues. Now that it is becoming really serious and we realize it is not just a nice transition where you reallocate 1% or 2% of your savings per annum, but way deeper, people are becoming nervous, and The Economist had a cover this summer, 'ESG: three letters that won't save the planet'. Texas is giving green credit to BNP Paribas and Blackrock and saying they do not want to work with them because they are too green, and then California is saying they do not want to work with them because they are not green enough. Is it serious or is it another joke, another tool of the financial industry to fool the people? I do not know but there is growing doubt. Again, they are not totally linked, but I wanted to share these four messages.

Jean-Claude Trichet

Thank you very much indeed. Frankly speaking, I am not sure we ever had a nice period where you were tranquil, everybody was tranquil, and the central banks were tranquil. I have known a permanent period of crisis and the worst recent crisis was the so-called very calm, tranquil, great moderation world, which ended with the worst crisis since World War Two, which could have been the worst since World War One. We are permanently in a dangerous world.

Bertrand Badré

I never said tranquil, Jean-Claude.

Jean-Claude Trichet

I agree that the accumulation of threats is there and particularly demanding, with the geopolitical element you mentioned on top, and we did not mention too much because I guess we all agree it is a common factor. What you said about ESG is very important I expect that we will all respond to that.

Dania Koleilat Khatib, Co-Founder and President of the Research Center for Cooperation and Peace Building (RCCP)

I have a question about inflation in emerging markets like Turkey and Egypt. There is a trade-off, you do not have to be an economist to know that to curb inflation you need to raise interest rates. However, low interest rates are basically a subsidy for everyone, especially the poor because the poor live on credit. In Turkey or Egypt, for example, how can we fight inflation because if you raise interest rates that will mainly affect the poor who live on credit? How can you fight inflation without creating unrest in these countries?

Jean-Claude Trichet

A good question for all of us.

Elena Daly, Founder and Principal of EM Conseil

Thank you, Jean-Claude. I will echo my friend John Lipsky's remark about the Common Framework and the importance of saving it for the looming sovereign debt restructuring, with estimates that between 35 and 60 countries in the emerging markets, middle-income and low income countries will be in financial distress in the next two years. The Common Framework was introduced in November 2020 and only three countries have applied and there seems to be a logjam at the moment with progress in some very small steps. One of the problems seems to be China but nobody knows why. A possible explanation has been that Chinese lenders do not want to crystallize losses, which is understandable with their balance sheets already under pressure from the real estate collapse and other difficulties. There is a lack of coordination among the various institutions in China that have done the lending and they are simply inexperienced in sovereign debt workouts and afraid that the Western lenders will take advantage of them. That issue could also be part of a broader geopolitical situation. China might see no reason to cooperate on debt until it can extract some concessions elsewhere. In truth, nobody knows, it is complicated. As John mentioned, China has risen as the third major lender group in sovereign debt workouts in addition to Paris Club members and private creditors. Progress on the Common Framework continues to be obstructed but I do not think it is destined to fail. An enormous amount of political capital has been invested in the Common Framework by official creditors and now other stakeholders, and I hope that they will not easily let it fail but it is a question of how to break that logjam. I believe what is needed is a credible way of assuring each creditor group, including non-Paris Club bilateral creditors, such as China, India, and others, that no other creditor group can later extract more favorable treatment from the debtor country once a restructuring agreement is reached with them. The best idea I have reviewed so far, which is getting traction among participants and Washington, is the proposal to use the most favored creditor clause to deflate any expectations China or others might have by holding the process hostage to extract better deals than others have made. It will have to be a cross-creditor group most favored nation clause compared to comparability treatment as a Paris Club principle, which is a variation of most favored creditor clause. It will take some courage on the part of debtor countries to propose it because it will be a unilateral proposal and, hopefully, others will join but it seems better than the current logjam.

I also want to thank Horii-san because I was sitting next to him three years ago in Marrakesh.

Jean-Claude Trichet

I am sorry to interrupt you, but do you have a precise question for the speakers, for John in particular perhaps?

Elena Daly

Exactly. I am actually continuing with John, maybe I am answering a question with John about whether the Common Framework will fail. I think it should not fail or be allowed to fail but there have to be solutions and I wonder whether John agrees that China is the problem, or if it is a multilateral issue?

Jean-Claude Trichet

Thank you very much indeed. I think you have a very important point, to my knowledge we have a real problem with China and mainly with China, even if there are other potential creditors at stake. Thank you very much for this important question.

Jacques Biot, Board-member and advisor to companies in the field of digital transformation and artificial intelligence

I have a quick question for the panel about the future of the dollar as a reserve currency. I think last year we had quite a few discussions on the role of the dollar as a vehicle for the US to enforce the extraterritoriality of their sanctions. We have just read that the recent visit of Xi Jinping to the Gulf ended in deals that are going to be labelled in yuan or renminbi. I would like to know how the panel views the future of the dollar as a reserve currency.

Jean-Claude Trichet

A very important question, of course. Thank you very much indeed. Who wants to take the floor?

Nikolaus Lang, Global Leader for the Global Advantage practice, Managing Director and Senior Partner of Boston Consulting Group's Munich office

I just wanted to build on what you said, Mr. Jacquet, on the question around a supply chain driven inflation. I think when we look at inflation today it is driven by four main supply chains: energy, agri-foods, metals, and semiconductors. The question is, do central banks really have all the tools to tackle this supply chain disruption?

Prince Michael of Liechtenstein, Founder and Chairman of Geopolitical Intelligence Services AG, President of the Think Tank ECAEF (European Centre of Austrian Economics Foundation)

Thank you, Mr. Chairman. I have one remark, I am an entrepreneur and I also talk to quite a few other entrepreneurs, and I am also on the Board of some middle-sized but quite sizeable manufacturing companies. I think we have another factor, which I would not call supply chain shock, but it is the lack of skilled staff. I think this is a major problem that is exacerbated by the fact that we have to do an increasing amount of administrative work to a very high level of regulations and reporting on that and things are constantly added. For example, in Germany two very heavy things have been added, which are checks on supply chain ethics with reporting and sustainability reporting. That does not mean I think it should be misused, but there is a lot of additional work here. I also think that the wage-price spiral is already rolling, I know that there will be significant rises in payments of 6% or 7% in all the companies I am involved in and in certain countries like Austria, we may say that they have less of a percentage rise but a one-off payment to balance it out, which comes to the same thing. In Germany, I think last week, the largest trade union, the metal and electric union, decided on a very high wage increase.

Jean-Claude Trichet

I note *en passant* that augmenting regular wages and salaries – which is recurrent – is not exactly the same as paying a premium, which is not recurrent and is, of course, a good way to avoid the wage-price spiral.

Bruno Weymuller, Member of Total Professeurs Associés, and of the French Energy Council

I would like to have your view on the future of the debt accumulated to face the Covid crisis. I heard John mention that servicing the debt is manageable but the ratio of debt to GDP is still very high. Do you think that we can look at that with benign neglect because it is on the balance sheet of the central banks and is a sort of helicopter money, or do you think it is a real issue for financial risk? In that respect, the view of inflation is that it can sometimes be a useful tool to reduce a debt, what is your reaction to that?

Jean-Claude Trichet

Thank you very much, Bruno. Can we have the last questions from the audience and then we will turn to the speakers?

Randy Kotti, Engineer of Corps des mines

Thank you, Mr. President. I would like to circle back to developing economies. In a way, twin deficit crises are looming large with a very tight fiscal space, especially given that expenditure will be needed for climate change adaptation and mitigation. At the same time, my question is mostly to Mr. Ekué actually, do you think that private banks and state owned banks in developing countries are capitalized enough to weather the shock? In the case of credit default from the state, given that state-owned banks are mostly holder of public bonds and there is a high risk in developing economies that some major systemic banks will also fail. I am speaking about countries like Morocco or Tunisia, that I know pretty well and that have very tight buffers and have not necessarily followed the governance and capital regulations recommendations following the global financial crisis. Do you think that the banks are capitalized enough and what can we do to avoid a further crisis on that?

Raed Charafeddine, Central and Commercial Banker, former First Vice Governor of the Central Bank of Lebanon

I actually have a little dimension to throw into the discussion that was not mentioned and, since we are in the Arab world, I would like to add the general Arab outlook on growth and inflation. I will be brief. The growth rate of the Arab economies is expected to rise in 2022 to about 5.4%, compared to 3.5% in 2021, driven by many factors. Of these, the most important are the relevant improvement in global demand levels, the high growth rates in the oil and gas sectors, and the adoption by many Arab governments of stimulus packages to support economic recovery. In line with global developments, the general level of prices in Arab countries is expected to rise during 2022, with an inflation rate reaching about 7.6% and around 7.1% in 2023. I will conclude that although some Arab countries are directly affected by the current challenges as they are major importers of food and commodities, most Arab countries can play a major role in reducing the global and Arab food gap and achieving self-sufficiency in some commodities such as wheat and petroleum products. My questions to the panel are what kind of structural reforms are actually needed to relieve supply constraints and boost productivity and economic capacity? What kind of policy action is required to alleviate the global food crisis?

Jean-Claude Trichet

Thank you very much indeed. Dear colleagues, I think that there have been so many questions, I counted 11 and I am sure there were 12, so each of us can pick on what we want to comment on as concisely as possible. Then I think the best way to finish our exchange of views is to go around the table again. If you agree, I will turn first to Serge, then Jeff, Akinari and so forth. I ask you to be very concise but to really pick the question that seems in line with the message you want to give.

Serge Ekué, President of the West African Development Bank (BOAD)

Thank you, Mr. Chairman. There is one question I would like to answer, which naturally relates to the question of capital. If you remember 2008, to my mind two lessons were learned. The first one was the need for tighter regulation, a capital increase to have a larger buffer. You will remember during the crisis it was worldwide and global, and it was the end of the world. I think the two lessons learned were first tighter regulation and capital increases for the financial industry, and more specifically for the banks and we have been through capital increases by all the banks. The second lesson learned was the question of the SDR, which came back on the table. I think there is a kind of symmetry here where we are having the same discussions where the Western banks are well capitalized, even though there is still the question of the capital increase on the table today as we speak. The second thing is the question of the SDR or its allocation. The current allocation was of no use to Western countries at all and today, the debate is how it can be reallocated to those who basically need this SDR. For me, there is a symmetry here between the crisis we faced back in the day, and the one we are currently facing with the two lessons learned I mentioned earlier. Thank you, Chairman.

Jean-Claude Trichet

Thank you very much indeed. As regards the SDR, it is absolutely terrible to learn that not a single SDR has been reallocated de facto.

Jeff, you have the floor.

Jeffry Frieden, Professor of Government at Harvard University

There were so many questions, I will try to focus on one short one and then another that gets to some of the questions raise, by no means all. First, on the dollar as a reserve currency, I think the consensus of experts, which is my view, is that the dollar is going to be the principle reserve currency for the foreseeable future for one obvious reason, which is that there is no clear replacement. The euro is widely used as a reserve currency, but it is probably not going to increase much given its troubled path and the renminbi is really not an international currency in any way, shape, or form. The Chinese financial markets and the Chinese monetary conditions are far from being appropriate to be adopted as a reserve currency by the private currency. At this point, it is used primarily by central banks with a connection either geopolitically or economically with China. You cannot beat something with nothing, as we sometimes say, and I do not see an obvious alternative to the dollar out there, so the dollar is likely to remain the principal reserve currency for the foreseeable future, which means maybe the next 10 or 15 years.

The main thing I was going to say was about the core issue that some have addressed and that I started with. We could argue for the next many hours about the underlying causes of the current inflation and the appropriate response, but the reality is, the really existing economic policy trend is a strong anti-inflationary policy in the OECD. We can debate whether that is the right policy or the wrong policy, but that is the policy that is being adopted. There is very little question it is going to continue to be adopted and very little doubt about what its impact is going to be. We are going to face a period of relatively high interest rates and a quite strong dollar; there may be some fluctuations, and I understand the importance of the volatility. I think what we should focus on is the impact of the truly existing anti-inflationary policy which is a high interest rate environment that will bust a lot of bubbles, and a strong dollar. I think that will lead to a series of crises in the emerging markets, those whose debts are nominated in dollars and even those that are not, because the local currency debt interest rates are going to be rising substantially. That is going to create debt servicing problems and despite what John says, I think the debt service has been easy now in a low interest environment, but the environment is changing dramatically, and the problems are going to surface. They are not going to affect the US directly but the constraints on fiscal policy, you can jump in if you want, are real. I think in an environment where there are very substantial fiscal needs like for the energy transition and softening the blow of the anti-inflation policies, governments are going to find their hands tied on the fiscal front in a way that will be politically difficult. Third, there will be distributional effects of these anti-inflationary policies and we have already seen them, inflation is not across the board otherwise we would not worry about it, inflation is about relative price changes. Relative price changes and relative wage or income changes will affect very substantial groups of the population and there will be a political backlash. I do not know what form that will take, whether it will be left-wing or right-wing populism, or non populism, but there will be a political backlash. To me, people have raised a lot of very important issues but there are clear implications in the anti-inflationary policy that the major central banks are going to be pursuing. They have to do with imposing real pressure on the emerging markets, raising some real questions about fiscal constraints on OECD governments, and distributional factors that will lead to a political backlash. I think those are the issues we will face over the coming years.

Jean-Claude Trichet

Thank you very much, Jeff. Akinari.

Akinari Horii, Special Advisor and member of the Board of Directors of the Canon Institute for Global Studies, former Assistant Governor of the Bank of Japan

The BIS exchange market survey of 2022 has displayed once again the fact that the international currency market has scarcely changed over decades as far as the distribution of major currencies is concerned: 1) the US dollar a little less than 90% out of total 200%, 2) the euro a little over 30%, 3) the yen and sterling 17% and 13%, respectively in 2019 and 2022.

One of the notable developments in recent years is a rise in the Chinese yuan or RMB: from 4% in 2019 to 7% in 2022. During the same period, the Hong Kong dollar and the Russian ruble lowered their shares by one percentage point each. The RMB's rise may be accounted for in large part by its substitution for the Hong Kong dollar and the Russian ruble as freedom of Hong Kong as a financial center has been questioned and the Western sanctions on Russian banks has limited the use of the ruble for a means of payment for trade and other transactions.

Jean-Claude Trichet

Thank you very much. My figures for the dollar, euro and the other currencies is not exactly the same as regards the reserve assets. At the beginning of the euro, we had 70% for the dollar, 20% for the euro and the number three was the yen, for which we had reserve assets of approximately 5%. Then the dollar came down over 20 years from 70% to 60%, the euro remained at 20% and the yen was also unchanged. The 10% that the dollar lost were in sterling, renminbi, Canadian and Australian dollars, so there has been some kind of redistribution. However, I have to say it is clear that if a political decision was taken to create a European federation, everything would change overnight because the depth and liquidity of the euro treasury market would be completely equivalent to the US and that would change the universe. It is not very likely that we will have a political federation soon.

Kyung-wook, you have the floor.

Hur Kyung-wook, President of the Korean Bretton Woods Club, Chairman of the Board of the Korea Center for International Finance, former Vice Minister for the Ministry of Strategy and Finance, former Senior Economist for the IMF

I have a couple of comments about the dollar as the reserve currency and I agree with both the two previous speakers. However, I just want to mention that the more we begin to see the dollar as a financial weapon, the more I think there will be an incentive to find a way around it. I do not know when all those incentives might become a significant threat but probably not in the foreseeable future. However, I just want to point out that the more this weapon is used the more incentive there is to go around it.

The second point is not so much an answer, but I just want to raise it is that because the dollar is so strong and a reserve currency, and most advanced currencies have a sort of standing agreement. However, whenever the market becomes turbulent, many countries without the privilege of a convertible currency, it would be much better for the stability of the global financial market to have a reasonable expectation that the Fed will come with some selective sub-arrangements to support the system. As I said, we have two cases of the Fed helping emerging economies during the crises, but we still do not know when the Fed support will be mobilized and that creates more uncertainty for most of the non-convertible currency countries. I just wanted to mention that.

Jean-Claude Trichet

Thank you very much. I hope one of us will respond to the question on ESG and the drama associated with this deviation that global finance is organizing to take advantage of fake ESG, but that is another story.

I turn now to Pierre.

Pierre Jacquet, President of the Global Development Network, Professor at the École nationale des ponts et chaussées

Thank you. Let me go back to Bertrand's remark on the allocation of capital and ways to allocate it properly. I can see three approaches. One is to insist again on the role of an appropriate and significant carbon tax to be consistent with the concerns about energy and climate transition. The second is about metrics: we have been talking about the green transition around this table, but a bit marginally because at the same time we are talking about growth of GDP. Yet, GDP is not a very helpful indicator of the green transition. We urgently need better metrics to guide the transition because green transition and faster GDP growth are not spontaneously consistent. To avoid a sterile debate between pro-growth and degrowth, we need to redefine what growth means and should be about. The third, where I am still going to be a bit provocative with some qualification, is actually with government spending and budget deficits. What happened during the Covid period was that private savings that would have been poorly used and allocated, were channeled through the government, which presumably did a better allocation job. That is debatable, but if the private capital is poorly allocated then there may be governmental solutions, so that is a way to restore the meaning of public deficit. I do agree, however, with what Jeff rightly said, that we are in a situation in which we have grown public deficits too much so the margin for maneuver is very tight, whatever we think about budget deficits. My suggestion is to approach the allocation of savings globally rather than by always separating public and private because in the end, it is the final allocation of resources that matters and that requires public-private interaction. What counts is the allocation of capital in the economy, and we know that the green transition requires a lot of investment.

Jean-Claude Trichet

Thank you very much, Pierre. André, I guess you might have some message in response to some of the question.

André Lévy-Lang, Founder and Chairman of the Louis Bachelier Institute

On ESG. We have work in progress to try to quantify more scientifically some of the elements of ESG and to build a database of controlled numbers to make it significant. For the time being, I fear a backlash on ESG because huge amounts of money are invested on the basis of implied ESG or published ESG, usually with very little substance. The real point I wanted to make, which is the same question in a different way is that the pricing of risk is extremely difficult when you talk about climate because both the positive and negative externalities are huge. We know very well that it is not easy to price externalities, it requires regulation, government intervention, etc., and when you talk about long-term investments it is even worse. This afternoon we heard the time it takes to create new mines, to change processes in industry and there are huge amounts of money and a long timeframe with huge externalities. Plus, there is the fact that banks have to pay a higher price for risk than non-banks, so there will also be a shift of funding to outside the banks. We are facing a very difficult situation where I do not see how we can avoid government intervention. Carbon tax is one way to simplify part of the problem, but it is unlikely it will happen on a global basis. In other words, to go back to what Pierre said, in some ways externalities mean government intervention, which in some ways means deficits so we are not out of the woods.

Jean-Claude Trichet

I would maybe have suggested global rules, regulations, and recommendations. A year ago, we created a new Board, the International Sustainable Standard Board, ISSB, which is very ambitious and already has hubs in Asia, Tokyo, and Beijing, in Europe with a headquarters in Frankfurt, a base in London and Montreal. It is very ambitious and every country, including China is onboard. I do not know if the specialists are expecting something from this new Board, but the international community is betting on it, and they have practically completed the membership. I do not want to elaborate too much on that, but I was a bit involved in creating and setting up the new Board. To me, more deficits seem absolutely aberrant, so everything has to be financed through savings, savings, savings. In a country that André and I know very well, where public spending is around 10% more than equivalent countries, there are certainly savings to make and perhaps we could reallocate massively, but that is another story.

John, there are a lot of questions for you.

John Lipsky, Senior Fellow of the Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS), former First Deputy Managing Director of the IMF

Thanks. I just want to make one comment on what you have just said. I remember vividly at the Ministerial meeting in preparation for the April 2009 G20 Summit, the question was raised of whether the G20 Finance Ministers should address the issue of climate finance. Without naming names, there were some strong voices saying absolutely not, we have no expertise regarding this topic. This issue belongs in the UNCCC, this is not for us. One result of this separation of goal setting regarding environmental issues with the prospective sources of funding was a period of very limited practical progress. It strikes me that what is finally happening is the key strands of goal-setting and financing more and more are being considered together. The result is much greater realism about what can be done — and hence reason for more optimism.

The points that I wanted to make are first, that the outlook for inflation — and the question about how difficult it will be to restore low inflation — is absolutely critical. My point was that we went through a decade in which we had lower than expected inflation and even today, we do not really have an complete explanation of why that happened. Similarly, if we look to past episodes when we tried to lower inflation, we can't be sure that they provide a reliable guide for actions today. Nonetheless, one thing is certain: There will be unhappy consequences if we fail to lower inflation. One primary example is that the advanced economies have been able to sharply increase their debt because interest rates and debt service have remained so low. If inflation remains a problem, higher interest rates will sharply increase the fiscal burden even of the existing debt. However, the benign recent experience of the advanced economies has not been true for the developing or emerging economies. Although a decade ago the percentage of public revenues required to cover public debt service in those economies was about the same as in the advanced economies; today it is much larger, and this almost certainly will worsen in the immediate future. This is why we know that debt problems are coming for the developing countries. The interest rates on their debt is going to go higher — especially for the nonresource rich developing economies — and their income is going to be lower. Obviously, official debt relief is going to be necessary in several cases. However, the process available for debt relief is stalled at present. Progress in this arena will require better standards of debt transparency and that is going to require cooperation by everybody to create a useful starting point by putting the relevant numbers of the table.

The second problem regarding developing country debt is private sector engagement. Even if we overcome this issue of debt transparency, one problem of the G20's Common Framework — that also was a problem facing the Paris Club — is that the public sector agrees on a debt relief program, and then attempts to dictate to the private sector regarding their role. This is a recipe for stalemate. We need a better format for private sector engagement and more clarity on what constitutes fair burden sharing.

Finally, I'd like to add one comment on the current process of crisis prevention, that today apparently includes the discretionary provision of Federal Reserve swap lines to some large emerging economies. I always considered this action as systemically destructive or at least systemically disruptive. The implicit current "system" consists of the major central banks' permanent unlimited swap lines among themselves. For illustration, let's call them the passengers flying in first class. The Fed's discretionary swap lines in effect created a business class. These are the countries that constitute the favored friends of the Fed that, under circumstances that are not specified in advance, may be granted temporary swap facilities in amounts and durations and that are not known in advance and set under criteria that are not known in advance. In effect, this action enhances the sense that everyone not flying first or business class is relegated to economy class, namely they are left to deal with the IMF. Thus, I could not see why the Fed's emerging market swap lines were systemically helpful. If the goal is to create effective be crisis prevention mechanisms in a world of securitized finance, insurance-like and swap-like facilities will be required, and the IMF should be allowed to offer such facilities to all its members.

Jean-Claude Trichet

Thank you very much.

Jean-Claude Meyer, Vice Chairman International of Rothschild & Cie

I will just comment that the emerging countries we help to finance from time to time in certain countries, are today facing huge difficulties and cannot even finance their budget deficits right now. Not only that, but they have defense problems in relation to the Islamist world and they cannot pay their armies, which is extremely detrimental. For instance, the Ivory Coast for 10 years was paying between 8% and 9% interest rates, and they could not afford it, which is a problem.

I am sorry, Jean Claude, but Christine Lagarde confirms my hardcore figure, which is not 4.3% but 4.8% for the Eurozone, which was in her speech in Tallinn on 2 or 3 November.

Jean-Claude Trichet

As I said, I do not use the ECB figure but the figure from EuroStat. I am sorry, because I do the same for the US and they are always a way of introducing alcohol and tobacco, and I do not know why. I understand why they do that, and it is the same in the US because they are trying to avoid wages and prices spiraling, so the lowest possible core inflation is better from their standpoint, and I fully agree with that from their standpoint. However, I think it is the real figures that count, which by the way, are very different from country to country to complicate the European reading of the situation. As you know, national inflation in France is much lower than in many other countries because of the cost that is paid by the French fiscal alleviation of energy prices. The French are spending a lot of money to alleviate the price of oil and gas, etc. Thank you very much, Jean-Claude, we will check exactly where we stand bilaterally and with Christine.

I think we went through a lot of problems, and I note *en passant* that whether for the dollar or the euro, it is unwise to have sanctions that freeze the reserve assets, and this is a real issue. I was publicly against those sanctions against the central bank of Russia, and I still consider it absurd. We have given the rest of the world the signal that having the dollar or the euro as reserve assets is a bad idea and many countries in the rest of the world are not really sure that they will not have a problem with the US or the West, or whatever. We have told them 'be careful and you should put your reserve assets in other instruments', and that was a very big mistake and a very bad move; that is my feeling. A second point I wanted to make clear and again, it is not just the dollar it is the euro too.

The Europeans also know how the US can be inward looking. When we were applying the treaty we had with Iran, the US Congress decided to punish us because we were implementing what had been decided and signed and that infuriated all the Europeans. There is something there, in a way, the dollar is a public good at a global level and so is the euro, so to decide that it is the private property of one particular country is really soul destroying. The Europeans were really infuriated, and the Commission was trying to invent a way to bypass it, which did not work by the way.

Jeffry Frieden

Can I remind you that 50 years ago an American Treasury Secretary said, 'It's our currency, but it's your problem'.

Jean-Claude Trichet

Yes, Connally. That is still true.

My last point is we had a very good discussion on the balance for the central banks on what to do between supply shocks and demand shocks. The increase of price of some commodities and inflation bursts are both depressive and inflationary. You have to balance the fact that you have to fight against the inflationary aspect but be very careful that it is also recessive. There are differences between the US and Europe, where it is more recessive, so those justify significantly different monetary policies and that will continue. In any case, there is a fixed point, an Archimedean point if I may, which is that you must get down to price stability in a reasonable time, otherwise you are in a situation of the Fed in the seventies and early eighties namely a monumental and persistent wages - prices spiraling . Then Paul Volcker arrives, when inflation is at 14% and persistent. He has to do what is necessary and that is much more dramatic than being a bit ahead of the curve and trying to regain control in time. When you have inflation at 14%, your short-term interest rates are at 19% and 20% at certain moments to regain control and you trigger a dramatic recession and dramatic financial crisis. It is nothing to be compared with what we expect will happen, taking into account that the central banks are not nonchalant, not saying there is no problem, and are obviously ready to act. When they do nothing, all these second-round effects materialize, and the situation really becomes very dramatic. I understand that a balance has to be found and it is normal that academia considers this continuously and the impact on the social and political fabric of what is being done. It is very serious stuff, and I am reassured that both central banks, and to be frank, all central banks in the advanced economies have said that they were trying to anchor inflation expectations at 2% in the medium term is something that is reasonable and that they will try to deliver. This is reassuring, also because although advanced economies are not in the same monetary policy or situation, but the goal is the same.

I think the audience could applaud the speakers.