

## SPEAKERS DEBATE

**Jean-Claude Trichet, President of the Académie des sciences morales et politiques, former President of the European Central Bank, Honorary Governor of the Banque de France**

Otherwise, I hand the floor to Gabriel.

**Gabriel Felbermayr, Director of the Austrian Institute of Economic Research (WIFO), former President of the Kiel Institute for the World Economy (IfW)**

Unfortunately for the conference, there is agreement here between the four of us. We must stress, however, that we are facing internal friction within the US and Europe, and this is likely also the case in China. In regards to an explanation for what we see in our external relationships; if you look at the recent elections in Germany, past months have seen increasing polarization fed by inflation. This pushes countries into more aggressive external policy stances as well. The conundrum is that on the one hand, the aim is to bring inflation down and ensure internal cohesion, and on the other hand, there is a resulting external assertiveness, be it named de-coupling, de-risking, or the search for strategic autonomy. This is actually making it more difficult to achieve these internal cohesion objectives. Fragmentation is costly, and will likely be borne by the most vulnerable, which makes these internal divisions even stronger. This is the conundrum that I see. I do not know whether we can deal with this, but perhaps the first step would be to see that those de-risking policies tend to increase inequality, which fosters polarization with consequences that lead to more external frictions.

**Jean-Claude Trichet**

Thank you. That is clear enough. Sébastien; what would you say to that?

**Sébastien Jean, Senior Associate of Ifri, Professor of Economics at CNAM University**

Allow me first to comment on the fact that we are discussing the difficulty of coordination and sticking to international commitments and rules. I would like to emphasize that I think it should come as no surprise that multilateral rules are not able to maintain grid power competition, as they cannot do this alone. Rules are unable to maintain this as long as there is no political agreement upon the direction and objectives. I believe some kind of political agreement should be reached concerning the prioritization of a framework of coordination.

The second point relates to coordination and inflation. Much has been said concerning financial risks entailed by the monetary policies in advanced economies recently. I think this is a good illustration of the threats involved with the lack of coordination: the fact it will increase asymmetries in world economies, making it increasingly difficult to take a variety of objectives into account, as it will make coordination more difficult on various counts. The development spread of industrial policies is another example, as this is only something that countries with enough financing can sustain. It is therefore a source of asymmetry or a lack of inclusiveness at global level.

**Jean-Claude Trichet**

Thank you very much. Your remarks are valid for Europe as well as the global economy. I must say that I myself am struck by the convergence on both sides of the Atlantic on the first results of monetary policy, core-inflation being more or less the same. When we were in a very difficult position, the Europeans were hit by the war in Europe much more than the US in terms of price of oil and food. Additionally, the fact that the US is self-sufficient in many respects, both in fossil fuels and food, creates a substantial difference. Nevertheless, the goal remains the same. The likelihood of reaching the goal is, in my view, as credible as before the war in Europe. This is the silver-lining in comparison with what you had on both sides of the Atlantic after the first and second oil-shock, which was totally dramatic: inflation unleashed at a steady 14%, and interest rates, at times, at 20%. We are claiming that 5% in the US and 4% in the EU is too much, but we have already experienced 20% due to previous mistakes. What do you have to say, John?

**John Lipsky, Senior Fellow of the Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies**

It is positive that progress has been made on reducing inflation, and that for the moment, progress is similar on both sides of the Atlantic, at least with respect to core-inflation. What may be left over as a residual effect of, among other things, the war in Ukraine, is a change in price-structure relative to what it was previously. In other words, it is quite likely that relative prices of energy in Europe are going to remain higher than they were previously. If so, this undoubtedly would be associated with structural change in Europe's economic growth as well as in trade patterns.

Another aspect I wanted to mention was that we saw an incredible boom in the Chinese economy in past years that was associated with huge increases in the demand for basic commodities and metals — imported by the Chinese economy from elsewhere — and huge increases in exports of manufactured goods from China. My sense, from my recent visit, is that China is changing substantially. The source of their economic growth will have to become more domestic. At this time, however, growth in China's domestic demand is slowing, and likely will remain relatively modest compared to what it was previously. This will mean more subdued trade, different from before, not only due to foreign subsidies or sanctions, but also to underlying changes in both China and in the global economy.

This brings me another point. When the G20 was founded in the context of the global financial crisis, it was able to act decisively because, among other things, there was a lack of any sense of great power conflict. It was not that individual countries forgot their own interest; rather, there was a real sense that "if we don't hang together, we surely will hang separately". Time, however, has shown the structural weaknesses of the G20, even though it has positioned itself as senior to the multilateral financial institutions, despite its lack of both a legal standing and any voting process other than a veto power on the part of every participant.

As a result, it is an entity that finds it difficult to reach decisions and command action in difficult or conflictive contexts. I think it is worth contemplating whether, if we are going to make real progress on global public goods, it is inevitably going to involve difficult decisions which will not necessarily be to everybody's liking. We are going to have to think about whether they need to be re-assigned, in one way or another, to multilateral institutions that do have a formal structure and that can take decisions that have legal legitimacy, even on issues on which there is no complete consensus.

**Jean-Claude Trichet**



Thank you, John. What you say is certainly true at the level of the UN and security council. I myself am slightly more optimistic after the last G20 meeting in Delhi. It seemed to me that the concept of international community was still alive, if only slightly. Marcus, what do you have to say?

**Marcus Noland, Executive Vice President and Director of Studies at the Peterson Institute for International Economics**

If you set aside geopolitical concerns and simply focus on climate change, there is clearly a need for the United States, the European Union and China to converge together on the same page and find ways of reconciling their diverse approaches to this problem. My own institution recently hosted a conference on the macroeconomics of climate-change, organized by Jean Pisani-Ferry, and there was a paper presented there by two of my colleagues, Chad Bown and Kim Clausing, who argue that relatively minor changes to the WTO rules could go a long way in reducing conflict between the EU, the US, and China on climate related issues. The problem of course is that even minor changes to the WTO rules are going to require a real diplomatic commitment, and I do not know whether or not we are up to this task.