

Brussels Forum

March 26, 2010

From Rescue To Recovery

Mr. Brent Goff: The audience is talking to us about the lack of money. The first evening session of the Brussels Forum 2010, we have an exciting discussion planned for you tonight, from rescue to recovery, promoting strong, sustainable and balanced growth. Tonight we're going to talk about the economics of living through the financial crisis, and we're going to ask our esteemed panelists here to tell us if we are smarter now than we were two years ago, if we are better equipped to see what's on the horizon, and how real is the risk of a double-dip recession.

To do that, let me first start by introducing our guests. First is Charles Collyns, the Assistant Secretary for International Finance in the Treasury Department in Washington, D.C. and Mr. Collyns has hit the ground running because he was actually just appointed last month, is that correct?

The Hon. Charles Collyns: That's correct.

Mr. Brent Goff: Mr. Collyns, thanks for joining us.

And besides him is Mr. Kazumasa Iwata, President of Japan's Economic and Social Research Institute. And he also used to be on the Bank of Japan. Thanks for being with us, Mr. Iwata.

Beside him is Robert Zoellick, a very familiar face in the international community. When you are talking about global economics, he is President of the World Bank.

And last but not least a man we have all seen on television this week is Mr. Olli Rehn. He is the European Commissioner for Economic and Monetary Affairs.

Let's begin with the notion of rescue.

There's been a lot of talk in recent weeks and in the last 48 hours right here in Brussels about the notion of rescue. And, of course, I'm talking about Greece. And right now, it looks like Greece has been saved.

Yours and countries last night reached an agreement to throw a lifeline to Greece that would include the international monetary fund. Now this decision has received a fair amount of praise in the press this Friday. If you have been watching currency markets, you've seen that the Euro has gone up just a little bit

in reaction to this.

Mr. Rehn, let me begin with you. Germany got its way in this agreement. The IMF is now in the mix and we're talking about bailing out Greece. But the IMF is a non-European organization that usually deals with developing countries. Let's forget the praise for a moment. Let me ask you here: Is there room here for embarrassment?

The Hon. Olli Rehn:

(Inaudible.)

By the way, thanks for inviting me for a normal day session because I've usually been doing either 30 days or nine-hour sessions. (Inaudible.)

The last couple of weeks, I have been an early bird. It is better this way, the daytime. In fact, I see the IMF as partners. And we're closely cooperating with the IMF but on the ground in Greece and also between headquarters (inaudible) in Brussels last week, we were able to discuss and had contact with the IMF. It is important that it is this, which is a European decision by the European family.

It is clear that it has to be a European lead and this framework will have to be based on the approval of the European union and for the (inaudible) program of

Greece.

Mr. Brent Goff: What does the credibility of the Euro zone look like today compared to just 24 hours ago, and how do you feel about the notion of the Euro becoming a reserved currency for the world? Has that possibility been diminished by what happened yesterday?

The Hon. Olli Rehn: That is something for the world we have reserved for the markets to decide.

(Inaudible). The decision yesterday was a critical turning point for both concerning the future of Greece and the Greek economy as far as stability in the Euro area as a whole. And we call that Greece has taken very bold and convincing steps that are already implemented and they are in force and thus Greece is on the right track in terms of fiscal conservation.

It is important that we have a safety net of last resort in the form of a European framework which (inaudible) can be used if needed and if requested.

Mr. Brent Goff: You say it can be used as needed. Let me send this out to the other gentlemen on the panel.

Has a rural hazard been created here with this bailout program because Portugal's credit rating has been decreased. You've also got Spain. Are you

basically paving the way for other members in the Euro zone to say, hey, we need help? I mean, how do you gentlemen see that? Has a moral hazard been created here?

Mr. Iwata?

Mr. Kazumasa Iwata: I find that the problem with this solution that the Asian crisis was 1997 and 1998. From having approval from the side of Japan proposed to establish the Asian monetary fund. Again, (inaudible) propose to establish this. The U.S. side was not quite in favor for this proposal. And this proposal was conjugated in the establishment of in the (inaudible) incentive in the year 2000. There was some arrangement (inaudible). This is a proving of the friends in the country. And the thing to me on this network is that this is also relating to the IMF because 20 percent of our Asian fund can free exist but maybe 80 percent is under the subject to the IMF conditionality. And this is the solution in the case of Europe. The portion of money provided and the Euro is one to two. And any way, we need a kind of last resort (inaudible) this issue, but any way somewhat relating to this fiscal problem and a lender of last resort function. (Inaudible). But in this case, I find quite extremely

interesting as how this process of this solution will lead to more integration in the field of fiscal policy. (Inaudible.) But not on this fiscal domain. And this Greek problem will lead to this creation of fiscal union, and then in that case, Euros will need much more strength and more of this Euro could play an important role as an international currency.

Mr. Brent Goff: Mr. Collyns, let me ask you, do you see that this lender of last resort is going to force partners across the Atlantic to actually work together more on fiscal policy?

The Hon. Charles Collyns: I think the lack of clarity about how Greece will be able to finance itself during a difficult period they are going through arduous adjustment was a concern. So I think it is very welcome that there is now a clear solution coming into play. Clearly the solution that will provide financing but in parallel with very serious adjustment efforts being made by the Greek economy as will be closely worked with the International Monetary Fund and the Europeans. I just don't see moral hazard as an issue. I think it is a great step forward. Hopefully, we will quickly see the benefits being seen.

Mr. Brent Goff: Mr. Zoellick, let me ask you, what

is your take on what the Chinese did in the Greek crisis? The Chinese, they were quick this week to criticize what is going on with Greece and they said that Greek's problems are just the tip of the iceberg in Europe's debt crisis. What is your take on that?

The Hon. Robert Zoellick: Well, generate that with some of the points that you were just asking about. First, one key aspect of this week is that this is not the time to be playing around with uncertainty in markets. This recovery is so relatively fragile and so I think this European action is very important in that sense. Second, what you saw here is something that you are going to see a lot more of in the world, which is the region of devices connected to a global institution. You talked about the Chang Mai initiatives. There is a general question about how reserves are connected with overall global policies. You're going to see this in trade. It is going to be one of the challenges of the international system. Third, you asked about moral hazard. Sometimes I think people throw this around a little too loosely. I don't think that the Greeks right now feel that they're going through such a wonderful situation. I don't think that people in Spain or Portugal think that they really hit

the jackpot. So in terms of whether this is an easy out, it doesn't look too easy to me. The fourth point, though, and this is where I do think the story hasn't been written is, well, while this is a very important step. If you look in the far run, this is still going to be very difficult for the Greeks and frankly for some of the other countries in Europe. And one of the challenges that this involves was that there is a fundamental decision here made about a fiscal union as well as a monetary union. And just to compare it with an alternative choice, the United States is a monetary union. It is a federal country, but a state can go bankrupt. And states did go bankrupt. And so that was a different choice. You didn't have to necessarily have to have a back up on the fiscal policy side, but that is a choice that Europe made.

But now the challenge will be how do you deal with this question, which in some of these countries is going to be very, very deflationary, I mean, very, very hard. And on that, I will draw attention to this last paragraph in this agreement on this decision in economic government or in English "governance." I think this is going to be given the history of European integration and given here what people here in this

audience have been interested in, this is an important C-plan for the future. And so to connect it with your point about China. I think what that demonstrates is that China also has an interest in the global system. China is concerned about how debt is managed. China often will own a lot of the debt. But certainly, people are going to be concerned about Chinese policies and how it relates to the global economy.

Mr. Brent Goff: We will come back to this in just a moment. In the last session, people were saying that we have been ignoring China in today's discussion. But we're going to talk about China a lot a little bit later.

Mr. Zoellick, let me stay with you just a second. What's your feeling about the risk of a double-dip recession?

The Hon. Robert Zoellick: Rather low but not impossible. I wouldn't by any means suggest it's probable. I think you have a gradual recovery.

What is important now to recognize, though, you have a multi-speed recovery so you're seeing growth in Asia at a much different rate than North America. North America seems to be a little bit stronger than Europe. And for policy terms, that's going to change

the dynamic that you saw in the past year. When in 2008 and 2009, the G20 or other countries were staring into the abyss. And at that moment, they can all come together because it was either hang together or hang separately. And hang together meant some basic monetary and fiscal policy stimulations which you now see is the gravitational force of national and regional politics and different circumstances.

I think it is going to be a challenge for the G20 and different organizations about how to build that cooperation going forward, so risks relate to things like in the U.S. market, if you have high unemployment, you will still have bad loans from consumers, credit card debt, commercial real estate, the hand-off from the public to the private sector in stimulus.

In Asia, it is a question of how you manage the asset bubbles. Another issue is not just European, is worldwide, is the recurrence of sovereign credit risks. And this is why I think this action is important. So there are risks out there to the recovery, but the challenge will be international cooperation in this context.

Mr. Brent Goff: You talk about these gravitational forces. Mr. Collyns, let me ask you: Do you feel that

the United States is moving closer to Europe in terms of supporting reform of financial markets? I know this week Barney Frank was quoted as saying now that health care legislation has been passed, members of Congress feel (inaudible) pushed with more fervor to help financial regulations in the United States reformed.

The Hon. Charles Collyns: I am certainly not an expert in U.S. policy. But I think (inaudible) would feel there is a tremendous opportunity at this point to move ahead with financial regulation.

In terms of the U.S. progress, I think it is quite remarkable how much progress the United States has made to deal with the problems created by the financial crisis in terms of recognizing the extent of the loans and rebuilding capital.

I think the U.S. has gone further than other parts of the world. So on that front, I think we have done very well. It is true that we have a lot of work still to do. I think do we feel smarter for the crisis? I think the answer is we feel more humble. We realize more what we need to do in order to avoid these sorts of devastating (inaudible) booms and busts. It is essential to move ahead with ambitious regulatory reform.

Now that the healthcare legislation is out of the way, certainly we should try to move forward with the international reform legislation. Just this week, deputy (inaudible) and secretary making a very strong case to move ahead with a strong and an ambitious regulation reform in the U.S.

Mr. Brent Goff: Mr. Rehn, do you feel that Europe and the United States are on the same page now when it comes to financial market reform?

The Hon. Olli Rehn: I think by and large we are at least thanks to our cooperation in context to the G20. In fact, in the European union as so many in this audience know the legislative proposals of the four packets are the reform of financial regulation. And this operation is now in the hands of the consul and the member states and the European parliament. And I count on both sides in order to see the results in this accord rather soon so that we would have both our micro-financial regulatory system and macro-financial stability board in function rather sooner than later because we needed them so that we can prevent future crises as needed. And, of course, we want to work hand in hand with the United States and other international partners in this accord.

Mr. Brent Goff: There is a lot of talk right now that, obviously, that reform is needed in financial markets, but that Greece is not alone when it comes to having to initiate austerity measures, just not only to prevent itself from going bankrupt, but also to maintain general social programs. Now that paradigm goes for everyone. It goes for the Europeans, it goes for the Japanese, and also for the Americans. In a short question, can we on both sides of the Atlantic and in Japan continue to afford the social welfare programs that we have now?

Speaker: In our view is we could not afford not to proceed with the far-reaching Health reform that was enacted last week. As you know healthcare costs in the U.S. has been rising in an astronomical rate. It has been absolutely essential to control the rate of growth that cost undermining the competitiveness of American business. At the same time, we were able to address the uni-social costs of the gap in coverage of health insurance. I think this bill went a long way to enforce getting both of those objectives. The costing of the bill by the Congressional budget office shows not only short-term gains but substantial long-term gains.

The administration doesn't feel that we have done enough yet. We have set up a fiscal commission to look at possible further reforms across the full range of government to achieve what is needed for fiscal sustainability. I think this healthcare reform goes very much in the direction rather than against the direction of fiscal sustainability in the United States.

Mr. Brent Goff: Would you gentlemen agree that policymakers everywhere feel that they are in a straight-jacket right now that they know if they begin cutting programs that they're going to be voted out of office? So they just keep pushing this to the next legislative period. Are we pushing ourselves to some cataclysmic event where things will have to be changed radically and quickly?

Speaker: I would not say that nothing is happening. Greece is on track towards its focus target of deficit reduction this year, for instance, by reducing the public sector (inaudible). Certainly, it is not a piece of cake but a very substantial reform. And same kind of packets are present in several countries in the European union.

It is necessary not because why it was absolutely

essential to stimulate the economy in the past two years in order to create foundations for economic recovery, but at the same time, the past two years have wiped out 20 years of fiscal conservation in Europe so that our level of public debt whenever it is in Europe has recent in the past two years from slightly above 60 person to about 80 person. This will be a co-part of the new economic landscape of Europe and in order to overcome this challenges, we need both a serious conservation of public finances, substantability of public finances, and the mobilization of all possible growth drivers because we have to increase our growth potential and we have to utilize it much better than we do today.

Mr. Brent Goff: What is your take on that, Mr. Iwata?

Mr. Kazumasa Iwata: On fiscal sustainability, a very crucial issue for Japan. In order to repel a very serious financial crises in the year 1997 and 1998, and this time, we have no strong financial successful program. Mainly in Europe and on this global financial problem but when we move out from financial crisis, fiscal sustainability was one of priority.

There was a good discussion by the IMF (inaudible)

and they examined how to maintain this fiscal sustainability. In the case of Japan in 2001, the administration embarked on accepting the primary deficit to zero target in about ten years. And we were close to attain this target in 2007 but afterwards the financial market collapsed. And then, we came again, the similar size of structure (inaudible). In the year 2002, our primary budget deficit was 5.7 percent. Now today, we see structural money budget deficit at 6.3 percent and very close, and therefore, I remember we are repeating the same similar story that we already experienced. (Inaudible). Japan is a very aging society, not to the aging, but already aged society. By 2020, we have the super-aged society.

Mr. Brent Goff: Super-aged.

Mr. Kazumasa Iwata: (Inaudible) exceeding 20 percent of the population and so it is adding pressure on the Social Security payments. And every year, there is an increase in expense. Therefore, we need both strong spending cuts (inaudible) and control on these Social Security expense, and the reason, but maybe this spending cut would not suffice to risk order of fiscal balance.

It is absolutely necessary to have more stable tax

revenue. Now the current government embarked on this discussion of tax reform. But I find consumption tax cannot be avoided even though the current administration during the election campaign may be silent on this issue of consumption tax increase and maybe we should start in a limited area.

Mr. Brent Goff: Mr. Zoellick?

The Hon. Robert Zoellick: Let me start with the demographics. If I look at the demographics of Europe and Japan, I don't see how you can continue to have the programs that you had. And that's part of the debate. The Germans are saying if we are increasing our retirement age to 66 or 67, how can the Greeks have one that is five years less?

So it is going to be very obvious with those demographics and the growth projections that something is going to have to change.

Take the U.S. side. In some 25 years of public service across different administrations, there were huge fights about revenue as a percentage of GDP at the federal level of a range between 18 and 20 percent, depending on tax revenues. The spending would be between about 19 and 21 percent. We would have huge battles about those percentages. Well, now, and now,

and this is not reflecting on any party or Congress executives, but the projections are about 25 percent of GDP for spending ongoing. The numbers don't add up.

People have to be honest here about whether they are either going to cut -- and it doesn't have to be cutting spending, by the way -- it can be cutting the rate of spending. That is a very critical difference. But with some adjustment of the cut of the rate of spending and then people have to decide what their view is on tax revenues and whether they feel that that is pro or anti-growth, you're going to have to address these issues.

But the U.S. is a little better off because of the demographics than Europe and Japan, but it is also going to hit those issues.

One last element, since this is intended to focus on developed countries, a lot of the developing countries are recognizing this. There is a lot innovation in developing countries that developed countries should also be looking at in areas such as infrastructure. India is experimenting in public-private infrastructure in ways that frankly the U.S. can look at and look at and use properly. Same with some of the safety net programs.

So one part of this crisis and the recovery that I urge people to look at is remember this crisis unlike the others didn't start in the developing world. It started in the developed world. And if you look at the sources of demand coming out of this, the earth is, what do we estimate, Europe is 1 percent of GDP growth. The United States would be higher but compared to most recoveries, it is still going to be modest.

And Japan is also struggling. The recovery is going to have to come from the developing world. And what you will increasingly see over the next five, ten, 15, 20 years as a different distribution of growth patterns. And the lesson for the developed world is to be open-minded to some of the things the developing world is doing in terms of structural reforms because otherwise they're going to continue to stumble along and the fiscal situation is going to get worse.

Mr. Brent Goff: Let's talk about China now for a second, and then we're going to open up questions from the audience.

And, Mr. Zoellick, let's stick with you for a second. Ten years after joining the (inaudible) in China seems to be doing some rethinking now, pushing its own companies. Some people are writing that there

is a new form of protectionism emerging from China. Nationalism is there. We have, I think the U.S. Chamber of Commerce issued a report saying that American businesspeople feel less welcomed now when they go in to China. What's your take on that? Is that actually something that should be feared? Doesn't the global community want China to have a strong domestic economy?

The Hon. Robert Zoellick: Well, of course you want it to have a strong domestic economy, but that doesn't mean that you want to have protectionist actions or actions that favor your own local industries. I think the tendency that you described was always there in China, and part of it is related to state-owned enterprises. I used to discover it as trade representative because now and then there was a desire to use standards or different types of rules to favor local industries.

This is not new to China. You see this in Europe. You see it in the United States. You see it in Japan, which has not been the easiest market to penetrate in over 50 years. But I think the point of this is it really relates to a bigger question about Chinese industrial structure. And one of the issues that the

currency question really raises is this question of the savings consumption imbalance where the U.S. is at one extreme and China is at the other. If you really look at the composition of those savings, there's a certain amount that is household savings, and that's bigger than it is in U.S. and Europe, but it is about the same as it is in India. The really surprising increase in savings is from the corporate sector. This is because a lot of the state-owned enterprises have (inaudible) advantages, the financial system paid very, very low deposit rates for savers and it gave a very, very effective or support loans to the state-owned enterprises. So the savings rate reflect very high retained earnings from the state-owned enterprises.

Now, to go to your issue, but also to deal with some of the sensitivities, the Chinese recognize they want to have a more harmonious society. That's the goal of the leadership. They know they will have to make structural reforms. One way to actually have some win-win possibilities here is to open up some of those sectors to additional competitions, some of the (inaudible) sectors. That will lower the profits. It will create more opportunities from the service industries in the United States, Japan, Canada, Europe

and things like telecommunications and logistics support. And it actually produces greater opportunities for some of the sectors in China that have been left out. The good news is the Chinese actually recognize this. So if you look at their planning for the 12-year five-year plan, they look at these questions. But structural changes are not easy to make. So Europe has structural changes to make. The United States and Japan does and so does China. And so I think it is important to be attentive to the types of, in a sense, of nationalistic measures that you described. I think they're probably a function of a preferred industrial structure, and I would go after that as much as I would the particular issues.

Mr. Brent Goff: Can we talk about a transatlantic policy or approach or to interacting and dealing with China economically? Is there such, or is it simply the United States and its policy and the U.N. and its policy?

Speaker: Certainly, the fullest cooperation between the U.S. and Europe. I think the issue of China is a global issue. And that's why so much attention and importance has been given in the role of the G20 over the past year to provide multilateral

context for discussions on this issue. In the United States, we do see this as crucial. We don't see major risk to the double-dipped recession, but we are concerned that unless there is major progress made towards rebalancing the sources of global demand, we are going to be in for a long period of sluggish growth that will be bad for all of us. In the United States, we see adjustments occurring that are inevitable. The consumers had to tighten their belts. The public sector will have to consolidate. (Inaudible). It is not going to be that for the next ten years.

So where is the growth going to come? You can't expect -- you can't have whole other countries expecting to continue on their export growth strategies. There has to be realization, the global environment, the shifting. That's very important for China to understand. It's the major part of our dialogue with China. It is not just China that has to make this adjustment. There are other countries that also have (inaudible) large services that relied on export for their growth. And they also need to adjust their growth strategies. We think at G20, if you're drafting the right forum, to discuss these issues, we are moving away from more bilateral discussions towards

more multi-lateral discussions. It is a global problem.

Mr. Brent Goff: China, of course, gets most of the attention. There are these schools throughout the United States, for example, would tone down its rhetoric and say less about China unpegging its currency to the dollar, that the Chinese would eventually do it any way. What is your take on that? Is it better maybe to just say nothing and unpegging would happen more quickly?

Speaker: It is a complicated issue. We do have a continuing dialogue with the Chinese. The Chinese had dialogue with other countries as well. They've had a dialogue with our European friends as well. We think it is most effective to have China as part of the group of countries that are steering the global economy. That's why they are an essential part of the G20. In that context, I think they are beginning to understand how their economy plays into the global economy. I think the key strategy really is to bring China and other dynamic emerging economies into the cockpit of the global economies. They are steering along with the rest of us. We can find a joint path together to get us to where we want to go.

Mr. Brent Goff: But it feels like within the G20 that United States in the next month is going to declare China a currency manipulator. We're not going to ask you whether that's going to happen or not. I know that you can't answer that, but it feels like like the rhetoric that we're hearing right now makes us think that that's going to happen next month. If that were to happen, what would be the implications then for U.S.-China relations and also global trade?

Mr. Kazumasa Iwata: My comment on this Chinese exchange (inaudible) policy is so closely connected discussed in the context of trade frictions. But I find already was devaluated in the year 2005 and 2006, all together about 20 percent, gradually but rather sizable percent that is in appreciation. But I find that there is a possibility China will choose to devalue again because of the domestic problems. If you look at China, the inflation rate is rising 2.7 percent now. And they are on kind of target. And they are very close to 3 percent (inaudible) possibility 5 to 6 percent.

Then maybe there is a need to control this inflation. And the second factor is the (inaudible) price bubble in the real estate market, the price is

rising more than 10 percent over the previous year. (Inaudible) not on the major cities, but local areas all together the (inaudible) price rising. And I find that these two factors would force the Chinese authority to adopt more tightening (inaudible) but at the same time, exchange rate adjustment is essential in this adjustment process. And this global imbalance issue is also connected with this exchange rate policy. And I find this time, China is the most resilient country against the global shock. On this order, growth rate only 6.7 percent and much less affected. And I find one of the basic reasons is the (inaudible) they share increasing rapidly. But this increase of (inaudible) inflation stops in the year 2015. And I find in the case of Japan, in the 1980s, also we have an increase in share (inaudible) in the case of the United States, same from 1997 to 2010. You had (inaudible) the bubble. This is actually coincided with the increase in tendency (inaudible). But this phased out and then you would have many problems. In the case of Japan, after a bubble bust, one of them is a balance adjustment of the banking sector. Another one is what needs (inaudible).

(Inaudible) this is one decade. I find that this

is the adjustment of the corporate sector (inaudible) and then the wages just started to decline, the peak was 1997 and this process declined as a trend in the wage. (Inaudible). So, therefore, I find this demographics very important and my prediction on this global imbalance China can enjoy (inaudible) because of the inverted U-shape of age profile consumption. After the age of 40 years old, around there, there is a peak of consumers and so I find that no problem for the growth, consumption growth in China.

Mr. Brent Goff: Before we go to the audience, Mr. Zoellick, you know the Chinese very well. What do you think if the rhetoric is toned down a little bit, do you think the Chinese are going to let their currency float sooner than later?

The Hon. Robert Zoellick: I think it's an increasingly dangerous moment. I think the mood in the United States in particular towards China is very sour for a lot of reasons. It is certainly sour with the Congress. The Executive Branch is trying to deal with it the best that they can. The business community is sending signals that it will no longer play the role that it played in the past. But the mood is sour in China too because China feels that it had a pretty good

response to the downturn. It tried to play a supportive role internationally. It feels it's being picked on. These are dangerous moments.

Now as far as for your particular question, I agree with Mr. Iwata that I think there is a debate in China. I think that there are some that recognize that by having the peg currency, they give up control of the monetary policy and therefore they run greater risk of inflation. I think that school right now is less dominant compared to those that are loosely associated with the export industries and they are in turn fearful that any increase of the currency could mean that they would lose a lot of business, throw a lot of people out of jobs, that being very socially disruptive. Then you get this terrible conundrum, which is that the Chinese can honestly say the more you pound on us, the less likely we can do something. On the other hand, those that want change say, well, we also feel we face pressures at home, and if we don't say something, will you move? And so I think that combination is going to require some pretty careful economic diplomacy. And it goes back to the underlying point that we both touched on. The real issue here is that China will have to go through structural reforms. But so will the United

States and Japan and Europe. The price change would signal but it doesn't necessarily, like Mr. Iwata said, happen overnight. So that's going to be the difficult period to navigate through at a time that you have a world economy that is still pretty dicey.

Mr. Brent Goff: All right. Let's open up for questions. Let's take three questions right now. The gentleman here. Any others? The gentleman there. Let's go right here.

Audience: Thank you. (Inaudible) and in Washington, DC. Implicit in your discussion was that consumption is what drives growth. If we look at the world ahead, do we need to build over the next four decades homes for about 3 billion people, most will be in cities in the developing countries. At the same time, we need to relocate infrastructure away from low-lying coastal areas as a result or in response to sea level rise, port infrastructure. Gentlemen, how do you propose to move the world from consumption to investment?

Mr. Brent Goff: Okay. The gentleman here.

Audience: My name is Jerry Halter. I am the president of the Institute of New York University. I would sort of share from a somewhat similar perspective

the question he's raising, which is what is the driver of growth that we see in the future? I understand restructuring. But I see very little about investment, innovation, what would really move the global economy, and I would like to hear more about what is on the table or what used to be on the table in that area.

Audience: I am a journalist in Brussels. I had a question for Mr. Rehn, in fact, about the economic governance that was decided last night apart from the translation issue between France and Britain if it is "government" or "governance," what exactly does it mean and would it involve non-Euro countries and how much the policies decided on that level would impact the countries in the European union which are not part of the common currency?

Mr. Brent Goff: Mr. Rehn, do you want to start with that one and then we will go backwards?

The Hon. Olli Rehn: I think this question is extremely important. In fact, I think the successful thing now following the Greek crisis, (inaudible) even though we are overcoming it is what kind of lessons we learn from this. And for me, the critical lesson is that we certainly need to reinforce economic governance in Europe implying stronger economic policy (inaudible)

and especially surveillance of policies including medium term (inaudible) policies especially of the Euro area countries. I see it is in a three-time horizon, the first being the immediate work in the context of Greece where the critical decisions were taken last night. And we have reached a combination point for the better.

And secondly, in the near term, we have to use (inaudible) which will enable us to reinforce economic governance including also the discussion on economic imbalances and divergences between the countries of the European union and the Euro zone. Then we have the third-time horizon which is over a longer term nature which may mean also changes to the legal framework of the European union. From my point of view, the near-term sentence is now the critical one and indeed we have to do our utmost in order to have a more systematic and rigorous (inaudible), including and medium term projections (inaudible) we will make proposals to this effect in the coming spring, and I trust we will have a lively and very substantive debate in the European union on this decision.

Mr. Brent Goff: All right. The other two questions regarding investment. I'm sorry, Mr.

Zoellick, go ahead.

The Hon. Robert Zoellick:

I am kind of sceptical that the road of investment as a principal driver but, yes, infrastructure is very important in this investment seems to be very important. But it could go to the other extreme. In Japan, for example, over the past 15 years, it is a massive investment. It's an over-investment in public infrastructure. China is already investing in 45 percent of the GDP in investments. Does it want to invest more than that? Shouldn't it now begin to enjoy some of the fruits of that investment? Isn't there risks that if it continues with such high rate investments really increases the rates of investments, you may actually be facing with over-investment. And those are the sorts of problems that have occurred in other countries, for example, in Asia after falling periods of very heavy investment, either in industry or in residential real estate. I think the real sources of growth are improvements of the capacity of human capital to innovate and be productive. I think education and healthcare are critical challenges for all of us, both in developed economies and in developing economies. Yes, investment is important.

Infrastructure is important. But I think we need to take a broader approach and just think The key is to focus all our resources into investment.

The Hon. Robert Zoellick: I think the key to growth is productivity. And productivity growth will be driven by different types of investments, depending on the nature of your economy. I mentioned the critical role of demand coming from the developing world now. I think there's actually a great potential here because there are many developing countries where investments in infrastructure, in ports, in roads, in airports could be very important for building their future productivity in growth on the basis of future demand. But also I see great markets for capital goods from many of the developed countries.

As Mr. Charles also mentions in those countries, there's also critical investments in human capital: Early childhood development. So particularly in this crisis, if one of the lessons we learned in the 90s, American economic stability wasn't enough if you didn't get proper nutrition, if kids didn't go to school, you could lose a generation. So actually one of the things we're seeing is but also from both the private sector but also from a public policy point of view looking at

these as potential pools and sources of growth.

And let me give you a real practical example. We have a part of the world bank group that is called IFC which is a private sector investor. In the aftermath of the crisis, an idea that we launched surprising to me started to pick up additional momentum and that was some pension funds and sovereign funds. We now know that the developed market is very risky too. We know there is good growth prospects in the developing market, but we don't really know where to go as equity investors. So we created a \$500 million dollar equity fund that will soon be a billion dollars, focusing on some (inaudible) in Africa and some in Latin America because we're in those markets and we know those possibilities.

I think for those markets. There's huge opportunities. I think also you have a question of how you achieve productivity. And this will be again be a question of is it education policies, is it some of the innovation policies? It clearly is also questions of tax and spending. This is the balance that countries are going to be able to have to work out as part of the right system and I'll connect these two together with one last point.

Take this point about infrastructure privatization which India, for example, is doing some very innovative things. The United States as other countries represented here have got some pretty big debts out there. They also have a lot of assets. The governor of Indiana, Mitch Daniels -- (Inaudible) made about \$4 billion out of that process. Now at the time, it was very politically controversial. Fortunately, it worked out pretty well for him. He turned the corner. But there are other states such as Pennsylvania where this is resisted. I'd like to know why the Indians can draw a private capital of the infrastructure, but it is off limit in the United States. So again there are examples of things that you will see in the developing world that I hope the developed world opens its eyes to.

Mr. Kazumasa Iwata: (Inaudible) the demand for the world economy, some estimates say that in the year 2030 area, \$8 trillion over the coming decade, and we have the region of integration movement and this year Japan, chairing, hosting the (inaudible) meeting in this November and this infrastructure is one of the issues on the agenda. Now going solid and the United States government has already made proposal. We should

establish the free trade area agreement of (inaudible) region. And also our prime minister (inaudible) now there are a number of avenues (inaudible) favored by China, favored in Japan and now the new movement.

This is the trans-proposal that now officially 2002, I find this is a fast sign on the trade from the side of the United States. U.S. will join this and (inaudible) PPP and now this Monday, the initiations started. (Inaudible) and now I find the three or four avenues to establish this and I find this is (inaudible) corporation, not on the free trade, but also the development. And I find this infrastructure investment is very important and also this is relating to the recovery. Now our recovery in the past 3-quarters (inaudible) is of Japan, but still this growth is supported by export to the China and Asian economy and also the policy (inaudible) and so, what is important for this ability is the right choice of economic growth strategy and those are the of this (inaudible) of this gross strategy. I think the government did identify this important area. I find two very important. One is innovation. (Inaudible) and Japan has an Asian strategy. This is actually aiming to the establishment of free trade area of --

and in this context, I find at the same time already mentioned Japan's case public investment not so. I find the crucial thing is to carry out the infrastructure investment. One way to do this is the private public progress (inaudible) on the private sector and expand this infrastructure.

Mr. Brent Goff: Okay. We have about 15 minutes left. Let's take some questions. Did anyone back here have their hands raised? No one? Right in front of me. Who else? Anymore? Is it time for dinner?

Audience: Firstly, we have talked about resources, human capital. I would like to ask Robert Zoellick how (inaudible) because we will face some scarcity with their link to (inaudible). My second question to the panel is also about the economic government but on the world level. What will be the role of the G20 really or what will be the role of the World Bank (inaudible) institutions in the near future and to arraign on that issue, how will Europe organize itself to be linked, of course, to organize itself in the world bank and the IMF?

Mr. Brent Goff: I think he was the only one. Is there anyone else? Okay. You guys can start.

The Hon. Olli Rehn: Concerning the European union

(inaudible) we see this forum and decisions. In my view, we have two correct examples already. The first one is the economic recovery plans which were agreed and coordinated in the context of G20 in the end of 2008 and early 2009 with (inaudible) coordinated global response and fiscal and monetary stimulus when the crisis really hit after the fall of Lehman Brothers. And I think together we were able to avoid this financial crisis and economic resistance turning to a long and deep depression. Of course, we have to be vigilant in order to ensure that our (inaudible) are right and appropriate and they have to be well-timed. In fact, I see that now the next challenge of G20 in the context of the meeting in April and in the Summit in June. We need to discuss and decide a way coordinating a global approach (inaudible) from the crisis.

The other example, I hope, I trust we will get result in that regard is the reform that systems of (inaudible) and regulation which has been worked out in the context of G20 and in fact I see that with the United States, we are very much on the same page and we also moving by and large with the same rhythm in order to get results and have this very important pieces of

legislation adopted so that we are indeed ready to avoid a new crisis and ready to have (inaudible) regulation in the finest of markets.

Mr. Brent Goff: All right, Mr. Zoellick.

The Hon. Robert Zoellick: Two questions: First on resources. The perspective that I see this is how it can be supportive of development and that is critically dependent on the governance policies of a country. And this issue arises now with China as a major commodity purchaser, but it was true with Europe. It was true with the United States and Canada and other countries as well. And the critical need is to for many of these countries to make sure that the investments are done transparently, that one takes every step to avoid corruption, that you avoid enclave economy so you can try to use this for inclusive growth. There's the so-called "Dutch disease" where it can affect your exchange rate and make it harder to have other export industries.

So, again, one doesn't have to see these as problems. This has been a real boom for Latin America, and it's also been a boom for Canada and Australia as major commodity figures. But as in a lot of things in life, it depends on how you use the opportunity. So

the focus needs to be on this agenda.

In the case of the G20, this is a very interesting question right now because I touched on this a little before. In the face of a crisis, countries stood together and that was very important. One should not underestimate this. I am now sensing this gravitational pull back to individual, national, and sometimes regional markets for understandable reasons. People have to deal with unemployment. Look at the preoccupation that Europe has had over the past couple of months about the Greek crisis which also had international dimensions. This is something you're going to see all around the world.

Now, one of the items that the G20 is put for its agenda this year, coming out of the meetings in Pittsburg and London, not generally recognized is that the IMF and the world bank are supposed to review submissions by all of the countries in the terms of a growth and sustainability framework. And this is intriguing to me because when I worked with Secretary Baker at the Treasury in the 80s, we actually tried the similar thing with the G7. That didn't continue. And it is hard first-off to get countries to put in information, do it in the same format. And then, of

course, you have to ask yourself, even if you trust their own forecast, do they fit together? It goes to the balances issue. Is it possible that you see this in the European context that one country can be a major exporter who is the source of consumption and demand. But I think this can become very valuable in identifying those interconnections, trying to support the aspects as we've touched about here about how you can have win-win opportunities in terms of some of the developing country growth. It could also have developed country exports and vice versa. But it is far from being achieved.

You ask about the role of the multilateral institutions. My own view is that there are a couple of things that the G20 has to be careful about. One, it is far better than the G8 because it now has a more representative grouping of world economies, but it doesn't have everybody. You are sitting right next to Karl Bilt, (inaudible) but they and others are very, very sensitive about the fact that they have a role in the world economy, but they're not necessarily included in the G20. This is going to require some customization for some of the smaller players, some representatives of the Africans and others and,

frankly, the G20 started to do this. They had a representative of (inaudible) as a player. But it also means when it comes time to decision making, it is very important to use the existing institutions that have everybody at the table. So the world bank is a G1-86. So, yes, the G20 can steer policy. But it is appropriate if we do development policy, so we bring it back and so that (inaudible) and otherwise that may not be at the G20 do have a seat at the table.

This has another benefit. I think what would kill the G20 is creating some heavy hierarchy structure. We're in a world of network models. The G20 can play a useful world, but it needs to connect to the U.N. It needs to connect to the IMF, the world bank, the region of development banks but also private sector participants.

We talked a little bit about APEC. One of the unusual things about APEC was it was a more post cold war modern institution, although it was created in 1989. It has engaged the private sector much more effectively than some of the traditional institutions created after World War II. I think these are the challenges for the G20. It is on policy agenda, how it works as an effective network, and frankly, the odds

are it is going to struggle. Unless countries feel the need to work together, they will inevitably be pulled by centrifugal forces.

One last aspect is anytime you have a bigger group -- People here from Europe know this -- it becomes harder to get things done. So the G20, I sometimes joked, is a group for our era because actually it doesn't have 20 members. It has about 25 countries. So the numbers don't add up as many other things haven't in this recent period.

But the challenge here will be probably whether you have informal networks. Just as in the case with the European union, my guess is for the past couple of days, the position of France and Germany was rather important. Well, similarly in the G20, you will find overlapping groups. That can be the G7. It can be the U.S. and Europe. It can be NAFTA countries. It can be China, the U.S. and others. It can be APEC countries. But that's the story that's yet to be written, how those overlapping subgroups will move the policy agenda.

Mr. Brent Goff: You just want to interject something?

Mr. Kazumasa Iwata: I just want to comment on

(inaudible) small number of countries called the (inaudible) resource. I find the essential problem is similar to the problem. Nowadays we see a large part of the large resources nationalized. The market does not work very well because of the shortage of investment (inaudible) balance for the future. And I find what we can do (inaudible) is to make function the market with respect to this. This is one thing and it is (inaudible) and then that would stimulate that the use of the cycle and also stimulate the produce (inaudible) it depends on the price. Essentially, I find a similar problem and how to utilize the market and to overcome this shortage.

Mr. Brent Goff: I have been told we need to wrap it up. A comment from Mr. Rehn and then Mr. Collins, and then we need to wrap it up.

The Hon. Olli Rehn: I want to defend Sweden. In other words, Sweden or Finland or any of the other 25 countries are represented in G20 through the European institutions. Of course, we have to reform our policy, our representation and I take the point of Robert Zoellick in this account. That will be one of the major challenges over the next couple of years or maybe the next decade. How do we design such a strategy of

reinforcing the extent of (inaudible) in your area in the context of the IMF and other international institutions and to the whole European union in the context of G20 and other groupings with various numbers.

I don't think we can expect, frankly, a radical reform in the short term and I don't want to hit my head to the wall while I have to reinforce governance (inaudible) inside the Euro zone. But we have to meet a medium term to see how to improve our representation in this context. In fact, I would like to make another comment on G20, which is very important. I agree with Robert that the discussion on macro-economic global imbalances is absolutely important and we have to do the same inside of the European union, inside of the Euro area. I want to use this opportunity to come forth so some of my friends can see and some familiar faces here (inaudible) and Dutch and German friends.

A discussion on macro-economic imbalances is not about (inaudible) export governance of any country in Europe. It is not weakening export. It is to improve where it is needed and to reinforce domestic demand where it is needed and possible. So it doesn't mean if you have a -- I'm paraphrasing -- if you have by

admission and I take Barcelona. It doesn't mean Barcelona should play worse and lower its standard of governance to reach the level (inaudible) so it will be a more equal plane. That's not the purpose. Barcelona can play better in terms of offense and defense and in fact play a European team. That is what the European union is about.

Mr. Brent Goff: Okay, Mr. Collyns.

The Hon. Charles Collyns: I realize I am now standing in between everyone and their dinner, so I'm trying to (inaudible). I very much agree with the remarks of the other panelists that the G20 played an absolutely essential role over the past year and a half in dealing with the crisis and bringing forward joint solutions, coordinated macro-economics (inaudible). It has been absolutely essential in working together on financial issues has been absolutely essential. Going ahead, the United States is fully committed to this process. Other parts of the country also remain fully committed. We have a very long agenda. There are exit strategies that we talked about. There's the rebalancing agenda. All of these are very important. I'm glad Mr. Rehn mentioned that.

Just a couple of words on the IMF. Its financial

base has been substantially improved and that has helped it fulfill this function of providing this emergency financing. There is still an agenda to strengthen the capacity of the IMF by improving its legitimacy. It is still too much dominated by certain voices and there is a need to give more voice to the dynamic emerging economies, that is the G20 commitment to shift the share towards these economies. I think we have to work very hard over the period ahead to achieve this goal in order to ensure that IMF continues to play the important role that it has played over the past couple of years.

Mr. Brent Goff: Gentlemen, thank you very much. We will try to take comfort in your prediction that we're not headed for a double-dip. And to you, folks, it is time for dinner and you can feel free to double-dip when you're eating. Thank you very much and bon appetite.