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Transcript

Martin Wolf, Associate Editor and Chief Economics Commentator, Financial Times, United Kingdom; Global Agenda Council on Systemic Financial Risk:

Good morning. We're going to start nice and promptly. My name is Martin Wolf, the Financial Times. I have had the pleasure of moderating this session on several occasions and it's always been very exciting and stimulating and pleasurable, at least for me, and we have a particularly remarkable panel, I think, today to discuss the issue which I'm sure is closest to most of your hearts, which is: are we out of the mess and, if we are, what follows? The situation is obviously very, very different from what it seemed to be a year ago and very, very much better and we want to address not only the short-term questions of what might happen as we come out of the recession, but also we now have, I think, the opportunity to discuss some of the longer term structural questions in the world economy and we will address those as well.

Now, before I introduce the panel and the issues, I have been – to tell you first of all this session will go on until midday, so we have longer than normal. That should give us time for questions from the floor, at least the last 20 minutes or so, so prepare your brilliant questions. After this is over, there will be – you're asked to stay because we're going to have the spectacle of the South African launch and you all know what that is of, what they're launching, and I imagine that's going to be quite an exciting event.

Now let me introduce the panellists. Starting the far left is Josef Ackermann, who is of course Chairman of the Management Board of Deutsche Bank and a very distinguished representative of the financial-services industry. And, one has to add, a survivor, which is quite something. After the last two or three years, I admire anyone who's heading an institution that still stands.

Next to him is Lawrence – Larry – Summers, former Treasury Secretary and so forth, now Director of the National Economic Council at the Office of – in the White House and, of course, President Obama's principal economic advisor.

Next to Larry is Christine Lagarde, who is Minister of the Economy, Industry and Employment in France.

Next to her is Dominique Strauss-Kahn, a fellow citizen of France and Managing Director of the International Monetary Fund.

Next to him is Zhu Min, who has moved from the Bank of China and is now Deputy Governor of the People's Bank of China, the institution that manages approximately $2.5 trillion, so a very important person in the institution.

And next to him is Montek Ahluwalia, Deputy Chairman of the Planning Commission of India and, as I think I've remarked before in this place, in addition to that, my very first boss. We worked together 40 years ago, I can't – I hesitate to admit this, at the World Bank.

And finally, immediately to my left is Minister Yoshito Sengoku, who's Minister for National Policy at the Cabinet Office of Japan.

What are the issues? Well as far as the recovery is concerned, the short term, a friend of mine, he may be here, Moisés Naim of Foreign Policy, said that the fancy acronym for this recovery which he was giving me, which I mentioned in a blog, is LUV, L-U-V. L is for the shape of the recovery of the European Union, U is for the shape of the recovery of the United States, and V is for the shape of the recovery of Asia and emerging countries. And I rather like this acronym. It seems to me get it very well.

Now, in that very mixed picture in terms of dynamism and overheating that obviously creates big questions about how stimulus should be withdrawn and where, in what way and how differentiated it should be. That's obviously a very big question and that, in turn, depends very much on whether we should see the recovery we're now having as being a genuinely private – we're beginning to see genuine private sector-led recovery or are we still relying on this simply staggering policy stimulus. I would like to remind you that the monetary and fiscal policy settings in the developed world today have simply no historical precedent. We've never seen anything like this in peace time, so that creates a huge issue in terms of how we're going to get out of it, where the tightening should occur.

Then in the longer-term issues we face we all know some of the issues: global imbalances and exchange rate policies, an issue which is being looked at under the direct – at the behest of the G20, the new institutional format for global discussion of the so-called 'multilateral assessment programme'. We have the huge outstanding issues of financial-sector reform, which got quite a jolt last week, as everybody knows, with the announcement by the President of the Volcker Rule, which shocked, astonished, amazed and excited and thrilled, I have to say, people around the world. And we have, of course, on a bigger level too quite fundamental transformations in the relative success and size of nations' economies, the extraordinary continued rise of China and India and, clearly, the discredit into which – and we must be clear about – into which the Western models have fallen. And that raises the question of what the 'new normal', as Mohamed El-Erian of PIMCO calls it, is going to look like.

So, that's the background and with that introduction let me turn, first of all, to his view on the short term to Dominique Strauss-Kahn.

Dominique Strauss-Kahn, Managing Director, International Monetary Fund (IMF), France:

Thank you, Martin. I think, in a nutshell, the news are better, we all know this. Growth is coming back sooner and faster than expected, but we have all to keep in mind that this recovery is still fragile. And it's mostly fragile because when you look in detail in the figures it appears clearly that even if the growth figures are rather good, and the last figures we have from the US are really encouraging, a large part of this is still supported by public funding and the private demand is still rather weak. So the question of when – Martin asked when should we exit from the stimulus which has been put in place, let me remind, by the way, that the idea of the stimulus first appeared on this stage two years ago –

Wolf: By you.

Strauss-Kahn: Thank you. But, okay, now we need to exit, so is it time to end it? And the problem is – there are two problems. The first one is that obviously the recovery is a multi-speed recovery. I like your LUV acronym and it shows clearly that the Asian part of the world is now close to the total recovery, goes fast. It's not exactly the same thing in other parts of the world, including Europe, and so the question of dealing with this different speed in the recovery, especially in the relationship between US and China, is something at which we have to look with great attention. We are not in a system where the recovery looks as if it was everywhere the same thing. It's bound to be sluggish at least in Europe, maybe in the United States and that's one of the big problems for the looking forward.

If we consider the exit, the question is not only the multi-speed, but the fact that the situation is totally asymmetrical. If we exit too late, even if different countries exit at different times, of course, if they exit too late it's a waste of resources, it's bad policy, it's increasing public debt, we should avoid this, we should avoid this. But if you exit too early, then the risks are much bigger and even if our forecast in the IMF is not at all a forecast of a double dip, the only reason why this kind of tail risk of a double dip may appear would be that the exiting of the stimulus would be too – go too fast and would be too early. And in this case, frankly, I don't know what we could do, because most of all the thing we had in the toolkit has been used on the monetary side, on the fiscal side. And so the probability is low, but the risk is high if something like this happens.

So it's totally asymmetrical and because the fiscal system and ability problem is going to be one of the biggest problems, maybe the biggest problem in the coming years, but it's going also to be a problem for several years, the question is not of three months earlier or three months later. We will have to deal with this for five, six, seven years depending on the country. So really the asymmetry between exiting too early or exiting too late is very strong and our recommendation, of course, is not to exit too early, which means probably that all what has been prepared for 2010 in terms of stimulus has to be really implemented.

Now, a second point I would like to make very quickly is that besides the stimulus one of the big things which has been discussed during the crisis was financial-sector reform and finally we come to grips with this financial-sector reform. Another very bold proposal has been made, you just mentioned Obama's proposal, some other thing has been proposed in the UK, and I only have to applaud to the fact that the momentum, the political momentum to deal with the financial sector is still there.

My fear is that we may, at this occasion, forget one of the key lessons of the crisis, which is coordination. And the financial-sector reform has also to be coordinated. There is big risk of thing which will be done only country per country trying to fix the problem of your own problem, of your own country, limiting the risk for your own taxpayer and creating problems in other countries. It's obvious that if you just look for a kind of self-insurance where you deal with the liquidity of your own financial sector and ask it to be at the high level of liquidity you may create a problem in the rest of the world. So the question of coordinating this financial-sector reform is, for me, a top priority and I'm a bit afraid that we are not going exactly in this direction.

So, three – two key messages. First, the situation is better but fragile. Let's look a lot on what's going on in the relationship between the traditional western world and Asia and especially China.

Second message: we have to go ahead strongly in the financial-sector reform, more rapidly than has been done until now and the political pressure cannot wait for supervisory conclaves and the traditional time it takes to make this kind of reform. But we have to do it in a very coordinated way and the IMF, as it has been asked by the G20, will provide in April a report on this question of a contribution of the financial sector to its resolution fund or something like this and I think that this proposal may be helpful to try to coordinate the different ideas which have been proposed until now.

Wolf: Thank you very much. We'll come to the financial-sector reform issue, which for sure is – later on. I'd like to turn to you, Minister Lagarde, and I would be particularly interested in how far you agree that the big danger, as Mr Strauss-Kahn has said, is that we withdraw our stimulus too soon.

Christine Lagarde, Minister of Economy, Industry and Employment of France; Member of the Foundation Board of the World Economic Forum:

Martin, I agree with that principle and – although it's not new, but I think that particularly now timing is absolutely critical and I'll try to give you three examples. We used to operate under the principle of the triple T last year: it had to be temporary, targeted, and timely. I operate myself now under the triple R principle, where we have to pursue the recovery and we have to empty the stimulus package bag that we have and we're certainly going to do so. We have to keep up with the reform programme that we have so that the economy becomes flexible enough to pick up the wind as it comes. And third R, we have to restore public finances. And the timing of that and the balancing between the recovery process that has to continue, the reform that needs to be maintained and the restoration or the restoring of public finances is a tough line to draw.

Second example of where timing I think is critical and it has to do with the economy and the point that Dominique just made; it's how do we combine the public opinion frustration and the necessary time that it will take for the banking industry to restore some of its parameters and to rehabilitate itself with those public opinions. Big timing issue.

Third timing issue, what you described and what we're going to hear from other speakers is that we have this L-U-V. I think the shape of the L is a bit different from the capital L as we see it, but clearly Europe is going to grow slower in terms of accounted growth relative to emerging markets and we see a clear, you know, it's like tectonic plates which are readjusting and we are seeing a readjustment at the moment. The question is how do we regulate, combine, take enough leadership to control the overheating that is likely to take place either on the economic front or on the social-political front depending on whether you are in a rapid growth country or a slow growth one. Again, timing issue.

Wolf: I would certainly want to come back to talk a little bit more about what's happening in the Euro zone, but I'm – and I think there's a very interesting discussion whether we're talking about an uppercase or lowercase L, but either way, the down leg has been rather horrible for many countries, though in fact, I think least of all for France of the big countries in Europe, including here, of course, the UK. So I congratulate you on the resilience of your country in this crisis.

I'm now going to turn to Montek Ahluwalia for a view of what must look – feel very different: no down leg at all, just a question of the size of the up leg in India. You did have a slowdown in growth; is this all over and how do you see the prospects for India and Indian policy over the next year or so?

Montek S. Ahluwalia, Deputy Chairman, Planning Commission, India:

Thanks, Martin. Well, I mean certainly no down leg in terms of GDP, as you say. I mean after four years of growing at 9%, the next two years we average about seven. Domestically, of course, you know, when you get used to 9% and all that it holds up, even the deceleration is a matter of concern, but there's no doubt that the economy, like in many other economies in Asia, has weathered this crisis very well. We assume now that assuming we get back to some kind of global normal, even if it's not the new normal it won't be the old normal, we would hope that in the coming year – I mean our financial year begins in April – we would move from what looks like 7.5% or so this year to something over 8% next year and then get back to 9%. Now there is a lot of questioning obviously that if the global new normal is not going to provide the export-led demand to support this why do we assume that we can get back to 9%? And our answer to that is it's going to be domestic investment led – domestic investment replacing what would otherwise have been export demand and that investment should be in infrastructure. I mean that's the biggest thing lacking in India, so we're really working on whether we have enough projects ready, whether we have the domestic financing mechanisms to support it, and obviously there will have to be some external financing also. I mean we're going to move from what was kind of a near balanced current account to a somewhat larger deficit, but I don't think the deficit will be more than 2.5% of GDP. And I think with the expected revival in capital flows that can be easily financed.

I mean the big question facing us, as elsewhere, is the whole issue of exit. Now, like everybody else, we also resorted to a stimulus. I mean if you measure the stimulus as how much did the fiscal deficit go up, the combined deficit of the central and the state governments, it was about three percentage points higher in each of the two years of the slowdown. Now, we are greatly helped, of course, by the fact that earlier the high Indian deficits used to be compared with the Maastricht criteria and we didn't look very good. But right now, and this is the whole point about comparing deficits is to look at what's happening elsewhere, we're reassured that the Indian deficit is lower than the United States, lower than the United Kingdom. Growth is much higher, the debt ratio is not that much different. So really, all the fears that might have existed about the macroeconomics shouldn't exist today. But the signal we're clearly giving is we need to get back in a medium term to a more reasonable fiscal deficit position. It's not our view that the present fiscal deficit, which will probably be about 10% of GDP, taking both the centre and the states together, it's not our view that this is the normal thing. But we want to bring it down gradually and that's what policy will be aimed at. Meanwhile, we hope that we can see a continuing rebound in investment.

Now, the good news, I think, is that the successful performance of the economy in the short run has in fact created a lot of confidence in the private sector. In fact, there's a marked difference in mood in Asia and the mood let's say in the industrialized world. Maybe we ought to be more worried about things, but the fact is that investors are really quite upbeat.

And I think on the supply side, I mean these are economies which have demonstrated a capacity to grow, so on the supply side there's not a problem, we just need to make sure that the global rebalancing of demand works to our advantage and that's what we're trying to do.

Wolf: Thank you very much and I think it's a very, very important point to stress that solvency relates not only to the deficit but also, of course, the growth of the denominator and nominal GDP. In a country which is growing nominal GDP at way over 10% a year, this is rather easier than one where it's actually shrinking. This is obviously a central point and I can also imagine some pleasure in pointing out the number of developed countries with much bigger fiscal deficits than yours after all the lecturing that you have received.

I'm now going to turn – we're talking now about Asia – to Asia's giant developed country, Japan. So how does – which was very hard hit by the crisis initially, though there's been some bounce back, but there was a huge decline in GDP because of external shock. So we're now going to turn to Minister Sengoku for his view of the prospects for Japan.

Yoshito Sengoku, Minister of State for National Policy, Japan:

Thank you, Mr Chairman. It is my great pleasure to be able to be with you at this annual meeting of the World Economic Forum. I am very grateful to you. In terms of the short-term outlook as well as long-term issues, probably there will be a later part of this discussion which will take this point up. In terms of short-term issues, in the process of correcting the excessive consumption in the US, so it will take some time, in our view. However, the so-called Lehman shock of the year before last caused a major fall in our economy, and from that fall, Japan and other countries in Asia – in case of Japan mainly led by the growth of the Asian economies and China, and also our stimulus package of fiscal and financial stimulus, we are now on the track of gradual recovery. However, in the case of Japan, when we look at manufacturing industries, the rate of operation is still 80%. Recovery is still at that level. Therefore we have a latent internal unemployment held by various business corporations. In other words, many companies try to maintain the employment without laying off the workers. Therefore, we have yet to be on the autonomous, fully-fledged recovery.

So, that's how we see the state of the economy now, but on the 19th September last year, we have achieved the change of government, that is the first major change of the government in the history of the Japanese politics, and the Prime Minister Hatoyama of the Democratic Party of Japan became the Prime Minister. This is a remarkable scene in our history. We have 120 years of parliamentary democracy, and 65 years have passed since the end of World War II, and 85 years with the established democratic parliament. We have seen the substantive, fully-fledged change of the government in this point in time.

Now, when we look at the issue of economic structure, when we look at the post-Lehman shock years, when we had suffered a major blow – not only the world economy, and the Japanese economy also suffered, not only short term, but will have to go through the major change in medium to long term. We have to achieve this structural change. So, at this point of time, in terms of economic structure, the political changeover took place. In other words, we tend to overly rely on the external demand that would like to change the economic structure of Japan – more dependent on domestic demand, and dependent more on the knowledge-intensive services industry led by technology. So, maybe the Lehman shock – it may be the case that it gives us the opportunity to change the economic structure, and it is has an historic significance that we are now are faced with this mission of changing the Japanese economy. I would like to conclude this at this point here.

Wolf: Thank you very much, Minister Sengoku. I guess we will certainly discuss what some of those structural changes might mean, particularly if we are moving towards more domestic-demand led economies. Everybody always promises this, and yet as I pointed out in a recent column, by my rough and ready calculations, at least 70-80% of world GDP is in countries that seem to be hoping for export-led growth. It would be helpful if we diminished that proportion somewhat, since Mars probably isn't a very good import market. Now let me turn to the new Asian giant, China, which has had an astonishingly successful stimulus programme, and a remarkable growth performance last year, which some of us – and I have to admit, I among them – were somewhat sceptical about, so congratulations. We hear a lot about overheating, bubbles, and obviously the government is now withdrawing – thinking, or trying to rebalance the economy in terms of excess demand. So, what does 2010 hold for China and its relationships with the world?

Zhu Min, Deputy Governor of the People's Bank of China, People's Republic of China; Global Agenda Council on the International Monetary System:

Thank you, Martin. As you say, China had a good year, and we have GDP growth at 8.7%. But behind the number, I would say the structure is much more balanced. Consumption growth is very strong, at 15.6%, and if you are looking for the regions, the east coast have a rather lower growth rate, at around 7%, but the middle and the west have 12-14% growth rates. So, within China, the regional imbalancing has been improved. The rural areas have improved too. Infrastructure improved, and healthcare, highways; education centres have been built, because they are part of this 4 trillion RMB stimulus package. Also, a social safety net has started to build up. I think those are the things behind the numbers. However, if you are looking for this year, new challenges emerge. The full challenge I would say is still the inflation expectations. I have to say, inflation is not set yet, but expectation emerges. Last year, China has M2 growth rates at 28.7%. The long growth is 31.7%. It is very strong – a lot of liquidity is in the market. Last year overall, China still has a CPR that was negative, 0.7%. But in December, the CPR number jumped to 1.9%. In this coming year, if oil prices go back to $90 per barrel, and food prices still have pressures on upsides, it will further reform the price, for example, water, power, a few things. In particular, indicators that M1 growth in the past few months much more stronger than M2, doesn't mean the cash flow growth is so strong then, the general money base. So this means money velocity actually increased. So, that was part of this inflation in our expectations. We think they will be very important issues for China policies in this coming year.

The second issue: still most important thing is the structure change, and also deal with overcapacities. The structure issues in China is a remaining structure issue for years – obviously consumption is still lower, investments are still very strong. Yes, 15.6% consumer growth is very strong, but we have 33% investment growth. So, still not balanced to each other. We will pay more attention to stimulate mass consumption. So a serious policy, for example – income distribution policy in the front. Further building of social safety nets: health care, education, pensions, and subsidies for a lot of goods, particularly to the rural areas, to stimulate domestic consumption. We will keep doing that to make sure the consumption will grow. And we hope, and we expect in this year, in the GDP growth rates, and a consumption contribution to the GDP growth rates were more or less equal to investment contribution to GDP growth rates. There will be further time in China where we have a more balanced GDP growth, but as the target still allows them to do.

The overcapacity also is a big issue. Last year, with very strong growth, the heavy industry picked up. We have a 16% industry growth. But the heavy industry growth was 22%; light industry growth, only 12%. With the heavy industry to grow strong, the capacity increased, for example, for steel mill. China have a steel mill several hundred million tonnes total, but the master demand is roughly 520 million tonnes. So it's around 182-200 million tonnes over capacity on steel mill, which is a quite big issue. The same thing happened on cement, for example, shipyard building – they are all the few things. We understand the US consumer is gone. Last year we had a negative 16% export drop. We don't think they will come back, so we have to carefully manage the overcapacity issue, which obviously is an important issue for restructuring.

The second main challenge for China is still the macro-management. I very much agree with what Dominique Strauss-Kahn mentions – the rebound is still very fragile. We expect to see a week of very volatile economic growth in the international arena this year, particularly we have seen the US economy will have bumpy road, quarter by quarter, which obviously will have an impact on Chinese imports – impact on Chinese exports – and so with a consistent macro-management policy, we will continue with accommodating fiscal and monetary policy, and make sure we have smooth macro-management, and make sure that growth paths were stable all the year along, which is also a major challenge. We are shooting for roughly 8% or 9% GDP growth rates, though we are confident we will get the number there. The key issue for China is not number per se; it is rather the quality, the efficiency, the structure. We want to reach a more balanced, more consumption-driven growth for this year; with all the policies in hand, we are pretty confident that we'll probably be there. Hopefully, the international imbalance is gone.

Wolf: Obviously one of the many issues you've raised there is if investment is growing at this rate, and there is such an enormous excess capacity in some crucial industries, many people are very concerned that when we look at the picture in 2011, excess capacity will be even greater, and perhaps later we can come to the question of whether the Chinese government has any way of getting a handle on that issue, which I think terrifies the wits out of many people round the world. The numbers you give, if I remember correctly: your excess capacity in steel must be roughly the total production of the European Union, and vastly greater than the production of the United States or Japan, which after all are not small economies. This is quite a phenomenon. Mr Ackermann, Josef Ackermann: how does the recovery look to you from your industry? Are you back to lending? Many people say you are merely back to making fortunes for yourselves, but there's no credit growth in any of the significant economies. How far is there genuine healing of the financial sector as it bears on its capacity to support growth, particularly in the developed world, where it's clearly a problem, over the next year or so? Before we get to the financial structure issues.

Josef Ackermann, Chairman of the Management Board and the Group Executive Committee, Deutsche Bank, Germany; Member of the Foundation Board of the World Economic Forum; Chair of the Governors Meeting for Financial Services 2010; Co-Chair of the World Economic Forum Annual Meeting 2010:

Thank you. Well, I agree with Christine that probably the L is somewhat too pessimistic for Europe, but I also think that the U and the V is somewhat too optimistic for the other regions. If you look on macro numbers, I think that's somewhat misleading, because as many of you know in the industrial sector, if you look at different segments, where the correction has been 30%, 40%, or 50%, even growth rates of 5% or 7% means that you will have years to wait before you reach the pre-crisis level. That's why I think the situation is still pretty fragile. If you look at the financial markets, they have become pretty nervous again. There are a lot of threats on the horizon. It's asset inflation in some parts of the world. It's clearly the commercial real estate in some parts of the world. It's also what we are seeing in terms of carry trades, which may be unwound. Of course, also sovereign risk has become a major issue – legacy assets still in the banking system. So, all in all, I would say we better keep everything on the somewhat cautious side.

The banking sector is clearly benefiting from the tremendous initiatives being taken by governments and by the central banks, but there's also, of course, the risk of the timing and the impact of the exit strategies, which is pretty unknown to all of us, because we have never gone through that. On top of that, we have a complete change in the geopolitical structure, namely what you just mentioned, Martin – this adjustment to the Chinese growth, to the Chinese capacities means a lot for the other parts of the world. I think we have to cope with that, and in the transition phase from a geopolitical situation where you had a superpower dominating, to a multi-polar world, you will see a lot of uncertainties, and I think you will see a lot of volatility. Now, for banks – those who have been more in the sales and trading have been quite successful, also due to the fact that there was a lot of liquidity in the market. Those who are more exposed to the real economy clearly have seen that default rates are going up, and that the situation in many parts is still not very satisfactory. And some of the legacy assets are still on the balance sheets of banks. Now, lending – there is, of course, always two sides to the story. If the real economy slows down so much, as it has done, the demand for credit is also lower. That has to be taken into account in talking about the statistical numbers. It is also true that the regulatory uncertainties, the taxation issues that have come up, but also the risk awareness of banks, have led to a more cautious credit policy, which has an impact on the credit supply.

Wolf: Thank you very much, and again underlining, at least for the developed world, this extreme sense of uncertainty – very much a contrast, of course, with the very different challenges we see facing Indian and Chinese policy makers. Finally, in this round I would like to turn to you, Larry. How does the US now look, and particularly in the global context you've seen set out? One issue that I'm particularly interested in your comments on: the sort of growth rate forecast we are seeing for the US at the moment, and for Europe as well, do not suggest any significant tightening in the labour market. Will there continue to be a hangover of high unemployment – very high unemployment in the US, in a way reflecting the extraordinary flexibility of its labour market, and the rapid rise in productivity? Does that concern you, not only as an economic policy matter, but even as a political matter in terms of maintaining the general thrust of an open, integrated world economy?

Lawrence H. Summers, Director, National Economic Council (NEC), Executive Office of the President, USA:

Martin, thanks for being here, and more or less, thanks for that question. What we are seeing in the United States, and perhaps in some other places, is a statistical recovery and a human recession. We're gratified by the most recent GDP figure. It suggests that the policies to contain economic collapse have been successful. My judgment, and I think most people who've looked at it's judgment, will be that GDP growth will continue at least at a moderate rate for the next several quarters. What is disturbing is the level of unemployment. This is not just a cyclical – though it is heavily a cyclical phenomenon – but a structural phenomenon as well. Just to put it in a way it's not usually put, one in five men in the United States between the ages of 25 and 54 is not working right now. A reasonable extrapolation would be that following a reasonable recovery, it will still be one in seven, or one in eight, who are not working. That is in contrast to the mid-1960s, when 95% of men between 25 and 54 were working. That suggests quite profound issues that will ultimately impact politics, that impact the decisions that businesses make, and underscore what President Obama emphasized in his State of the Union Address a few days ago – the primacy of jobs. I might also suggest, the primacy of maintaining the flow of credit to medium-sized businesses, as a policy objective. I am very optimistic about our support for an integrated global economy. I think for a whole set of reasons – diversity of its population, the openness of its institutions, the way in which it serves as a magnet for people from all over – I think the United States is very, very well positioned to gain from increased global integration, but it's going to have to work for people if it's going to be politically sustainable. That's why the jobs and the credit agenda are so very crucial.

I might just also say that while I believe very strongly in the importance of growth-oriented policies today, because no one is going to have a healthy fiscal situation in a global economy that is not growing at a reasonable rate. I think it is also essential to recognize – and maybe this is a segue to our medium-term discussion – that in the United States and in other parts of the industrialized world – you know, we're somewhat unique in the United States in doing every six months a careful 10-year budget projection and so our problems become particularly salient. Those aren't done in most other countries, but if they were done in most other industrial countries in the same way our Congressional Budget Office does it, it would not be pretty. And our ability to maintain confidence over the short and medium-term will depend not on taking overly rapid fiscal consolidation, which I think could be quite problematic, but in finding ways to provide confidence that over the medium-term we are not on trajectories where debt grows indefinitely at rates more rapid than income, and so that too is a crucial part of the American macroeconomic policy picture and I think needs to be kept in mind as a general issue.

Wolf: Let me just before – I would feel remiss if I didn't address this issue now, so it fits actually sort of interface between them, which is how the external environment, what's happening in the external environment, particularly relating to the so-called imbalances problem, which is also being addressed, and – I don't think it's an issue we can avoid – exchange rate policies around the world, including those of China; how relevant you feel those sorts of questions are for the short to medium-term prospects of the US, or how much, essentially, this is all still fully within your own domestic control, that there is no – that the external environment is in no sense a constraint on your ability to deliver the sorts of outcomes that you need, not only in terms of GDP, but in terms of obviously generating jobs for these people, I presume many of whom had lost jobs in manufacturing.

Summers: I will leave exchange rates to the Secretary of the Treasury, but I will relate very well to Dominique's comment, that not everyone can have export-led growth. And the way we get to that picture, I imagine, Dominique, is that the countries that have traditionally have had export-led growth desire to continue that export-led growth, and the countries that haven't had export-led growth and have been substantial borrowers desire to reduce their borrowing, and there is an adding-up problem, and I think it's quite a serious adding-up problem, and we do need some policy reorientation if we are going to maximize two things: we are going to maximize the adequacy of demand and its location in the global economy to push growth forward; and if we are going to maintain support for the global open trading system and maintain resistance to protectionism.

You know, one of the last points he made in his writings before he died was, Paul Samuelson emphasized that strong as robust as it was, the principle – some of the most important qualifications to the standard economic arguments for free trade went to situations in which there was significantly unemployed resources and aggregate-demand shortfalls and went to situations in which mercantilist policies were being pursued in some parts of the world. So I think this rebalancing issue is important both, to use IMF-type lingo, in a conjunctural or cyclical context and in terms of the medium-term growth paradigm.

Wolf: I'd like then actually to bring this conversation, which now gets to some longer-term issues, to Dominique Strauss-Kahn. There are two issues particularly that you might want to address. The first is the one that we've just discussed, and you are engaged in this mutual assessment programme, which is a very interesting new initiative, which is actually mandated to you by the G20 leaders themselves, and you are supposed to produce some estimates of the compatibility, consistency, the adding up as it were of policies around the world, the big countries, by April. And then also where we are on the financial-reform question. You raise particularly yourself the question of: are we all doing this in a coordinated way? We have a global financial system. Obviously everybody knows there was tremendous anxiety or distress, or whatever it may be, expressed about the sudden announcement by President Obama last week. Perhaps you would like to address those questions as well.

Strauss-Kahn: Well, thank you, Martin. On the first question, I think that the well-known question of imbalances are looking a little better than before the crisis. If you really want to kind of catch it, we had a huge country with huge deficit, namely the US, and, on the other side, a huge country with huge surpluses, namely China. Now, what happens? On the one hand, the US consumer is saving more. And I think this is going to last for a rather long time because of important change in the households' behaviour. If it's the case, that's good news for the imbalances. Maybe bad news for growth – we'll come to that later – but that's good news for imbalances because, of course, more saving means less deficit both on the domestic side and on the current-account side.

On the other hand, in China those strong stimulus which has been put in place was basically to shift from a totally export-led growth model to a more domestic growth-led model, and this also goes with a rebalancing of the situation. So in both sides things are improving. Is it enough? Obviously not. And when you are looking to the new sources of growth and asking yourself, 'Who is going to replace the US consumer?' If this guy's going to consume less, then everybody's eyes are turning to emerging countries, including China, and hoping that the decrease in US consumption will be offset by an increase in the emerging countries' consumption: China, India, Brazil and others.

The problem is it doesn't add up as easily. It will take a lot of time. It's not the same kind of product. It is very difficult to shift this growth model in China and so what we have been asked to do by the G20 – and the first run will be provided by the Finance Minister in April – is a kind of assessment of what's going on. When you take the different focus from the different countries and just try to add up, does it make sense, or is there some inconsistency? And obviously, we're not at the end of the process but we already see that there will be a lot of inconsistency. And then there will be a second stage from April to the meeting of the leaders in June, where some policy can be suggested to correct those inconsistencies, some simulation can be made to try to see, okay, having those figures which don't add up, what can we do to avoid the distortion and try to have a more cooperative way to look at the future.

I think this exercise, which is totally new, has nothing to do with the different kind of forecasts we had before, it may be very useful. But of course it relies on the cooperation of all the G20 members and their willingness to work together and look at the problems together. I think that the very strong consensus that took place during the crisis and the climate of the crisis is still there and that the willingness to work together is still there. That's the part of hope. We will see how this exercise goes on, but I think that the really – it is very important for the global economy to be able to see that we went through a global crisis, there is no domestic solution, there can be only global solutions. But to be able to assess those global solutions you need to have a vision of the kind of growth model we may have after the crisis which, obviously, will not be the same before the crisis.

Now on your second point – I just said a few words about this before – a large part of the immediate causes of the crisis relied on the lack of regulation, or adequate regulation and supervision, in the banking sector in the US and also in many other developed countries. So they are having a big call to try to reform the system, trying to avoid pro-cyclicality and different kinds of technical things on which I'm not going to elaborate. And a lot has been done. It would be totally unfair to say that the progress have not been already done. But in my view it's not enough. It has taken a long time to build things like Basel II for instance: 12 years. But we don't have 12 years to build the reform of the financial sector today and so we need to speed up. And the political pressure in most advanced economies is very strong and so I do understand why President Obama, others, may have to propose things, and I think they are going in the right direction in maintaining the momentum of this political will to do something.

Now, the point is, as I mentioned before, that we cannot have different kinds of regulation, and different kinds of solution in the different parts of the world. This will not work together and even not only would it be inconsistent, but it may also create new kind of problems. So my call is really a call to a more coordinated way to make these reforms. I think all the proposals that have been made are very interesting. I can have some reservations on one point of another, but that is not the real issue. The real issue is that if we want to do something to mitigate the risk of a new financial crisis – I'm not saying avoiding any kind of financial crisis, we will have other financial crises in the future – but if you want to mitigate the risk then we absolutely need to put in place things which today are not really looked at with enough attention.

Let me just give you one example, the one my institution is working with every day: cross-border banking has obviously been during this crisis one of the major issues. And the way a bank from one country having a subsidiary in another country may repatriate what they are doing where they have subsidiary, creating – solving part of their problem at home, but creating new problems as well. This kind of thing has to be addressed. We cannot have reform of the system which will only deal with the problems seen by each country for its own financial system.

And, again, it may seem to you a very simple thing, obvious, but in reality I'm afraid that we are not following this route and that is why I call on a much more coordinated way to look at this financial-sector reform.

Wolf: Can I just follow that up – I've got a number of aspects – with you, Josef Ackermann. From your point of view, are the regulators the problem or the solution?

Ackermann: Well, they are absolutely part of the solution. And I must say that the dialogue between political leaders, regulators and bankers have become very, very constructive indeed. I think we all know something has to happen quickly to restore confidence in the system. I would, if I may, distinguish between three different layers. The first layer is where we need absolute harmonization on the global level. That is, for all these aspects, where they compete with each other. That is, capital requirements, liquidity requirements. Then you may have the second layer. Then you may have, for domestic reasons, some different regulations: mortgage market in Germany, or in the United States, or you name it. And the third layer – and that is the more complicated one – is where some countries start adding new taxation, for whatever reasons, or changing the business model.

Now how do you do that on a global level? First of all, what is the impact on efficiency of the global financial system? And secondly, of course, what does that mean in terms of complexity for managing global banks. That's why I am saying in all these aspects. And I think we are in full agreement that things have to happen, but we need some sort of grandfathering for implementation. But we also have to ask ourselves, 'What is the trade-off?' The trade-off needs a macro impact study, not only on the corporate level for banks, but also on the economics side. We can stabilize individual banks by having huge capital ratios, but maybe the lending is no longer available. Or many other things: what does it mean if you have specific regulations for certain activities, for the efficiency and liquidity in certain markets. So in that sense it is much more complex and think we should start introducing it and while introducing it we may be able to adapt because things may go somewhat further than what we have anticipated.

Our goal is, and this is the noble task of the financial sector, not only to be resilient to shocks but also to help the real economy and the people to grow and to prosper. And that is always to be borne in mind because it is an optimization issue between stability and efficiency, and if people think we can move back from a market-based system to a bank base, that would be an illusion. We are too far advanced in terms of disintermediation of the global economy.

Wolf: Thank you very much. I would like to turn now to – do you want a make a comment on this specific issue? Yes, please.

Sengoku: Thank you. In the face of subprime loan issue, the Lehman debacle was triggered and led to the global financial crisis, and what is described as investment turned out to be speculation and the short-term sell through speculative behaviours, and also the multiple times of leverage, so a sheer speculation, and in the background there was a state of global excess liquidity, so far away from the demand of the real economy. I think it is the view shared by everyone here. So, then, this kind of extreme generation bubbles bursting and then another generation of bubbles and bubbles. After 1990s in the process of globalization of 20 years this kind of fallacy has been repeated in the world economy in a way. So, some kind of global centre of regulation would be needed, or maybe the case like international solidarity tax to tax the speculative transaction of currencies and others, and that tax revenue could be used for the aid assistance for developing countries or for alleviating the global environmental issues. And, whether the governments in the world would agree to that and accommodate to that, that I think is a major issue.

Now we in Japan, or Asia, shall I say, we have this philosophy of living with nature and we always look at medium to long-term investment. I think capitalism, in essence, has the ethical backbone and lynchpin; so the lesson we should learn is that the capitalism we nurture will be the capitalism to nurture and grow the economy, not the leverage capitalism of selling through, and to serve the real economy and the requirement. So, capitalism should undergo a major change. The entire world should not look at the speculative financial transactions, short-term selling and arbitraging. That would cause the entire fatigue of the world economy. Now, Japan is committed to continue to excel in manufacturing technology activities and green and ecological technology like clean energy and rapid transit and the marine water desalination and so forth. Such advanced technology we are willing to offer to all the countries in the world and to make it as a part of a long-term project by all, and this is going to be a part of a national strategy to cooperate with all the countries.

Wolf: I am very much interested to hear that your language is more or less identical to that of the French President. So, two very major industrial countries both think that capitalism needs pretty comprehensive reform. I think that the issue, very importantly, is probably a little bit beyond the panel, but it is certainly on the table. Then there is another sort of capitalism we hear constantly about: state capitalism and its impact on the world. So that brings me perfectly to you, Zhu Min.

I am going to raise a couple of structural issues with you, one we have already talked about; some of us think that $2.5 trillion in reserves might be enough and that maybe there are higher return investments. Some of us wonder why you are so determined to let the Federal Reserve make your monetary policy, which, as your own government has frequently pointed out, is wildly inappropriate for China now. So there is an issue about how you manage your external policies in the medium term. Exchange rate, reserve accumulation, monetary policies: how is that going to evolve? It has enormous impact on the world and that fits very well with China's idea about how these medium-term structural shifts towards consumption, towards a better balanced economy, is actually going to proceed in the post-crisis era. How to you see these two aspects of your policies fitting together?

Zhu Min: Basically, Martin, thanks for your question though, and this is still the growth model as Larry mentions and Dominique mentions. The crisis tells us a pure export-driven growth model is not sustainable and we have to change it. We are working on it and I think everybody will agree with me, since last year this has been improved. But it takes time because it is a structure issue; in the front it is an income distribution issue, in the back it is social safety-net issue, and then a lot of other issues of financial instruments make people be able to borrow money. But the real fact is that China gets rich only goes through one generation. In the UK it takes 150 years from poor to middle income. In the States, it takes another 60-80 years, three to four generations, for the people to get rich. So the behaviour is very different. I am still a very old-fashioned person; if the glasses work okay I would not throw them away to buy a crystal one. Although my income increased, I would still use it.

So this is lagging behind and we really want to increase domestic consumption but still it will take some time. Internationally, the US have total consumption of $10 trillion a year and the Chinese have less the $2 trillion, $1.65 trillion, whereas India they have less than $3 trillion. So there is still a very imbalanced structure and this needs a lot of international cooperation to manage a balanced and smooth structure change for us to increase consumption and for the other side to decrease consumption as well. I think this is the fundamental issue. I think the whole thing is that everybody sees it and everybody is working on it; we saw on the US side the signal has increased and also the current deficit and consumption stabilize. The upswing happened in China and India, consumption increased. But they need a lot of policy cooperation on an international level because it is absolutely a global issue and it is a long-term issue; it is not short-term, you cannot do the whole thing overnight.

Now I will tell you the good news. The young people in China have very different consumption patterns between the ages of 20 and 30. They have 200-220 million now and they are growing hopefully by more, but I don't know whether they can borrow money because they have no money. That is the first issue. The second issue is, yes, China accumulated a lot of foreign exchange. Everybody talks about that and it is a problem, right? How can we have a more foreign exchange if we have no more money and people say you have too much money? How can this become a problem? I think that is the real issue sometimes that is difficult to understand. During the Asian financial crisis, all the Asian countries run. You need a self-defence ring, enough reserve to protect yourself otherwise you are very vulnerable. We saw what happened in South Korea, we saw what happened in Indonesia, Malaysia, whatever. And we knew that because currencies non-convert, but we still have enough reserve. I think it is a very important issue still today because within the globalization without a very sound global reserve system and we need those things. Number two, this is a structure issue. The reason we have more reserves is because we have more savings; the reason we have more savings is because the other side has less savings, so it is just a migration of the global saving dislocated in different areas. We would be more than happy to have international cooperation on those issues to solve those issues that also require international cooperation and still those long-term issues. But I think this is an issue that needs to be solved and China is open and ready to engage in all this process.

Wolf: I think that is a very impressive answer. I still have this strange feeling that if you sent a cheque for $1,000 to every man, woman and child in China, they would find some way to spend it, but maybe that is a mistake and they would actually all invest it. They could...

Zhu Min: Martin, do you want to be Chinese?

Wolf: I don't think I would make a very good Chinese! Montek, how do you see the structural problems? You have a very different position in the world from China; in this respect, nicely balanced, and this is just somebody else's problem. How does it bear on your own strategy?

Ahluwalia: This is what they call a rich discussion, in the sense that a large number of issues have been raised, so I am going simplify a little bit and just make three points which will cover some of the different issues. The first is we have had a very good discussion on the rebalancing of global demand. I mean it is very simple: if you want to sustain a particular growth on the supply side which is feasible, there has to be the demand to sustain it, and we know that in industrialized countries for demand to go down, somebody's demand must go up. Now, as far as India is concerned, we are contributing our bit. We are trying to jack up investment, Zhu Min mentioned that China is jacking up consumption which is excellent, it makes sense from their point of view because consumption is a very small proportion of GDP. In India's case investment is good but it is still 36-37% and we want to raise that. The net result we hope will be a current-account deficit, not a kind of near balance, so I think in that sense we are small players in the big G20 group, but whatever it is we are going to be contributing to global demand.

Now, from our point of view, to sustain that, we have to be able to finance the current-account deficit, so a lot of the financial reform issues that are being talked about are very relevant for us. We welcome the move in the global financial system to out in place a reasonable regulatory structure. Actually, our banks were always – what now is a great compliment – were boring banks, we weren't out there at the frontiers of innovation. So, from our point of view, the global regulation that is being talked about will bring the global norm closer to the more conservative things that we were doing, though we would still have to move in the direction of financial reform and liberalization to get to what the world thinks is appropriate, and we will do that. What we are concerned about is how that is going to affect flows towards developing countries.

Now, in India's case, I mean it could be argued that bringing in regulatory reform, once the system has settled down, should actually send more flows to developing countries, because we know that what was going on was an artificial creation of a belief that you can be highly liquid and earn high returns in the domestic industrialized country markets. That is no longer going to be the case. So where is it that high returns are going to be earned? Clearly in the fast-growing parts of the world. As and when the financial sector has worked that out, which I hope they will, it should become possible for them to think that in the mediation of savings it ought to be moving towards at least the faster-growing emerging market countries. We are not going to be very dependent on commercial bank borrowing, so even if there is a temporary constraint because of deleveraging, I don't think we are worried about that. Our ability to absorb, to borrow what we want to absorb, will not be affected. We are much more concerned about what happens to foreign direct investment flows and that is not just a matter of what happens in the financial sector; it is a matter of how people perceive globalization.

So I am hoping that we will get the financial reform done, I am hoping that it is a financial reform that will keep in mind that rational allocation of capital will mean more going to emerging markets and less going to exaggerated mortgages, etc., in the industrialized world. But a concern here is whether the regulatory reform will be a disguised form of financial protectionism. Now that is an issue that as the structural reform is played out, and we are glad that it is being done or should be done, in the Financial Stability Board which is now being democratized, all the G20 countries are members, we are participating in the process, I think we want to be sure that disguised financial protectionism does not find its way into the system under the guise of improving the regulatory structure.

So the third key point, I think, and that's going to affect a lot of, you know, investor animal spirits, is what happens to all the protectionist noise? Now, there is genuine concern around the world that there's too much protectionist noise. There's actually also an appreciation that there's much more noise than action, and I think from a political point of view, we know that if you have to – if you're experiencing a downturn, I think the point that Larry made about the numbers of people who are out of a job because actually some of them have walked out of the labour force is much larger than the unemployment rate. Clearly that's a political reality, the world recognizes that, so I'm hoping that the protectionist noise remains noise and doesn't get translated into action.

You know, one of the issues that we need to think about, for the last five or six years, in the industrialized world, the charge towards globalization and integration has been led by the financial sector. The manufacturing sector has actually taken it for granted and not been the leading force in pushing for multilateral trade negotiations etc, etc. It's really been the financial sector. Now, that sector at the moment can be, as it word, in cricket terms, retired hurt, nursing its wounds, understandable, it'll come back, but as a result, in the short term, you do not have, in the industrialized world, an organized voice pointing to the need to maintain an integrated global economy. I was very encouraged by what Larry said, that this is a win-win situation. He said that yesterday in this forum. It's a win-win situation and in the US's long-term interests, an integrated global economy is very important. I think what's going to happen is that the ability of the world to resist protectionist pressure, which is actually now in the industrialized world, this is one of the great asymmetries. 10 years ago, emerging market countries that were bringing down trade barriers, were fighting a lot of resistance and nervousness in their countries, and we've done that successfully and actually created a private sector which is quite open, quite confident, willing to get on with the world. I think it's now going to be – it depends on the quality of political leadership that can be mobilized to make sure that something happens, and this is where the Doha round comes in. You know, the credibility for global action is going to be tested by the Doha round, not by climate change. That's a very important issue, but it's a longer-term issue. I find it very difficult to believe that if the global community can't resolve multilateral trade negotiations that it will be able to handle much more complex issues like climate change. It's going to be difficult.

That's it, thanks a lot.

Wolf: I'm losing control. He covered everything. At least you've done my summing up. I'm losing control, as I knew I would. This is ultimate herding cats experience. Dominique Strauss-Kahn wanted to intervene and I want to offer Minister Lagarde a last word before we might get a couple of questions if we're very disciplined.

Strauss-Kahn: So thank you, Martin, for giving me the floor for the third time, I'll be very, very short. Looking at the new growth model and what we're going to do in the coming years, there are different points and I don't want to address all of them. One is obviously debt sustainability and that will be one of the main concerns for many countries. Another one is the one we were just discussing extensively on the relationship between surplus countries and deficit countries and this kind of thing. But the third one I would like to emphasize on a little is that the growth model obviously will be a low-carbon growth model, and it may surprise some of you that this may be a concern for the IMF, but it is, because when I look at what happened in Copenhagen, it seems to me that the question behind the discussion was not only a question of binding requirements or things like that, but also obviously a question of financing, and I cannot believe that the problem could be as big as we all know, saying that it may be the biggest challenge that mankind ever had to face, that for several generations our kids and the kids of our kids will live in an impossible word and that we will be stopped by traditional financing problems, so then if we have to think out of the box, then if it's obvious that developing countries don't have the money to pay for adaptation and mitigation of the climate change problem, if it's obvious that developed countries don't have the money because they have this debt sustainability problem, directly linked to the solution we provide for this crisis, then we'll have to find innovative ways to finance it and we are going to provide some ideas built around a green fund devoted to finance the $100 billion a year, which is the figure which is commonly accepted that is needed for addressing the problem, based on a capitalization of this fund coming from central banks, backed by special drawing rights issued by the Fund. And we are going to propose a system which will be criticized a lot, but that's not the problem, which provides a very innovative way to try to find a financing to deal with a question which cannot be seen as a huge problem with no solution.

So the growth model out of the crisis certainly has to deal with traditional questions of growth models – debt sustainability, imbalances and all those kinds of things, I'm not saying that's not important at all, it's of critical importance – but also it has to do – it has to be a low-carbon growth model, which means that the financing for this has to be provided, and if it cannot be provided, and obviously it cannot be through traditional and orthodox ways of financing, then we have to find out-of-the-box ideas and we will release a paper in a couple of weeks with one possible of these out-of-the-box ideas based on what we know and what we can do, which is Sirs issuance, so I want to just make this small announcement.

Wolf: Okay. Another big structural issue, Minister Lagarde. I'm particularly interested in two aspects, if you can do them very briefly. Do you have anything you would like to add specifically because I know you've been very involved in the financial regulation thing? And then finally there's the Euro zone imbalances issue. Many of us are concerned that the net pressure in the Euro zone is for massive fiscal contraction and that that will make very, very difficult for it to make a contribution to global growth, and, after all, the Euro zone is the world's second-largest economy. So would you like to comment briefly on those two points?

Lagarde: Well, I will actually try to combine the two, Martin, because I think that it's – certainly the Euro zone experience is relevant to the coordination that Dominique was referring to, and coordination of economic policies, just like any coordination, is extremely difficult and that's what we've been experiencing in the Euro zone. The Euro zone has been in existence for 10 years, the European Union for far longer than that, but to coordinate, to make sure that we adopt the same economic policies, that we see the same urgency at the same degree, at the same level, is a tough call and it's an exercise of discipline that each member has to adhere to, and I have no doubt that all members of the Euro zone understand the issue and understand the urgency of delivering against commitment. It's clearly an everyday test, so when Dominique is referring to the need for coordination, and all of the panel speakers have referred to that need for coordination, I have, I have enthusiasm and concern at the same time, and I believe that in the interest of time, which I believe is very much of the essence, in the face of our public opinions, in the face of the need for development in some countries, of readjustment between others and unemployment rising in many others, I think that in addition to this long-term coordination goal that we should have, which is difficult to accomplish, which is a matter of discipline for each and every member, I would like to commend the IMF and the FSB for the work that they're doing, but my suspicion is that sooner rather than later, they're going to have to enter into a job of reconciliation.

In other words, rather than pure coordination and making sure that everybody plays exactly by the same rules, applying the same models, we're probably going to have to enter into this reconciliation exercise where we're going to have to check whether the rules applied here actually are consistent with the rules applied somewhere else and are trying to achieve the same purpose, and I'll give you one example for that. If we look at the accounting rules, for instance, and I won't bore you with the details of former IAS39, but if we look at the position taken by the FASB and the position taken by the IASB and the goals and purposes and expectations in various corners, I don't see very well how we're going to converge in that respect, and clearly that's wherein, maybe as an alternative or as a pathway towards convergence and coordination, we're going to need these reconciliation efforts. It's not the perfect solution, but in the interest of time, I don't see what an alternative we have at this point in time.

Wolf: Thank you very much. We only have five minutes and I'm going to take one question at this stage, see what – very pointed. Does anybody want? Yes. Person who's got a hand up there. I have a suspicion I might know this person, but of course I couldn't see him.

Chris Giles, Economics Editor, Financial Times, UK:

I have to apologize as another FT person. It's Chris Giles from the FT. Four years almost to the day, the governor of the People's Bank of China sat on exactly this panel and committed China to rebalance demand away from investment and exports towards domestic demand and consumption, and to slow the rate of growth of reserves. I don't know how to put this politely, but clearly we've heard the same thing today and there might be a little bit of a credibility problem in these commitments. Zhu Min, could you answer why we should believe you more today than we could believe your boss four years ago?

Zhu Min: I'm sorry, I cannot see you, obviously, but I cannot hear you clearly. What was...?

Wolf: Zhu Min, the question was, the promise you made for rebalancing was made here four years ago by the governor of the People's Bank. What is different this time?

Zhu Min: Well, it's a long process; it's not overnight things, right? We're working on those things. It will probably will last for another five years, or another four years, but we're working on it. You will see the progress day by day, year by year. I can promise you that.

Wolf: China is a very old country, is the normal answer to these questions. Time is measured differently there. I will take one more question, gentleman here. And very sharp.

Zhu Min: That's my lucky day.

Wolf: Everybody's interested in China.

Participant: Well, you know, you are the man, so.

Wolf: Very quick.

Participant: The question is, I just don't understand why an appreciation of the exchange rate is not part of this rebalancing that you are saying. Even just a few days ago here, you said that you are seeing your currency as stable, stability is a plus, but your currency should not be stable, it should just go up.

Wolf: Okay. Sorry, Zhu Min.

Zhu Min: Finally, finally. Exchange rates is an issue.

Wolf: One minute.

Zhu Min: Oh, I need one and a half minutes.

Wolf: We will be shot. Or I will be.

Zhu Min: I promise I am under your control. It's an issue, obviously within this rebalancing issue, but it's a small part. Exchange rate change will not be able to change the whole thing. We saw experience in Germany, we saw experience in Japan, you change the exchange rates and not necessarily change the global trade balance. I think that's a very important thing. The second thing is that China is a developing country and also a big country and the stability is very important there. There are 1.3 trillion people, people need a job. 70% of GDP are services we trade. A stable exchange rate, I think ,when a crisis comes in, is good for China, also for the world, as I said, and when our neighbour or the other currency depreciates 30%, we didn't do it. When they appreciate another 25%, we didn't do it. This is the path in China, it's a similar package. We stick with the Pittsburgh G20 meeting; the Pittsburgh G20 meeting says the global should coordinate with excess strategy. If the global isn't ready to do the excess strategy, China is ready, and including various things, so the liquidity issues, exchange-rate issues and all those issues. Again, as Larry mentioned and Dominique mentioned, there's a lot of global coordination is required.

Wolf: Okay, I'd love to continue with that issue for the next two hours. I'm going to make three points in 10 seconds, from which I take to be the big takeaways. One, nobody has disagreed, surprisingly, that the great danger is early exit from stimulus rather than late exit, which suggests they're not very confident about the sustained private sector in the developed world. Secondly, there is no consensus on a completely new capitalism, but pretty strong sense that the financial sector shouldn't be allowed to run quite as it did before, but it's that new proposals need to be regulated, coordinated, and there's a lot of regulatory uncertainty out there and it clearly wasn't really disputed. And finally this rebalancing discussion is going to be very, very long and very, very messy, but at least countries are saying the right thing, because they do seem to realize that Mars isn't a good export market.

Zhu Min: It could be long, but it could be very constructive.

Wolf: Of course. It's always constructive. At least, the panel's very constructive. I am pleased to thank the panel; they have been excellent with these huge subjects.