THE BROOKINGS INSTITUTION

STILL IN COMMAND?

THE TRANSLANTIC ECONOMY AFTER THE GLOBAL FINANCIAL CRISIS

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P R O C E E D I N G S

MS. HILL: Ladies and gentlemen, I just wanted to welcome all of you here this evening. I'm Fiona Hill. I'm just about to start on Monday as the new Director for the Center for the United States and Europe, so it's a great pleasure to be almost here, in person, but having this opportunity to take part in this lecture tonight and to welcome you on behalf of Brookings.

Now, many of you in the audience have probably been to some of the -- in the series of the Raymond Aron lectures. It was launched back in 2004, so we're already in the fifth year, and in fact the sixth lecture of the series. My predecessor, Phil Gordon, who is now the Assistant Secretary of State for Europe at the Department of State, started the lecture program, and it was started around the time of the of the Centennial of Raymond Aron's birth, and so of course the series was named after him to honor this great scholar, writer, and philosopher but also to give a platform for inviting distinguished French and American scholars, practitioners, and experts to come together and address important issues to the two countries.

This lecture is very timely, given the current economic crisis, but what's also remarkable is this is the first lecture we've had in the series on the global economy, very fitting, of course, for someone like

Raymond Aron, who is very much a multi-faceted scholar, best known of course for most of his work on war and peace, but he was very much engaged in political commentary and also on economic issues, and many of you may know that in the course of the columns that he wrote for *Le Figaro* for 30 years, many of them were about the economy, or the political economy, and he considered Max Weber, John Maynard Keynes, and Joseph Schumpeter as some of the most important social scientists of the 20th century.

Before I introduce the speakers, I'd like to say a very special word of thanks for the support offered for this series by the Policy Planning staff of the French Foreign Ministry. This lecture series was first started off six years ago with the backing of Gilles Andréani of the Policy Planning staff, and this has also continued with the new directorship of the Policy Planning Staff, Pierre Levy, and with the great support of the French Embassy and also with the help of a Senior Fellow from France, Justin Vaisse, here from Brookings, who is sitting in the front row. So, I'd just like to say again a great word thanks to our French colleagues for their assistance.

Now, it's a sign of the times that the distinguished French economist who is giving our lecture tonight, Jean Pisani-Ferry, who is sitting here at my right, is actually working in Brussels, the center of

European affairs at this moment, and contributing regular papers in both German, French, and English; and he is the director of the very famous Brussels best think tank, the Bruegel Institute, who is one of the main partners of Brookings. They're the think tanks focusing on European economics. Jean contributed to the creation of this institute back in 2005 and also works closely with tonight's discussant, Fred Bergsten, the director of the Peterson Institute for International Economics, our neighbor across Massachusetts Avenue, that wonderfully impressive glass-facaded building that most of you probably walked past on your way here tonight, and we're delighted that Fred is here with us, and I'll just introduce him in a second.

Well, I'd just like to say just a few words about Monsieur Pisani-Ferry who's just flown in from Brussels. He's about to fly again, so we're extraordinarily lucky that he was able to do this. He's had a distinguished career as an academic and economic advisor with numerous positions, including in the French prime minister's Council of Economic Analysis; a senior economic advisor to the French Minister of Finance; as the economic advisor for the European Commission; of course also being a professor of economics and a very celebrated researcher on economic policy in Europe.

Fred Bergsten, who will offer discussant as soon as Monsieur Pisani-Ferry has finished his presentation, has an equally distinguished career and has actually been named most recently as one of the ten people who can change your life.

Fred, I hope you will let us know how we can do this. This is in his commentary on economics.

Well, it's a very exciting thing to be named. I'm not sure what the other nine are, but, anyway, we're very delighted to have Fred here.

Fred, as many of you know, has been the Assistant Secretary of International Affairs at the U.S. Treasury. He's also been Undersecretary of Ministry Affairs, and he's had multiple positions in coordinating U.S.-foreign economic policy, working with people like Henry Kissinger at the National Security Council. Most relevantly, of course, he once was a Senior Fellow here at Brookings, but then he's also been a Senior Fellow at Carnegie and also the Council on Foreign Relations. So, I guess we're all very lucky to have had a piece of Fred over the last several decades. And Fred is currently, just like Monsieur Pisani-Ferry, working on a whole number of issues related to the global economy, and many of you have probably been to several of the lectures at the Peterson Institute on many of these current themes.

So, I'm going to turn over, now, to our distinguished speaker. He will speak for about 30 or so minutes -- 35, 40 minutes; then Fred will come up immediately afterwards and offer his observations on this for the next 10, 15; and then hopefully we'll have a discussion left in the half hour leading up to 7 o'clock and we'll try to finish promptly in the name of economic efficiency.

But we'll have to come down from the podium now so you'll be able to see the PowerPoint. And just again, thank you so much for all of you for attending this evening.

MR. PISANI-FERRY: Thank you very much, Fiona, for your nice words. I'm really pleased to be here. I'm humbled also to be part of this series of Raymond Aron lectures, and it's probably because there's a good thing in a crisis that you and this series were mostly people specializing in foreign affairs have featured that you felt it was time to invite an economist. So, I'm grateful to the crisis also of that.

Obviously, there's a price to that that, you know, there are going to be slides and graphs -- and no equations, I promise -- but I thought that in the name of credibility I have to produce something of this sort.

I'm also very pleased that Fred has accepted to be a discussant. I don't know how many people's life he has changed, but certainly he's changed my life, because when we created Bruegel we took inspiration from the Peterson Institute, and so the fact that I live in Brussels and that I work and what I do is a tribute to his achievements at -- on the other side of the street.

So, I'm going to talk about the transatlantic economy. You may feel that the timing is absolutely right, because the Transatlantic Economic Council meets tomorrow. In fact, it's pure coincidence. We thought -- we understand that it would be a good topic to address, and we chose a time, and it happened to be a time where this meeting takes place.

This is also an opportunity for me to tell you that I'm not among the specialists of the transatlantic relationship. There are several. There's an industry of this sort. There are some in this room. I'm some kind of a newcomer to it, and I thought that from my perspective of an economist, it would be interesting also to reflect on what the crisis is changing or has changed in the transatlantic relationship.

And I'm going to start with some quotes from Fred. Fred is someone who is consistent. He's not volatile. For example, look at what he's said on the U.S. dollar over the years. He's pretty consistent. But here back in 2003, he said that the U.S. and the EU should form some kind of G2, G2 Cokers, because they are only -- they are the only superpowers. And two years later he started thinking about the fact that the United States had in fact to be part of several G2 with several powers, including the EU but also China, Japan, and Saudi Arabia.

And, finally, this year very recently he wrote that in fact there's only one G2 -- the U.S. and China -- and that the European Union, not being able to speak with one voice, is simply unable to be part of this G2 that could become a G3.

So, I think since Fred is consistent, this is not an indication of his relativity but an indication of how much things are changing around us, how fast the world is transforming, and how many replications there are for the structure of international governance.

The crisis paradoxically has in fact both highlighted the importance of this transatlantic economic and transatlantic link and led to changes and to some questions about the permanence of this link. If you think about how fast the crisis transmitted from the U.S. to Europe, how simultaneously the economies responded, this is an indication of the intensity of the relationship. It's a big difference with the crisis of the '30s where it started in the U.S. and took a long time in fact to be transmitted to Europe. Here it was transmitted instantaneously, and this is a simple testimony of the integration, the degree of integration there is. And also there was no decoupling, so there were many talks -- there were many talks about decoupling, but in fact there was no decoupling, and the rest of the world was not able to avoid this crisis in the U.S. to transform it to a global crisis.

So, in a way it's a recognition that this transatlantic link is fundamental and that there is no alternative engine in the world. At the same time, it has led to the upgrading of the G20 and to the demerits of the (inaudible) transatlantic G7, so the impact in terms of governance is in fact a weakening of the transatlantic link.

So, it's a power that we can start from and which I'm going to discuss, and there are several questions I would like to address in this respect -- how the role of the U.S. and Europe have changed as a consequence of the crisis; what is special in this relationship -- so, is there something special that means it has to be valued and kept and straightened beyond history? Because, obviously, history is always important, but history is no justification for keeping things as they are. And I would like to discuss whether there is a kind of transatlantic agenda that comes naturally out of the economic structures and natural economic relationships for the future.

So, what I'm going to do to discuss that is that I'm going to start with some facts, you know, going back to numbers. I'm going then to discuss what I think would be a natural agenda, discuss some of the conditions for effectiveness, especially on the open side, and then compute.

Okay, facts. Whenever there is a gathering with Europeans and Americans discussing about the relationship, there are some big numbers around, you know? And here I have some of the big numbers. I took them from the excellent study that Bruce Stokes and Hugo Paemen -- the recent study on the transatlantic economy -- but you can find similar numbers in many other studies.

Numbers are necessarily big, because our economies are big, and so we can congratulate richly about how big, how important we are. It reminds me, however bit, of the aristocratic Cuban families I know congratulating mutually about how big they are, how important they are, how strong is their relationship with the world around them changing. You can continue discussing and congratulating about those numbers. It does not change the fact that the world is changing. And so I think we have to take a measure of what's happening and question, you know, how big, really, is the transatlantic economy, how integrated it is, and how relevant it is for the rest of the world -- for the world at large.

So, to start with how big, I've gone back to historical statistic that Angus Maddison is providing to all of us about the size of economies over a very long period, and here you have the share of the transatlantic economy and the world GDP over 500 years. And what clearly you see here that in this revolution resulted in a major increase in both relative size of Europe and of the (inaudible) emergence of the United States, and at some point we terminated at 60 percent of world GDP in PPP terms, so corrected for price and exchange rate situations. And that was back in the ’70s and the ’60s, and since then we have started seeing the size -- the relative size of the transatlantic economy declining to read something like 40 percent, which is still obviously very big, but it’s not anymore the situation we had when, for example the G7 was created.

If we go beyond this image and look at some projection for the future -- I do the projection of Goldman Sachs -- they’re not exactly consistent in terms of price levels, so there’s a break in the series, but that basically what they tell you. They tell you that by 2050 we should be roughly back to where we were pre-industrial revolution in terms of relative size and world GDP.

There are various size assumptions behind the projection, but those assumptions are fairly natural. I mean, there’s a lot that has to do with demographics. The rest is catching up so you can be slightly more optimistic or slightly more pessimistic about the catching up of China, India, and the rest of the world. But basically, I don’t think it would change things in a very major way.

So, the times clearly when, you know, we were -- our economies were representing 60 percent of world GDP are gone by far. We're going to go back probably in 50 years at something like 25 percent of world GDP, which is a completely different situation, clearly, in terms of relatively strength and power.

Now, second question is how integrated are our economies? Here look at the share of the transatlantic trade in world trade over a century, and as indicated by the blue bars it has been consistently declining from some 16 percent of world trade to some 5 percent now, so clearly it's much less important than it was and it is difficult to say that now it's an absolutely major element. If we exclude intra-EU trade and intra-North America trade because I take it here North America and Europe as somewhat broader groupings than just the EU and the U.S., it's a bit higher but still the decline is clear. So, a shrinking share of world trade.

And, perhaps more importantly, if we look at who is each region's main trade partner, we find that over time the transatlantic link has become the less important one in this triangle between North America, Europe, and East Asia. I take here that China or Japan but I take East Asia as a region, Europe as a region and North America as a region, so three regions that represent today approximately the same proportion of world GDP at least in purchasing power polity terms. So, it's

-- I mean, it's a good standard, and it's interesting to see that back in 1980, as indicated by the red numbers here, North America and Europe were each region's main trade partner. So, we were each other's main trade partner. Then Asia became more important for the U.S., and now Asia is more important for Europe, too.

So, in few trade terms, the weaker link now is the Europe and North American link, and the main hub, I would say, is the stage reflecting, obviously, the rise of China in world trade. So that's, again, an indication that maybe the obvious corrector of the transatlantic link is not as strong as it often looks.

Regionalism is also on the rise. Our two economies have been very busy building regional trade agreements away from the WTO or, you know, at least, to some degree, away from the WTO (inaudible) system by creating regional trade agreements, and here you have the map on blue basically (inaudible) the European regional trade agreement and in red or orange the American ones, and you see that there is this network that is building -- this is being built -- and competing networks that in fact indicate, again, the fact that there are regional strategies in each case, and that's -- with Mexico being part of both, actually, and that's -- these regional strategies again indicate some distantiation from the standard approach.

So, I would take from that the fact that, you know, again, the obvious corrector, the strength that is often emphasized of this transatlantic link is not as strong as it seems, but I would like to introduce two caveats, and two caveats are important, and I would like to emphasize where, really, this transatlantic dimension matters.

Well, first, that if you take a number of indicators, you can find indicators that will tell you that the transatlantic economies are as small as 20 percent or 25 percent of world GDP -- of the world -- and you can go as much as 90 percent if you take some other indicators. So, I think we should look at those indicators. And, second, the fact that there is significant integration on the financial side and on the investment side between the U.S. and Europe.

So, first, here in terms of the degrees of smallness, the -- if you go from the left to the right of the graph, you start with population, you continue with energy production, (inaudible) consumption. So, you find the U.S. part or the North American parts are in red, the European parts in blue, and the rest of the world in red; and so you find some indicators for which, you know, we collectively do not matter that much in the world. And then you go to the other extreme and then you find bond markets, international debt markets, or foreign exchange reserves, and you find that overwhelmingly the U.S. and Europe are the two players.

So, in striking that you have such a degree of variation and in striking that in all those fields you find both North America and Europe as being significant relative to each other. So, I think that's where we should start from in terms of determining what is special in the role of U.S. and Europe in the world economy where they've become just players and where they retain a specific role.

The other dimension that I wanted to emphasize is the strength of the financial links. Unlike what's happening to trade, whenever you look at capital flows or capital stocks -- I think capital stocks are more significant -- you find that degree of integration -- this is tentative numbers. These are numbers for 2004, because it's difficult to build. I mean, those numbers are not readily available. It's difficult to build those numbers for recent years. But basically what -- they tell you that the strength of those bilateral links has increased and they very much dwarf the links that exist with other regions of the world. So, we have these links and we have this relative strength.

What I would take from that -- and that would be my conclusion from this series of graphs -- is that this is a very uneven landscape, that we have field where you in the U.S. are merely players in the world economy, alongside other players, and I would say that it's obviously the case for energy, for whatever has to do with climate, and we see that clearly in the discussion pre-Copenhagen with food but also in fields such as trade and increasingly, I would say, macro -- and we're going to go back to that.

And then the field where they return in the monopolist role, and I would specially emphasize market regulation and currencies. And so I would like just to discuss now what this implies.

Moving this to the discussion of the agenda, if you take from -- if you start from the observation of this sort, you would wish to say that, you know, there are different types of fields. There are fields where Europe and the U.S. are merely players, and there you would wonder whether there is anything special in their relationship, in their role, and you would venture that naturally they would basically interact as other players, big players but other big players, in a multilateral setting, depending on preferences and interests, and maybe keeping a founding father's role because of history but not having any special role beyond that with respect to other players.

And then you would go to monopoly fields where their position, their role put them in the situation of being the providers of some global public goods, like the rules -- setting the rules for the global economy, supplying global currencies -- and then you would suggest -- would be led to suggesting that the approach there should be that there would be some form of co-responsibility in supplying those global public goods -- in other words not to abuse the monopoly power or the new monopoly power but to use it engaging other players in order to influence the rules of the game.

And so I would like to use this benchmark to assess the situation in a few fields and assess achievements. I will start with trade. The trade case is interesting, because things have happened already. Up to 2003 to the conference of the WTO, there was this vision that the U.S. and the EU were the two major -- the two big players in the game, and so that essentially a trade deal was a deal between the U.S. and EU and that all the rest would, in the end, you know, come to some form of consistency between -- with the deal between the U.S. and the EU.

In 2003 there were suddenly the realization that it was no more the case, that simply a deal between the U.S. and the EU was not a sufficient condition for a global deal anymore, that the topics that we, on the transatlantic side, wanted to put on the agenda were not accepted by our trade partners, and since then the scene has completely changed.

So, we still have the U.S. and the EU but we have, obviously, the new players. We have India. We have China. We have Brazil. And the nature of the international negotiation has fundamentally changed. So, in fact, we are part of the (inaudible) framework. We have interests. We have sectoral interests. We have strategy. We have alliances. And in some cases -- I would say in the best of cases -- to find that the U.S. and the EU are pushing in the same direction helps find an agreement. But that's the best we can do. It's kind of an ordinary economic relationship between two major players in a world that has become more complex.

Interestingly, the SIM seems to be happening in the macro field. The macro field was the (inaudible) of the G7, and the G7 was essentially transatlantic with Japan as part of it but, you know, vast majority of countries being part where U.S. and Europe, and we were used to thinking that whatever is taking place in the G7 -- all the decisions, the discretionary impulses come from G7 countries. The rest of the world basically reacts to those inferences. And the G7 also serves as a steering group for giving some blessing or some suggestions to the Bretton Woods institutions in dealing with the situation is the rest of the world. That was very much the implicit (inaudible). It has worked like that, including -- until the early years of this decade.

So, the G7 was not a very effective group internally in terms of coordinating policy, but it was a rather effective group externally in terms of precisely taking initiative and giving blessing or suggestion to the IMF on how to deal with crisis in the emerging world.

The crisis has changed all that and to an extent that is considerable. The macro response to the crisis was coordinated at G20 level, and in fact the G20 -- non-G7 members had delivered a stronger stimulus than the G7 members. This graph is taken from the IMF estimates, so you all the G20 countries, and the bar represents a size of the stimulus delivered in 2009 by the countries, so in response to this coordinated stimulus program in percent of GDP. And I've put in blue the European countries, in red the U.S., and in kind of a dark red the non-U.S. and non-European countries. What is striking is the many emerging countries that delivered more stimulus than Europe. And on average, according to IMF estimates, the G20 stimulus is at the same level of the U.S. stimulus in spite of the fact that the European countries have delivered less. So, in fact, the stimulus by the rest of the world compensated the lack of stimulus on the European side.

Now, the Europeans would say because of the size of automatic stabilizers in fact delivered more. Perhaps. I mean, that's a secondary discussion. What I think is absolutely striking is that for the first time we went much beyond the traditional approach of, you know, dealing with macro policy at G7 level, and that was not only in terms of words; it was in terms of actual decisions. So, this has, I think, put us in a different world where not only the traditional players are macro players but new players also. So, it's a new conversation that is starting, and at the Pittsburgh summit there was a framework adopted for international coordination, and that's this framework --essentially ambition -- has the ambition of coordinating the next step, the exits from the crisis, the rebalancing of world growth, addressing global imbalances, all that at G20 level. So, the macro conversation has moved completely, and for good reasons, because we know that the imbalances discussion is not a discussion that can take place within the G7; it has to take place with countries not belonging to G7 -- first of all, China -- but this transatlantic dimension has here disappeared.

And what is interesting also is the G20 framework actually requests countries, depending on the situation being in deficit or in surplus, to pledge to different policies; and the question comes, you know, whether it applies to Europe as a whole or to European countries individually. So, the G20 is actually trying to achieve what has not been achieved so far within the G7, which even that hasn't been achieved within the EU or the EU area. It's a very ambitious agenda that they are starting, and that's, again, a completely new discussion.

Okay, let me move now so to fields where I think we have a different situation where Europe and the U.S. are more monopolist -- have more initiative that is a determinant. In a book that we published two years ago, edited by my colleague Andre Sapir, we said the U.S. and Europe are the regulators of the world, meaning that essentially the rules that they set are the rules for the world economy for reasons that have to do with market size in not the standard in PPP terms but in current dollars terms. It still represents 60 to 65 percent of global demand and of sophistication. And interestingly what we observe in many fields is that there is not a race to the bottom but a race to the top. The more demanding the standards you set, if you are a big enough economy, since there is a fixed cost to satisfying your standards -- think of, you know, car safety or whatever this sort -- you have to adapt to the standard, and when you have adapted -- when a producer has adapted -- there is limited cost to using the standards in other markets. So, basically if you're a big enough market, you can set a standard that then becomes a global standard. And that's true both for, you know, technical standards, but it's true also for a number of standards. You know, you can think of a physical product, of a (inaudible) product in roughly the same way.

We have also, interestingly, the situation with competition policy where if you are a big enough market you can say I want you to sell in my market; I want you to be competitive so I want those companies that wish to merge not to merge. That happened with G.E. and Honeywell with European decision under Commissioner Mario Monti. This happened again with some recent decisions for Microsoft. So, basically, if you have a big enough market you have a lot of power that you can use. And here the situation is a situation where market regulation is really a domain where the U.S. and Europe run the world.

This leads, therefore, to think in different terms about bilateral agenda. If we take the bilateral agenda as it has developed, there have been many attempts to integrate, to create some sort of free-trade area between Europe and the U.S. We can go back to the ’60s. We can go back to the many projects in the ’90s, and again and again this has been disappointing. The recent evolution, the one of 2007, was to put not so much focus on the trade dimension but on the regulatory dimension, on the regulatory dialogue, and on the fact that there was a rule here for discussion on cooperation in setting the rule for the global economy, and in my view it’s a very positive move, because it has moved away from an area where there’s not much to gain to an area where there is clearly a joint responsibility of magnitude between Europe and the U.S.

However, we can observe that there have been few achievements, and even few achievements from this recent initiative, so, as I said, the TEC is meeting tomorrow, but the observation we have on what has been achieved -- and here there are people who know much better than I do -- but I just refer to what the progress report writes -- that there hasn't been much in actual deliverables, you know, just ongoing discussions making incremental progress and not delivering any big result. So, in spite of the willingness to focus on some lighthouse projects where there was the expectation that something would be delivered, I don't know exactly why -- perhaps some, you know, too much emphasis on detail and perhaps more lack of ownership in this process that was initiated but was not really supported politically by much ownership on the part of the two sides. Anyway, this discussion in spite of, again, I mean, what could be hoped to be delivered in this field has not yet delivered much.

So, pre-crisis we had a relatively slow convergence of standards and rules between the two sides. We had some interesting experiments going on in different fields, including on the accounting side where my colleague here, Nicolas Veron, has written on the global accounting experiments which consisted in some contracting to the private sector's definition of standards. It was the approach adopted by Europe, and there was some hope of convergence. But there was -- the record was relatively mixed.

Now, what has the crisis brought here is essentially that with the enlargement of the financial stability forum into the financial stability board, the emerging countries have been drafted into, you know, the group that is supposed to write the rule of global finance for the future. It's an interesting and important -- very important experiment, because we have both the combination of a clear leadership of the U.S. and the EU in this process, because certainly, you know, whenever you have to decide on the reform of financial regulation, the countries where the system is the most sophisticated are the countries where the problems arose because of the sophistication of the system that have the most important role. So, there's a combination of leadership and participation of all the players, which is kind of the spirit of what I was mentioning is an open-source approach where, you know, you have the leadership but also you include other players.

Interestingly, we see emerging some notion that maybe the rules that are adequate may not be the same for everyone because of the different degrees of sophistication. And it was Andrew Sheng, the scholar of Hong Kong, who said, you know, do we want rules for Tata and Ferrari? We have to decide what kind of rule we want globally, because maybe we don't need exactly the same rules, and I think the fact that their participation -- there is wider participation and the setting a rule is bound to bring this kind of discussion.

So, in a way I would say that's a positive change -- difficult, certainly, but positive that the G20 has given to the -- widened (inaudible) business this role.

At the same time, we're seeing some challenge to previous achievements, and especially we're seeing that on the accounting side there may be some divergence after the movement was convergence that we saw in the past.

Let me move to my second topic where we can also characterize the two players as monopolists, which is a domain of currencies. While it is well known then international currencies have natural monopoly corrector because of network effects kind of the same as for language -- language -- the number of people who use your currency is a strong determinant of the attractiveness of this currency, and this is why -- and we all know that -- this is why we've had historically one internationally currency.

Interestingly, sometimes there were more than one. And the discussion that has started now after especially the famous paper by Governor Zhou of the People's Bank of China in the spring -- the discussion that has started now is the discussion about, you know, whether we are going into the long run to towards the multicurrency system and with the role of the euro as an international currency becoming possibly a stepping stone towards a system of this sort.

So, this is the discussion that is very much still at an early stage where people have started -- restarted essentially -- conversation that has disappeared entirely for many decades since essentially the end of the Bretton Woods system after the nostalgia had disappeared. You know, everybody was used to the situation and considers that the situation was stable. Now, a new discussion has started.

The discussion involves interesting controversies about, you know, what view the U.S. could be in a book that I edited with Adam Posen of the Peterson Institute a few weeks ago -- was published a few weeks ago. There was a discussion between Fred and Larry Summers where Fred was mentioning that the possible competition from another currency would be a healthy competition for the U.S., and Larry Summers was in clear disagreement and saying that he didn't see the point and the reason why there was a need for competition. I think that's a discussion, again, that is starting, but what is clear here that I think there's a wide consensus on that is that whatever the range of change is possible in the medium term, the only possible alternative in the medium term is the euro and is a wider role for the euro that would be then a step towards some more fundamental changes in the longer -- in the longer run.

The state of play in this respect is that the U.S. dollar is the (inaudible) currency and is very clear -- and again I'm referring here to this book that I've edited recently -- that the euro is a regional currency. It's a regional success. It's a clear success, but there is no indication of the wider role beyond the regional role. So, you take, of course, a range of indicators from the exchange rate policies (inaudible) from the reserve, from the trade invoicing, from (inaudible) instrument. You find always the same, that basically around the euro area, the wider region where the euro is in use, but it does not go beyond at this stage -- at this stage.

So, the question is whether this incumbency advantage is just a reflection of the fact that there are so many advantages of using the currencies that exist or whether it's because of some self-limitations on the side of the euro area. And I think that there are some of these self-imitations that exist. This clearly is a growth potential of the euro area. This is a question that questions about governance system ability to behave in a situation of crisis, and we saw that, for example, with the provision of SWAP agreements, the very different attitude of the Federal Reserve and the NDCB, the degree of financial integration that underpins the currency, the existence of an integrated bond market, and the attitude in general towards internationalization of the currency. So, here there are a number of questions about what is the attitude in Europe.

The crisis has highlighted the role of the dollar. At the same time it has led, interestingly, to questions about, you know, what is this role going to be in the medium term. And this graphic presents a network of SWAP agreements that were introduced in the fall of last year very clearly with a central role for the SWAP agreements provided by the Federal Reserve for responding to both, in fact, the role of the dollar and the attitude of the Federal Reserve in providing dollar liquidity toward the Central Bank and the reluctance of the CB to do the same.

Okay, what is the conclusion from all that? I think we all have to remember that Dean Atchison used to say that, you know, the gestation period for monetary arrangements is very long, twice as long as for elephants, referring to the Bretton Woods agreement; and so whatever is going to change is going to change over the medium term. What I would consider useful is a serious discussion on those issues between the U.S. and the EU and a discussion that would, you know, not be exclusively about short-term exchange with developments and their implication and the frictions they may lead to but about also some more longer-term implications.

These discussions would ideally also involve some other players, and, you know, there is a need, in my view, to a discussion of this sort to develop because, again, if we consider that stability in the long run imply that there is some correspondence between relative economy (inaudible) and the structure of international monetary arrangements, then it justifies having such discussion.

So, summing up and getting closer to conclusion because I'm running late, what I would like to emphasize is that, again, we have at the same time this kind of move to a very ordinary relationship in fields like trade and I was saying macro, and there's a scope for special relationship on regulation and currencies. So, the question is, you know, what -- and this brings to the conclusion -- what are the conclusions; what are the conditions for some effectiveness in this respect? And especially I would say the discussion is a discussion about Europe. (Inaudible) this is certainly the field where I feel more competent about whether Europe is ready for having a discussion of this sort and whether Europe is able to that.

Well, Europe, in terms of overall attitude, certainly has moved very much in the direction of emphasizing its ability to shape the global environment, to shape the global economy as one of the key roles it wants to have. And this is taken from a declaration of the European Council, the declaration on globalization, where the European Council after discussion had started on, you know, whether globalization represents a challenge to Europe concluded that the EU was in fact in a position to influence globalization, to shape globalization. So, rhetorically, I think this kind of approach that I was suggesting is very much in line with the way Europe has indicated it wants to go.

Now, there's a question of ability to deliver effectiveness, and in this respect generally the difficulties that the EU has in external communications essentially reflect these difficulties at home in determining who is responsible for that. So, internal governance very much determines the effectiveness externally. And here, in a way, I mean, the two fields are emphasized. Market regulation and currencies -- they are clearly responsibilities of the EU, not of national governments. I mean, there is some scope for discussion on market regulation. But essentially the single market brings the responsibility for the EU and for the currency it (inaudible). So, there is less of a risk of a kind of fragmented power syndrome in this field than there are in some other fields, like, for example, micro policy where at this point the responsibility is, by definition, shared.

However, there are questions on the European side on two -- on two -- on both dimensions. On the regulatory side, there's a question on the ability of the EU to take initiatives and to, you know, put forward an agenda. It is striking that after the crisis Europe has forward a rather limited agenda, and in fact it has focused on sorting out the problems with the responsibilities for the provision and the role of macros provision that was in fact assigned initially to countries that has to be scaled out to the

European level. So, that's essentially what Europe has done in effect after the crisis.

It hasn't put forward a major agenda for reforming financial regulation at global level. And there's a question of even whether the G20 -- taking the leadership with the U.S. having a much wider agenda for reform here, whether the G20 in some respect is going to in fact substitute the European level for a number of initiatives. So, I would say there's a question here that is not -- that doesn't have to do with legal powers but more with ability to use these legal powers and with the initiative.

Currencies -- on currencies it's a bit the same in a way, because clearly responsibility is a new responsibility, and it's a big responsibility, but the questions that are raised go much beyond the responsibilities of the CB. The question that -- the conditions for the EU to take a wider role have less to do with monetary policies and with the underlying dimension of financial integration of micro policies of crisis management, so questions that involve governments are also. So, I would say that in those two fields there are questions about, you know, Europe's ability to engage in discussion of the sort I was advocating.

And I think I should stop here with just saying that, again, this discussion is more perhaps a European than the U.S. obsession and that whatever happens we will continue being important players. But the degree to which the crisis has changed a certain number of dimensions of this discussion is striking, and I think there are deep questions for Europe as regards its ability to engage in a fruitful discussion on this basis in the years to come.

Thank you.

MR. BERGSTEN: It's a great pleasure to walk across the street and participate in this session here at Brookings. I'm not sure if Brookings and the Peterson Institute are the G2 of American think tanks, but we can at least argue the case in our parochial views in this part of Mass. Avenue.

Fiona introduced me with this comment that somebody had referred to me as one of the ten people who can change your lives. That was a little survey *USA Today* did a couple of years ago. But she only gave half the quote. The full quote was, "These are ten people who can change your lives that you never heard of." The full quote puts it a little more in perspective.

It's a particular pleasure to have an opportunity to comment on the remarks of my good friend Jean Pisani-Ferry. We've been joint authors together. We've been colleagues for many, many years. And whatever the situation here in Washington in terms of think tanks, his essential role in creating and managing Bruegel has added a very major dimension to the global think tank network and really in a very short period of time has become the leading voice in Europe on a whole range of issues, particularly -- and now with its focus starting up -- Europe's role in the world economy. Too much of the previous European thinking had been inward focused. That may be part of the problem that we talk about here in terms of Europe's global role, but certainly Bruegel has made a massive effort to correct that lacuna from the past, and I want to congratulate Jean on the enormously successful initiative that he and his colleagues have achieved just literally in a period of fewer than five years.

I'd like to do three things in my brief remarks. One is to talk about the transatlantic leadership role, the GEs, and all that; second, just a few small analytical comments, because I agree with most of what Jean said but I have a couple of points that like any good commentator I have to put on the table to dissent; and then, thirdly, really dwell a little bit on the issue that he quite rightly focused on at the end where the U.S. and EU have a collective responsibility for global leadership, namely in the currency and international monetary area.

On the GEs and all that, Jean started out by suggesting that I may not have been totally consistent. He gave you some quotes where I had different G2s in mind. But let me suggest that I have been totally consistent in the following sense. Throughout my career, which goes back now too many decades to recount, I've always been looking for partners for the United States to co-lead the world economy, because even going back a long way I felt that the U.S. could not and should not do it alone and needed partners. Indeed, if Jean had added to the list of quotes, he would have gone back to the mid-1970s when I was promoting what I then called bigemony between the United States and Germany. Helmut Schmidt gave me massive grief for even suggesting that a country the size of Oregon, which was the Federal Republic West Germany, had any business in the same league as the United States despite the DM being the world's second key currency for the entire post-war period pre-euro.

So, that has been my theme, but the implementation of that theme has led to the progression of suggestions for partners that Jean pointed out. Indeed, I would suggest that Europe missed its moment. In a certain historical period, certainly through the '90s and even into the early part of this decade, Europe -- and particularly Euroland as it came into the picture -- was unquestionably the other and only other economic superpower, and so there was a period when Europe could have partnered with the United States to be a joint leader of the world economy. And indeed in a couple of areas where Europe as a group had joint competence, like trade, there was for a while a functioning G2. But Europe failed to develop joint responsibility, joint positions, joint representation in very many other areas and therefore I think missed its moment in a big way.

That's not historically unique. Japan, as it became feared as the dominant global economic competitor back in the '70s, already into the '80s and into the early '90s, also missed its moment to become a true global economic leader and its last 20 years of course it disqualified it from that status. What has happened in the meanwhile is that we now have witnessed the emergence of a third global economic superpower along with the U.S. and EU, and that's of course China.

But China, despite having some internal politics albeit of a certain sort than we do, does speak with a single voice on most issues, can indeed cooperate with the United States, which more or less speaks with a single voice, and therefore is the candidate now to provide that joint leadership of the world economy. I could go into that in great detail. I won't do so further. But I do think that the facts on the ground suggest we have moved very far toward a U.S.-China G2. Quite properly, neither country will ever use the term. Both will deny that it exists. Neither would want to rub other countries' in the fact that it is en route. But anybody who participated in the strategic and economic dialog here three months ago observes the way the two countries have moved together on a whole variety of issues including, now, climate change. I think we find it hard to deny that that's the closest thing we've got to a kind of global economic caucus within the G20, the steering committee for the steering committee, which is needed because the 20 is too large.

That's obviously not to say that Europe is unimportant. Europe is a necessary participant in virtually all internationally agreements that will have meaning, but when you think about where the real action is and where the most important agreements are to be found as necessary if not insufficient conditions for global agreement, it's between the United States and China, and I think we are moving very far in that direction. Europe, in a way, helped set that up by missing the moment when, had it gotten its act together as a global actor, it could have clearly established a functioning G2 with the United States but would have of course had to accommodate China and others as time passes but would have set in place an organizational structure that certainly would have persisted for quite some period of time.

Second, a few analytical points. Jean mentioned in his recitation of facts a few key elements where the U.S. and Europe together were or were not critical to the global picture. I would add one. As some of you know, at Peterson Institute my colleagues -- Gary Hufbauer and several colleagues -- came up with a calculation a few years ago that tried to estimate the net impact on the U.S. economy of globalization.

In fact, it was Larry Summers who suggested that we try to come up with a single figure to capture the impact of globalization of the U.S. economy and so with a few heroic assumptions and methodological creativity, we came up with the suggestion that the U.S. economy was one trillion dollars per year richer as a result of the globalization of the last 50 years -- if anything, incidentally, a conservative estimate. But we built it up with four different models, different perspectives, and a nice round number of a trillion dollars per year.

In a subsequent exercise we then tried to disaggregate that regionally and came up with the conclusion that about 300 billion of the trillion -- fully 30 percent of the total -- was due to the U.S. economic relationship with Europe, and that was far greater than any other piece of the trillion dollars. Note that's a much greater share than the U.S.-Europe trade share. The reason is what Jean stressed -- the financial side of it, particularly the huge two-way direct investment flow between the U.S. and Europe, which we weighted pretty heavily in that calculation and concluded that 30 percent of the globalization gains to the U.S. came from the relationship with Europe. I suspect that somewhat similar ratios would apply if it were done on the European side, and I would suggest that (inaudible) make similar calculations as it goes forward with his work program in Brussels.

A second analytical point, where I frankly think Jean made a big error, was in his chart on slide 14, where he was showing the share of the transatlantic economy in the world, and if you recall on the far right-hand side of that slide was a bar for foreign exchange reserves in which he showed, I think, if I read it right, that North America and Europe accounted for the overwhelming share of the total. But that can't be right, because we know that China alone has 10 times --

MR. PISANI-FERRY: Currency.

MR. BERGSTEN: Ah, what's at forex reserves.

MR. PISANI-FERRY: Currency --

MR. BERGSTEN: You mean liabilities.

MR. PISANI-FERRY: Yes --

MR. BERGSTEN: Ah, okay, point corrected. Obviously in terms of reserves, you know well, that would not be the case.

MR. PISANI-FERRY: It would be at the other end.

MR. BERGSTEN: It would be -- exactly -- at the other end. Just wanted to clarify that for the audience.

Third analytical question, which I won't elaborate but bears elaboration and particularly at Bruegel with his work program on Europe and the world. Jean mentioned but did not dwell on one big component of the current G20 and global macro debate, namely, the rebalancing issue --

the need not only to achieve concerted recovery from the global recession but to do so in a way that does not replicate the big imbalances of the past, which, at least on my view, Ben Bernanke's view, were a major source of the crisis itself by creating monetary conditions that were conducive to under-pricing of risk, over-leveraging, and all the things that brought on the crisis.

The European aspect, as Jean hinted but didn't elaborate, was that there are huge imbalances within Europe the same way there are between United States and China. Indeed, the Germany-Spain imbalance is not so different from the U.S.-China imbalance as shares of the economies of both. Yet, the intra-European imbalances have escaped most international attention. Jean poses a question. Is it a intra-European question or is it an external question? The Europeans of course try to have it both ways. The Germans in particular say well, don't come to us about our surpluses, because we don't even have a currency. We're behind the euro, and that's everybody, and so how could we do anything about it even if there were a problem. But the fact that Germany is the world's still largest current account surplus country, it should not escape attention in the international debate as to where to go with the international adjustment process to avoid replication of the kind of problems that cause the crisis -- yes, in Spain and Ireland and others within Europe, as well as between the United States and China. So, just one more dimension for the research agenda at our partner institute in Brussels.

Jean asked, in ticking off the U.S.-Europe agenda, why have the results been so few and far between, and why, as I suggest, did Europe miss its moment? Well, a lot of the efforts were on the trade side, as he said. There you ran into two problems. One was that barriers weren’t very high already, because sides had brought them down and, much to the credit of Europe, incidentally, recall the history of the transatlantic relationship. Every time Europe did take a step forward -- treaty of Rome, creation of the EU itself, the expansion to the UK, the subsequent expansion to others -- each time, the U.S., disliking the new discrimination against its trade that was generated, called for a multilateral initiative to reduce barriers at the global level, and to their great credit, though sometimes kicking and screaming, the Europeans agreed to do it. And that’s a very important historical pattern, because the same thing may now happen with Asia, because as Asia creates a block, as it’s clearly in the process of doing, it will discriminate against both Europe and the United States. Hopefully, Europe and the United States will together insist that the new Asian block negotiate multilaterally to reduce its new barriers, its new discrimination against us, and hopefully the Asians will take that part of the European experience seriously and comply and agree to do it. But of course that means the U.S. and Europe have to get together and pursue it themselves and be willing to do as the U.S. was back in the previous generation, put its own barriers on the table, and make a negotiation politically possible.

So, that I think is part of what happened in the Europe-U.S. case. Because the barriers at the border had been largely reduced, the effort, transatlantic dialogue, etc., was to go behind the border to regulatory and other changes. Those turned out to be politically very difficult, not very sexy politically, and the whole thing foundered, although I would suggest a more responsive European approach would have helped solidify that G2 of the type I talked about before.

Finally, there is one big area -- Jean was exactly right -- where we have a duopoly where the U.S. and Europe are -- Euroland, to be more precise -- are the only game in town. The renminbi as an international currency is far down the road. Japan clearly missed its moment. The yen is nowhere. And so it really is the euro and the dollar with the dollar still the senior partner but clearly a movement in other directions. I would (inaudible) a little from Jean when he says and didn’t (inaudible) recent article with my former deputy director Adam Posen that the euro was only a regional currency. I think that’s a little excessively modest. Countries from China to Australia and a few others around the world clearly are diversifying their reserves at least modestly into euro. When you move out of the dollar, you do move into euro. That is the alternative. Jean is exactly right. And so a number of countries around the world are doing it at least modestly. It's in the eye of the beholder whether it's big or small, but it certainly is happening, and as diversification continues, the euro's role will play an increasing position.

The other analytical point I would make is that when Jean describes the reasons why the euro has not become a more global currency, I would emphasize one that he did not cite, which is the absence of fiscal consolidation of the EU or even Euroland, and not so much for macro reasons but because only if there is a fiscal dimension to European integration will Europe ever develop a euro-wide capital market that could compete with the U.S. capital market.

In short, they need a euro bill to compete with the T bill if the euro is really to compete with the dollar, because the overwhelming advantage the U.S. still has -- particularly for the dollar as a reserve asset given the liquidity preferences of central banks around the world -- the overwhelming advantage of the dollar in the United States still, despite that the two economic areas are the same in size -- is the financial market in the U.S. with a T bill, which, as the crisis showed when everybody ran into it, despite the U.S. being the epicenter of the crisis, the T bill was the asset of choice. And even well before the crisis and now well after the crisis we hope, the T bill is still the instrument of choice for foreign central banks and others with very high liquidity preference, and so until the Europeans come up with a competitive financial instrument -- call it a euro bill -- I don't think they will have quite the capability to compete with the dollar fully at the global level.

Now, the Europeans have not sought a global key currency role. They certainly are not attempting to compete with the dollar. But I think the system is moving in that direction. I would say desirably so. If that's the case -- final point -- what does that mean for U.S.-Europe cooperation? Well, Jean said we should have a discussion. That is my want. I'll try to push that discussion a little forward by putting a couple of specific ideas on the table.

If it's true that the U.S. and EU, or at least Euroland, are the joint custodians of the world's two global currencies, then I would submit there is a systemic responsibility. What is it? A global financial stability.

Currencies are the lifeblood of the world economies, same way the national currency is the lifeblood of your domestic economy, and so there's a responsibility to manage that in a constructive and stable and supportive way of global economic activity.

However, if you look at the record of the U.S.-euro or the dollar-euro relationship over its first decade of coexistence, the record is anything but stable. Ten years ago, nine years ago, the euro was worth 80 cents to the dollar. Now it's worth $1.60. Not exactly a stable financial relationship.

There have been periods of prolonged misalignment between the two currencies. I think now, frankly, they're right about at equilibrium level, as we at least would define it, but there have been periods of prolonged misalignment, and there certainly have been periods of huge fluctuation. Indeed, in some sense, when countries like China, Russia, others complain about the volatility of the dollar, what they're really complaining about is the volatility of the dollar-euro rate, since the euro is the other currency under they which they might move and since it takes two to tango for any exchange rate to be volatile or stable.

So, if there is a collective responsibility, then it would seem to me that the two custodians -- Euroland and the U.S. -- have a responsibility to support more international financial stability. In addition, there's a specific issue. If you believe that there is a long-term secular diversification process going on now from dollar to euro -- it will inevitably will occur over time, particularly as Europeans move toward creating a euro bill -- then you have a worry about a kind of secular downward push on the dollar, upward push on the euro that may not be desirable to either, depending on how that happened by diversifying countries. Think Russia; think Argentina; think Australia; think many countries with large reserves in various periods of time who may not have systemic stability at the center of their concerns. Then there's, I think, a U.S.-European responsibility to manage that process in an orderly way.

So, there are two possibilities. On the second one, the diversification, the straightforward thing to do is to put in place a substitution account at the International Monetary Fund where countries who want to diversify dollars to euros, or anything else but it would mainly be dollars to euros, can do so off market. The problem, of course, is that if China decides to diversify a third of its $2½ trillion into euros, there will be big, big effects on the markets. The dollar goes down, euro goes up, neither country likes it, and in fact the effect is probably hugely magnified by the psychological effects of a big reserve holder like that moving out of one asset into another.

The straightforward way to circumvent that problem -- doesn't solve all the issues but comes pretty close -- would be to create as substitution account in the IMF so that a country wanting to diversify could do so off market, put its dollars into the IMF, get special drawing rights in return. That achieves diversification very clearly and ipso facto not as much as moving wholly into euros but with the trade on benefit of minimizing systemic instability.

Such an account was actually negotiated for a period of a year and a half back in the late ’70s when we had the previous period of moving out of the dollar. The negotiations came very close to reaching agreement. Failed to do so for some technical reasons, and then the dollar started to strengthen, and so the countries diversified and forgot about it. But it could easily be brought back, and if we thought there was going to be a secular move out of dollars into euros, that would be a straightforward way to minimize the instability risk that would result. The U.S. and Europe could get together and do some things bilaterally, but I think the IMF is more readily available.

On the broader point of avoiding huge volatility between euro and dollar and, more importantly in my view, avoiding prolonged misalignment, the straightforward way would be to dust off another idea, which as Jean said for some others has been dormant for a couple of decades, and that’s the idea of target zones for the currency. Broadband plus or minus 10, even 15 percent, that would make no effort to pinpoint the relationship between the currencies but would put wide bands around them so as to limit the huge overshoots in both directions, which we have seen in the dollar-euro market over time. And so if the two authorities were serious about exercising their collective responsibility for reducing instability in the global monetary system, that would be a well-thought-out, well-researched, well-understood way to go. It's controversial. I don't suggest that there's anything like unanimity to go that way. Indeed, both the official and the academic consensus at this point is on the other side, but it would be, in my view, a very positive and constructive way to go. It would be a way for the EU, and Euroland in particular, to reclaim a G2 role, at least on the monetary side, in an area where it still does have duopoly power, and therefore the implications would be broad as well as narrow.

Thanks very much.

MS. HILL: Well, we didn't keep to our promise of being relatively prompt, but we've been talking in nice triangular fashion about the EU, the U.S., and China, so in the spirit of threes rather than twos and given the time, I'm going to take three questions from the floor, and then allow our G2 to respond to them. So, I'll try to take one from the back, one from the middle, and one from the front if there is anyone.

Okay, gentleman right to the back. I think (inaudible).

SPEAKER: Hi.

MS. HILL: Yeah, please, and then there was someone in the middle over here, and then a gentleman at the front. And I'm sorry for --

SPEAKER: Yeah, a quick question about your categories. Your conclusions followed marvelously from your categories, but you gave three different -- probably unintentionally -- three different definitions of "transatlantic," and they are contradictory to each other. One is the U.S. and EU, but the EU and its precursor, EC, didn't exist before 1950. Surely there was a transatlantic economy before then. The second definition on your chart of the rise and fall of transatlantic economic power you had four or five groups of countries -- among them Eastern Europe, Western Europe, America, Canada. But Eastern Europe has not been a part of the transatlantic economy except since 1991. Not all of Western Europe was before 1945. Some very big chunks certainly were not. So, that would lead to the third definition, which is the transatlantic is not a fixed group of countries but a growing group, and the only definition you gave, which you discarded, half recognized that. That was the G7, an institution of the transatlantic grouping, which recognizes Japan as a part of it, and the existing transatlantic grouping. If one looked at the existing transatlantic groupings in history, well, we're not finalizing decline or trying to rise in a stabilization. OECD today is 73 percent of the world economy. There's no decline there compared to OECD in 1965 or OEEC in 1955 or the actual transatlantic group in 1935. One would see horizontal growth of the transatlantic grouping as more countries become first-world democracies, vertical growth of other countries as they catch up economically. That's a very stable world situation. That implies a lot of the current dialog is unfounded.

MS. HILL: Okay, could we take a question here in the middle and then at the front, and then -- actually I just see one gentleman over here. We'll just take these questions. We'll make it four and then go for our panel.

PROF. BRAUNERHJELM: Pontus Braunerhjelm, professor in economics, Royal Institute of Technology, Stockholm, and I -- Mr. Pisani-Ferry, you argued that there's still some monopoly power for the EU and the U.S. to exercise when it comes to regulating the world economy and also shaping the future of the world, so to speak. And I think Mr. Bergsten agreed to that. I'd like to challenge that a little bit. In the short term, yes, probably; in the medium term, perhaps; in the longer term, less likely I would say. And then Mr. Bergsten also hinted at that there is still some power that can be exercised from the Chinese sides which could shake up currencies, have an impact on interest rates, trade situations, etc., if you believe in the saving glut hypothesis that could then incur, make your shifts in the economy, etc. So, how is that? Shouldn't we bring the third party on board from the start then? Thank you.

MS. HILL: All right, thanks.

And then this gentleman with the blue tie and then one person over here.

MR. BARKER: Hi, Tyson Barker with the Bertelsmann Foundation. You guys had some discussion of the success, at least perceived success, of the U.S.-China strategic and economic dialog and that that is sometimes used as code for a G2. On this, the eve of the Transatlantic Economic Council, I think it's safe to say that there is no talk of the TEC being a G2 of any sort. My question would be given the fact that regulatory issues in particular and accounting standards, IPR protection, all these issues that you've mentioned in which the U.S.-EU relationship still holds a monopoly hold on standards (inaudible) globally, what can we judge as being a success from tomorrow's meeting other than the fact that it takes place?

MS. HILL: Okay, it's (inaudible) back here.

MR. MULVANEY: Thanks very much. I'm Sean Mulvaney. I'm the director of Economic Policy at the German Marshall Fund. I realize your open source analogy which gives the opportunity for the U.S. and EU to kind of model the way but in an inclusive way, and my question relates to how you see if the Lisbon treaty is ratified, which we think it will be, how will that impact the ability of the EU's ability to create coherence in external relations on economic policy so that maybe some of the things that both you and Fred talked about can come into a reality where there's a Brussels effort to help the collective action of working other EU capitols into a better posture?

MS. HILL: Thanks very much, and apologies to everybody else who wanted a question there, but we have four actually extremely broad-ranging questions on the transatlantic definitions; the long-term impact of China on U.S. and EU monopoly power; whether the TEC will achieve anything here tomorrow (inaudible) sitting here is going to the meeting tomorrow and has to listen to it; and then the impact of the Lisbon treaty. So perhaps Jean, if you would like to start and then we'll let --

MR. PISANI-FERRY: Okay, thank you.

Well, I fully recognize that my definitions are not entirely the same throughout the presentation I made. I mean, I was relying on data and so there's some data limitation. But basically I don't think, you know, any sensible definition would make a major difference. What was proposed by the gentleman, who's left actually, was that we would take a definition -- an institutional definition -- and that by broadening the group, the group would become large enough for it to be stable -- a stable share in the world. Certainly, I mean, but the OECD now includes Mexico. The OECD is trying to include other countries, so balancing that, you know, it's relevant with respect to what I was trying to do. I was simply trying to present a simple fact that, you know, this transatlantic economy has grown as a proportion of world GDP enormously and that its process has come to an end and it has been reversed. I think any sensible definition would give the same.

On the monopoly of shaping the rule, and that related to the question about the open source, yes, I agree there's no monopoly in the long term. It's an absolutely temporary monopoly or duopoly that relates to the fact that all markets at this stage have the size and the sophistication that give our economies responsibility in defining those rules and that nobody can really challenge that. It's -- the challenge is very near. If you take, for example, the standards for, you know, mobile telephony. Ten years ago it was obvious that the standards were defined in Europe and the U.S. Now the next step might be that they're going to be defined where the markets grow, which is likely to be China and Asia in general. So, things are moving extremely fast. But there's a window, and the window where when our economy (inaudible) still in a position to have a very strong influence in the definition of the rule.

And then there's a question of strategy. The question is, you know, how you use this power, how much inclusive -- how inclusive you are. I mean, does the open source analogy that you -- basically you use your influence to shape the rules but at the same time you adopt the strategies that give ownership to other parties depending the rules that you are, you know, creating in order for them to consider to mold that they have ownership, that they're rules, they are able to reform them, they are able to change them in some direction but they don't need to destroy them just because they've become more powerful. So, I think that's really -- you know, for the next 20 years that's a major strategy choice for us. In 20 years, certainly the power of the U.S. and EU in determining the rules will have greatly diminished. So, in this respect I very much take the point that Europe has missed its moment, that, as Fred was saying, but I think the moment is not totally over. In this respect, it's still there, and so that's what I would consider a major, you know, success when you say what would be the success of TEC, and I'm not going to talk about the meeting tomorrow. But basically the strategy challenge is that. I mean, to be able to ensure a sufficient degree of convergence and a sufficient degree of inclusion to let you know that you shape the rules for the future.

Now, will Lisbon help? Yes, Lisbon will help if only because not having ratified and really defaulted the treaty would have, you know, major political consequences. At the same time, I mean what we're speaking of are not fields where Lisbon will make a major difference. I mean, we speak of, you know, single marker, single currency fields. They're already there, and we can't expect anything major to happen as a consequence of ratification.

MS. HILL: Fred.

MR. BERGSTEN: The hour is late, and I will therefore comment only on the one question that Jean skipped over, and I'll do so by polling the group. This is a group of about a hundred close observers of U.S.-Europe relations, self-selected. How many of you were aware that the TEC is meeting tomorrow? (Pause) That's more than I would have thought. Maybe 10 percent of the group. That's more than I would have thought. Case closed. Not much G2 across the Atlantic anymore.

MS. HILL: Well, I think we had a very impressive G2 here. Hopefully now, Fred, (inaudible) people, if they didn't know you already, will know that you can change their lives.

And, Jean, we'd like to thank you very much for flying all the way from Brussels to give this lecture in the middle of what's a very hectic time for you, given the global economic crisis, and we look forward to seeing more of the fruits of the collaboration between the two of you, and hopefully we'll be able to welcome you back to Brookings.

Fred, it’s much easier, because you cross the road, but back to Brookings again.

And thank you to everyone else for coming to the Sixth Annual Raymond Aron Lecture, and again thanks to our French colleagues for making this possible. I hope you have a great evening.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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