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THE G20 AND PROSPECTS FOR INTERNATIONAL COOPERATION ON ECONOMIC AND SECURITY CHALLENGES

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P R O C E E D I N G S

MR. JONES: Good morning, ladies and gentlemen. Welcome to Brookings. Thank you for coming. My name is Bruce Jones. I'm the director of the Managing Global Order Project and I'm delighted to welcome you here today. For many of you it's welcome back and for those of you who are frequent visitors will know that you'll notice that we've changed the name of the project. It used to be the Managing Global Insecurity Project. It's now the Managing Global Order Project.

In an abstract way that reflects our sense of a need to concentrate our focus on the changing balance of power, the rise of new actors, and what the implications are for foreign policy, for international order strategy, and for international architecture. Although I have discovered that there are some risks in the title. I introduced myself to one of Brookings' trustees the other day and told him I ran the Brookings project on managing global order and he looked at me and said, well, you're not doing a very good job. So sometimes it feels that way.

From the beginning of this project we've been preoccupied with attempting to generate a research and a conversation within the United States and between the United States, its traditional allies, and the new powers on the changing nature of the global challenges. And it seems to me that that challenge is in two parts, at least.

One, the mere fact of new actors -- newly influential actors, a change in the balance of power in the international system, poses its own complications, its own challenges, its own insecurities.

Second, the fact of deep underlying global integration makes us all simultaneously and, in a sense, symmetrically exposed to a range of transnational and global challenges that have greater salience now than they may have done 10 or 20 years earlier.

Those two challenges taken together, it seems to me, make international cooperation ever more vital, but also more complicated. And if we look out to a range of different issue areas to see how we can organize international cooperation, it seems to me obvious that it will involve the new actors -- in some cases new fora, new tools, even new architecture.

What we're doing today is launching a new dimension to the project -- a global order speakers series designed to bring to Washington the people who've been involved in a deep sense in the management and the navigation of these challenges. And we couldn't be in better shape than to start off this series with The Honorable Paul Martin.

Paul has been involved in this project from its outset, but much more importantly, served as prime minister of Canada from 2003 to 2006. That, of course, that period coinciding with the Iraq war, among other international events. And even more importantly for our project, served as Canada's minister of finance from 1993 to 2002 during, among other events, the East Asian crisis. And was during that period, quite literally, the father of the G20 -- established and led the creation of that mechanism in response to the East Asian crisis. And then, of course, that mechanism became central to the response to the global financial crisis in 2008.

So we're delighted that he could be here with us here today to give us some of his thoughts on that process and what it means, where we are now, and what it implies for where we're going.

Joining us is also, then, my friend and colleague Kemal Dervis, who is the vice president of Global Economy and Development here at Brookings. But has also played a critical role in managing the global financial crisis, as Ban Ki-moon's Sherpa to the G20, and then informally as a key advisor to the successive chairmanships of the G20 process. So we're in extremely good hands to start this conversation and let me start by inviting you, Paul, to come to the stage. (Applause)

MR. MARTIN: Well, thank you very much, Bruce. Let me just say to you that coming to Brookings to elaborate on the G20 is certainly the equivalent of carrying coals to Newcastle. There is -- this is -- Brookings is certainly one of the centers of innovative thought in terms of the G20. And to be here with this audience to talk about what the G20 means that if I'm smart I'll be relatively short and I will open it up to discussions because I think there's as much that I can gather from you as you can certainly gather from me.

Let me just say, therefore, that the reason that the G20 finance ministers was created during the Asian crisis, as Bruce has indicated, was the recognition that the interdependence of nations was a different form of globalization than that that had hitherto existed. And that the single biggest problem that most countries faced -- and at that time Canada had just come out of a very severe financial crisis itself -- was the threat of contagion, as domino after domino would fall and that the necessity of dealing with contagion, obviously, was not to build borders around countries, but was to make sure that, in fact, we could deal with, in fact, the way in which contagion occurred and the threat it constantly opposed. And that was the reason that the G7 was found wanting, simply because of its limited membership. And that the greater group, involving not only, obviously, China, India, or Brazil, but a group of nations representing, in fact, the world could come together and discuss these issues.

Now, the question I think that has to be dealt with is certainly the one that after every G20 summit is this question about, what is the measure of success? There had already been three stages in the G20. One, as Bruce has just indicated, was its creation in the late ’90s -- the G20 finance ministers -- followed by its convening by George Bush in Washington as the G20 leaders as a result of the great recession. And then the third stage, in my opinion, was the Korean meeting of last year, the first time that an Asian country had held a G20 summit at the leaders level and, in my opinion, a major, a major step forward.

Now, the measure of success, in my opinion, is quite a bit different than the measure of success as determined by most press commentary after a G20 meeting. Nine times out of 10, the measure of success under those circumstances is, of course, how have they dealt with the flavor of the month or how have the dealt with the latest headline -- the Korean meeting, as an example, having to deal with both what was declared by the Brazilian finance minister, the currency war following QE2, and, obviously, the necessity or the need to deal with, as Tim Geithner said going in, with the fact of the Chinese control of its exchange rates.

The fact of the matter is, of course, that no summit is going to deal with an issue as fundamental and as intractable as the issue of evaluation of the Chinese currency, in one meeting. I think that the success of the G20 in that particular case is what was set up, were the mutual assessment programs of the G20 countries themselves. The spillover programs of the IMF, at the behest of the G20. In other words, when you've got a problem that is as deep and as intractable as that, it's going to require a certain amount of analysis. It's going to require a certain amount of working together before you're able to deal with it.

So, I think what's important to understand in terms of the G20 is that it is not only the summit meeting itself. In fact, that is probably only the means of getting some much more substantial work done in between meetings. And I, again, in that basis refer to the MAP -- the Mutual Assessment Programs -- and, in fact, the spillover effect.

Having said that, this does not mean that the G20 can only rely on deep and involved studies, that there are not issues where the time has come, the decision must be made. And there are two of these I would simply like to lay in front of you for the court -- for your discussion. Obviously, we can go far beyond this.

One of the questions that has to be asked is, why did the G20 finance ministers not prevent or more adequately deal with the threat of a financial crisis -- the banking crisis -- the one that we are now living through? Because you've got to remember that the G20 finance ministers was, in fact, created by another banking crisis: the Asian Banking crisis. So why was it they weren't able to deal with it?

And the reason is that the G7, at the same time as the G20 finance minister were created, put in place the Financial Stability Forum, which the G20 inherited. And the Financial Stability Forum was supposed to, in fact, lay the groundwork so that the kinds of banking crises which we have just lived through would not occur. The problem was that when the G7 did it, they limited its membership to G7 nations and a couple of others. They gave it neither authority nor scope, nor did they give the staffing that was required, nor did they give it any authority to essentially tell nations to get -- to prevent regulatory capture or to get their act together.

The problem is -- and then 10 years later, when the G20 leaders was formed, the first demand that was made was that the Financial Stability Forum, in fact, be given that authority and be given a wider membership, which it did. The Financial Stability Board was created with a wider membership: the full membership of the G20 as opposed to only the G7 nations and a couple of others. But it was not given a membership much broader than that. In other words, it was not given a membership equivalent, let's say, to the 180-odd nations of the United Nations.

It was supposed to be given authority to act, but so far it has not been given that authority to act, the Financial Stability Board. It was supposed to be given the scope, the ability to determine its own procedures; it has not been given that. And more importantly, it has not been given any kind of an enforcement mechanism beyond peer review and public shaming -- which really doesn't work -- in order to, essentially, impose upon the banking systems of the G20 countries the ability to accept minimum common standards between the countries.

Let me just explain why this is so important. What we're now seeing is massive debates between the United Kingdom, Europe, and the United States as to how, in fact, their banks should be regulated and what are the components of that kind of regulation. Huge differences. If those differences persist as they slowly solve their problems, you're obviously setting up an opportunity for regulatory arbitrage. For countries to pick those with the easiest regulation, depending upon it. And we're now seeing it as Barclay's Bank is really threatening the U.K. with the threat to either move to Hong Kong or to move to New York.

So, the issue that I believe in this particular case, the issue that the G20 has to come to ground with -- this is one which they cannot put off -- is to give the Financial Stability Board the opportunity to coordinate international regulation. In other words, national regulation will always have to be the front line, but the fact is we cannot continue any longer without some kind of a coordination of minimum standards. And the best example of that that I can give you is the Chinese now have the two biggest banks in the world. One of the Chinese banks has just announced the takeover bid for a 14-chain banking -- retail banking, deposit-taking institution here in the United States. And the fact is, we cannot go into the next 10 years with the possibility of either China, India, or anyone -- Brazil -- any one of the emerging economies as they grow, is going to do to us what we have done to them with the failure of our banking regulations because, I tell you, if we do that there is no stimulus package that's going to get us out of it.

Even more to the point, take a look at the United Kingdom and the United States, two countries which are faced -- well, the United Kingdom, in any event, which is facing up to its huge deficit problems. Eventually, the United States is going to have to do this. And they are going to be imposing, as the United Kingdom has done, huge austerity on their people. And they will not be able to withstand a banking crisis in four to five to six years. And so, what we have to do now is to prevent it. I believe that is the number one priority of the G20.

The second issue I'd raise, and then I'll cede the chair, is something quite different. At the Korean meeting, Korea put development on the table. This was very important. Up until that point there had been some kind of debate, should development be dealt with by the G20? Korea made it very clear, development was part of it. And one of the things that they recommended was that an infrastructure fund be set up for the developing world, which I think was a major step forward. There is a subcommittee of the G20 consisting largely of private sector people who are looking at how this infrastructure fund could be set up, primarily for Africa, Latin America, and certain parts of Asia. But nobody talks about it. And if you talk to the individual countries -- the G20 countries -- none of them really know that this is going on.

The French have announced it, but I've talked to them and, basically, it's on paper, but nobody really is paying much attention to it, except the developing world. I have just come from Africa. The Africans are working very hard on preparing themselves for this, the creation of this fund out of the G20. They are doing the kinds of work which is necessary in terms of energy grids, in terms of regional links, and the kinds of things that one would expect them to do. And it's a tremendous step forward in Africa. And if the possibility is to get China to participate along with other countries, as opposed to being a sole actor in Africa on this issue, it would be a tremendous step forward.

Well, I'll tell you, if, in fact, the G20 in France simply leaves this infrastructure fund to be dealt with by the Mexicans or if, in fact, the Mexicans at their meeting are not able to pick up the ball because there really isn't that much interest because of other things, you are going to find a very disappointed continent in Africa. And the G20 doesn't simply represent the G7. The G20 is the G20 and Africa, while underrepresented, is a major part of the G20. And if the G20 is to succeed, it is my own belief that, in fact, the infrastructure fund is going to be a very important symbol as to whether in fact it's living up to expectations.

And on that, Bruce, I'll turn it back to you and over to Kemal.

MR. JONES: Thank you very much, Paul. Kemal?

MR. DERVIS: Well, let me just say how happy I am to be here. It's a real honor and pleasure to come after Prime Minister Paul Martin and to be with my friend, Bruce. We agree on lots of things, so it's always -- you know, not so easy to stimulate strong debate, but we'll count on you for that from the floor.

I do agree with the two things that Paul said. I think the financial sector harmonization is key and I think lots of progress needs to be made and I don't want to add to that. The Financial Stability Board is not the center of that, but it is kind of a -- it's not really a decision-making body and, like other things in the international system, the legal processes are very national. So to harmonize these legal processes is going to be a big challenge. But it is necessary because I don't think we are protected from new forms of financial crisis that might emerge and new ways that perhaps we don't even -- are able to predict now.

But the complexity and the reach and the volatility is all there, including, by the way, in commodity prices. I just learned yesterday that the whole output of U.S. wheat is traded in one day apparently these days in the financial sector, which is quite an amazing, I think, statement.

I'm going to add two points to the discussion. I'm going to try to add two points. When the -- when Paul Martin and with, you know, his team and I think with quite a bit of cooperation, I have to say, from Brookings, also, over the years launched the G20 process, there was still the G7. The IMF was very much dominated by the G7 and the emerging markets were not quite at the point they are today. So it was visionary to bring them in to create the finance ministers G20 and to broaden the whole governance attempt in the financial and economic sphere.

But I think we're now at a somewhat different point. The IMF reforms, in terms of governance, have not gone as far as one would wish, but they've gone pretty far. There has been a redistribution of quotas and more redistribution is on its way. Countries such as China, India, Brazil are playing a much stronger role within the IMF. And now we do have a little bit of a strange situation. In fact, next week there's going to be a meeting of the IMFC -- finance ministers as governors of the IMF -- and then, you know, during the same week there's going to be a meeting of the G20 finance ministers. And many of these characters are actually the same. Not all, but they almost -- they overlap, let's say, to 70, 80 percent.

So I wonder whether the time has not come, or at least will not come over the next two or three years, where you really merge the ministerial council for the IMF with the finance ministers G20? And basically make that into one body where the finance ministers meet, but, in fact, it would be a group of finance ministers that would be formed more on the constituency system, would represent the whole world with weighted voting, and would, in fact, be a ministerial council governing the IMF. I think, personally, it makes more sense to go in that direction than to continue the strange parallelism between the G20 finance ministers and the finance ministers in their role of governors of the IMF. So that's my first point.

Does that mean leaving, forgetting about the G20? Not at all. But I think what the G20 should now become -- it has already become, but that's where, you know, its real role -- I see its real role is the leaders G20, not the finance ministers G20, but the leaders G20. There, I don't think, for all it's usefulness and, you know, for all the things that happened that the high segment of the G8 at the U.N. in New York, in September, is a substitute for what the leaders G20 can do. Get together -- it's not too informal, it's not like the leaders G7 was -- you know, it's a larger group.

But nonetheless it's still manageable.

I had the privilege to be a Sherpa for two of these meetings. Leaders do get together, they do get their breakfast, they do get to have lunch and dinner. They can interact. They have side meetings. And I think that is extremely valuable to have the G20 -- the world of the systemically important countries -- come together at the leaders level. And then they can give impulses, they can formulate proposals, they can generate preliminary agreements in various areas, not just in the finance and economic area, but environment, global warming issues, security issues, and many other areas. And these impulses will then facilitate action and global governance in the existing, legitimate, and universal global institutions.

So I would see the G20 now, you know, as becoming the apex at the leaders level. Not substituting for the international organizations, not substituting for the U.N. or the IMF or the WTO or the UNFCC, but making these institutions work better, providing leadership, providing proposals which then get adopted in these various forums.

But on the finance side, I really think the current situation has become a little bit strange and a little bit hard to manage and kind of unnecessary because if there's such overlap, why not transform that group into the actual governance group of the IMF? But to do that you have to include the others. You can't just, you know, set up the G20 finance ministers as sole governors of the IMF. You have to follow the quota system. And it is now possible because the Europeans have given some way because the U.S. has been quite reasonable and quite proactive on the governance reforms. And instead of having an IMF viewed as a rich country club -- as a G7 club -- the world, I think, is increasingly -- and also, thanks to Dominique Strauss-Kahn very good leadership -- seeing it as a truly global institution. It has to continue. It's not finished yet, but it's very much on its way.

So these are really the points I wanted to make. Let me add one last thing which I think is quite important and Dominique Strauss-Kahn is actually with the leader of the international trade unions to Brookings -- so I'm doing a little ad for next week -- to discuss employment, equity, and income distribution issues. I do feel that underneath the whole debate on global governance, the worsening of the income distribution, particularly in the advanced countries -- and not least in the U.S. and Canada and Germany and quite a few other countries; less in Germany, but still even there -- it is one of the fundamental challenges to globalization. At a time when productivity increases were shared widely, when the middle class was sharing in growth in the '50s and the '60s, when real wages where increasing with productivity, I think reaching out, building global cooperation was much easier.

Right now, we saw the wage figures last week for the U.S. Prices are not going up much, but quite a bit in terms of oil and some food prices and so on. Wages were actually falling. And so when you have that kind of situation in the advanced countries, you know, the reflex of defensiveness, of fear, of protectionism, of blaming globalization, trade, and international events on the difficult economic situation at home is very strong. And I don’t think we can really go to the next level of international cooperation unless governments, particularly in the advanced countries, seriously address the income distribution and equity problems.

Let’s remember the figures that, you know, in the U.S. is extreme, but the U.K. is not different. Many other countries are not different. The share of the top 1 percent has gone from 8 percent of GDP to 24 percent of GDP. Triple, and it’s continuing. The crisis was a little interruption. What’s happening this year will actually make that share even larger. So I think -- and at the same time, you know, middle class is not participating in the growth of the economy. And I think as long as that continues, we will have tremendous problems in managing globalization. Thanks.

MR. JONES: Thank you, Kemal. I’m first going to pause for a second while we get mic'ed up here. Am I all ready? Can people hear me already? Thank you.

Well, thank you both for insightful and, I have to say, in some respects sobering thoughts and comments. I want to start the conversation by turning back to you, Paul, and asking you to go a little further on one point that you've stressed.

You highlighted the importance for the G20 of giving the Financial Stability Board the authority and the powers to actually set minimum international standards for banking regulation. And I want you to -- what you didn't give us was your assessment of how likely it is that they'll succeed in that. I'd like you to address that. But I'd like you, if you could, to connect it to the following question both as minister of finance -- unlike in this country a minister of finance in Canada is an elected position; you were a member of Parliament -- and then as prime minister, even more so. You had to deal with the question of giving an electorate in a Western country to accept the realities of international regulation, of dealing with an international system that's evolved. And, in a way, it connects to the last point that Kemal raised about the kind of increasing challenges in a way of cooperation given the financial realities, given the economic realities. So, what is your sense of the viability of the G20 coming to terms with this issue? And put it in a deeper context of, well, just sort of how difficult is it now to convince electorates -- not just in the

West, also in Brazil and in India -- to accept the kind of international engagement that's required to have minimum standards of this type?

MR. MARTIN: Well, dealing with the first question, in terms of the Financial Security Board, I would -- my own view is that the front lines of bank regulation will always be national. There's no way that a single international regulator can know the goings in and outs within an individual country. But that it is absolutely crucial that there be a body which is able to coordinate and ensure minimum standards around the world and that that body has to be well-staffed with the best regulators possible who have the capacity to basically follow the evolution of financial innovation and are not subject to regulatory capture, which will happen within an individual country.

Now, I believe that body has got to be able to set the rules and go to the G20 and essentially get those rules passed. I think the best example of how it can do that is what Basel III did within a relatively short period of time. But the reason there has to be a more authoritative body is we're now seeing the Basel III rules being challenged in individual countries around the world. And now, as memories of the crisis fade, there's a real danger that the whole question of banking regulation that everybody wanted to see happen is going to simply go away.

Now, if you did that with the Financial Stability Board I would

-- I'm not fully -- I'm not totally sure and I think that Kemal's suggestion about the role of the G20 finance ministers and the whole constituency question, I think is an interesting debate. I'm not sure I'm fully with him, but where I really would be with him the Financial Stability Board should not be a creation of the G20. It should have the same membership, either through a constituency basis, as the IMF, because it has to -- it can't be similarly limited to 20 countries. That's the only way in which it would have the authority and the legitimacy to act.

Now to go to your second question, which is -- your second question is -- basically has to do with sovereignty. Well, I think there's two things that we've got to recognize. First of all, that unless there is a recognition that there has to be a body that is able to basically tell the national regulators that you're not acting sufficiently, then we've got to recognize that there is going to be another infringement of sovereignty.

The fact is, I really believe, as an example, that Canada's sovereignty and, in fact, the rest of the world's sovereignty was infringed by the fact that the United Kingdom, Europe, and the United States had inadequate bank regulation and plunged us into what I think was a much worse recession that what would have occurred. I do believe prior to the bank crisis, it would have been almost impossible to convince the Americans and the Germans that they should allow a superior body to coordinate their banking regulation. I believe that today, however, that would be a great deal easier. And I'll simply give you the two reasons why.

The Europeans -- the first bank stress test determining whether the banks had adequate capitalization in the United States were very well done. The bank stress tests in Europe were a farce. The fact is that the main Irish banks, as an example, one month before they declared virtual bankruptcy, passed the European stress tests. As a result, the Europeans are now going through a whole new series of stress tests. Well, I think what that really then says obviously, I would think, to the Americans, is, hey, wait a minute, this is not a one-way street. You want that sharing that sovereignty. You want to be able to say other countries aren't living up to these kinds of rules and regulations.

Based on -- and this is -- my next comment is not authoritative, but based on the discussions I have had with the Chinese is that the Chinese, at the present, are prepared to accept an international coordinating body in terms of bank regulation. Whether the Chinese will be prepared to accept that in five or six years remains to be seen. But the issue really is, if you're an American or a European and you -- for the sake of discussion, and you engaged in the deregulation of your banking system between a competition between London and New York as to which is going to be the financial capitol of the world, well, let me tell you, the next competition is going to be between those two and probably Hong Kong and Shanghai combined. And under those circumstances I would have thought that those who are worried about their sovereignty in Europe of the United States might -- will think that that sovereignty is going to be infringed if, in fact, the Chinese used deregulation as a means of enticement of the financial industry.

So I think that for the first time it’s very much in everybody’s interest. And that’s certainly the argument that I would make.

MR. JONES: The other thing I’d like to draw you out on, I thought it was very useful and helpful that you pointed out that the G20 had taken on the development agenda. A lot of the discussion and commentary around G20 focuses on international financial issues and their relations among the major economies, but the development agenda is also important. You highlighted the infrastructure question. I want to ask both of you about a related question.

We’ve just watched a series -- or the beginning of a series probably -- of revolutions in the Arab world, one part of which is driven by substantial levels of youth unemployment. It’s obviously not the only issue -- the press of the political system and other factors -- but youth unemployment remains a major issue in the Middle East.

One of the kinds of -- I mean, that's a significant challenge to the global economy if we're going to be able to lift those economies to participate in the global economy in a deeper way. What needs to be done? Is the G20 the right place to do that? Do you want to start on that?

MR. DERVIS: You mean on youth and unemployment --

MR. JONES: And the economies of the Middle East in general.

MR. DERVIS: Well, I mean, you linked it to the overall employment problem and I think one thing that is very troublesome is that employment is a problem, has become more of a problem worldwide. There are very few countries that have, you know, the kind of low unemployment rates that characterized the golden age of the '50s and '60s.

Germany has been managing particularly well, but it's the exception, including in China. I mean, despite very high growth rates, employment is still a major challenge. So I think looking into the labor market issues and into the employment issues is very, very important, not just for the Middle East, North Africa, but globally.

Now, in the Arab world it's an extraordinary situation because the demographic transition has been such that there is a real bulge of young people that has come onto the labor market at a time when many of these economies are also rent-based economies. Not just the oil exporters, but even some of the oil importers, you know, have revenue that are not greatly employment-intensive. Tourism is an exception, and important exception in countries such as Tunisia and Egypt. It is a labor-intensive industry, but many of the other sources of revenue -- the Suez Canal, and, of course, the oil and gas sector -- don't really generate much employment.

So you have two things coming together: a lot of young people due to demographic structure and the structure of the economy not generating a lot of employment. And I do believe, indeed, as the UNDP Arab Human Development Reports have pointed out years ago, that, you know, this has become totally unmanageable. There's no short-term solution to this. I mean, you know, there's no way to just generate tens of millions of jobs overnight.

But I think focusing on the kind of economic development, the pattern of development that is job-intensive is absolutely key. And, of course, infrastructure is part of it. It has to go with infrastructure. The continued development of tourism is very, very important and here, too, the tremendous challenge for this year -- because tourists, you know, visitors are cancelling their holidays in these countries, so the situation, if anything, in the short term is going to get worse. Managing that by bringing in everything you can do in terms of active labor market policies, the right kind of skills generated high investment rates, breaking bottlenecks in infrastructure and encouraging foreign investment, I think all of these need to be done.

In terms of foreign investment, what I would think would be the best way to go about it is to really develop political guarantee schemes. In other words, you know, the political risk is very high now. You can't ask private firms to bear that political risk. On the other hand, you can't have a Marshall Plan, you know, for the Arab countries. There's no money for a Marshall Plan except in the Gulf. And whether they will really deploy that money is hard to say, so it has to be a lot of private sector, but one way the public sector can facilitate it is to try to help manage the risks.

MR. JONES: Let me turn to the G20 --

MR. MARTIN: Could I?

MR. JONES: Please.

MR. MARTIN: No, I really -- I want to pick up on what Kemal said. In Kemal's major, main remarks he talked about the problems of inequality within our own societies -- within the United States, within Canada, within Europe. I think the genius of our system, which I think Kemal's absolutely right, is in the process of breaking down.

The genius of our system was the recognition that capitalism, the free market, was by far the best way to build an economy and to allocate scarce resources, in this case liquid funding. But we also recognized that a market on its own would simply lead to greater and greater inequalities. As a result, we built in the social programs, the whole purpose of which was to help people move into the middle class. And I think that that had worked reasonably well until sometime in the 1980s or probably with stagflation in the 1970s, when, in fact, the rich got richer, the poor got poorer, and governments started backing away from some of the social programs that were starting to help people up because they got -- they were lacking in the funding.

Now the question that you're asking is, well, look, can we first go on -- this is obviously the big debate that you're having right now within the United States, but can we bring back this system whereby primarily government, the state, provides the wherewithal for people to rise from poverty into the middle class? And so you start to narrow that gap between the rich and the poor.

It seems to me that your question is much more difficult than the one about bank regulation. Your question is given the fact that the vast population increases in the poorest part of the world, can we have a system that will enable the poorest parts of the world to, in fact, grow as we within our own countries at one point allowed the poorer people within our countries to grow?

Well, I think that ultimately is where we're going to have to get to. But the difficulty of it, I think, can really be seen -- and the debate that's taking place within Europe between Germany and the Mediterranean countries. What is Germany essentially saying? The German population is saying, hey, wait a minute, you're poor. Portugal, Greece, you've got problems. We'll continue to export to you, but it's your own damned fault. And we're not going to basically share our wealth with you in a way that will allow you to come up.

I don't think that that's tenable in the long term. I don't see how the European Union can continue to have that huge gap occurring any more than we can within our own societies.

And I think we are going to have to recognize -- and I think, by the way, that the Chinese are going to have to recognize this. I mean, right now what the Chinese are doing is essentially -- and it's being, you know, it's the one accusation that's being leveled against them. They're building the clinics, they're doing the wonderful thing, but they're also, in all of these low-cost jobs, taking jobs away from Africans. And I think that there is going to have to be a reconciliation of this kind of thing. That is a far bigger debate than the one we started off about a half an hour ago.

But I think, by the way, that it is a debate we're absolutely going to have to have.

MR. JONES: I want to go to the audience in a moment, but before I do, I want to ask you both a question about the G20 as a forum itself, moving away from the sort of pure financial and economic issues. You could interpret the lesson of the G20 in two ways. One would be to say, as is frequently heard, you know, you can only sort of change architecture or you can only readjust international institutions when there's a deep crisis. So that would be applicable to the East Asian crisis when you were able to move from a G7, G8 finance ministers forum to the G20 forum. But you could also take the opposite lesson and say that the fact that the G20 finance ministers mechanism existed before the global financial crisis helped in terms of the ability to mobilize a wider range of countries to respond to the global financial crisis.

What do those two lessons -- I mean, how would you apply that to other areas where you're thinking about sort of the broader challenges of international cooperation, of integrating emerging powers into other issues?

And related to that -- and I welcome both of your thoughts on this -- I mean, there's a debate right now about whether the G20 as a body should broaden its scope to deal with a wider set of issues, whether we should replicate the G20 in different issue areas, or whether the agenda really is about revitalization of the kind of formal international institutions, or all of the above.

Why don't you start and then you?

MR. MARTIN: Well, I think that the G20 is essential if the existing institutions are going to be revitalized. I don't think that, for instance, that the G20 is a rival to the United Nations. I think that at the time of the United Nations reform, when the reforms were being studied, in fact, there was a recommendation that a group of 20 nations actually be formed to facilitate that kind of reform. I don't think -- I think that the comeback of the IMF is totally due to the fact that the G20 essentially asked the IMF to do the analysis and gave it the money that it required in terms of some of the restructuring that was required.

So now, I guess my view would be that certainly if you look at history, that you require a crisis before the international community will move. But that I think that it will move much more quickly if organizations such as Brookings do a heck of a lot of work so that, in fact, there is a body of thought that they can move on. I've just seen everybody from Brookings smile (inaudible). (Laughter)

MR. JONES: We're going to market that.

MR. MARTIN: Yes. But I think that that is absolutely right.

You’re right that the G20 was able to move quite quickly.

I had spent a long time when I was prime minister trying to convince George Bush that we should do a G20 at the leaders level. I mean, I’ve made it very clear, when we did the G20 at the finance ministers level it’s because I went to Larry Summers and got his support. I went to George Bush for the same reason. We didn’t get it. We had the Chinese support right off the bat, by the way.

But the fact of the matter is that, yes, President Bush was able to convene the G20 because it existed at the finance ministers level. But, on the other hand, we never would have had the G20 at the finance ministers level if it hadn’t been for the Asian crisis.

MR. DERVIS: I think for discrete advances, you know, historically, I think it’s clear that crisis allows you to do that, you know, and it’s unfortunate, which it would be much better if that wasn’t the way history moves, but, you know, it seems to be moving that way. Having said that, however, in terms of crisis prevention and management, you know, using the existing -- I mean, you don’t want every crisis to lead to a completely new architecture either. You want to build on what you have. And I think that in that sense the fact that the G20 finance minister was there, that, you know, there were Sherpas there, there were people who knew each other. And moving to the leaders level was a major decision, which, as Paul said, had been rejected before, but, you know, it happened relatively easily.

But I do want to come back to my proposal because, you know, I've been struggling with it now for months, but the more I think about it, the more I discuss it, I think the more it makes sense is that the next kind of natural step, but still innovation, is to consolidate the G20 at the leaders level, really make it, you know, an annual event, well-prepared by Sherpas and all that; make sure that the leaders own it, the presidents and the prime ministers, okay. And in that sense, take it a little bit away from the dominance of the finance ministers in the preparation process. So I think that goes towards widening, for example, to issues such a climate change, migration, and things of that sort. Okay.

And then what do you do with the finance ministers? Well, as I said, I mean, the G20 finance ministers are now 70 to 80 percent the people who actually are the ministerial part of the governance of the IMF. So why not then make the next step and transform the IMFC into a ministerial council where these same finance ministers, mostly the same finance ministers, would show up, but there will be two or three others. And where instead of being a self-appointed group, you know, it is actually the weighted -- it works through weighted voting at the (inaudible). The IMF is already playing a critical role on the finance side of the G20. You know, the indicators process, the framework group, the whole spillover analysis, everything is basically done by the IMF, and that's as it should be. There are, you know, thousands of people there with extremely, you know, high skills and PhDs and whatever. You don't want to create a huge secretariat of the G20 trying to do duplicate that work. Use the IMF and strengthen it, but don't lose the G20 and keep the impetus of the leaders and can manage, you know, the proposal generating and progressive part of that through the leaders meeting.

MR. MARTIN: The only thing I just want to -- Kemal and I were finance ministers together. And I just wanted to remind him that when we were finance ministers we thought we were by far more important, more powerful, and smarter than any of our leaders. Remember that. (Laughter)

MR. DERVIS: That's true. Good point.

MR. JONES: I've seen people nodding their heads vigorously and shaking their heads vigorously as we go, so let's turn to the audience for questions. So please just give your name and your affiliation.

MR. CULPEPER: Roy Culpeper, Woodrow Wilson Center here in Washington. Thanks to both our speakers for very stimulating remarks. I just wanted to say two things.

One of the development agenda that the G20 has taken on that, Paul, you didn’t mention is that work on SME financing small and medium enterprises. They have struck a financial inclusion experts group and there’s been a lot of work done, mostly by the World Bank, both by CGAP and IFC, on this agenda. And I think it has the potential of doing a number of things. I mean, you have to have infrastructure for sure, but then to create employment there’s no more vigorous dynamo of employment than SME investment, and this gets at some of the issues that Kemal was talking about. So I’d appreciate hearing your remarks on that part of the development agenda.

But more generally, I’m just wondering, Kemal, if tinkering at the margins with social programs is enough. I’m wondering if, in fact, we need a more deep and searching analysis of how we think about economics and economic development. And I’m not talking way out in left field because, you know, just recently the IMF, as you know, convened a meeting to talk about revisiting economics. And right in the World Bank we have a chief economist, Justin Yifu Lin, who is talking about a new structural approach to economic development in which the state -- the government plays a much more active role in coordinating market forces. And after all, he’s not talking out of left field either because he’s drawing on half a century of Asian experience, one which has generated the highest growth rates and the most rapid rates of poverty reduction in the world.

So, A, SMEs; and, B, a new way of thinking about economics and economic development. Thanks.

MR. JONES: You want to go first?

MR. DERVIS: Well, we could spend another two hours discussing these excellent questions.

On the SMEs, you know, it's agreed, I mean, 70 to 80 percent of employment in most countries are actually created by SMEs, including the service sector, of course. So making sure the finance -- and there are market failures and asymmetries in the financial sectors, particularly in developing countries, that don't generate enough credit for the SME sector. Actually in the U.S., it's relatively good. I mean, the Small Business Administration actually works reasonably well. And if, you know, joint -- sorry, the whole venture capital business is one of the strongest in the world, so the U.S. is not one of the weakest cases here, but even in the U.S. it's insufficient.

Now, on the bigger debate, you know, it's a huge -- I don't (inaudible) to be modest, I think we understand parts of it. We -- many people blame a lot on technology. They just say, you know, technology is just evolving in such a way that it substitutes for labor, it puts pressure on wages, and so on. The problem with that is that when you look across the world, you find the great diversity among countries. So if the common factor of technology was explaining everything, how come, you know, that in, let's say, in France and Brazil, you don't quite see the same tendencies that you see in the U.S. and the UK? So it can't be all technology.

I do believe that the workings of the labor market is very important. And here, I don't know how many of you saw the kind of I think very good book of *Animal Spirits* by Shiller and Akerlof. And where the famous labor economist Al Rees, whom I had as a teacher many decades ago, you know, at Princeton, there's a quote by Al Rees saying, you know, I taught labor economics all my life and now I realize I didn't quite teach it right. Okay? And what he meant there was that actually collective bargaining and relative power in the labor market and politics does matter; that it's not just all about, you know, decentralized procedures leading to wage setting. And you have had a tremendous weakening of labor in the fact of capital. So it's due -- it may, again, be due partly to technology. It may be due partly to, of course, the ease with which capital can diversify. I mean, there are lots of issues like that.

I haven't looked into the details, but it's true that on the face of it, you know, in the middle of the fiscal crisis to realize that GE has paid no corporate income tax to the U.S. is somewhat shocking. Okay? Now, there may be good reasons in terms of last year's losses and whatever. I mean, you know, maybe technical, but the fact is that corporations can move their profit centers around, you know, quite easily and beat whatever national effort is made. Okay? So we face a huge problem here, a huge problem of imbalance. And I don’t think there’s an easy answer.

And I certainly don’t think that heavy planning or major bureaucratic interference in the private sector is the answer. Okay? But, I mean, we do face a problem. The income distribution in the U.S. is as unequal now as it was in the 1920s, pre-Roosevelt Kennedy, Johnson, and all that, you know. It’s hard to believe, but it’s true. And many other countries are moving in that direction.

So I think -- I really don’t have the answers, but I think we have to take this as a real problem. And, you know, just as the financial sector excesses and the inability of regulating in a constructive way the financial sector was at the root of the crisis we just went through and are still, to some degree, going through. It may -- I mean, I’m just saying, you know, one has to consider all possibilities. It may be that extreme income concentration at the top and the shrinking middle class and the pressure on the middle class may well be the cause of another economic crisis. Because, you see, what happens is that to stimulate demand when it’s not coming from a sustained growth in income, you lower interest rates, you fiscally stimulate, you increase the debt, you know, you create all kinds of way that the poor parts of society build up huge credit card debts and stuff like that, and that’s how you sustain demand, which is not the way the capitalist system sustained demand in the ’50s and ’60s, which was through real income growth. So I think it is definitely something the economics profession and politicians have to address.

MR. MARTIN: Roy, I’m just picking up on where Kemal left off. First of all, your question on the SMEs is the same as my question on infrastructure. Yes, you are absolutely right. The problem I think that exists is that there are only two of the G20 countries, I think, that are focusing on infrastructure or SMEs and that’s Korea, who basically launched the idea, and France, which is about to host the next one. I guarantee -- well, I think if you went to the majority of the G20 countries today and talked to their Sherpas and asked if they’ve done any work on either one of those two areas, they have not. And the real danger is that they’re not going to be prepared for any kind of an initiative at the next G20, which is why I said that if it fails there, we’ve got to push very quickly to Mexico.

On your second question, again, no -- well, probably some dispute in some of the areas that you’ve raised, but the only -- let me just simply repeat. In terms of the kinds of cooperation that we’re talking about, the world is nowhere near as -- has not progressed anywhere near as far as Europe is within the euro zone. And yet within the euro zone, Germany and the Scandinavian countries are essentially saying we worked very hard and you work as hard as we have and you will succeed. Goodbye. And that -- if we apply that to the rest of the world, we've got a huge problem. But if the European haven't done it, then I think you can see just how big a jump you're asking the rest of the world to take.

MR. JONES: Let's take two or three questions. Sir, (inaudible), and then in the back.

MR. MACKINTOSH: Thank you. Stuart Mackintosh from the Group of Thirty. I appreciate your comments and I wanted to pick up on sort of a two-part question.

The first is I take the prime minister's point about arbitrage and the problem of having multiple national standards. I wonder is Basel III too low and that this is maybe resulting in arbitrage because you see, you know, leading policymakers like Hildebrand in Switzerland setting much higher standards because he thinks clearly the deal negotiated in Basel was too low. So is the level that we've seen of capital standards established and the long intro period until they become binding a problem in and of itself?

And then coming to -- adding on to that, both of you talked about the requirement of crisis sort of forcing change. And if we don't get the right standard this time does it mean that we have to have another crisis before we really reinforce the G20 process and the FSB and maybe move to the kind of reforms that you're talking about, Mr. Dervis?

MR. JONES: Just right behind you.

SPEAKER: Thank you. I'm a professor from China Nankai University. During your speech you mentioned several times about the functionings China will play in the near future. I'd like to remind you there is even next week, during the IMF annual meeting and the G20 financial ministers and (inaudible) governors meeting in Washington, D.C., there is another meeting. It's Ying Hainan, Hainan province of China, that BRIC summit -- Brazil, India, South Africa -- the presidents will meet at the same time. I'd just like to know what -- do you have any comment on that event? And what do you think the rules will BRICS play in the new global orders? Thank you.

MR. JONES: Thanks. At the back.

MR. TALLEY: Ian Talley here, Dow Jones. I would like to respectfully push back gently against Kemal's assertion that perhaps there could be greater cooperation within the IMFC if you were to consolidate some of the G20 powers within there. I mean, you talked about -- or we all talked about the Basel standards themselves being applied differently, even after the Basel III agreements were made and the crisis clearly had shown the need for that. The IMF has repeatedly had this indicator and rebalancing process before. I think at the early part of the last decade none of the participants really met those agreements. And it seems to me that the indicator process right now is a lot of speak and little action, that the MAP process last year could have delivered exactly what the indicator process is doing this year, but it's not because of the political disagreements. You're still coming back to the sovereignty issue.

Just one last point. The IMF has the ability to point out variances on exchange rate norms. It doesn't really publish all of those with great transparency and other issues that it could.

MR. JONES: Thank you. You want to go first?

MR. DERVIS: Well, maybe on the last point. I mean, you know, those difficulties remain. And at the end of the day, as Paul said, if even Europe, after decades of trying to share sovereignty, is doing it with so much difficulty, obviously it would be quite naïve to believe that at the global level one could have some kind of version of the European Union, you know, functioning in a smooth way. So this is going to be a long, long process.

But I do believe that it's inefficient to have two ministerial groups kind of -- you know, there are so many meetings and so on. I mean, I think the consolidation would lead to an increase in efficiency.

And the other thing with the IMF structure is, of course, that while generally it goes by consensus, there are some decisions that are taken by a vote. And, you know, you don't necessarily -- I mean, there are blocking majorities, but one country alone -- I mean, if it's the U.S. with a veto, it's one thing, but one country alone cannot hold up an actual decision. Whereas in the G20, what came out, for example, on the work on the indicators, you know, if one country doesn't agree, it's very hard to come up with a communiqué that's agreed. So I think there are some advantages in the IMF procedures. That does not all mean that, you know, it will be easy or fast or anything of that sort.

I'm quite distress that the MAP and indicators process has, in the end, become so laborious and hasn't really generated much. I still hope there will be some progress. But part of it is that, you know, one country disagrees and the whole thing is stuck. And so I think that is quite the problem.

One quick -- on your question in terms of Switzerland and so on, I think the Basel III criteria have to be taken as a floor in a sense. Okay? Now, I think small countries with very large financial sectors, as we saw with, you know, a catastrophic way in Ireland, are much more exposed than large countries. So a small country, you know, with very large international banks better be tougher than the U.S., which, as the end of the day, has the whole of U.S. GDP so to speak, you know, behind its financial system. So I think that explains why Switzerland rightly, you know, has to be stricter than some of the larger countries.

MR. MARTIN: On the first question I agree with Kemal that the Basel III has to be used as a floor. I think that, unfortunately, it probably will remain the floor. I would actually go a little further. I think it's too low. But I think the important thing now is to -- while they're too low, is to hold them there. I mean, I think we're seeing within the United States major movement to basically reduce, in fact.

I don't know how the United Kingdom and Switzerland are going to be able to hold up -- I agree with Kemal very much, but I don't know how they're going to be able to hold up higher standards just because of the competitive reasons. It remains to be seen how that's going to work out.

Is another crisis necessary? I hope not. God, but I'm really worried the fact that so much time is going on and that every time we see headlines, you know, the economy coming back, economy coming back, it's just one more nail in the coffin of inaction. That's the reason that I pushed so hard for the Financial Stability Board.

What we really do need to an organization, a credible international organization, that is capable of following the innovation of the financial sector and that will constantly be bringing it back without another crisis, saying you've got to change, you've got to improve your rules, or all of a sudden the banks have discovered another way around the rules and you're going to have to deal with this. That's what I think it has to be. I really do think that the only way we're going to avoid another -- having to deal -- having crises to make us move is if there is an institution like the Financial Stability Board with all of the reputational integrity that it would have.

On the question of China, the fact is that in terms of the kind of coordination, the governor of the Bank of China has made it very clear he's in favor of this kind of integration. He's in -- or this kind of coordination. The fact is that on this particular issue China is way ahead of the West. And I believe that the time to take advantage of that is now because I don't know if China will be -- have the same position if the West continues to stall. But right now, China has -- I just -- the governor of the Bank of China has indicated that he supports this kind of thing. I just wish that China would take a stronger position on this and on many other things as opposed to basically hanging back a little bit because I think that on this one they're absolutely right.

On the question of the consolidation with the IMFC, again, I think that what Kemal is saying is very innovative and it's really very interesting. The real issue will be not all countries want to have constituencies. For instance, I was governor of the World Bank and we had a constituency which was the Caribbean nations. The United States did not want a constituency and they were big enough they didn't have to. China has actually said they don't want a constituency because they do not want to be limited by other countries' needs. They want to be able to speak for themselves. So I think what Kemal has said is very, very interesting. I think you have to see who will take constituencies, who won't, and how will that work out.

MR. JONES: Both of our guests have extremely busy schedules, but we have time for one last round of questions. In the middle and in the front, if we have time.

MR. CHEN: Chao Chen, freelance correspondent, (inaudible).

Prime Minister Martin, first, thank you for your comment. And it's said that you are the father of the G20. I'd like to ask two questions.

First is this: What's your (inaudible) for the G20? And is the G20 (inaudible) to have a state coexistence of the G8? And having talked about China banking when subject to the international rule. This is saying, but I think when it comes to act, I doubt that they will do that. And so to do this way, I think we could follow what happened in ILO, the International Labor Organization. And in that they have a rule (inaudible), but it's subject to the country to imprint their own way.

You have been nine years the prime minister and you got rid of the Canada deficit. So far has any American in power come to you for advice? (Laughter) Thank you.

MR. JONES: Americans aren't known for looking for advice. But let's come up front.

MR. ZHU: Hi, good morning. Chan Zhu with the *Legal Daily* of China. Thank you very much.

It's no doubt that financial regulations is the main challenge for the G20 and there needs to be that way very properly. But also, as we know, the host country of G20 in 2011, France, addressed a lot on the currency reform, which means on the international monetary system dominated by U.S. dollar. So I just wonder that -- where the currency reform do any help on the, you know, big picture on financial reform. And if we change, how should we get started on this? Thank you.

MR. JONES: And at the back.

SPEAKER: Good morning. Richard Baum from the Canadian embassy.

So my question goes to Mr. Martin. Going to back to financial regulation, the European Union, for obvious reasons, is looking to regulate their economies more vigorously. But my question is how can the European Union coexist with your proposal of strengthening the Financial Stability Board? And how can there not be a clash of power basically? And will the European Union need to relinquish its power to the financial regulatory board that you propose? Thank you.

MR. JONES: Let me add one dimension to this, and it goes in part of your question and yours. In several key aspects of international order -- and the international monetary system is one of them -- the U.S. power and the U.S. wealth, the U.S. economy has been kind of the core undergirding structure of these international mechanisms. And now we see new actors on the international stage -- a previous speaker mentioned the BRICS summit. How far do you think we're moving towards a system of shifting the weight off of U.S. power and U.S. guarantees and the U.S. economy towards a broader grouping of actors managing key international systems?

MR. MARTIN: The question in terms of the vision of the G20, I certainly attended a number of G8 meetings as prime minister, but I attended a lot more G7 finance ministers meetings as finance minister. And I actually -- now it is my belief that the G8 meetings that I attended as prime minister was when the G8 was really found wanting and it was the reason that the G20 leaders was so important because without China, India, and the BRICs at the table, it was simply not able to act. I was a G7 finance minister, however, when the G7 really did represent the more important powers. And then we went into the G20 where it worked very well. And the great advantage of that is that we -- the finance ministers were able to meet without pomp and circumstance; were able to meet without the absolute necessity of having a brilliant plan to put before their own national electorate. And we met four times a year. And -- because this idea of, you know, a one-day meeting where you come in and have supper and then you run away and you've solved all the problems of the world is just nonsensical. My vision of the G20 is one -- and I like very much what Kemal had to say about the leaders, but it's got to be one where they meet, to the extent possible, without pomp and circumstance, where they meet longer, and that, in fact, that a great deal of the work has been done so that what they're really doing is filling in the gaps and then directing the next level of work.

But quite simply, I think the world needs a steering committee. Not a steering committee which can impose its will. A steering committee which is absolutely bound to consult within its region, but then can set the direction because they are -- because of the nations who they are. And I think that the composition of the G20 is pretty -- it roughly equates to what is necessary, although I do think that Africa is underrepresented. So it is a steering committee, not one that can enforce its -- can impose its will, but one that -- because I think it has to work within the other institutions. It has to use the IMF and we have to recognize the primacy of the United Nations. And I would very much hope that the G20 can make -- can really bring its power to bear to reinforce the role of the United Nations.

On the question of currency reform, look, I don't think -- I mean, if they could deal with this in France, that would be wonderful. I don't think they can. I don't think that we're far enough along in terms of currency reform. If you want to -- you know, I don't think that we have decided what is the replacement for the U.S. dollar. I don't -- and so I think that a lot more work has to be done on that issue before, in fact, this can be done. I think it could be advanced in France, but I don't think that they're going to be able to resolve it.

On the question of the EU clash with the Financial Stability Board, yeah, quite conceivably, the same way as the U.S. Congress is going to clash with the Financial Stability Board. The real is you're either going to have minimum standards imposed by or coordinated by an international body or you're not going to have them. And I think that the real issue that we're facing now is that we have got these huge differences between the European Union and the United States on things like derivatives, on all of these wide range of things. You've got the rest of the world actually prepared to work out some kind of a minimum standard that they would go. And if the Europeans and the United States continue to battle the way they are, we are going to lose so much time that we're not going to get those minimum standards.

And so I think your question is a good one, but I think the Europeans -- it's not only the European Union clashing with the Congress actually. It's the European Union clashing with the United Kingdom. And so I think that this is really one of the real problems. And you've got, as Dodd-Frank begins to be winnowed away from the Republicans, I think that we've got -- there's a real danger that this whole thing will just simply go into nothing. And so I think your point's a good one. It's why, again, I come back to the Financial Stability Board.

Now, the last question, the one that Bruce asked, I think is a very interesting question and I really wonder if the question isn't asked from an American point of view as opposed to the way, to be quite honest, I would look at it as a non-American. There's no doubt about -- that the rise of China, the rise of the BRICs, the rise of other countries means that we're in a multipolar world as opposed to the unipolar world, which we had probably from about 1990 till, I don't know, a couple years ago. But I think it's important to understand that the system which is in place, the basic structure the world accepts, it wants to change the structure to improve it, along some of the suggestions that Kemal made to improve that structure.

But nobody's challenging the market system as long as the market system -- I mean, the question that you've got to ask is why would we have all the advantages of the free market system, but none of the protections that we have domestically? And so what we're talking about is building those protections in and building some of those advances in.

But I think it's really important to understand that because a country says I want to take a leadership position on something or because I have a very strong view, that is not a challenge to the United States or of the United States. That is simply a country saying this is my perspective on this and I want to take a -- I want to lead in this area. I actually believe that the way -- maybe for reasons -- maybe for other reasons or maybe it was deliberate, but I actually think that the way that the United States handled the Libya situation I think was a very good -- I think it was actually a step forward. And this is not a challenge to the United States. It's a recognition that other countries essentially also want to be heard.

MR. DERVIS: Well, very briefly, I mean, I couldn't agree more. In fact, I wrote a Brookings blog last week exactly on that point, Paul, you know, that I thought the United States handled the Arab crisis, the Libyan crisis, quite well in a very difficult circumstance. On the one hand, it supported intervention to protect lives, and it could have been a bloodbath from all we know. But it didn't try to take the big leadership position and it didn't kind of give the body language of empire, you know, and I think that's very, very important. And you don't change that body language overnight. But I think what harmed the United States so much throughout the world in this, during the end particularly of the unipolar moment, was that, you know, people resent empire. I mean, people don't like it. Even if some of the issues the U.S. was right or even if they -- you know, people around the world don't want to me managed by the United States.

So I think there is now a very different approach. And I think there is a window in the sense that 15, 20 years from now, I think there's no doubt whether China grows at 10 percent or at 8 percent, whether India grows at 7 or 11 percent, you know, but they're going to grow. They're going to grow much, much faster than the U.S. and Europe. Latin America will grow. There'll be other countries. Southeast Asia is growing. Turkey is growing quite rapidly. So even if you reduce some projections by 2 percentage points here and there, you're going to have a multipolar world 15, 20 years from now and you will have major pools of wealth and of financial strength and, you know, even military strength over time.

It's not yet happened. I mean, the U.S. is still very, very powerful. Okay? But it's coming. And so the question is how do we manage this in a way that this leads to what Paul Martin has fought for all his life, you know, a better governed international system, a more peaceful -- where things are resolved peacefully, and where there is more equity in the system, also, development and so on? And the U.S. can play a very -- in fact, has to play because if it doesn't, it's not going to happen. The U.S. is still, in that sense, indispensible. Okay? But if it uses its energy and it uses the next decade, 15 years, to build that system with partners, I mean, you know, we're going to leave to -- some of you are much younger, but to our children a much better world. And I think a huge amount is at stake. I think a huge challenge is to somehow find the politics, the political language that translates that into citizen support. And I wish we had more leaders like Paul Martin to do that.

MR. JONES: Well, that is a perfect note on which to end. Is there any other -- I thought this was an extremely discussion, including on some of the specific issues of the role of the G20, some of the economic challenges we face. I think this deep, underlying political challenge of balance within economies and across the system, the continuing challenge of grappling with the tension between sovereignty and international regulation and international management, plus we got an excellent advertising slogan for Brookings programs, so thank you for that. (Laughter) We're going to have to change the name of the program again now to Negotiating Global Order after what you just said (inaudible).

Why don't you join me in thanking our two distinguished guests? (Applause)

MR. MARTIN: Thank you.

MR. DERVIS: Thank you, Bruce.

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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

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

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