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P R O C E E D I N G S

MR. DONNAN: I think we're all set, and I'm told the microphone is on, so I hope you can hear me. And I'm just going to, there's a clock here so I'm going to just in the name of timing keep looking at my phone here. That's not because I'm Tweeting away and gossiping about your guys in the audience, but it's simply my clock today.

Thank you so much. I should say good afternoon or good evening, depending on which you'd prefer.

My name is Sawn Donnan, and I'm the World Trade Editor for the Financial Times. And it is my distinct privilege, I'm very excited about this, to be here this evening with a man who I would argue is one of the most civilized gentlemen in the global economy.

(Laughter)

MR. DONNAN: And probably one of the wisest as well. Kemal Dervis, as you all know, is, of course, a vice president here at Brookings, and Director of the Global Economy and Development Program. He was formerly head of the United Nations Development Program as he was just telling me the wonderful story of the different political reactions to him leaving Turkey to go take that job some years. He was also, of course, Minister of Economic Affairs of Turkey, and he needs very little introduction.

There are many times in this town when you are handed a book that someone has published when you, you dread it slightly. There are plenty of earnest tomes in this town, and tomes that survey a wide landscape and don't offer very much new. And I'm very happy to report that this is not one of them.

For years, Kemal has contributed a monthly column to Project Syndicate, which in appropriate fashion, I think, is published in several languages.

MR. DERVIS: Yes.

MR. DONNAN: And we are here this evening to talk about his new book, which is a collection of those essays from 2012 to 2015 called "Reflections on Progress." And perhaps we should reflect on progress this evening and exactly where we are as we look out on the political landscape around us and around the world, and we'll do a bit of that this evening.

But I think it's a remarkable book in one big way, which is these are essays that have been written over the last three years, Kemal, and as I said to you earlier, each one of the titles of these essays would be relevant today. And, in fact, many of these essays, even some that were written several years ago, are really relevant commentary on the scene around this today.

So I think before we go any further, I think we need to liven things up and we need a round of applause for that achievement in itself.

(Applause)

MR. DONNAN: We're going to talk for about half an hour or so, and then we'll open things up to the floor, and I hope you will have some wise questions for Kemal.

Kemal, I thought I would really begin where you began in your preface, and you talk in there about a strong belief in continuous human progress, and that being one of the great legacies of the enlightenment. That's one of your first sentences.

And then you go on very quickly to offer what feels like a warning at this point. You say, here we go, "Angry populism and astonishing forms of nihilism are spreading. At the same time, authoritarianism and the cult of the leader can be seen

gaining momentum in many places offering a dubious solution to the fear of the future felt by large segments of the world's population."

And now sitting here in Washington, it feels incredibly relevant, but I would argue it feels incredibly relevant in the UK as well, perhaps even in Turkey, your home country there as well.

You also ominously talk about what you see as the binding constraint on future progress, and that is our ability, essentially, to get along with each other either between governments or social groups. Expand on that for them.

MR. DERVIS: Thank you very much, Shawn. I really wanted to start by this point and you allow me to do that.

And just two quick, very quick stories. I was 16 in a boarding school, and kind of thinking about life and studying philosophy, and the teacher and all that. And I almost had a religious moment in terms of the enlightenment.

I was reading the various French philosophers, English philosophers, American philosophers, and so on, and I kind of realized, hey, by using reason, and being reasonable, actually most problems can be solved. And I distinctly remember. It was a very enjoyable experience.

And then some months later, I read Stefan Zweig's, "The World of Yesterday," which was one of the pieces in the book. Not all of you, obviously, need to know Stefan Zweig. He was a very, in his time, well known Austrian, German writer, Jewish religion intellectual, and wonderful, I think, political philosopher, and he lived as a young man the incredible progress which he describes of the late 1900s and the early 20th Century where everything seemed to be progressive even though there was poverty, there was inequality, Marxism. I mean, I don't want to exaggerate. Everything

was not hunky-dory, but there was a strong sense that, you know, the world had really decided on progress.

And then everything fell apart, particularly, for Stefan Zweig, an Austrian, Jewish, German writer. I mean, disaster of World War I where what kind of reasonable is it, reasonableness is it, when hundreds of thousands of people are gunning each other down in trenches. And then, by the way, I think for two years, they decide this is not a good thing to at Christmas, and actually interrupt and have a joint Christmas celebration.

I mean, that's a very nice thing, but when you really think about it, it's almost unthinkable. I mean, if you can have a Christmas celebration together, why on earth are you gunning yourselves down?

MR. DONNAN: It's enlightened, but not wholly rational.

MR. DERVIS: That's true. So with these two stories, I kind of translate the tension I always feel in myself, a strong belief in progress, and reason, and rationalism, in the enlightenment in its various forms, but at the same time, and my mother was born in Berlin, that may have something to do with it, the very deep fear of very bad things that can happen and have happened not thousands of years ago, but failures and things one can hardly imagine.

So, I mean, you know, that tension, I think, comes in the book. It's a more philosophical point. We have more economics to discuss, but I guess my bottom line is that we've never won the battle.

You gave me a great compliment. I like that. Nobody actually has ever said that to me.

Civilization has never won. It hasn't won today in the Middle East, in the Bonniers, in France, in some parts of this country even. It's a constant battle for civilization. And I think at the core of this constant battle is more attempt and effort at

governments getting along, at finding ways to communicate and compromise, rather than a lack of pure technology, or a lack of pure financial resources.

I believe at this point we are in the point in history, or one of the points in history, where we proudly have huge amounts of technology all over the place coming from everywhere on us, most of it very admirable, and many things can be done with this technology.

We also have, I think the American big corporations alone are sitting on \$1.8 trillion of profit, if I'm not mistaken.

MR. DONNAN: Sure.

MR. DERVIS: Shawn, you know these figures by heart.

MR. DONNAN: I don't. Sounds good.

MR. DERVIS: And, you know, we have huge amount of financial resources, savings, that are actually available that somehow don't get channeled into the most, what would appear the greatest needs and greatest, even the greatest returns. So that's in a way, the core of many of these things.

And I'm happy to bring it out on the Brookings with Valentina having supported it, because Brookings has chosen as its second anniversary, the second hundred anniversary theme, "Good Governance."

MR. DONNAN: You're fairly optimistic throughout this book. I mean, there's at least a strand of optimism through there. There's occasional moments where you're less sunny, but do you feel like we're still progressing? Do you feel like we're running out?

MR. DERVIS: On this question, I would say I was quite sure that we were progressing on the whole maybe until three, four years ago. Now for the first time in

my entire life, I have some doubts that we will actually progress in the sense of civilization, the sense that, Shawn, you meant it and I mean it.

MR. DONNAN: Yes.

MR. DERVIS: Of course there's going to be technological progress, you know. The form it takes may create problems, but it would advance our capacity to organize things, to increase potential prosperity and so on, education.

There is also, there has also been a lot of progress in the developing countries. My dear co-manager, cohort, and friend, Homi Kharas always reminds me of that because he's the hyper optimist among us. How many hundreds of millions of people have come out of poverty over the last decade? So these are things one cannot minimize in any way.

But at the same time, you know, civilization progress is not assured unless we find ways to manager our conflicts and power, potential hatreds and so on.

I got very involved in the Bosnian question when I was at the World Bank. And it, again, reflects identity politics, and I'm afraid in a bad way to me, because I was sad when many of the people were killed and massacred throughout the world. I'm being very honest. This is the time in life, I think, one has to be very, very honest, you know.

And much worse things happened than in Bosnia, in Africa, in Cambodia, in other places. But to be honest with you, I had bad dreams about it, but it didn't prevent me from sleeping many nights.

Bosnia gave me insomnia. Why? Because from an identity politics point of view, from the person I grew up to be from the civilizational influences and cultural influences that bear on me, it was very close. It was as if my world was actually being --

Sarajevo, I viewed a little bit as my city as an Ottoman, as a European Ottoman Turk.

And I couldn't take it. I couldn't take it.

So even somebody who has as global and as hopefully, you know, open to all human suffering in the world, has these, what I will call, weak spots, because we get mobilized for certain things and not mobilized as much for other things, and in each of us there lurks the danger of identify politics, and I hope never in myself, identity fanaticism, but identity, an excessive kind of identitism.

MR. DONNAN: You talk about being a European Ottoman Turk. You talk about the danger of identity politics. Identity politics are something that's very strong right now --

MR. DERVIS: Right.

MR. DONNAN: -- in Turkey.

MR. DERVIS: Absolutely.

MR. DONNAN: How should we read that from here?

MR. DERVIS: But many of the themes are relevant. The founder of the republic whom I consider an Ottoman European Turk, wanted to create a republic. I don't know, I'm not saying he did it perfectly where someone, somebody asked him, well, what is a Turk? You know, Turks were not, they were calling themselves Ottomans. It was a kind of funny concept. And because of the disasters, you know, (inaudible) to an empire, he said, well, anybody who is a Turkish citizen is a Turk.

And that reminds me very much of America. Anybody who is an American citizen is American. And it's not always applied, and certainly in history was not always applied neither the Ottoman Empire, nor in America.

But I think that's the opposite of identify politics in the ethnic or religious sense. The question is it is not sufficient when the nation becomes the identity however

diverse it may be. Americans may feel extremely diverse, and they are, and that's the great strength of this country.

When that turns into a strange kind of bad feeling towards people who want to emigrate two or three generations after themselves, it becomes, you know, very strange. And yet, it happens.

So we don't have a global community. We see that in the G20, we see that in the global economics. We don't have the emotional, ideological counterpart to the global economy. We have a global economy. I think it's very much more global than it ever was. The interdependence, the spillover effects. They not be linear, the speed with which things happen, everything has tremendously made this economy more global. But have we really become a more global community?

MR. DONNAN: And where are we heading? That is, obviously, the question nowadays.

MR. DERVIS: That is the big --

MR. DONNAN: Do you see politics intruding in some ways in globalization, or globalization becoming one of the big discussion points in politics, Brexit in June, the vote there seen as a kind of vote to pull back from globalization?

You in here had this great sweep of history. You point out that the world economy is something that was born around the time of the Roman Empire, the Hun Dynasty, but that globalization in its current form is really something that's only been with us since 1990 or so.

MR. DERVIS: Yeah.

MR. DONNAN: And everywhere I look, including the pages of the Financial Times where Martin Wolf was writing about this last week, it looks like everyone's bemoaning the end of that era or as a threat to them.

MR. DERVIS: Yeah, Michael has become fairly pessimistic.

MR. DONNAN: Yes. But how do you hear it?

MR. DERVIS: I think at the end of the day, and that may sound very geographically partial in a way, but because of the enlightenment, and because of where things came from, a huge amount will depend on a few countries, a few big countries.

The U.S. is being of them. I mean, I've written (inaudible) in this book. The U.S. is a microcosm of globalization because links to all parts of the world, Africa, there's a very vibrant, a strong Jewish community. There's also a strong Arab and Muslim community now. And a big Indian/Pakistan community, very successful. Of course, the Hispanics and so on.

And if the U.S. takes this diversity and transforms it into a great asset of leadership of how to handle all these things, and I think the leadership can, it can exert is huge.

The other thing I want to talk about, Europe, but maybe come back to that later.

MR. DONNAN: Yeah, we'll come back to that.

MR. DERVIS: And then the big Asian countries are very important too, particularly in my view, India. I mean, India is one of the most spectacular democracies we've experienced with I've forgot the number of languages, but it's over 1,000, right? And major different religions, and there's never been real military coups or elections fraud, there's corruption, there's this and that. And then somehow democracy works.

And some give all the credit to the British. The British may deserve a little bit of credit, but it was so way before the British, you know, and when some of the rulers of India assembled their advisors around them, they were very inclusive. So India has that inclusive history.

A lot will depend on that. I think a lot will also depend at the end of the day on the way globalization handles inequality because this is one of the big issues now, and why it's the second part of the book.

MR. DONNAN: It's the second part of the book. We'll get to inequality in just one second. I want to get there via convergence, which you spend a lot of time talking about.

MR. DERVIS: Yes.

MR. DONNAN: You're very confident in this book that convergence is a kind of inevitable course, and yet you also quote this wonderful anecdote from the last 1950s in which a lot of, at a time when a lot of western economists, eminent western economists, I think you call them, believe that because the Soviets could put a space craft, after they put their first space craft into orbit, many were arguing that within a matter of just a few decades the Soviets would overtake the U.S. in terms of income simply because they were investing 40 percent of GDP at the time.

There is a certain element that rings familiar to those of us who have read all of those predictions about China and the future. By 2050 or 2060, it'll overtake the U.S. or catch up with the U.S. Again, at the same time we've got the World Bank pointed out that as economies slow as they did this summer, they were pointing out that actually a lot of emerging economies are falling back behind them.

You still confident that convergence is --

MR. DERVIS: It's an excellent and hard-hitting question. I was more confident four years ago than I am now. It is reflected in the nuances of the articles.

The convergence that was predicted between the Soviet economy by no other than Samuelson was based on the kind of basic Harold Domar growth model where capital output ratios were fixed, and if you invest more capital, even if your inefficient

and your (inaudible) situation is higher, at the end of the day, you know, by the accumulation of more capital, you will overtake.

And I remember a sentence in saying but that will never make them democratic. So in my question, in my mind then I ever had well the Soviet Union gets more powerful, but less democratic is the real problem, you know.

MR. DONNAN: Right.

MR. DERVIS: The convergence that articles in the books are discussing a wider group of economists are discussing oversimplifying. And to my very academic economic friends, I am the big oversimplifier. But without that outreach, as you know --

MR. DONNAN: The masses.

MR. DERVIS: -- the interested masses of citizens and people interested in that is about the quality and the ability by institutions and people to absorb that technology and to learn it.

And there I think we have a much more powerful channel of convergence that has shown itself with maybe this question mark about institutions which brings us back to governance.

If governance completely falls apart, then maybe that absorption of technology will significantly (inaudible) that.

It is amazing when you take a random selection of ten writers writing on this ten years ago, five years ago during the height of the economic crisis, or six years ago, emerging markets could do no wrong. It was the new Nirvana. You know, it was growth rate eventually was going to be either 4 percent or 5 percent or 6 percent, and this was taking us base knowledge.

Then about, and I like the economist. Hate to say something against the economists, but about 18 months ago, they wrote that article basically saying end of emerging market. Poof. I can't remember exactly how it handled it, you know.

And so the world has changed. One of the important points (inaudible) makes is that in manufacturing it was much easier to catch up. Whereas, in services, it's not, and I accept that more and more difficulty, but up to a point only, because dividing line between manufacturing and services has become not so easy to draw. I mean, you have many iPads somewhere in this room, I'm sure. What is that product, a service product, or a manufacturing product? The coding is all services.

So coding, if coding can go quickly to developing countries in a well done way, I'm not sure the convergence might not be in that sense as quick as in manufacturing.

I don't quite agree with Danny in his pessimism on the slowdown.

In the institutions, there I agree more with him. The kind of political maturity and the political knowhow and institutional kind of character, there's still a big gap.

However, and, again to enlighten it a little bit, I mean, sometimes these institutional traditions I think a pain in the neck. Why after there has been no inflation in major economies for 20 years, and why if the nominal zero interest rate bound is such a problem is 2 percent nominal inflation still considered by most central banks a kind of permanent, reasonable, desirable target?

I mean, I think if we took hundred unideological, centrists, well trained macroeconomists and ask them what is the ideal inflation rate for the next five years in Europe, the European Union, or let say in eurozone, I don't know if I can't prove it, but they would probably say 3 or 3.5 percent. (inaudible) was not far from it.

But tradition, you know, you can't say it because it's kind of so, it's considered so wild. So some of these institutional traditions we have to change. But on the other hand, democracy and the, you know, these are very important things.

I'll tell you one quick story here which is very important. I won't name a name. The Greeks suffered tremendously. I know Greece very well because I've been in Greece every year for the last 15 years, no interruption, sometimes twice. I have very good close Greek friends. I interact with them. The babysitter of my first eldest son was a Greek student, who then became Minister of Economy later and --

MR. DONNAN: Wow.

(Laughter)

MR. DERVIS: I mean, this was not the influence of my little, you know, four-week son. But I once asked in an email one of my very smart Greek friends why after all of this -- I personally think they should stay in the euro. That's a different matter. But why does the majority of Greeks want to stay in the euro? And I was having all kinds of debates with Joe Stiglitz (inaudible) completely all mad, and, you know, I got a one-line answer. Because we do not want our doors to ring at night at midnight and be arrested. Ultimately, that's why we want to stay in the euro zone.

MR. DONNAN: This is what people often forget that the EU and the euro is above all a political project.

MR. DERVIS: Exactly. Exactly. So that's why institutions, democracy, the quality of democracy, these are things where the convergence may not be quite as easy as I may have thought myself some years ago.

MR. DONNAN: Let's move to another easy problem. Inequality. As you said, this is really the discussion of the moment and has been for some time. It's also something that we increasingly look to to explain what we see around us in politics.

I wonder if you look out from here, from this stage, and do you think anyone, do you think we're getting, governments and institutions are getting grip on the problem, or starting to address the problem, or is it still just an earnest conversation that we're having?

MR. DERVIS: I think the conversation has picked up steam. I think analysis has picked up steam. Inequality has, of course, very many different definitions. Exactly what do you mean? (inaudible) coefficient, the top ten percent, top one percent, the bottom 40 percent, you know, all that kind of thing.

(inaudible) book, his recent global equality books, the masterpiece of explaining all these various measurements. But I do believe that it has become much more active discussion in the U.S, in the world. A more diverse discussion because a lot of particularly the European discussion of inequality was all about wages and profits. Wage share versus the profit share.

Well, this is still important and the wage share has gone down in the U.S. and the profit share has gone up, and the same has happened in Europe, but it is only one element of inequality. The diversification inside the wage scales, and the tremendous salaries. I mean, one wonders when we used to call them wages that some super managers make, for that matter, I love tennis, super tennis stars make, a partly new phenomenon which reflect, you know, global scale, winner take all, and all that. What is less understandable, and I think the most kind of hurtful about this is when you saw these financial managers who actually mismanage their banks and were fired for mismanaging them, getting golden parachutes in some case reaching \$60 million. Now

that, you know, even the most, I don't know. I don't care about inequality type person cares about.

But the problem is very complex. We've started a new project at Brookings with the Foundation on Productivity, Growth and Income Distribution. They are very linked. It has a lot to do with how technology works.

And let me give you just very quick because it is one of the articles and, therefore, fair game, I guess, the Uber model again a little bit simplified.

MR. DONNAN: Yeah.

MR. DERVIS: Okay. If you have a market with anonymous customers, and you're a supplier of the product, or one of the suppliers of the products, there's some kind of an average. There's a demand curve. There is a supply curve. And the price gets determined when the demand cuts the supply curve. Okay?

But if you, and this was in the old days, well, you're too young, but when I was your age, or even a little younger, I basically could buy two airline tickets. Actually, only one because I bought economy airline tickets, except when I graduated to be Director at the World Bank or so, but there was only an economy ticket, and a business or a first class ticket.

Now you look and there are A, B, C, H, F, D, Z, Zed type business tickets, type economy tickets. You buy a ticket. You then, your plans change. You want to change it. It costs you half the price of the ticket.

It's the same thing with Uber in a way. What's behind this is the ability of coders to exactly know their customers. And for those of us who are economists, I'm not expecting anybody to know that concept, but what is under the supply curve, under the demand curve in economics is consumer surplus. Is what the consumer would be willing to pay in extremis if he had to, or if she had to pay the maximum price. Okay?

And if you have codes that can classify consumers in a very diversified way, and differentiate the price of hiring and Uber on a Thursday, busy Thursday afternoon at 6 o'clock versus at 9 o'clock, you know, prices are different.

And in a way, it's not bad for consumers because some of the lower paying consumers actually couldn't pay the lower price under the older model. But the fact of the matter is that the consumer surplus is actually appropriated by the owner of the code.

MR. DONNAN: But you go a step in the Brookings. Your provocative title of this essay is, "Is Uber a threat to Democracy?" Right? So. Which is --

(Laughter)

MR. DERVIS: Well, sometimes my titles are produced by Project Syndicate, but --

(Laughter)

MR. DONNAN: Well, it's a good one. It's a good one.

MR. DERVIS: So did more people.

MR. DONNAN: Yeah.

MR. DERVIS: Well --

MR. DONNAN: But you put it in the context of French politics, and it's currently based on the Manuel Micron's battle with Uber in Paris, and so on.

MR. DERVIS: Yeah.

MR. DONNAN: So given that I'm going to be taking Uber home tonight, am I going to be threatening Democracy along the way?

MR. DERVIS: I don't think you will do that. You're too kind a person. But the fact is that the manager of Uber in France last year, they openly declared that he didn't feel that he had to obey French laws.

Now how that is compatible with any kind of democracy, I wonder, you know. And if that kind of evasion of regulation, of -- I personally think Uber will improve transportation services and has already done it in the long run. But it has to include a lot of regulation, a lot of taxation. I in the beginning, I don't know whether they do now, they didn't know how to pay VAT tax, for example, while it's probably the fault of the government because the problem wouldn't be so easy to make them put the value added tax in the code, but, you know, there are many other things that the average taxi driver had to do such as passing all kinds of tax (inaudible) to get from Z to B, whether he was healthy, or she was healthy, or whatever, so left to its own devices without market regulatory power of the government, it is not very democratic.

Also, and I don't want to overstress the euro part because there are other things, you know, but it stresses social transition.

MR. DONNAN: Right.

MR. DERVIS: People who had made their living for 30, 40 years in a certain way, and have no easy way to do it differently, are all of a sudden faced with the technology which fundamentally makes them unemployed, or reduces their wages tremendously.

I don't think stopping the technology, stopping the progress is at all the solution. I think what Emanuel Macron in France, and I have to be careful not to be political, tries to do is to be on the left, and yet embrace technological progress, competition, and globalization. Good luck Emanuel Macron.

MR. DONNAN: Yeah.

MR. DERVIS: But just like, I mean, on this one, I think what triumphed over the dictatorial Communist Soviet model in Eastern Europe was not the 1920s capitalism of either Western Europe, or the U.S. It was the social welfare economy

(inaudible) Earnhart, who is actually a Christian Democrat, and the kind of reforms that were brought were by American reformers.

I mean, can you really think of the U.S. economy anymore, I guess some people can, without Social Security, without Medicare, without some of the insufficient but nonetheless important social unemployment benefits and claiming programs and so on that are available?

It's not the wild capitalism where everybody fends for himself or herself --

MR. DONNAN: Yes. Yes.

MR. DERVIS: -- that triumphed. That would have been good for the Soviets. They could have said, look, but it is because capitalism reformed itself, and provided a much more humane, and for a long time (inaudible), but an income distribution growth mechanism where growth, productivity, and income growth and wages were pretty much aligned. They were growing up together.

And then something happened and the two started diverging more and more. And I think unless we find ways to have the gains from growing economies and growing productivity, again, be much more widely distributed, democracy will suffer, and that's the kind of underneath, you know --

MR. DONNAN: Yeah.

MR. DERVIS: There are various figures, but roughly, 90 percent of all the gains that came after the U.S. overcame its crisis, financial crisis, 90 percent went to the top 1 percent. That's quite a lot.

MR. DONNAN: Yeah. We promised that we'll talk about Europe. And that was the, that's your final section in the book, and then I want to open things up to the floor quickly, and then we'll head off and have some cocktails.

But the, one of my favorite titles in here, another one, great titles throughout this book, is in the final section. It's an essay from just a year ago which I found interesting actually in terms of timing, and it's called, "E Pluribus Europe," which is, of course, riff on E Pluribus Unum, the great American mantra. Can I read you a section?

MR. DERVIS: Sure.

MR. DONNAN: You write at one point, "Yet it is still too early to write off progress toward increased European integration. In fact, when it comes to EU cohesion, more cleavages are probably better than a single divide."

I wonder, since then, we've obviously had the vote on Brexit. There's a huge discussion happening in Europe now about cohesion, and whether it can hold. I wonder how you feel about that now?

MR. DERVIS: Two or three points quickly, hopefully. At one point I was very worried that Europe was splitting between north and south. The north, roughly, around Germany that had somehow managed its economy and gained a lot of the benefits from the euro, and the southern economies who had mismanaged, but not only because of their own fault because they could borrow at incredibly low rates, and generated tremendous housing booms in places like Spain, and that all of this would become a south/north divide.

MR. DONNAN: Right.

MR. DERVIS: In game theory, there are some theorems that if you have end players, and you have primary allegiances of players to one or the other policy, you don't get consensus. So some disagreements on immigration, for example, where some eastern countries have different views, and some British would have some different views, that essay was written mainly with the point that when you want end players to cooperate, it is not generally a good idea to have a bipolar distribution of choices. And I

think that may still be true over the immigration (inaudible) with which the eastern Europeans have approached the immigration issue challenged me a little bit on that, I have to admit.

But if you allow me since time is going out, do you want to --

MR. DONNAN: Go for it.

MR. DERVIS: Okay.

MR. DONNAN: It's your party.

MR. DERVIS: It's yours also.

MR. DONNAN: It's ours.

MR. DERVIS: There is one thing that I've written about from David Cameron's European spaghetti ball, which was actually my invention, not Project Syndicate. It was a major speech on Europe.

MR. DONNAN: (inaudible).

MR. DERVIS: Oh, really. I see. Okay. Great line. But I remember choosing that title myself. So in my view there have always been two Europes. The British and some others, most Scandinavians, I would say --

MR. DONNAN: Right.

MR. DERVIS: -- don't feel the emotional attachment to ever closer union. The British were not the word, suffered from the word terribly. They were not occupied like the French. And they also didn't have like God knows how many wars beforehand eating each other up. The German and the French are very special there in terms of having destroyed each other.

MR. DONNAN: They have a special relationship.

(Laughter).

MR. DERVIS: They have a special destroying relationship there. And I've always been interested to see -- I was a member of European Convention, by the way. Don't ask me how as a Turk I got in there, but there was a time when Turkey was supposed to be a member of the European commune, and I was a full member of the European Convention in the European Parliament.

But the ever closer union thing never quite appealed to the Brits. And I also, and I look at TV. Angela Merkel biggest European country now, you know, German flag, more nationalism in Germany now, unfortunately, but there's another flat behind her when she addresses her citizens. It's always the European flag. Same for Italy. Same for Spain. Same for France. You never have seen a British prime minister addressing the British people behind the British flag and a European flag.

I think it represents something real. We don't have time to explain all the things that may be--

MR. DONNAN: Yeah. Yeah.

MR. DERVIS: But it's real. However, that does not mean that Europe has to eject Britain. And I'm not at all one of those who -- some French were very adamant, you know, when the Brexit was passed. Now, we have to punish them. How they were gonna punish them. But anyway --

MR. DONNAN: They've been waiting for a long time.

(Laughter).

MR. DERVIS: Yes. But I've always felt, and there is now a paper by five prominent European politicians and economists that just came out, and it is very close to two Europes in one paper.

I've always felt there was one Europe with Britain, with Sweden, I was hoping with Turkey, and interestingly, the new European paper includes Turkey. Interesting fact. Encouraging fact.

But that there would be two circles, two Europes in that one Europe. Not two speeds. That's different because the two speeds means that, you know, you will catch up with the other one. Where, basically, the eurozone countries still despite all the problems grow forever closer union, particularly, since they have chosen a common currency.

And as an economist, once you've got a common currency, you've got a central bank, you've got us a banking system, you have to have a fiscal system. Not all details. You have to have a fiscal framework.

MR. DONNAN: Right.

MR. DERVIS: You cannot run, has never been done and never anybody has shown me how it could be done, to have a common currency without a common fiscal system.

That doesn't necessarily mean handout. Risk sharing, you know, mutualization, and so on.

At the same time, you can't -- and that would be European law. I'm not a lawyer and the lawyer catch me sometimes in various ways, but there is established European law, European Parliament.

Then you can have another Europe, which is also Europe, which has a grand bargain and grand partnership with the first Europe, which is led by the UK as the most important country, which insists on being, and rightly so, a full member of the single market.

If it does that, it has to pay something to the European budget. How much they can negotiated, but that's not the end of the world.

MR. DONNAN: Yeah.

MR. DERVIS: It must be part of the European defense, foreign policy climate policies. I think there's nothing incompatible there. The thing which is more tricky, but which some of the continental Europeans are now able to accept because in a way it's more linked to this absence of the flag thing, is that the migration rules can be different without undermining the notion of the single market.

So two Europes in one. I had hoped that it could happen without Brexit.

MR. DONNAN: Right.

MR. DERVIS: And I personally feel nobody will ever know, so it's one of these easy statements to make, that if that had been put in front of the people, maybe Brexit could have been avoided. But who knows?

But it can still be done. It doesn't really matter that much. It would be based on Intergovernmental law, the partnership, whereas, the European Union would be based on European law, and more democratic law.

MR. DONNAN: I think you've just set the stage for a very fascinating discussion with Theresa May next time she's in Washington.

MR. DERVIS: I look forward to it.

MR. DONNAN: Should we open it up to the floor?

MR. DERVIS: Sure.

MR. DONNAN: Just see if there's a few questions here. Why don't we take them in a group of two or three?

MR. DERVIS: And I want to recognize Mr. Billings. Right? And Mrs. Billings. Your daughter, Jordan, was a major help in turning this disparate set of articles without changing them into an actual book. So thank you.

MR. DONNAN: Well done. We've got one question here, and then one right at the back. Just identify yourself and keep it brief.

MS. WORTH: Amity Worth. I'm with the Naval Post Graduate School. I cannot wait to read your book.

I have a question. I think the most difficult problem we face globally is something called jobs. And if people don't have jobs, they don't have a sense of identity, a sense of worth, and our whole focus economically is to be more productive, which means to put people out of work as best that I can tell.

So if you can tell me how we deal with that. I do recommend to everybody you read a book called, "The War on Jobs," which is written by Jim Clifton from the Gallus Poll.

MR. DERVIS: Jim Clifton, uh-huh.

MS. WORTH: I have no idea how to address that problem, so if you can tell us how we can do it, you will make my life less anxious.

MR. DERVIS: That's something I would like to share with you, life less anxious.

MR. DONNAN: Let's take the question at the back and then we'll come back.

MR. DERVIS: Sure.

MS. GRAHAM: Carol Graham, Brookings. This is kind of related to that question. And, Kemal, I love you game theory analogy. But I guess what's overlaid on maybe a more positive view of Europe is a completely bipolar relationship between

winner and losers that crosses beyond Europe and crosses U.S., and I know you've thought about the losers a lot.

But I was wondering if you could say a little bit more about how some of the whole debate over Europe is really just an overlay or a victim of this sort of winners versus losers divide in this new economy that you're writing about.

MR. DONNAN: Should we take those two --

MR. DERVIS: Okay.

MR. DONNAN: Jobs, and winners and losers?

MR. DERVIS: Two huge questions, obviously, and only simple and insufficient answers are possible, unfortunately.

But you know the jobs thing I'm facing myself now. I'm almost 68, and my dream would be to work less, but to still work, do interesting things, but not to be forced to work 60 hours a week which more or less is what I'm working now, and which I have to work because my other friends who are with me in the same boat they don't have, I mean, legally, we can work less.

But on weekends, you know, on holidays, we work.

And so a big challenge on this working issue is --

SPEAKER: (Off mic.).

MR. DERVIS: Well, that is true. That is true. Good point. But there is a point which, you know, Keynesian prediction for the grandchildren when he said in 1930 we can construct the world where on average people work much less and are happier because they have more time for health, or other activities they like, for traveling, for human interaction. Hopefully, it's not just going to be interactions with machines but human interaction. And so we have to organize the work in such a way that that becomes possible.

After a work has declines on average, you know, from the bad days of the mid 1900s where people, everybody was working, particularly the not rich, unskilled, were working so hard. So there is an element, of course, in terms of inequality, of skills displacing people because they don't have the skills.

But in some sense there may be an answer, at least a long-term answer to that through re-skilling, training, a new type of education, special programs, investment in these people. After all, skills are acquired mostly, not all.

So it is a very important program, problem and program, but I can somehow see an approach. You know, massive education, skilling, learning, and taking some patience with people who are not immediately there, giving them --

SPEAKER: Who pays for that, all that education?

MR. DERVIS: Those who get \$80 million golden parachutes when they mess up their firm.

MR. DONNAN: -- and a bit of Apple probably.

MR. DERVIS: But where I have less of a kind of answer in a sense is how to build a society maybe where work is almost redefined. In other words, where, you know, what we call working 60 hours is maybe not all work, and where other things are very highly valued also. Taking care of older people, which is very, very necessary. Taking care of the environment. Engaging civically, and socially. Engaging in issues that divide society.

These are not things that maybe will, you know, be big money winners, but they're hugely required. I mean, think of all the old people any society will have to take care of in the next 30, 40 years.

SPEAKER: And they have children.

MR. DERVIS: Yeah. But at least the young children hopefully will have parents.

MR. DONNAN: And the winners and losers? How do we move away from that --

MR. DERVIS: Okay. And the winners and losers. Well, the winners and losers, I think, it has to happen at two levels. If you like the primary level and the secondary level, or the primary level being making sure that at the beginning of the race, so to speak, and I don't really like the word race, but, you know, it is kind of a race, people have close to equal opportunities, that they can get in schools which are roughly of equal value, that they can have a social milieu that nurtures them. That is not taxes. That is not the government. You know, it is society and productive (inaudible) building it that way. I mean, now, of course, resources (inaudible)

So I think that is very important. Education still is a huge challenge. And having to borrow God knows how much for college is, I think, just not acceptable.

I went to the London School of Economics as a non British citizen, of course many years ago, and my tuition for the year was 280 British pounds. Was at that time I think something close to \$1,500.

I mean, so, you know, the travel we've undertaken since that time is amazing. So at the end of the day, the social essence of a community has to be reaffirmed. And, of course, the big, big challenge is not to destroy incentives, and not to make it a society where people just get grants, grants, wages without working, so there is that balance.

But that balance was kind of found in the sixties and seventies, and is what ended the challenge of the Soviet Union. I mean, maybe not in America, but in the

wide world outside U.S., because U.S. was the leader of the free world, and rightly so, and it saved the word from Hitler in the Second World War.

But, you know, a huge majority of French, of Turkish, of Italian, of Arabs, of Africans, of Latin Americans in those years were convinced that socialism was going to win out. It didn't because capitalism built a social capitalism, a social way of doing things that made it a superior system. But it was a national system. Most of these systems weren't very national.

The big problem we have now, and, of course, the Apple tax case in Ireland is a good example of that, is how to build the tax base, the revenue base, and the cohesion base, and that's important because I'm going to come back to my first point here, that makes that possible.

Because we may face the technical solution. I mean, the technical solution to the Apple case is not that difficult, I think, you know, and it's a very straight-toward case.

The aid to create jobs to a particular firm is not allowed under EU law. Ireland has the right to have a 12.5 corporate tax rate, but it has not the right to make a deal with a particular firm to allow it not to pay that in exchange for certain actually murky things.

And by the way, on the U.S. side, the (inaudible) situation is that the U.S. can, if the U.S. claims that as a U.S. taxpayer, you know, there are tax treaties, and Ireland and the U.S. can figure out how to devise taxes. It's not very complicated.

But for it to be realized, this is where we come back to the beginning. We have to have not just the EU flag. We have to have the world flag behind us, and some kind of will to make it work.

And I think in the environment, what happened in Paris, in many cases one sees that. I've seen it, by the way, in Switzerland a lot where the Swiss hate when other people tell them what to do. They're very independent. We all hate that.

But when it comes to engaging socially and helping others, they're one of the more generous people in the world.

So I think that's where the, you know, the matter is somehow. I don't think it will be, I mean, solved soon. But do if you have a chance read Stefan Zweig, because, you know, it's a very relevant book. It shows the danger and the catastrophe that can happen if we don't pull together and stop it from happening.

MR. DONNAN: Kemal Dervish, thank you very much. We don't have the world flag behind us, but we do have the Brookings flag this evening.

Thank you.

MR. DERVIS: Thank you, Shawn.

(Applause)

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