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AND POST-ELECTION AMERICA

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P R O C E E D I N G S

MR. DERVIS: Welcome, everybody, and thank you for being here with us. When we thought of that event jointly with Jan Svejnar whom we're partnering with at SIPA, and Brookings is the jointly sponsored event, jointly organized event, we didn't know that Theresa May would call an election on the 8th of June.

So it's not -- no unfairness vis-a-vis the UK that we focused on the -- in the title on the French and German elections. The other elections of course around the world, but of course now we have the British election added to the French and the German ones and very, very short period and then of course there's other countries coming later. But instead of focusing too narrowly on France and Germany, we decided to focus a little more broadly on the world economy as such.

Anne Krueger is senior research professor at international economics at John Hopkins SAIS, senior fellow at the Center for International Development and emeritus professor of sciences in Humanity and Economics Department at Stanford.

We introduce these panelists, but none of them really need an introduction, but tradition has it that we do introduce them.

She served as first deputy managing director the IMF as World Bank chief economist. In both jobs, she was my boss, was in the sense of -- not boss in the sense of directly, but having huge influence on the way I work and the way we work together. Anne has taught widely including at Stanford and Duke and is a prolific scholar and author.

Joe Stiglitz is a professor at Columbia University, chief economist of the Roswell Institute. Among his many positions, he's co-founder and co-president of the Initiative for Policy Dialogue, and he co-chairs the OECD's high-level expert group on the measurement of economic performance and social progress.

Joe was World Bank chief economist, again my boss at the time, and also head of U.S. Council of Economic Advisers. He was awarded 2001 Nobel Prize in economics and has authored many books. The most recent one having a great bearing on the discussion today, "The Euro: How a Common

Currency Threatens the Future of Europe."

As I said yesterday in a different panel, it's not really an anti-euro book, but it's more a book of how the euro can function if it is going to function as a currency of sovereign nations.

Jan Svejnar is a James T. Shotwell professor of global political economy and director of the Center on Global Economic Governance at Columbia University. He founded and co-chairs (inaudible) in Prague and he serves as coordinator of economics of transition.

He holds several fellowships, including with the European Economic Association and the Center for Economic Policy Research in London, and the Institute for Study of Labor, IZA, Bonn.

Jan has held many imminent positions in the Czech Republic where he also ran for president, which wasn't in the short bio, but I think it's a unique experience one can have.

Jan has held many imminent positions in the Czech Republic and has taught widely, including at Michigan, Pittsburgh, and Cornell. He's also widely published author.

So thanks for being here. I'm going to hand it over soon to Jan to give the first few introductory remarks and give his perspective, but let me stress that these elections that are coming in France in two days are really very, very crucial importance. The four candidates are very different from each other, to say the least, and the polls are highly volatile. So we have two days before the election, but few people are very confident about what the outcome could be and yet different in terms of the outcome is huge.

I want to also really regret and express my sympathy for the people who were hurt yesterday at the -- in Paris, as so many lives have been lost around the world in the last few months, before then also, but particularly in the last few months.

With that, I'm going to give it over to Jan who (inaudible) welcoming word and then I'll come back to me, to Anne, and then to Joe.

PROFESSOR SVEJNAR: So let me co-welcome you, since as Kemal mentioned, this is a joint project of the Center on Global Economic Governance at Columbia and Brookings. We do things together every now and then, sometime in New York City, sometimes here.

This indeed came together as an idea saying, well, we will meet here at the time when

the elections will be looming. The Dutch election took place, but the French election, which is clearly pivotal, taking place on Sunday, the first round, and then May 7, the second round, if it comes to the second round, which it probably will.

More broadly, Europe really is at a crossroads. Not only Europe, the world in general is at a crossroads. But focusing on Europe, obviously Brexit was a big surprise and the short-term effects have not been very noticeable, but I think the medium to long-term effects can be very significant now with the general elections called in Britain. That will obviously have its own evolution and impact on how Brexit is negotiated.

I think the overall positive note is that the world economy is finally beginning to look like it's growing. Over the last five, six years, all the predictions proved to be too optimistic and always have to be downgraded in terms of world growth and how various parts of the world were doing.

Now, we have an overall positive -- more positive picture looks like, at least in the short run, growth would resume in many, if not most, parts of the world, but the amount -- the degree of uncertainty has decreased dramatically. In some sense, the political uncertainty is what's so serious.

So in France, let's start with that part, on top of Brexit, which has of course given many of the more extreme movements and parties food for thought in terms of what they themselves could strive for and go for.

So here we indeed have an extreme candidate, Marine Le Pen, who is one of the two frontrunners who indeed would like to get France out of euro or do away with euro and have a referendum relating to exit -- possible exit of France from the European Union.

Here I think if that were to happen, I think that would shake the entire European project and its foundation, and it's not clear whether it would survive or it would unravel and certainly would help other extreme movements and leaders in that area.

I think what we are observing, as Kemal mentioned, actually the top four candidates, which by the way don't include the socialist party candidate, so that's also an interesting comment on the French situation and French politics, are so close right now and such a high proportion of voters are undecided, that it's really very difficult to predict. We could take a poll at the end as to what you are

thinking as to who is going to win.

It really is very, very difficult and it's not at all excluded that, for instance, the two most extreme candidates from extreme right, extreme left could run against each other, which would be really something still a few weeks ago was not expected, because Mélenchon was far back and now is actually catching up and frankly doing extremely well recently in the polls.

So the situation in France in terms of where it could go politically, where it could go economically, most of the candidates again Fillon on the right as well as Le Pen are very much against immigration for instance. There is a big difference in terms of budget and approach to spending policies. So France is really in a state where it's very difficult to predict which way it will go, which way it will go.

The German election on the other hand, which will take place later in the year, is in some sense less consequential, but also extremely interesting in the sense that it looks like on Angela Merkel will have to fight seriously to retain her chancellorship, because Martin Shulz, the new leader of the Social Democratic Party is actually doing very well and right now the polls are bringing them very close together. So, there it's going to be a question of who will lead after that election.

On the other hand, less consequential, what I meant by that, is that it's very likely that the grand coalition that is there now, between Angela Markel's party and Social Democratic Party is likely to be renewed, because it's going to be more difficult, very likely more difficult, to form other type of coalition, because it looks like two new parties, including the extreme right alternative for Germany, will make it into the Parliament and one may need three-party coalitions if it's not the grand coalition in order to form a governing coalition which doesn't have just few votes, few extra votes.

So Germany in some sense may have different information as to who leads and who is the junior partner in the coalition, but on the other hand the outcomes don't look to be as widely diverse as we can expect in France depending on who wins.

I think the two elections are linked in the more subtle sense now returning to economics, our economic part of it, in that we may have either continuation of quite conservative fiscal policies directed from Germany, and that's represented now by finance Mr. Shiller (ph), together with Angela Merkel.

But if the social democratic -- Social Democratic Party were to be the leading party and they have the Ministry of Finance, it could be quite different, especially if the winner in France was for instance the centrist candidate, Macron, who by many counts perhaps has a slight edge over anybody else.

So in that sense, which way Europe will go, how it will handle the situation in the eurozone, how it will handle the northern versus the southern divergence in performance, economic performance, that has been there and that is the Achilles heel really of the entire European project, that will hinge very much on how these two elections actually together will form.

I think that's what very, and I'll turn it back to Kemal now, what's interesting when you follow the European political and economic developments is how relatively what might look like minor problems in different perspectives can affect what Europe is and isn't capable of doing.

In particular the example I have in mind is Greece. So the Greek economy is less than two percent, it's closer to one percent of Europe's total GDP. So it's almost like a rounding error, yet the problem has not been resolved.

The Europeans have not been able to resolve the Greek problem for over five, six, seven years now, and it threatens, threatened, and still threatens to relay the entire project, right.

So, the incapacity to lead and really form a functioning union is something that is remarkable in the -- so far what Europe has done, and the outcome of these two elections will be really determining which way it will go in the future.

MR. DERVIS: Thank you, Jan, for these introductory remarks. Let me just add a few things before turning it over to Anne Krueger and Joe Stiglitz.

I want to maybe draw attention to three points and, of course, we want to very much talk about this also in the context of the U.S. political debate, because the U.S. elections, of course, took place, the administration took over in January, but I think the actual debate on specifically which policies, what kind of tax reform, what kind of trade policy regime, these things are still in formation.

One can guess and there are certain signals, of course, that are soft and quite strong, but the actual legislation, the actual policy, the actual -- the way the U.S. will really be run over the next

three-and-a-half years is still not that clear and has quite an impact, of course, on Europe.

The other common denominator that is kind of tragic comic is that Putin seems to be involved everywhere in one way or another. So the U.S. -- after U.S. debate, there's now big debate in France, how much he's been influencing certain polls and certain analysis.

But anyway having said that, so the U.S. is very much part of the debate, I think what we would like to address and hear from two really almost experts in the world, Anne and Joe, in terms of the world economy is how they see it going.

Jan said that, and I think it's eight times the IMF WEO downgraded growth rates. They don't only do it once a year, it's not for eight years but in eight -- this time it is slightly upgraded and more than slightly upgraded in terms of actual realization of 2016 compared to what is projected to 2017.

Of course, 2017 is also projection. It's not a realization, but there the difference is almost half a percentage point for the world economy, which is very important driven by -- mainly by the U.S., by the difference in U.S., Japan, the UK, and to some degree India when you take the weight of the country and the size of the difference into account.

Africa also thankfully the fact that so many people last year were thinking China was near collapse, not collapse, but the growth rate would dramatically decline in China has turned out to be wrong and, therefore, the kind of feedback on Africa is particularly positive in terms of that link.

But having said that, I want to draw attention really to two points that I hope will come out of the discussion. The debate -- what is the debate really about, is it just -- is it just personalities that can formulate almost any kind of policy program they can think of.

In the end, modern democracy is bringing us to a clash of personalities and the way they project personally, which would be -- I mean, the personalities were very, very important, but, for example, in France it's very -- in the U.S., it's clear that President Trump did not have a political past.

In France Macron was one of the leading candidates and has a good chance of actually winning in the end. One has to remind people also that, in fact, he never got elected ever in his life.

I'm not saying this at all as a negative factor, but it is interesting that modern democracy can produce candidates that in a way come from outside the political system.

In U.S., it's business that produced it. In France, it's more -- in that sense Macron is more of an established elite candidate, although he is not part of the political elite but of the intellectual elite of the country, if you like, but he is also somebody who really has no political base really that he has built over time and from which he emerges.

So are we moving to much more personalized kind of situation? Even in Germany, I mean, it turns out that the polls are volatile, but when Martin Schulz declared his candidacy, the SPD within a week gained 10, 12 points in the polls.

So it's again an example of how a single personality can change -- can change a lot in what appears to be modern politics. I think one can give good examples of that also from the developing countries from the emerging countries.

The second question is when I was a student or when I was -- that was a very long time ago or, you know, 30, 40 years ago during debate. Economic ideology in a sense played a very, very important role. One was on the left or on the right. The left had the ideological program that was very, very, very different from left to right.

Does that still -- is that still a considering force in the debates we're seeing in the U.S. and in Europe?

In France, and that's why France is a particularly good example of that, Emmanuel Macron's intellectual hold is more left, center left. He, however, proclaims to be neither left nor right centrist candidate and has made lot of headway that way.

His policies when you look at it are centrist policies, they're neither a sweeping move to the left or a sweeping move to the right. They're changes, important changes. In that sense, it's not at all the same system continuing.

There are important changes proposed for pensions, they're important changes proposed for the labor market, for the retirement system the way it works, not the age, per se, or the amount, but the way it works. So there are specific points in the program that make it very different from the other parts of the program.

But among the candidates that come to mind, he is one that tries to in a sense assume

social liberalism, which in the socialist party in France was still very much very considered the very debatable word and not a very good label to have. The socialist party in France was debating actually between socialist and Social Democrat more than that. Social liberal was not a -- something that people were ready to assume.

So in a sense, he's trying to define a movement which appeals to the whole of society, not to a particular part of society. Some of his supporters and he, himself, sometimes, although he's more modest in his declarations, sees that this is the future in a way, that the future has to overcome the cleavages of left and right and build a kind of radical center.

What is interesting, however, I think very interesting and very French in that sense, is that the book is written in France -- books are written before elections by all candidates, it's called *La Rivoluzione*, The Revolution.

So is there a way of being deeply reformist, let's put it this way, deeply reformist, and at the same time not go with the traditional -- reformist in the sense that the left uses the word (inaudible) and at the same time not being part of the traditional left.

When we look at how the traditional left has done many places, like maybe in Germany things will be different, it has not done well. Clearly there's a search for a new model on that side.

At the same time on the conservative side, on the right of center side, many of the policies, and I'm sure others will talk about it, that President Trump was expounding during the election campaign, I'm not saying he's actually implementing, because he's not really implemented many of the -- he's implemented very little so far in the American system. You can't do it overnight. But except for perhaps the climate issue and the executive orders relating to that, and even that is contested in the judicial system.

He's also not very easy to classify as traditional Republican or certainly not as a traditional Democrat. So is there something happening in politics which -- where the underlying shift is such that the politics that we experience 50, 60 years ago is no longer really what will be the politics of the future?

In that context, although this is more focused on economics, but there is also of course

international, national dimension. We grow up in a world after the Second World War where institutions were built. U.S. took a big lead in that.

Institutions were built for global governments in an intergovernmental context but nonetheless institutions that were aiming slowly, gradually to build a set of global norms and rules to which countries would adhere to, whether they're big, powerful, or small. WTO and the trade globalization that came with it. Not just trade, but in the wide sense the convergence in many, many economic regulations. I mean, it's far from perfect, but a certain convergence had a legal debate in institutional basis.

Same for the European Union. I mean, the European Union was a mixture of intergovernmental negotiations but also of European law that bound Europe together into a framework that was super national and where there is lot of sovereignty sharing.

Are we moving away from that world of big players making big deals and where the institutional aspects are much less important than the deals that are being made among the big players? I think we'll see, but it seems like the second -- the second part of this has become very, very important.

So these are two points that I think are relevant for all three elections including other elections that are coming forward that I hope we can address.

Anne.

MS. KRUEGER: You remind me of the famous Cambridge England physics tri-post paper, define the universe and give three examples all in ten minutes. Anyway let me try, but there's too much around the table than I'll ever get to.

Quite clearly the multilateral system is very much under threat, and I'll come back to that, because it seems to me that's central to any assessment of what the outlook is. Before that, I want to just cover some points that I think have to be made.

The first of which is simply whatever we say right now I think to -- more uncertainty than would have been the case in almost any convocation like this since World War II, if not before that. The uncertainty as to what will happen in the United States alone is sort of unbelievable, I'll say something about that.

But we have the same about Brexit. We have the same not only about who will be elected but what they will do in a number of countries, including elections coming up next year and the year after, not just this year.

So in a sense, all of this is going on. Of course the way the world economy evolves will influence those elections, and those elections will influence the evolution. So on both sides, there's a much greater degree I think of uncertainty than before.

In my mind -- I'm an economist and that's what I'll focus on, but in my mind the overreaching uncertainty even for economics is geopolitical.

Unfortunately given the way relations were established so on and so forth, I think it has been if not ruptured, at least cracked. With those cracks, there's a great deal more uncertainty.

If you look around the world, it's serious. We have the Middle East, which is already in open conflict and there are problems there. We also have a number of other areas where there are risks.

Certainly the Chinese-American relationship is not all I would like it to be at the moment. I think there's a great deal of uncertainty in that particular relationship, and that pulls in much of the rest of Asia one way or another, which is perhaps unpredictable and certainly part of the overall story.

We then have Eastern Europe, and I have in mind particularly Ukraine, but what one could also think of the Baltics if indeed the Russians decide, as they might well, to do something once indeed there might happen to be something let's say North Korea.

If you look around the world, there aren't too many places where you can sort of sit back and say comfortably they won't be affected very much by all of this. The geopolitical uncertainty I think is so great that any economist trying to make a forecast of what happens to the system as such has to start by saying, look, what I'm talking about is fine, but it may be that I'm ignoring the elephant in the room. In this case that's the geopolitical stuff, which I think is very troublesome.

So having said that, back to the multilateral system, Kemal has said some of it. I think one of the things the United States did after World War II, which is part of what I was always very proud of, was to move toward a system of rules, et cetera, at a time when the United States economically was incredibly dominant, much more so than now.

When we quite clearly would have had power to do things in any number of ill-advised ways in addition to what we in fact did. The rules under the WTO have guided international trade. No matter what you say, quite clearly the history of the world economy, not just since World War II, but since let's say 1700, has been very much a history of lowering trade, lower transport cost, lowering communication cost, things like that that opened up more and more trade, which then was fallen by the reduction of tariffs, especially after World War II, in such a way that trade and linkages, economic linkages, between countries and regions within countries are much greater than they ever were before. The cost breaking that apart are almost unimaginable.

The quest of moving outside of framework has convinced us toward deals between major powers and things like this are almost unthinkable in terms even of what's going on now, not to mention some of the specifics, which would be totally disastrous, and I have in mind the Trump administration's search for bilateral balance in trade, which is one where I think almost any economist would agree is absolute nonsense.

Obviously what's the banana republic going to do. They're going to have almost -- terrible, well, they've got to import other things for the people. If they're specialized in one commodity, you can define what's going to happen in that.

Bilateral balance is not something we want for, and some of the major trading roots in the world over time have been trilateral. To give you only one reminder of how important that is after the Second World War, the Europeans were engaging in bilateral barter trade. It was American intervention insisting setting up the European Payments Union, which allowed multilateral clearing, which was a crucially important part of getting the European economies going again after World War II and it still is. So just to name one obvious threat to the system is right there.

Protectionism is another one. The U.S. is too big I think to talk about protectionism and not expect responses from other countries, in addition to the damage it would do to its own economy.

During the campaign, the president sounded very protectionist. At first there was, at least in my mind, some hope that he might not carry through with it and certainly his comments on the Chinese and currency manipulation, which were anyway sort of not carried out by the data at all. It was ridiculous,

but forget that.

I was kind of hopeful that that moderation would go elsewhere. The past week has seen it otherwise. The past week saw the vice president's comments in Japan and in Korea renegotiating the Korea Trade Agreement. Goodness knows that was a political battle there of major proportions.

We also have of course the comments in Japan, but now we have the whole steel thing. Because of steel security, we might have steel tariffs. Now, 21 percent of U.S. steel is imported. I cannot think of a way that you could drive a defense establishment needed for even 40 percent of U.S. steel supply and 80 percent of it is produced at home already. How is this a national security issue?

If you take into account quality, I could make the case even more strongly. For lack of time, I won't. There are some kinds of steel which you can actually almost see through they're so poor quality and many of those are the imported ones and they're not the ones you want for national defense in any event or even for a domestic province.

So there are a lot of these things going on where it's almost inconceivable that they can be carried through without retaliation. In the first instance there would be problems even for American producers who use things like steel, if its price goes up.

I think there's a statistic to the effect that there's something like 121 workers whose jobs depend on using steel products as an input for every steel worker. 121 to one, so now we're going to protect steel, raise its price, make us less competitive, and -- export steel too of course, we export steel products.

If foreigners can get ahold of steel at world prices and we pay more, our competitive advantage in other things will be lost. Whatever jobs you might think might be gained in steel, which is doubtful, they would be more than lost elsewhere in the system, and that's only one example.

If Kemal had given me an hour, I could try many more, but I don't think he wants me to do that. But the point is that we are threatening that -- threatening in and of itself has consequences for other trade policies.

Reducing confidence in the WTO where this dispute settlement mechanism has been very important, reducing confidence in that is a negative for world trade even before anything happens.

Some of that is already happening, and indeed I think is a very serious threat to the continuation of that in the world economy.

But I would argue that what's really happening is that for reasons that probably are more political -- like I said I'm an economist, so this is after (inaudible) stuff, the economic.

People who aren't happy for whatever reason are -- look at two things that they think the government can influence. Why? Because it's not domestic voters. What? Trade and migration.

Both of those are things that it looks as if the government has easy handles on, relative to things like just let's produce more in a state enterprise or something like that.

The result of which is those are two on which I think voters have emphasized or have focused on or have listened to out of all proportion to their importance in terms of degree of unhappiness.

Joe can correct me on this, but I don't think so. Most economists would argue that 80 to 85 percent of the dislocations in jobs and so on come about because of technical change and so on, and only secondarily does trade come into it.

When trade dislocates in something, it creates opportunities, in most cases, in something else, so it is not all on one side even then. But on the other hand, in the voter's mind, you can see the migrants and there's a border, you can cut off; you can see the imports, you would cut that off, forgetting that the exports will be reduced too, forgetting the other second-round effects, many of which would be enormous.

So from my viewpoint, these are two areas where the political focus has been there, it's a search for something, perhaps something that never was and never will be, perhaps for something where we need to find policies otherwise.

Whatever we want to do about the situation, I think the trade and severe cutbacks in migration are certainly not an issue that would play well either in the political arena, once we saw the consequences, or would play well in the geopolitical arena or would do much about the problems that people may be unhappy about.

There may be other things we can do and probably should do. You can argue that our social safety net is not as strong as it should be, and I think I'm by that. You can argue about education,

what needs to be done to our system. Because you could argue earlier on we were increasing the fraction of educated at least as fast as automation was knocking people out, now we're not doing that. We need to do more.

I would be the first to argue that but the trade and restricting trade and migration seems to me to be a formula for making people worse off, not better off for intensifying whatever geopolitical tensions there -- intentions there are and so on.

Is President Trump implementing everything, not yet. On the other hand, the noises, especially in trade, are certainly very unsatisfactory and the initial articulation of this and the initial actions, including the steel, they most recently strike me as portending very poorly for the future and give me a great source of worry.

So I'm uncertain. I hope that indeed real reality will set in. I hope some of the advisers will be able to persuade him that perhaps this is not the way to go. On the other hand, I remain more on the pessimistic than the optimistic side. Thank you.

MR. DERVIS: Joe.

PROFESSOR STIGLITZ: Thank you very much for this opportunity. Let me first make a couple preliminary comments about your general perspective where is American economy.

I actually think the most recent data coming in says that things aren't actually going as well. The market had -- sometimes called a sure high in the belief that there would be a very big tax cut for business, in the belief that there would be very quick deregulations, particularly the banking system, allowing them to pay out huge dividends regardless of what effect it would have on financial stability and what -- ignoring totally all the issues that Anne has raised about what will do to America's global international relations and uncertainty about trade and trade wars and all that.

What was striking about this, you might call this sugar high, was that it reflected -- it showed that the market was almost as foolish as Trump, ignorant you might say, in not understanding the complexity of American politics and the rule of law that we have in the United States.

You can't just strip away regulations. You have laws, we have a regulatory process. It takes Dodd-Frank was passed in 2010. It took five years to get the regulations in place. To take them

away and to put new regulations implementing Dodd-Frank is not going to happen in one month or six months may not happen.

One of the reasons it took so long in many of these areas, was there's litigation. Americans love litigation. Many of the things that -- victories that were viewed as victories against Obama are now being turned on their head. So just to give you one example, the executive order threatening cities who wanted to be sanctuary cities saying that they would be denied funding for all kinds of purposes, San Francisco and Santa Clara sued. It hasn't been resolved, but the suit itself, how it's proceeded, has illustrated a lot.

They used a -- or at least behind the scenes is in the attack against Obamacare, in the part of Obamacare was a provision designed to encourage states to provide health care for their poorest in Medicaid, and Obama realized that many states that are controlled by the Republicans have no concerns about their poorest.

Therefore, even if the government was paying 90 percent of the cost, they would not -- they would opt out of Medicaid. It was outrageous, but -- so to make sure that that -- to implement that, they -- they put, you might say, strong incentives for the states. The Supreme Court said you can't do that, that's disproportionate.

The result of that is that now a very large number of states did not provide extension of Medicaid benefits to their poor. The prediction of what would happen was right, but now this is coming back to haunt them, because the state -- the suit said, you can't use disproportionate denial of benefit.

So you could cut back aid to immigrants under this provision, but you can't say we're going to cut you out of government assistance.

The interesting thing is the government's defense is very quite remarkable. It said, the Justice Department, we never really intended to do what was in the executive order. What we're going to do is only deny zero or maybe \$1 million and only directly related.

So the government is actually now saying executive order doesn't mean anything, that was just visual for assigning opportunity.

Highlight is the high degree of uncertainty we are in today where we don't know exactly

where we're going. But in terms of where the economy has gone in the first quarter, in spite of this stock market high, the numbers look like, they're not out yet, but the numbers look very strongly as if growth for the first quarter will be lower than it was for the first quarter a year ago, about .5 percent, and we will be going for a growth rate of two percent, half of what Trump talked about. So there is a disconnect between optimism in consumer surveys and the numbers, the hard numbers, that are appearing on the scene.

Well, I wanted to comment first very quickly on the international issues, and Anne has said most of what I wanted to say and I agree with what she said.

I want to highlight two points. First the importance of rule of law, everybody -- it's been a major theme in economics. It's not the only theme, but it's an important theme, in economics, the importance of rule of law. We talk about the rule of law domestically, but it's also true internationally, and that's what this rule-based system that the United States helped create in the aftermath of World War II.

I've been a big critic of the rules; that is to say I said often that the rules are not the rules that are fair to developing countries in emerging markets, but that's different from saying we want to go back to a rule of law of the jungle.

I've worried about is the voice of developing countries in emerging markets adequately heard. So when you say "the rule of law", you still have been important debate about what rules. But to say that you -- a single country will single handedly remove itself from the rule of law is dangerous from a global point of view.

What has happened over a 70-year period is we've worked very hard to create a world without borders, where goods can move across borders, services, capital, not perfectly. Borders -- the big thing that Trump has done has reminded everyone that borders do matter.

The damage that Trump has done won't be erased even if he doesn't do most of what he says he's going to do, because it has introduced a new element of uncertainty.

Firms create a global supply chain on the presumption that we were in an historical arc of lowering, lowering the pay -- these barriers.

When there is a debate by TPP or TTIP, that was only a question of further lowering them, creating new standards, new regulatory standards, and, again, I oppose a lot of the provisions. But

the question there, no one was really talking about getting rid of the WTO or saying that the WTO has ruling that we don't like, we won't honor it, which is what the Trump administration has said. So the idea that you would walk away from international rule of law is just really amazing to me.

In his -- one of the reasons that the United States was able to play the role of leadership that it played in the years after World War II was that it pursued what I called an enlightened self-interest. Trump in his inaugural -- inauguration speech talked about America would pursue an America first agenda.

Forget about the overtones of that particular speech of what those words meant, America has always put America first. That's not -- when many people in other countries heard that, they said what's new here. But the point is it was always an enlightened self-interest where we said that having global peace stability and open market was in our self-interest and that meant at the moment we weren't necessarily -- we weren't fully short-sighted. Sometimes we were short-sighted, but we weren't fully short-sighted. I take it Trump's announcement to say America will become totally myopic in its behavior and just pursue our unenlightened self-interest and that of course will be disastrous and mean that we can't perform any role of leadership, and that I think is not good news.

One of the things that as an economist, and Anne must feel this even more than I do, when you hear statements about trade that are so deeply uninformed that it must just send creeps up your -- it's just -- they're stupid. There's no other way and there's just -- Anne talked about one of them.

That in a first year principal course you would have, which is bilateral trade deficits, we invented money, we talk about student -- to our students about the great invention of money is so you don't have to have bilateral exchange, the double coincidence of wants, and he wants to go back to that international.

But there's another one that's equally important and that is that trade deficits are a -- economists pointed out that trade deficits are a result of macroeconomic imbalances, that they are related to a disparity between domestic investment and domestic savings. And that when domestic savings goes down, if domestic investment stays the same, there will be -- we have to borrow to fill in the gap and that creates a trade deficit, and the calibrating mechanism is the exchange rate.

It took Trump a little while, I gather, to figure out whether a dollar going up or down was a good thing. He finally got instruction that if you are worried about the trade deficit, you want a weak euro, and that's the opposite of what Secretary Treasuries will usually talk about, which is this strong dollar. That's a little confusing, I understand, if you doesn't know any economics.

He ordered the dollar to go down. It didn't obey him. Nobody told him that the president doesn't have a little dial that tells you I want the dollar down -- in the closet there's a little machine and you then dial it down and the dollar goes down. Nobody told him that there wasn't that machine. Nobody told him it was quite that complex.

This is a problem that many secretary treasuries often find out about too, because they want it to go up sometimes, sometimes they want it to go down. They discover that if you were not going to go down the route of those countries that try to have control -- exchange controls in that, I don't think we're going to go down that route, that for a large country would be an utter disaster. If you don't go down that route, you are going to -- markets are going to determine the exchange rate and they're going to determine therefore the trade deficit.

There's an important consequence of this. Whatever you do on the protectionist side in one country is going to pop up somewhere else. Your trade deficit is going to be determined by the macroeconomics.

So because the macroeconomics that he is advocating basically calls for bigger deficits, fiscal deficits, he will have a bigger trade deficit, no matter what protectionist or non-protectionist policies he pursues.

The protectionist policies are only going to affect the equilibrium value of the dollar, the distortion in the patterns of trade, and starting a trade war really disturbed global supply chains and all kind of -- introduced a lot of uncertainty at the level of industries.

So that I think is, from a macro point of view, the most disturbing thing about the fact that he just doesn't get this.

Now, I want to say something about why in a sense -- when I say we are here, why Trump -- what were the forces leading Trump to Le Pen? The reality is that a very large fraction of

America, in Europe it's not quite as bad, have not done very well. Median income of a full-time male worker, and it's not easy to get a full-time job, but a full-time male worker median income is at the same level or lower than it was 42 years ago. Real wages -- real compensation, our compensation at the bottom, is at roughly the level it was 60 years ago.

The American economy has not performed for large parts of our society and an economy that fails that way is a failed economy. Health, we are one of -- life expectancy -- the data for the United States last year, is the life expectancy began to decline.

If you look at certain groups, it's in significant decline. This should not be happening -- that's the kind of thing that happens in a society that's falling apart, like in the years after the fall of the Iron Curtain, the breakup of the Soviet Union, that's when you see these kinds of absolutely disastrous health care statistics. We are now joining this group.

So the question then is why and -- Anne is right about the fact that we would be here whether there have been any globalization or not. Put it another way, the pace and productivity growth in manufacturing has been greater demand growth, and that means that globally manufactured jobs are going down.

Globalization has made it worse, because we will be getting a smaller fraction of those jobs. But there is an aspect of globalization that economists warned about but our politicians didn't take seriously, and that is basic economic theory, Sams and Stolberg theorem or the factor price equalization theorem says that when you open a trade between an advanced country like the United States and a developing country emerging markets, the consequence is unskilled wages fall and that's through taking into account the fact that the -- you can buy goods at lower prices.

So that the real incomes -- it is not a surprise that real wages of unskilled workers went down. It was predictable. It would have been surprise if they hadn't gone down. May of us warned about that and said we ought to do something about it, but it was impossible to get through a Republican Congress job assistance programs, let alone programs that would do something about the adverse distributional effects that trade was bringing about.

So to me, the failure to deal with the distribution consequences of globalization are part of

the reason that we are here even if technology might have put us in a similar position, even if we hadn't had globalization.

Finally let me try to just very briefly come to the domestic issue of -- many of us thought that 2008 crisis should have been a moment for the center-left parties, because it showed that deregulation didn't work.

What has happened in the third of a century -- the last third of a century since we drive supply side economics, since we lower the tax rates at the top, since we liberalize and deregulated, the economy's grown slower and there's been more inequality. My view, it's a failed experiment. The 2008 crisis showed, again predictable, instability in which most Americans lost a great deal.

The puzzle then is why haven't things worked out the way -- in Europe I have -- well, in both cases, I think part of the answer is the -- I think the central-left parties remain too centrist and they didn't think deeply enough about what was going on that you needed -- the 21st century is different from the 19th century, and a lot of the language and a lot of the -- we don't have the class-based society, we don't have the manufacturing idea of the post-World War II period, that's gone.

Manufacturing is eight percent of the employment. We're a service-sector economy. The kinds of structures that have shaped our minds about what are right economic structures have changed.

So my feeling is that the center-left parties should have rethought more the agenda and more progressive agenda. It's not based more on not the distinction between whether you're worker or not, because workers now own a lot of capital. That old distinction is no longer a relevant one, but the question is is a middle-class lifestyle attainable, the fact is it's becoming increasingly unattainable.

There are things that we could do to make it more attainable. You have to ask -- we are a richer country as a whole than we were in 19 -- after World War II, but many of the aspects of a middle-class life are more -- are less attainable.

After World War II, we provided under the GI Bill free education to everybody who had fought in the war, which is essentially all males and a lot of women at the best school for as long as they wanted. Today we can't even afford two years at the lowest cost school. It's not because we can't afford it obviously, it's where our mindset is and -- so we could go down the whole list of what would make a

middle-class life attainable today, and I think there is a progressive agenda that could achieve that.

I think our analysis of why we have such inequality is little bit stuck also in the past. It's how we restructured the rules after the -- in the last 35 years, weakening bargaining power workers.

We're too much stuck in a framework of a competitive market paradigm whether that doesn't describe 21st Century economy. If you look at sector after sector, there are limited competition.

So the bottom line is that we now -- part of the progressive agenda is making sure that this middle-class life is attainable and making sure that the rules of market economy get rewritten. I guess the final comment -- okay. I'll just stop.

MR. DERVIS: Thank you. Your agenda is detailed and structured, so you could go on for a long time I guess, but we want to give a chance also to the European side of things.

PROFESSOR STIGLITZ: All this also applies to Europe as well. I don't want to say --

MR. DERVIS: All this discussion that comes from you listen to -- and both Anne and Joe agree on many things, I'm sure they disagree on other aspects.

But what impact does it have on Europe and particularly -- one particular question, which is I think interesting and kind of obvious, is why is Germany apparently such a contented country with so little polarization versus France being like the opposite?

When you actually look at the statistics, Germany has overall, I mean, if you make statistical index, better statistic, but they're not -- the difference is not huge except in the employment side.

But if you could comment a little bit on the European reaction to this American debate, if you like. Because there was a time when oversimplifying Brexit and Trump meant a huge kind of (inaudible) me of populism that will engulf the world and we have now European elections coming.

Do you see that -- how different is Europe and particularly why is it that in Germany you get so little polarization.

PROFESSOR SVEJNAR: So I would just start with what Anne said, because I think it's very important, and Joe will follow up on that as well, and that's the international trade, the openness, et cetera.

The sentiment you have in Europe is that Europe, and China as well, that you actually are -- that's the bastion now of the free -- relatively free trade, relatively open, et cetera. That's the role that in a way Europe has to play, the Chinese in their own way as well, so that's kind of an interesting juxtaposition.

Perhaps a perspective just to keep in mind, Europe and the U.S. together are still not quite half of the world economy. It's closer to 40 percent now, but still those two blocks are extremely big. So what will happen in the U.S. and Europe will have dramatic consequences, and China obviously is the third major player, second if you take national economies, but -- so that has to be kept in my mind.

Now, going into Europe back and seeing how Europe is reacting first to the internal major change with Brexit and the possible fact that Marine Le Pen would like Frexit or at least voting on that, definitely taking things -- so the extremist have very extreme ideas in Europe. It's just that they have a -- have had different impact or at least seem to have a different impact.

The alternative for Germany would have extreme use, but most likely it will not play such an important part as the extreme use of Marine Le Pen or the extreme left in France would now, right, so there I think is big difference.

Where it is, I think you put your finger on it. I think there is naturally kind of more diversity of opinion and more extreme expression of it in France historically than Germany, let's say, speaking of the last 30, 40, 50 years in the sense of 1968 or things like that.

But I think the really more important nowadays is the fact that Germany through the Hartz reforms essentially reformed markets and succeeded in keeping wages relatively from rising as fast as elsewhere and reduce unemployment, which was 11 percent, it was similar to France and Germany ten years ago, reduced it down.

So what you have in Germany is a period of relative stability and prosperity that's shared in the sense that you don't have, as in Spain or some of the southern countries, huge number of unemployed and despondency and that breeds then, of course, the more -- for the views.

So Germany in a way in this economic sense and the way it's been governed is an island of stability. Whereas I indicated we may have some changing of the guard and so on and so forth, but it's

not really going to have that much of an impact. So in that sense Europe and the broad differentiation is north versus south, but there obviously --

PROFESSOR STIGLITZ: Can I just say one thing about this. Keeping wages low is like a competitive devaluation, and so I know (coughing) people in Germany don't view it that way, but it's just the same effect as a competitive devaluation.

PROFESSOR SVEJNAR: But what is interesting is that the German workers and population has accepted that and was willing to go with it. Whereas in some other countries, that would be seen as explosive. In a way, we saw the workers in the United States many of them voting for Trump, who historically would have voted Democratic together with the trade unions and so on. Just we're saying this is enough, as you described it.

MR. DERVIS: A word on France before you --

PROFESSOR SVEJNAR: So, yeah, I think that France is at a crossroads, that itself surprised how divergent, especially now in the last few weeks and even days the opinions have varied, how many people are undecided that you have huge, 20 percent of people still are sort of going to be deciding.

Interestingly enough the frontrunner, Macron, who is the centrist in Canada, the one who would kind of keep Europe going the way it has been going the most of all the candidates, is having voters who are very undecided or who could switch at last moment. So we really don't know what's going to happen on Sunday and then what's going to go after that.

Now, in the second round, it looks that if either Macron or Fillon moved into the second round against Marine Le Pen, they would likely win. So in that sense, the second round then would be much more assured.

But even Fillon, for instance, he might change from his rhetoric during the campaign, but he would be for renegotiation of the Schengen Agreements, for instance. Well, that was one of the main reasons for Brexit was that Britain did not want to have the free movement of labor.

So once you start the questioning -- questioning some of the pillars of the -- of what constitutes the European Union right now, then even an election over a relatively traditional candidate

could actually trigger changes that might have consequences that nobody fathomed.

It is important again to have the perspective that this -- the European project has been built very carefully from the end of World War II, with the United States playing a major, major founding role in that, that really was.

The Marshall Plan, part of it, it had aid, but it also had setting up of the rules of trading, the fact that the country started trading with each other and gradually improved dramatically the economic situation. So that whole thing is now imperiled to the point that nobody could have imagined just couple years ago.

MR. DERVIS: Perhaps one additional point, though, Macron personally is extremely pro European candidate.

PROFESSOR SVEJNAR: He could keep mostly --

MR. DERVIS: Not only keep, but he would want to move forward with integration on the eurozone.

So let's turn to the audience now for questions, take a few questions and then go back.

The first question and then -- sorry, I don't know your names. Please identify yourself before you ask a question.

SPEAKER: Lou (inaudible), I'm teaching a course at University of Maryland on the euro debt crisis and also came under (inaudible) for many years to continue (inaudible).

Jan, I want to address you directly but also the Professor Stiglitz. I think you're too optimistic when you talk about the stability in Germany. By that I mean, the workers have accepted relatively low wages, but they have not accepted that lots of people do not have permanent employment anymore, part-time employment, they're hired, they're loaned out, and it is also because the social Democrats have not played, as you pointed out, their role as a worker's opposition party.

Nothing is more attractive for the social democrats today to stay in government. Germany is an important country that has no opposition in Parliament. When you think about that, that explains why the workers don't have a right.

I wanted to ask you whether you think it's a good idea to continue -- it seems to sound as

if it was a good idea to continue with a (inaudible) coalition, but more fundamentally to all of you it seems, or am I wrong, that our democracies today are not capable of solving fundamental problems that (coughing) needs and concerns of the populations.

In France real social reforms seem to be impossible. In Italy the north and south, the imbalance, seems not to be solvable.

Are our democracies today not capable of solving fundamental problems anymore?

MR. OWEN: I'm Peter Owen. There is now finally some talk about Germany, although there was in the title. To what has been said by Jan and Joe, I would agree to an extent. You talked about unemployment and the very positive unemployment development, particularly youth unemployment and all this.

But there is -- I think there is more in this. I would not accept the idea of the wage -- shrinking of wages in Germany. It's the second highest per hour, 37 euro was this -- the euro dollar industry spot, 28 or \$29 per wage in the industry, so it's second highest in the eurozone.

The second is -- the interesting thing is the majority of the population favors globalization. I'm not going into details why it is. Since 18 years Gini coefficient shrinking in Germany. The reason for that is for eight years an increasing labor market participation.

Now, when people say that the medium is down, well, of course the medium is down, because most of the people who got into the labor market were unemployed before eight years ago, so they are not qualified people and they're entering on pretty low level. As a result of that, the average is down and the median is down, but it doesn't affect people who work ten years ago.

So I think one really has to look into this a bit more carefully. Maybe one of the reason is that the country has a very high share of industry. It's about 23, 24 percent of GDP, about twice as high than the U.S. and the EU average. There's one country in the EU, and that's your country, Czech Republic, has a high percentage of that, but that's the only one.

Maybe, Joe, there is one point is reducing of government take or the government share of GDP, which is pretty low in Germany compared to most of the rest of countries and maybe there is one of the reasons.

I know they're not agreeing with Wolfgang Schaeuble's policy, but is now the eight years where there is no government deficit in spending, public spending.

So maybe there are some reasons why we should look more carefully in that development compared to the normal view of many people have on what these countries might do.

My last point is on the parties in Germany. I'm not commenting on what the SPD should do or not, but Mr. Schulz may have a chance to become the vice chancellor at best.

There are other options for coalitions in the country, but that would usually -- would probably require more than two parties. The level of parties coming back with agreeing the liberal and the -- Christian Democratic it's a majority. So actually it's interesting to see that the German election's becoming much less exciting than the election in other countries, although it may be much more important than some elections in other countries.

MR. DERVIS: Yes, the lady in the back there first.

MS. BOURBON: Hi, my name is Contessa Bourbon from The New York Times. I'd would like to ask the panelists what party protectionist policies have been embraced by candidates in France and what should be the implications in trans-Atlantic relationship?

MR. DERVIS: There in the middle. You were actually -- sorry, you'll be the next then.

MR. MUNO: Thank you very much. Wolfgang Muno from Germany here at American Institute of Contemporary German Studies of John Hopkins University.

I would like to first challenge you a little bit that the Social Democrat Party is not really a workers' party anymore. Very important has been also the introduction of the first of a minimum wage in this coalition, which helped reduce also the Gini coefficient, especially for low-level workers. That was, I think, quite important.

But basically I would like to challenge the view that it's the labor market which was so important in Germany, and I would like to ask if you compare it to Austria, which has a very low level of unemployment, but the right-wing populist candidate in the presidential elections almost won just by a very narrow margin.

So I would like to draw the attention away from economics and to immigration culture

politics, which plays an important role in France, in Austria, many other countries, but not so much in Germany. I think that has something to do with German history simply.

A question toward the panelists, or two questions, I think a big problem for Europe is Italy, that's a big problem, and there maybe also be elections very soon. And to the American partners here, I would like to know your opinion about Mexico and NAFTA, which is I think maybe the weakest target in trade for the new administration and what you think about that. Thank you.

MR. DERVIS: We have to close at 3:30, because there are other engagement. One last question there and then a quick round.

MR. FORNI: Thank you very much. My name is Lorenzo Forni. I'm a professor of economics at the University of Padua in Italy and I'm also the director of a think tank called Promatay in Italy as well, so I'm picking up on the Italian issue.

So as you know, there are going to be elections at the latest in February next year. There's a heated debate now in Italy about whether the countries should leave or not the euro, Richard Gonzalez was a professor at Chicago just called on a major Italian newspaper to open up a debate on that.

I want to hear Joe Stiglitz' opinion on that, because he's often associated with one party in Italy who's actually in favor of calling referendum on the euro and -- so please let us know your opinion.

From Anne who's an expert on restructuring, I would like to ask you whether you think Italy should start planning for sovereign debt restructuring.

MS. KRUEGER: Start planning for?

MR. FORNI: Sovereign debt restructuring. If yes, how would you move the first steps to do that? Thanks so much.

MR. DERVIS: Joe, we'll let you answer first that one and then if you want to quickly -- if you do want to answer the --

PROFESSOR STIGLITZ: I can give a very brief answer to that question. I think as I point out in my book, the euro has introduced rigidities, which have contributed significantly to Europe's eurozone poor economic performance.

It's led to divergence between the richest and the poorest countries, when it was supposed to lead to convergence and it's led to divisiveness.

But I also argue that the first best approach is to make the reforms in the structure as a half-finished project in a way. They knew it in the beginning, but you either have to have a more euro or less euro, more Europe or less Europe. This current halfway house I think is going to be very hard to sustain.

So I think it would be better -- and I don't think it's economically that difficult to make it work. The politics are more complicated.

MR. DERVIS: Read the book to understand why.

Anne, one last word, two last words --

MS. KRUEGER: Three things I wanted to comment on quickly. The first is democracies' do not solve problems anymore. Democracies have always gone through periods where they had difficulties. They had to change the structure one way or another. I think many in the United States, starting with the Whiskey Rebellion in 1796, but thinking also the Jacksonian presidency, the Civil War, lots more, riots in Manhattan in 1900, and so on and so forth.

Obviously when things turned around a bit and there have to be changes, there can be periods where people are either not seeing the way forward and they have to debate it or other things.

So I don't think it's anymore question. I think if we choose the wrong path, which I hope we don't, all the lessons from that may be learned and we'll finally get to the right one. I think it was Churchill who said, you can trust Americans finally to find the right solution after they've tried everything else. He was more right than he knew.

Mexico and NAFTA, we don't know what is happening. The Mexicans privately to have gotten some reassurance on things. On Canada and Mexico so far, the Trump administration has not moved as much as he promised in the campaign. That doesn't prove he won't, but at the moment that's okay.

I think the Mexicans have taken some measures already to try and make sure they're not going to be quite as much trouble as they might have been, but obviously it would be a huge blow for

Mexico if this was done in a serious way.

But the value-added change that Joe was discussing are important in this. And there I think there would so much damage that I think there would be American companies that fight against it too, which would help a lot.

Because what really happened after NAFTA for Mexico is they got into the value-added change bigtime, which they didn't before. Disrupting that would disrupt them of course, but it would also disrupt us.

Last question, Italy and debt restructuring, obviously that depends on part in Italian law. It depends on other things. I do not think you can depend on the center, but the first thing to do is to sort of take stock of what you want to achieve, then look at the perimeters with the Italian laws to what debt is under domestic law and what is international, and then you go from there. A major step is hiring a good law firm.

MR. DERVIS: Jan.

PROFESSOR SVEJNAR: So quickly on the democracy of solving problems. I think there are two issues here. One is that competition has increased dramatically. It's tougher for democracies to handle things when things are more competitive. There is less resources here, resources to go around to throw at problems.

So I think that's where, for instance, globalization has increased total wealth of the world, but there are a lot of people left behind, even in democratic countries. So I think you're right right there.

I think there is another issue that we're facing and that's the issue of illiberal democracies, that you could have the mechanism of voting, et cetera, and yet very capable demagogues can get to power, get reelected, Orban and Hungary and so on, so forth. You can sort of see it around the world, so that's a big issue, so liberties versus democracy, the mechanism of democracy.

I think that my remarks about Germany, I didn't mean to insinuate that there wasn't enough diversity and there wasn't all that. I just am thinking that it's no so far these hasn't been channeled to incredible support for parties like the alternative for Germany. Unlike in France, unlike in other countries where there is the channel and could lead to actually some of these people getting to

power, in Germany I think that's not likely as yet.

But other issues, I think are there and the fact that, for instance, you have the more part-time workers, et cetera, so the labor market issues in Europe are there and that's important.

The question about protection policies in Europe, so the candidates are on record. Marine Le Pen wants intelligent protectionism, so that means tax and imports having public procurement primarily for French companies, things like that.

Fillon probably pro-free trade, although he hasn't articulated all that clearly. And Macron is supporting trade agreements, such as the Canadian-European Trade Agreement. He would like it have something that he calls greater EU cooperation and integration to create protective Europe, whatever that would mean, so there are issues around that.

Finally I think on Italy, my view, I agree with what has been said, but I think the big problem with Italy is the banking sector and the nonperforming loans, which have been growing in importance as Italy has been going through tough period for long period of time, so even performing loans became nonperforming, and how to resolve the big issue, which could be explosive for all of Europe actually, starting in Italy. So I think that issue is to be there --

MR. DERVIS: Joe.

PROFESSOR SVEJNAR: In return I just want to say, Kemal was my teacher. So everything I say here, he's responsible.

PROFESSOR STIGLITZ: Yeah, just a couple of other issues. I agree that the center-left parties, the Democratic Party in the United States, has not done as good a job representing interest of workers. I feel the same way in Germany.

When I've gone say to meetings in Germany with members of workers and members of SPD, it's very clear that the party official -- there's a gap between where -- it may be I have -- the people go to my talks are self-selected in a particular way, but at least at those meetings there is a very clear gap between the member -- the party itself and the officials and a lot of the concerns of workers. I feel that the Democratic Party has also failed to adequately address the issues.

Whether you call them middle-class people or workers, I think there's been a gap of the

language and concerns. I don't think whether -- people don't expect people -- governments to solve problems, but at least they expect them to be deeply concerned.

Bill Clinton did a very good job saying, "I feel your pain", and he meant it. I'm not sure they felt some of the candidates felt their pain in the way that they should have.

There are always many factors that go into the success of a country. If you have an undervalued exchange rate because you're part of the euro, it gives you a certain advantage. To me, I think having an undervalued exchange rate -- IMF has said that Germany has -- so it's not just me that says Germany has undervalued exchange rate. It gives it a competitive advantage and is a source of economic growth.

It's done a lot of things very well, but I don't think it's -- because it has a small share of government, when you do government shares a lot of these depend on how you do the calculations and what you -- so just without looking at German data, looking at American data, a lot of people say America has a small share too, but the health care sector we have to pay for our own health care, you have to look very carefully on what fracture are retirement benefits in the public versus private sector.

So all of this -- it's not the size of the government share that is the key, the key thing, and I -- so in general, I think that that's not what I look to. I think it has -- the undervalued exchange rate is a key factor.

In terms of the share of economy that's in manufacturing, there's a basic problem. Not all countries in the world can have 23 percent of their economy in manufacturing. So that's just -- so that's not -- to say everybody should follow the German lead, that doesn't solve. Because we know that globally the share of employment in manufacturing is going to be very relatively small, and it is very likely, or at least very possible, that that will change when China gets -- moves up the value chain.

As it was moving up the manufacturing value chain, it first took away shoes and apparel. Now as it's moving up, it's moving into machine goods and that will present a challenge to Germany going forward.

Kemal was looking at me and saying I should end, so let me just make one final comment about NAFTA and -- you want me to stop?

MR. DERVIS: No, no, you got...

PROFESSOR STIGLITZ: So I think what Anne said is absolutely right. The rhetoric was in the -- during the campaign was terrible. Building a wall is terrible. The interesting thing is that it's not just that the Mexicans are feeling more confident, the markets are feeling more confident.

If you look at what's happened to the exchange rate, it's recovered most of the loss -- the pace of dollar exchange rate has recovered most of the loss that happened after Trump's election, which is a statement to some extent that they think that there's not going to be a significant change.

There have been proposals of how NAFTA would be renegotiated. When you look at them, there's nothing really very deep or fundamental and not a surprise, the United States has a trade surplus with Canada and a trade deficit with Mexico.

We have a hard time. We have to claim that our trade surplus with Canada is morally good while our trade that -- Mexico, but the United States is morally wrong. We're having a hard time, but Trump is very creative. Because the way he's doing this is to say, deficits in goods are one thing and deficits in services are another.

Again, he ought to take Anne's course. We'll explain that parading services is just as much -- is more part of the 21st century than trading goods. Especially those of us in the education sector or the health-care sector think that our sectors are an important part of the economy.

MR. DERVIS: Thank you very much, Joe. We have to close. Let me just say one word. We have Werner Hoyer, the president of the European Investment Bank giving a presentation on the future of the European economy in about 25 minutes.

So those of you who want to listen to that are most welcome to stay there. There are some refreshments outside. A warm round of thanks for the panelists --

(Applause.)

MR. DERVIS: Maybe while you end the session, you note in your mind who you project to be the winner of the French election just to check with yourself...

* * * * *

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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.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2020