

# BRUSSELS FORUM 2009

## *Battling the Crisis: High Time for Transatlantic Leadership*

### **Craig Kennedy – President of GMF**

I have something which I think should be especially interesting, a conversation with Bob Zoellick, the President of the World Bank. Bob has participated – this is his third Brussels Forum. We really appreciate his involvement with this, and how important he's become to the line-up of conversations we have, and we've asked Steve Erlanger of the New York Times to do the honours today. Steve, come on up.

### **Steven Erlanger – Paris Bureau Chief, The New York Times**

Craig, thank you. And thank you all. I'm sorry to have interrupted the coffee. Having survived a session on Israel last night, I think this will be easy. There was only one serious accusation of anti-Semitism back and forth, but we seem to have calmed it down.

I'm always struck, particularly after listening to some of the session just before, naturally by an old Russian joke. There are many. There was a committee named [Janestski] who after the collapse of the Soviet Union looked around and said, you know, everything has changed, but nothing's different, unless everything's different but nothing's changed.

And sadly I think this may be the one Russian joke I know that is now outdated, because I think as we look around the world, it does feel that things have changed, and that things are different, and there is a kind of earthquake of fear and anxiety, a kind of peristalsis of effect and counter-effect that is hitting all of us. So I just want to ask the simple question, other than whoa, how bad is it?

### **Robert B Zoellick – President, World Bank**

Yes, it's good I took a drink before that one. Well, I think 2009 is going to be a very dangerous year, and just to give you some reference points, the IMF came out with a new global forecast recently, close to decline of about 1% of growth. We at the Bank will be coming out with ours soon, probably in the range of 1% to 2%. But to put that

number in a context, you haven't seen a figure like that globally since World War II, which really means since the Great Depression.

Trade will be dropping most significantly in 80 years, and the UN, as maybe you know, has something called the Millennium Development Goals. And one of them is to deal with infant mortality, and we estimate that because of the slower growth, some 200,000 to 400,000 babies will die that otherwise wouldn't have.

The real issue, however, is the downside, and there are just huge uncertainties. It depends on what people do at the banking system. Some of these issues will be at the G20. Some of it deals with protectionism. So it is indeed serious, and there are obviously issues that go beyond the economics, to the political and social stability.

One way to think about it too is to think about wave effects. What you saw happen in the developed world is it started with the financial sector, then it moved to the real economy. In the developing world you will see it hit the real economy: investment, trade, but then it will start to move back to the financial sector. So one of the things you have to think about in this environment is how to anticipate some of the dangers to come and try to head them off.

### **Steven Erlanger**

But if I could just ask you to dig down with a little more priority? You've been quoted as saying that on two issues in particular – one, we had to get the banks in shape, that unless we got rid of toxic assets, all these guarantees, I think your phrase was, was like “a sugar fix.” That was a gentle way of, I'm not sure sugar is the right word, but fix is right.

And then secondly, the level of stimulus – now, this has been a bit of a predictable and not very useful debate between Washington and the Eurozone economies. How do you think we're doing on those two issues?

### **Robert B Zoellick**

Well, as you said, the two are related. The stimulus of course is to try to replace the fall in demand, so that's the Government's push, and the IMF had suggested about a 2% of GDP. I think the world's at about 1.4%. The truth is, no one knows for sure how much is the exact amount, and in what form, discussions of tax and in spending.

It's my belief that therefore, out of the G20 process, one should have a monitoring system, and get the IMF report on this quarterly, in part because at this point where you are with the stimulus packages are that I don't think you are going to get additions in Europe. The US has made its package. It has to execute. You may get another one coming from China or Japan.

But some of the packages actually withdraw stimulus in 2010, and so given the uncertainty of this crisis, I think you want to have a review process to see whether

more would be needed in 2010. But the issue now that is most important are the bad assets and recapitalising the banks, and the reason I use “sugar high” was that it’s like if you have to have stimulus, it gives you a boost, but unless you get the credit system working again, it will drop off. And so –

**Steven Erlanger**

It sounds more like crack cocaine to me.

**Robert B Zoellick**

Well, I’ll use sugar. It’s a running analogy. You’re going to hit the wall. And so I think I saw the news reports actually in the New York Times about Secretary Geithner planned to come forward with his bad assets proposal. But the reason why this is also, I think adds to the political-economic mixture, you’ve got a number of members here of US Congress and others of parliaments.

Frankly, helping banks, or being seen as doing things for banks is not very popular these days. So on the one hand, it has to be done, but on the other hand, it’s a hard political sell. So those two issues are critically interlinked as we go forward.

**Steven Erlanger**

You have a special position. You have a board, but on one level, I think one could say that the Americans are a little late in dealing with toxic assets. Are the Europeans, and again different countries in Europe, doing enough to deal with the crisis of the second wave, which is the collapse of trade?

Some people think, for instance, that though the German stimulus programme is fairly large, Germany is going to get hit pretty hard a couple of months from now. People worry about the outer zone of the Eurozone, the Greeks, the Spaniards, and then we have the whole issue of the new old Europe, the challenge to the euro, the challenge to solidarity, whatever that word means now in the European Union. I knew what it meant in Poland. I’m not sure I know any more what it means in the European Union.

And then we have even the outer problem of countries like Ukraine, which as we heard just an hour ago, is a country still in play, where a lot of mischief can happen, but where Western banks are deeply implicated. So can you talk about those zones a bit, and whether enough is being done?

**Robert B Zoellick**

Sure. Well, again, for many of the people in this audience who were involved with the events of 20 years ago, or in countries from Central and Eastern Europe, I think this is another historic moment for Europe, and to see how it will deal with the challenges of an integrated Europe.

It's not easy, because given the nature of the shared sovereignty, Europe has pulled itself together with a set of rules, and those rules are very important in terms of, in a sense, the mutual responsibilities. But they're also constraining, and that's exactly what I think some of the governments you're dealing with right now.

The first issue that you mentioned would be countries that are already members of the euro, but maybe in more financial difficulties, and you saw this with some of their, what are called the credit default spreads, the value of their debt.

Those have come back a little bit, and I think there has been a suggestion that Europe will take care of other members, but people don't want to be explicit because those countries who usually have to be the paymasters don't want to create a moral hazard by saying they're going to bail everybody out.

There was an important development yesterday coming out of the European Council meetings, where the European Council agreed to expand up to EUR50b of fund to try to help with some of the countries in the European Union. When the problems in Hungary first hit, the European Union only had EUR12.5b in this fund, and so when the IMF and we at the World Bank, others tried to contribute to this, European Union structures really weren't able to contribute that much.

And again, some of the member states who were asked to contribute said look, we only want to do it to the European Union because we don't want everybody coming to us.

This is important because there are going to be other challenges. Romania has discussions going on with the Fund programme now. Now, and I realise it's true for a number of the countries here, of course there's a view, and the Czech presidency has emphasised this, that each country is different, and that you have to differentiate. There is no doubt about that.

But if you think about not only the past 20 years but the past 60 years, there's also been a view that Europe stands or falls together or gets taken apart, and the whole concept of European integration is that what happens in one country affects the other countries. So of course you have to differentiate, but I think one has to be very careful about the interlinkages of the banking and the credit system and others.

Now, from the perspective of the World Bank, we work very closely with the EBRD, headed by Thomas Mirow, who's doing a very good job, and the European Investment Bank, and we've put together, for example, a \$30b+ package to help recapitalise some of the banks in Central and Eastern Europe. But perhaps 80% of the assets of those banks are controlled by Western European banks.

So this is a classic problem where it's not only going to be the governments, so the national financial institutions, but you have to send the right signal to the banks to

stay involved in the game. And this of course raised the question of whether some of the bank support packages in Western Europe urged them to stay home as opposed to engage.

So there are a whole series of challenges that from my point of view, require Europe to come together and support one another, but of course in a way that requires the appropriate actions taken as well.

Now, Ukraine is one step further on, and here I think the challenge is, you've had a political situation in Ukraine where a lot of the parties have been pulled apart as opposed to together. To deal with this crisis, you're going to have to have the President and Prime Minister work effectively together. They're in an election year.

I think the best way to do that is for the IMF, for the World Bank, but also for European leaders, to say, if you take these actions, these are the benefits you get. We've got various loan programmes for the banking sector and energy sector and others, to help give some incentive for the Prime Minister and the President to bring around the voices in the [ratum].

I think this also has to be done cooperatively with Russia. You've seen aspects of Ukraine seeking \$5b of credits from Russia. Obviously people are aware there are both political and economic consequences to this, and so I was having some discussions with European Commissioners yesterday, and trying to get a sense of whether there's a willingness to have some, not only the role of the Commission but some of the national government leaders, try to play a little bit of a coordinated role in sending some common messages to President Yushchenko and Prime Minister Tymoshenko, because everyone knows that if they have an economic crisis, there's potential political implications.

### **Steven Erlanger**

I'm going to ask kind of a rude question, but does the Commission get it? Did they understand the power of this crisis?

### **Robert B Zoellick**

Certainly they do. The Commission has got very good people that are cut across different areas. I think that it goes back to this point I mentioned of the rules. The Commission of course always has to balance what are its current authorities versus what the key member states will enable them to do, and then you have other European institutions, like the European Central Bank.

But I think this is part of the European debate about how far one leans forward, how far you coordinate with some of the member states, and again, I think that the effort yesterday to move their support package up to EUR50b suggests they get it.

**Steven Erlanger**

One of the things that I want to do is open this up to the audience. My impression always at this Forum is that it's full of very interesting people, many of whom would rather talk than actually listen, which is great, but before I do that, I just want to push one more topic, which is really what we used to call the Third World, the Fourth World.

Part of what the World Bank's responsible for is helping the developing countries of the world and the poor. And we don't talk about it that much. We're so afraid for ourselves. It's amazing, I think, how quickly in a crisis one's sense of empathy shrinks, and I wanted to ask you about that.

**Robert B Zoellick**

Well, we're now in an environment, and the way you asked the question is a good way of posing it. As opposed to thinking about a Third World, you have great diversity within the developing world. So if you think of a lot of the reporting now, it's focusing on what would be the growth of China; what will be the growth of India?

So you have rising economic powers, and one way to look at the situation is, this is a global crisis. It's going to require a global response. And so the growth dynamic that comes out of some of these rises in powers will be just as important as it was in the developed world.

But in addition, if you're thinking about the political economy aspects, many people are unaware that in sub-Saharan Africa for example, you hear about people living in two thirds of the countries that are on average growing about 5.5% or 6% a year over the past decade, and maybe a third of those were done through natural resources, but a third didn't have energy resources.

You also have important growth potential in sub-Saharan Africa. So you have to look at each region, and one of the points that I've been trying to stress is not only that the developing world can be part of the solution of pulling us out of this, but at a time that the G20 and others are thinking about issues of governance, how do we institutionalise a monitoring role for the IMF? How do we institutionalise additional bank regulatory and supervisory structure? How do we institutionalise additional resources for the IMF to be able to intervene?

I think we should also institutionalise some way of trying to do it with those that are most vulnerable. Now, if you go back and you look at the Latin American crisis in the 80s, or the Asian crisis in the 90s, you'll see that there was some effort for safety net programmes, but they were a little bit ad hoc.

So one of the things that I called for a vulnerability fund to take just 0.7%, the UN figure of country stimulus packages, to go towards programmes, whether it be the World Food Programme, or ones that we have, or the other UN agencies to try to deal

with this safety net issue, because my infant mortality numbers are the most striking way of saying it.

But frankly, if kids don't get proper nutrition in their early years, you lose a generation. But in addition to that safety net, I want to emphasise infrastructure, and if you look at the Chinese experience of 97, 98, China created a lot of jobs at a time of slowdown. But they also created a base for future productivity and growth, so anybody who went to China in the late 90s versus now, you see the incredible road system, the ports, the airports.

This is something we have to think about also in other parts of the world. There is some great potential here to not only create jobs, but create the ability for future growth and paying back the debt. And just to give you one interconnection of this, about how to connect aid and development and productivity, I've been trying to get some of the developed countries to add support to the developing world, but obviously it's hard at a time like this, that everybody's feeling stress.

So in a way, what I and others have to do is mix where their political capabilities and interests are with the developing world. And so last autumn I was talking with Chancellor Merkel and Minister Steinbrück, the Finance Minister of Germany, and Heidemarie Wieczorek-Zeul, the Development Minister, about Germany making additional contribution for infrastructure development.

So in their stimulus package, they put in EUR100b grant, plus some loan money from KfW to give us about \$500m or \$600m worth of financing. Now, Germany can make the case for infrastructure support because they could say, well, this might help our capital goods industry.

My sense is, in the US and Britain, it would be more likely that people would support safety nets, so you've got some actually Senators here who have been very involved with some of the food assistance programmes. And Japan contributed some \$2b to help us recapitalise private banks.

So I think part of the challenge here is to be flexible in customising where you can get support from the developed world to the developing world, but don't only see it as a question of awards of the system, but see it as part of the solution to the problem.

**Steven Erlanger**

Has this vulnerability fund gotten traction, or is it something that you're still working to establish?

**Robert B Zoellick**

Well, we started it in a forum at the bank last year with the food and fuel crisis. And so we actually devoted about \$1.2b of our own funding, but Australia and Russia gave us some additional support, and it's a very important aspect of Russia now, moving

back into the development assistance world, and have been trying to do it through a multilateral mechanism, which I think is a good move.

Britain has announced last week that they would make a contribution to this. I think Prime Minister Brown has been supportive. But it's something that we're still having to work, because obviously at times like this, it's not easy to get developed countries to move beyond their home market.

**Steven Erlanger**

I'd like to open this up a bit, so the first hand I saw was this woman at the back, please. Do we have the microphone? Yes, it's coming.

## *Q&A Session*

**Anna Gomez - Member, European Parliament**

My name is Anna Gomez. I'm a member of the European Parliament. I'd like to ask whether you don't think that transatlantic leadership in dealing with this crisis could be exercised, and should be exercised by focusing on the need to control or eradicate the offshores, these black holes of corruption, criminality, tax evasion, that have a lot to do with the fact that indeed we need to put not just the banks back in shape, but the whole financial system in shape.

Isn't this the way to actually get the money that our governments need to indeed invest in revamping the economies, job creating, and actually finding the money to pursue the achievement of the Millennium Development Goals, and to prevent the corruption that actually, from our countries in the developed world, but also from the developing world, is taking a lot of money from what should be the benefit of the citizens?

**Steven Erlanger**

What I'm going to do is take two at a time, so there was a gentleman just further down the row, just behind you, sir?

**From the floor**

Thank you. My name is [inaudible]. I'm also a member of the European Parliament. The question is very specific on this vulnerability fund. First, it's supposed to be calculated on the total amount of the stimulus packages, and that's not very clear what it means. 0.7% of stimulus packages, we don't know exactly what it means in terms of every country's calculating the stimulus package in a very different manner. So

how would that be calculated, and in fact, in a more deeper approach, isn't this idea of having a new fund distracting from just forcing countries to commit or to implement what has already been committed?

When you compare with what was promised in Gleneagles, for example, years ago, or whatever has been promised, the 0.7% in general in official development aid, that has never been implemented. So wouldn't it be much more interesting for the World Bank to really have a sort of name and shame, and an effort of implementation of what has been committed instead of starting something new? Thank you.

**Steven Erlanger**

Do you want to deal with those?

**Robert B Zoellick**

Yes. On the offshore tax havens, it is important in part as improving the governance of the system. Shortly after I came to the Bank we launched something called the STAR initiative, the Stolen Assets Recovery initiative, and we've been trying to work with some of the UN agencies to make sure that all countries – and there are some in Europe that haven't yet done this, I might add – ratify the basic UN treaty to make it easier to get access to stolen monies, and we recently actually worked with Switzerland to get some back to Haiti, and there's still some substantial sums for that.

Second, your point is a politically powerful one. At a time that people are angry, they want to punish wrongdoers. But third, I wish it were enough source of money. It won't be, and so the one thing one has to be careful about is that while politics will drive one towards, let's stop tax evaders and let's go after evil bankers and other things like that, it doesn't really let you off the hook, ok?

You still have to do the other ugly stuff that I mentioned, and particularly cleaning up the banking system. And it fits into a larger point, which is that you see this debate about improving the regulatory system in the financial world. It clearly has to be done. As you've even seen in the European context, it's easy to talk about it one level. It's a little harder to do in fact, because as you saw with Dolores [Debarcier's] report, you've got national systems, and even within the national systems, you often have a lot of complexity.

So the challenge will be how to capture some of the cross-border issues, whilst still recognising you have national systems. But clearly regulation and supervision is going to be a part of it as for policy ground, but equally political ground. My only caution is that look, this is a tough time for elected officials, and it could be easy to say, well, let's strengthen regulation and fix that problem. That is important for the future, but it's not enough, and somebody's going to have to deal with the fundamental issues I mentioned of this fiscal and cleaning up the banking system.

And the vulnerability fund, it's actually not a new structure. In fact, the whole point is exactly as you mentioned. Let's use existing mechanisms, and the idea was simply, going back off Steve's point, most of discussion in developed countries has been how do we get our own economies going, or how do we deal with the banking or the fiscal system, and so my point with the vulnerability fund was to say, if we just take a small part of your stimulus packages, not even 1%, so use the UN's 0.7%, and we devote that towards those most in need, you get maybe \$10b or \$15b additional support.

But it was a way of trying to recognise the issue, but then as I wrote the piece, I wrote one in the New York Times and one in the Financial Times that were complementary pieces – it was to say to make it easier, devote it to any activity you want. Maybe you want it to be agricultural productivity support. Maybe you want it to be some of the safety net programmes like school feeding, which are more popular in the United States, or maternal child health programmes.

Maybe in Germany it's easier to do infrastructure. We have the mechanisms to do that, and at the World Bank we're trying to actually further streamline them. But the key point was, don't lose sight of the developing world, and the practical reality was, I don't know how you find it but if I go around and say people need increased foreign aid, people may not, but it doesn't really get you too far. So you have to connect it to real purposes and real people, so that's the concept.

**Steven Erlanger**

Paul. Paul Taylor?

**Paul Taylor – Reuters**

Thanks. Sorry, Paul Taylor, a columnist with Reuters. The Europeans have had a certain amount of pressure from the United States to do more on their stimulus. We talked about this at the beginning of the conversation. There's a lot of concern among some governments here, perhaps also in some public opinion, that by simply throwing more money at the problem is not going to resolve it, that we face a problem coming down the road of inflation, maybe even of hyper-inflation, given the amount of monetary creation that's already going on. Is that thinking, in your view, is that thinking that shows that some Europeans don't get it, or is it thinking that shows that they do get it about the next problem after this one?

**Steven Erlanger**

Ok, I'll just take one more. Bruce Jackson had his hand up.

**Bruce Jackson**

Bob, can we go back to the case of Ukraine, just so I understand? It seems to me that the Bank has done an extraordinary job getting money and raising the available capital that we have, but in the case of Ukraine, there was a \$16b loan and the IMF had to suspend discussions because of the failure to comply. And as these vulnerable

countries go past the point where compliance becomes impossible, either politically or due to instability, what do we do? How do you respond to that without creating a moral hazard by telling them you can ignore the bank and still get money? How do you make choices after that point?

**Robert B Zoellick**

The point you made about throwing money is discussed, I think on both sides of the Atlantic, and it really relates to both fiscal and monetary policy, as your question suggested. And you saw a little bit of this in the markets this week, as the Federal Reserve stepped up its purchasing action, and I think by the way, the Federal Reserve has done a fantastic job about keeping the credit markets going.

But it raises the concern for people who say, well, if part of this crisis was caused by a lot of liquidity in the market after the internet bubble in 2001, and you compare liquidity today with liquidity in 2001, 2001 looks like a desert compared to today.

But what some political leaders say when you bring this up is, well, gee, while we're putting out the fire can you really worry about the water damage? In a way you do have to worry about both, and you will see that both the Federal Reserve and the ECB have noted the actions that they would take to start to withdraw credit at the appropriate point.

But as in policy and politics and every other aspect of life, timing is everything, and so the real challenge will be at the appropriate point, will they withdraw the liquidity in the system?

Now, on the fiscal aspect, it's related to a slightly different problem, and that is, number one, I think there's a legitimate debate about how the stimulus will be used. Some people argue for taxes. Some argue for spending. Frankly, you can find sources in the literature that make the case for either, and I think in a lot of these conditions like this, in a way it's almost like some of the market problems that got us into this mess.

You can only tell so much from the models, because the situation has changed, which again, it's perhaps just a very commonsense view. I would suggest some mixture of timely and targeted, but then, you've got to build in review processes as you go along.

What people legitimately, I think, argue is that if you are going to have very big expansionary programmes, as in US or Britain or others, you do need to show some pathway back to fiscal discipline, and if you don't, then you're going to find challenges for your currency and the problem could get exacerbated.

I do think that this is one reason why this isn't formulaic. On the one hand you have some conditions that could be leading people to a deflationary environment, but on

the other hand when you look at the price of gold and other things, people are saying, at the end of the day, developed governments are going to inflate their way out.

So unfortunately that does add to the complexity for policy makers. You have to strike that balance. And again, what I constantly suggest in the G20 area is whether it be trade and protectionism, whether it be banking, whether it be the fiscal stimulus – build in the review processes. Life has uncertainty. You've got to be able to continue to check as you go forward.

On Ukraine, Bruce, I think there's no way around, in some of these situations, that people have to make tough decisions. And I think the best thing that the IMF and we and governments can do is to show the political leadership in Ukraine that if they do take some of the decisions to be able to get, say, budget deficits under control, that they'll get support. Just pouring money in, if they don't do it, just means the money vanishes; and so of course, as in all these financial crises, there are judgement calls about how much, and what actions, and so on and so forth. But take the energy system. I know you know that very well. Well, right now you wouldn't want to make money in the energy system because it's somewhere between a black hole and worse, right?

But there are reforms you can make in the energy system, similar in the banking system. So my key point is when I have talked to the Prime Minister and the President, I know they're in a very difficult political bind. But how can we help them? And one way to help them is to say, if you take these steps on the banking system, here's \$750m. That's the best way I can think of to try to help them be able to get the support in the [rata].

I think what would also help is that in addition to the international financial institutions doing that, if you had some leaders in the European scene, maybe certain member states, maybe some from the Commission. When I was talking with the Commission yesterday about – I forget the exact term, whether it's eastern pathway, some similar phrase – there's actually a lot of interesting possibilities going all the way to movement of people and other things for Ukraine, that I bet most Ukrainians are not that well informed about.

But it's trying to say, if you stay on this path, here's the positive future as opposed to the negative future. So at the end of the day, whether it's Ukraine or whether it's a country in Latin America or East Asia or Africa, it's ultimately up to the people themselves. If a country is not willing to take the steps, others can't do it for them, but you can try to create the most conducive environment, recognising that everybody has to manage their politics.

### **Steven Erlanger**

I think Bruce would rather call it a western pathway than an eastern pathway! I want to press you on something about a month ago, the Bank came out with estimates

suggesting – I’m reading from one of your press releases – that lower economic growth rates will trap 46m more people on less than \$1.25 a day than expected before the crisis.

An extra 53m will stay trapped on less than \$2 a day, on top of the 130m to 155m people pushed into poverty last year because of soaring food and fuel prices. That’s – I’m bad at maths, but that’s about a quarter of the world’s population as far as I can tell, or maybe more, if you add them altogether.

**Robert B Zoellick**

You are bad at maths!

**Steven Erlanger**

That’s right! Ok, that’s what I said! This is why you’re there and I’m here. But one of the things that you’ve been talking about is trade and protectionism, and helping those most vulnerable, and I’d like to ask you to talk a bit more about how those two connect, because it just seems to me there’s a whole new wave of disguise protectionism that we’re seeing. Partly it’s a question of conditionality. It could be technical requirements. It could even be green requirements that make certain products from the developing world somehow unable to be sold or traded in richer countries of the world. Could you talk a bit more about those problems and how they interconnect?

**Robert B Zoellick**

Sure. Well, in some ways it comes back to your first question, when I put out some statistics, but I used the general phrase, “downside risks.” The biggest downside risk is that people turn to protectionism or economic isolationism, and I do not believe that we’re in a 1930s scenario. We’re far from that.

But if you ask yourself what would move you in that direction, a strong dose of protectionism would. And one of my larger concerns is what started as a financial crisis has become an economic crisis. It’s now becoming an unemployment crisis. Some time this summer, what happens when publics scream for their leaders to do something, and people feel they’ve used all the tools? Do people turn to these economic isolationist actions?

And we put out a study recently that pointed out that the G20 nations, when they met in the autumn, had committed to not take any actions to restrict trade or standstill, and we identified that 17 of the G20 had done some things. Now, they weren’t necessarily big things, but it was the warning smoke of the danger to come.

Now, this particularly, I think, puts an important burden on developed countries. Let me give you the example. President Lula in Brazil had a couple of his ministries

present to him a series of changes that would have added licensing requirements that really would have choked off a large number of imports to Brazil. He stopped it.

Well, how easy is it for him to stop it the next time if the United States or Europe or developed countries start to take these steps? And what this study showed was that some of the actions that countries are taking now are not necessarily the traditional ones of tariffs. Ecuador did a traditional [part of tariffs]. But the dangers are restrictions of other types, including licensing. Obviously there is a debate about this in the United States with the Buy America provisions.

And to link it to the green agenda, simultaneously this year you've got the efforts to try to create a new global climate change treaty, to go into Copenhagen. One of the challenges in the policy world is making sure that people in slightly different ministries and different areas talk to one another.

The bill that was in the United States last year, that would impose a cap and trade system had as part of it, the authority to add large tariffs for countries that didn't have the same carbon reduction message, and actually last week or this week, Secretary of Energy Chu seemed to endorse this idea. Well, it was interesting because that same time, the Chinese had a senior official in Washington trying to talk about cooperation on dealing with climate change.

Well, not surprisingly, the idea that the United States would unilaterally violate its trade obligations to add big carbon tariffs on China didn't go over so well in cooperation. Now, I honestly think that probably Secretary Chu was thinking about this in a way of, well, how do we create incentives or disincentives. But part of the problem is under the best of circumstances, if you're starting to use trade sanctions for some other purposes, you'd better be aware of its effects, and in this type of financial crisis, you could be triggering off something that could be highly dangerous.

So it's not trying to point fingers at any one party or player on this. And I think, I hope coming out of the G20 one of the things the leaders will ask the WTO to do, and we could help them, is to monitor and name and shame, as appropriate. It doesn't necessarily require people to follow the actions. Some of their actions may not formally violate the WTO rules. Under WTO rules you have what you call bound tariffs. Your current applied tariffs may be lower, so under WTO rules, they could raise tariffs, but is that the right thing to do?

And in a way, part of a lot of this discussion of governance is, you still have a nation state system. And so how do you take those nation states and use the thin veneer of the international institutions to try to show the connectivity and the danger points where they clash?

**Steven Erlanger**

And it's particularly true since, in general, I would say, in most of continental Europe there's a feeling that there's an Anglo Saxon sin, and it's the Anglo Saxons that really don't want this kind of regulation. Anyway, there were lots of hands on this side. Sir, in the yellow tie and then the gentleman next to you in the red one.

**Ron Kind - Member, United States House of Representatives**

Thank you. Bob, good morning. Ron Kind, United States Congress. We certainly appreciate the World Bank's recent report on the rise of protectionism. It's really a shot across all our bows because if we look back at history, Smoot-Hawley may not have created the Great Depression, but it certainly made it great, and I think we need to be careful against that.

And as you know, I've been one of the leading voices for a more meaningful trade policy in my own Democratic Party in Congress, and I'm sure everyone here is wondering, with Democratic administration right now, Democratic control of Congress, where is the United States going to go on trade policy. But I think there's an opportunity here, as we move beyond the current crisis and what the recovery is going to look like, if there are going to be challenges ahead.

You know, I come from the industrial mid-west, farm country, I've also been a leading voice for more agricultural reform on our own side of the Atlantic and it's been very difficult. These mortgage backed securities aren't the only toxic things that are in the United States these days. A meaningful discussion of trade in the United States Congress is as toxic as it gets right now and I think for good cause, and here's the question I have: if you take a look at the current account balances in 2007 last year before the global economy hit this wall, the United States was running a current account deficit of about 5% GDP. China's current account was about 12% surplus, Germany 8% surplus, Japan 5% surplus, and I'm wondering if there's an opportunity for a new bargain or understanding on how we better balance the costs and benefits of trade, which is going to make it a lot easier for us than to have this discussion and debate in Congress about the United States' role as we move forward.

**Mr. Steven Erlanger**

Thank you if you just hand the microphone over. Thank you.

**Bob Casey - United States Senator, Pennsylvania**

Bob Casey, United States Senator from Pennsylvania. Bob, first of all I want to thank you for your service to the country. You've held I don't know how many positions in our government and these are complex problems that you've been working on a long time. Very basic question on that disturbing infant mortality number. You said between 200,000 and 400,000 this year. Just a quick two part question.

One is what's the World Bank's strategy to deal with that forecast and how can the United States, as well as our friends in Europe, help on that?

And two, how high are those numbers compared to historical, in terms of when the economy's better, how much lower are those numbers?

**Mr. Steven Erlanger**

Thank you, Senator.

**Robert B. Zoellick**

Well, for those of you that don't know Congressman Kind, he was actually quite modest. He was quite courageous with the most recent farm bill, because he comes from some dairy territory and he was trying to take on the subsidies issues, wasn't successful this time but maybe the next time.

Your point about the surplus is a very good one. I wrote a piece in The Washington Post about a week ago that flagged the issue that in some ways within the G20 there needs to be a G2 with the United States and China, and my point was that both the United States and China's stimulus packages are going to be very important for global growth. If you look at the stimulus packages, the United States relies heavily on consumption, as it has traditionally, China relied heavily on investment and building capacity. When you analyse what some people believe are the underlying causes for this situation we're in, some people point to the very high Chinese savings rate and liquidity that was created by that along with other high savings rate in some other countries, and the fact that the United States kept the boom going through more consumption with the advantage of the low interest rates in part because of the savings rate.

So, while on the one hand, it's good that both have had stimulus packages, you can see that both in their stimulus packages are playing to, in a sense, the approach that might have gotten us into this, and so part of my argument was that China and the United States while getting us out of this hole needed to use the strategic economic dialogue to make a shift. So, you increase savings in the United States and increase consumption in China, and it actually fits with some of the things that the Chinese have been talking about because when many people talk about savings in China they think it's all in the household sector. The household sector is about 20% savings which is much higher than the United States, but about the same as India. Where you really find the high savings rate in China is in the corporate sector and this is in part because the structure of the Chinese growth frankly advantaged some of the large companies. They had four big banks, had very low interest rates, and so, it built huge retained earnings and savings for those companies, which then reinvested them in capacity.

But, a lot of the smaller enterprises in China were really, didn't have the same advantages. You don't really find the same micro finance and financial opportunities. And so, when the Chinese leadership talks about our harmonious society, overcoming some of their divisions in income distribution, there's actually a possibility here that they may restructure some of their business market to create greater opportunities for some of the smaller players and perhaps also add some competition because one of the reasons you had profits high was an oligopolistic structure, and by adding competition in say the services industry you might also allow greater opportunity for foreign participants. So, over time you could see that the direction, that at least some in China have suggested, might lead to some reduction in the imbalances.

Then, you've got the U.S. side, and in a sense the challenge is what can the United States do to increase the savings rate, and part of that will come back to the two of you when you're dealing with issues like entitlement problems. But, you're exactly right in that, in a sense it goes back to the same question about the fire and the water damage, is that at the same time you're getting out of this one you really do have to think about that fundamental structural imbalances issue.

And again, for some of you who haven't met Senator Casey, he's been, I'm very proud the United States has a very strong bipartisan tradition on some of the food assistance issues going back to at least Senators Dole and McGovern, and Senator Casey has now, as a relatively new senator, has joined with that. I had an opportunity to be with him and Senator Luger earlier this week on these issues.

On infant mortality, Senator, it really goes to the fact of whether you can get resources towards either basic health or nutrition programmes, and so the safety net ideas that I've talked about, whether it be in a sense school feeding obviously gets kids a little bit later but, for example, people have started to use the school feeding programmes to bring some food home. There's some maternal child programmes and there's also, in the countries that don't really have the capacity, there's food for work programmes. In some ways it's like the 30s with several work projects administration people do local irrigation, other local projects in the community get some additional support. The good news is there's been tremendous advances in terms of how you do fortification of foods with different nutritional supplements that can make a huge, huge difference, and there's actually a number of companies in Europe that have been at the heart of this.

The other side of it is the health part and here again I think both the United States and Europe have focused on some of the core diseases. You know, malaria, obviously a lot on HIV/AIDS, with relatively modest interventions you can save huge amounts of lives for malaria. Now, the challenge is doing all this efficiently and part of the work that we do at the bank is, in some ways we're almost like a general contractor, we have offices in some 120 different countries. Sometimes our programmes through IDA which is supported by Europe and the United States, either grants or no interest loans, we support these programmes. But, then we also cooperate and one of the

changes that I've tried to put in the bank is to see ourselves more as a network player. So, we may work with the UNICEFs, the WPAs, the Global Fund for AIDS, and try to make sure that we don't have inefficient overlaps and that, just to give you an example on the healthcare sector. We are one of the most active, at first on HIV/Aids, but as you see more money going to HIV/Aids we're switching more to the healthcare assistance, because there's been a lot of money that's gone in diseases, but at the end of the day you still have to have the nurses, the facilities and others. So, part of our challenge as an institution is always continuing to adapt within that network.

**Steven Erlanger**

We're running out of time a bit, but what I'm going to do if I can is take three questions. I would ask you to try at this point to make them questions rather than statements. So, Gert, could you go first.

**Gert Weisskirchen - Member, German Bundestag Foreign Policy Spokesperson of the SPD Parliamentary Group**

Thank you, Bob. I'm a member of the German Parliament and I would like to ask you whether you, could be, a bit precise in dealing with the following question. G20 is a new kind of intervention. It has been invented. What do you see in the coming future, what kind of role could then be reshaped for the international institutions because if we only are dealing with, and this is necessary, the actual fight against poverty, for instance, then we could miss the point in order to reform the institutions and what can we as parliamentarians do in order to help you?

**Mr. Steven Erlanger**

Okay, thanks. Dan, in the back there. Thank you.

**From the floor**

Thanks, Steve. It's actually a follow-up question. The title of this panel is supposed to be about transatlantic leadership and the crisis has sort of revealed the fact that we're switching from what used to be traditional transatlantic fora to organizations like the G20. I have a very simple question. In this kind of world is transatlantic leadership still possible?

**Mr. Steven Erlanger**

That's a very good question. And there was another hand in the back. Is it Bob? Please.

**Robert Liberatore - Senior Transatlantic Fellow,  
The German Marshall Fund of the United States**

I'm Rob Liberatore with the German Marshall Fund in Washington. You were talking about sugar highs and the need not to sustain ourselves just with stimulus but also to fix the banking system. We've seen this long delay from Secretary Geitner in coming forward with his proposal to detoxify the banks. I think largely because he's trying to figure out how to get enough private capital into the deal to have enough funds to make an impact. It seems unlikely there's going to be more support from Congress for another TARP. How big is the problem from your perspective and does the U.S. government have the necessary wherewithal to address the toxicity in the financial system?

**Mr. Steven Erlanger**

Thank you. With your indulgence I'm going to take one more question. There's a gentleman in the back without a tie. It's a case of wanting to identify you, I'm sorry.

**Simon Fraser - Director General, Europe and Globalization, Foreign & Commonwealth Office, United Kingdom**

I'm terribly sorry for the sartorial faux pas.

**Mr. Steven Erlanger**

No, it's better.

**Simon Fraser**

I'm Simon Fraser from the Foreign Office in London. In fact, my question was very similar to the questions that have been asked but it's slightly more specific. One of the things that we expect I think to come out of this crisis is going to be the question of the governance of the IFIs and the relative weight of indeed the Americans and Europeans, as opposed to other emerging economies in those institutions. It would be interesting to hear how far you think we're going to be able to go in that direction, what pressures will be on us, and whether we Americans, and perhaps in particular Europeans, are really going to be up for accepting the sort of changes that others are going to be seeking?

**Mr. Steven Erlanger**

Thank you.

**Robert B. Zoellick**

Okay. Let me start with the is transatlantic leadership still possible one because the answer is yes. But, to give it a slightly additional component, you know, I think Gordon Brown has actually done a very good job on this. It's not an easy challenge trying to pull together the G20. But, I think what he's observed is it can't just be the United States and Europe and here I'm not just talking about some of the major

developing countries. The Prime Minister of Australia, Kevin Rudd, who will be in Washington next week, has really played a key leadership role in trying to drive some of these issues forward. So, the point is as in much of our affairs, it's a global system. This is a global problem. The United States and Europe need to see this issue in that context, whether it be helping Africa, whether it be growth in India and China or Brazil. They continue to by their nature to have resources, influence, varying histories about problem solving and activism, and so I think they can be a driving engine but they now need to do so in a broader diplomatic framework.

And that takes me to the G20 international institutions and sort of governance question. The G20 has actually been around for a while. It was, I think it was created about 10 years ago, but it's now been advanced by default. I personally have always felt that the G7/G8 should have expanded sooner and should have added some of the major developing countries. It didn't and so we now have one of these accidents of history where President Bush during our annual meeting in October wanted to communicate with a broader set of countries and so he called together the G20 finance ministers. Next thing you know, President Sarkozy was talking about a summit, people said well what group, let's use the G20, and next you know you have this G20, so now you've got the G20. Okay, which isn't 20 by the way, because Europe's added a couple more. So, my own sense is this is now a device, but coming back to the institutions, it's got the advantage of having more players, but it's got the disadvantage of having more players. So, it's just like in any group that you're part of, imagine how easy it is to get a decision of 20 or 25 versus five. And so, I think what you'll see within the G20 is that you'll see some smaller subgroups be quite important. That's why I emphasise, if the United States and China come that's a pretty powerful message. If the United States and Europe are aligned on something, that's a powerful message.

Now, this goes to the international institutions point. There's a lot of talk out there about global governance of this, that and the other thing, and in some ways Europeans know how hard this is. I mean, the European Union is probably the most advanced example of shared sovereignty, and we just talked about how the rules can be difficult and constraining. My own practical sense is, you're still going to live in a world where you've got nation states and national authorities, by and large, and so therefore what the G20 or other groups needs to do is not see itself as a monopolist. And remember I have 185 countries on my Board, there's 165 that aren't even part of the G20. But, how can you use the international institutions to help tee up the issues, monitor, connect, solve problems, and in a way the G20 can become sort of a steering group. But, in doing so it has to be very sensitive to the members that aren't part of it as it goes forward.

Now, on governance within that, here's the challenge. It's a little bit different for the IMF and the World Bank. I have 24 Board members, eight of them are from Europe, that looks disproportionate and it's certainly for the developing countries seems disproportionate. But, I mentioned in the course of one of my answers that we have

something called IDA, which is the grant and no interest loans for the 80 poorest countries. That's separate from our major lending for the middle income countries, which we do by just tapping in the market and developing projects and investments, and then IFC our private sector side. The World Bank has to raise that money every three years and a lot of the contributors are European countries. And so, let's take the Nordics, the Nordics are actually very good contributors on development aid and very good contributors to IDA. So, we have people here talking about political reality. How do you expect the Norwegians and the Swedes and the Finns and others to continue to contribute more if they don't have a seat?

So, on the one hand, we seem some descriptions of this saying oh, we'll just give more voice to larger economies. Okay, that sort of makes sense but keep in mind the United States has about a 15.58% vote and the U.S. economy is about 20%. So, should we give the U.S. a bigger share? And, Africa, who you want to have as part of the larger voice would have less share and yet I honestly feel that Africa's terribly under-represented. We only had two chairs for Africa, we've added a third. So, these issues are not quite so simple as they seem in terms of the overall shares and structure. But, nevertheless, they will have to be addressed and this comes up most with the IMF.

The other important step that the EU took yesterday was to commit about \$100b of lending along with Japan to give additional resources. Some people look to get some more from the developing world, maybe China. Well, China's going to want to have a greater say. So, these are some of the issues that are going to have to be worked out. I do think for the U.S. and Europe, the big issue for the United States will be whatever share you have 15%/20%, what veto rights come with it? And if Europe the big question is how many chairs do you have?

So, when I first came to the bank I mistakenly and jokingly at one of my first board meetings mentioned to one European member, who had been, who spoke up, and was at that point the presidency of Europe, and when the next one spoke up was the prior President. I said oh, we just had the President of Europe speak, and he said 'in this institution it's very different, we each have our voice.' I made the terrible idea of suggesting there might be a Franco-German chair. No, no, no. So, once again I keep trying to push European integration in the face of European obstinacy.

**Mr. Steven Erlanger**

Bob, I'm sorting of getting a sign. I think given your state of health and the coughing, I just want to thank you.

**The Hon. Robert B. Zoellick**

Okay, you don't want me to do the banks?

**Mr. Steven Erlanger**

Please do the banks.

**The Hon. Robert B. Zoellick**

Okay.

**Mr. Steven Erlanger**

I'm sort of getting electric shocks here but maybe it'll stop for a while.

**The Hon. Robert B. Zoellick**

I thought it would be useful. I do think this is the principle issue now and I think, to be honest, people also have to be a little fairer to Secretary Geithner, these are terribly difficult problems. The guy's barely been in office and you know it's a symptom of the political environment that you've got this rabid response on something, he doesn't even have his team in place yet. But, nevertheless, there is pressure for a response and I think one way to look at this is that there are three basic models of how you can deal with bad banks.

One is, and you hear a lot of talk about the Swedish model, the bad bank, good bank. So, you take all the bad assets out, you put them in another facility for managing them, that means people know what is in the other bank and it allows you to bring in private capital. The problem with that model is that somebody has to buy the assets and at what price? And that price, if it's set by the government, raises questions, are you paying too much, too little? So, I think I'll come back to why I think the U.S. is trying to come with an inbetween solution.

The other point is you then have to recapitalize and that means a lot of upfront money and I think part of the problem, not only for the U.S. but for others, are how do you go to your legislature and ask for hundreds of billions, trillion dollars, to buy the assets and recapitalize? That's a hard sell.

The other extreme is you leave them on the balance sheet of the banks and you kind of create an insurance. You say, well if the losses go below a certain level, we'll take care of them. That was done a little bit with Citigroup and it was a little bit the way the British addressed their banking system. The problem with that one is it doesn't really create transparency and clarity. There's sometimes a benefit to getting the bad assets managed by people that specialise in bad assets and so markets have raised doubts about whether they're willing to put capital in.

I think what the U.S. is trying to come up with is an inbetween solution. They're trying to say let's try to use some government money, some private money, use probably FDIC funding, maybe reach a trillion dollars, to buy the bad assets off from these institutions then put in the public money to recapitalize. The benefit of that system would be, if it works, is that the prices are being set by private participants not the government for the assets and the other benefit is because you're leveraging up the

money, my belief you have to go back to the Congress and seek more support, but it would be less than probably you had to do in the other system.

Now, again to be fair, it's easy to describe that way, the devils are in the details. If you bring in private money, how much upside, how much downside, and in a very politically combustible environment, understandably they're trying to figure through those pieces. So, I do think one, at least my view is, the new administration just got a start on this. I think they've tried to outline an approach, certainly seems reasonable to me, let's give people a chance. But, having said that, I do believe that this is the critical issue and if people are going to have to move forward soon because if you don't resolve this issue you come back to where I started at the problem that you've had.

**Mr. Steven Erlanger**

My apologies to those whose hands I couldn't recognise. My thanks to Bob Zoellick, who despite his illness has an immensely orderly mind and thank you all.

**Craig Kennedy - President, GMF**

Thank you so much that was really a great session. Bob, thanks. Okay, we're going to take a short break and then we'll come back and talk about Afghanistan.

[End]