

Event Transcript

The Euro at Ten: The Next Global Currency?

Adam S. Posen, Peterson Institute for International Economics

Jean Pisani-Ferry, Bruegel

Marco Buti, European Commission

Peterson Institute for International Economics, Washington, DC

April 23, 2009

Marco Buti:

Thank you very much, Fred. And let me thank you all, thank you to the Peterson Institute and to thank Bruegel for this project. I think for us, it was an exciting project and we wanted to deepen, to contribute to deepening transatlantic relations. Commissioner Almunia is just coming out of a meeting with Larry Summers and all the issues that you discuss here and in the book came up, with Larry expressing strong views as usual.

So I think it's very important to discuss this and to continue to discuss this. When we launched this project, we were in considerably calmer waters. Then, when we had the conference here, it was just on the verge of the Lehman disaster, and now we launch the book with events unfolding and with everyone around looking for green shoots here and there. We hope we find something. We hope that by the autumn meetings, we'll come here having realized that indeed we see some small light out there. Still, I'm not sure and I think one has to continue to be very cautious. The commissioner as usual is very open, ready to learn. I also remember the interventions by Adam last time, which are very controversial, not very kind, but we take them I think with grace and we are going to think about them in a very serious way.

Just to offer a few reflections to lead into the debate. We published, on the 10th anniversary of the EMU, a comprehensive study in May last year, almost exactly a year ago. And we had a number of conclusions, a number of policy prescriptions. Of course, we were in the middle of the crisis because the crisis actually erupted in July–August 2007 but it was not the kind of meltdown that we have reached in the latest months. So overall, by the current standards, they were calmer times. And we came out with a number of prescriptions on the domestic agenda for the euro area, on the external agenda, and on the governance agenda. So I would like to offer you a few reflections, revisiting what we recommended at the time in the light of what we are experiencing now to see whether we got it completely wrong—do we have to change track completely or do we have to continue on the same track, maybe accelerating the pace? And then of course we'll listen to all of you for your opinion.

What did we recommend at the time? On the domestic agenda, the recommendation was to deepen the policy surveillance that we do in the Economic and Monetary Union and to broaden it. Deepening means essentially that the fiscal framework that we have, the stability and growth path, should have better grip, better behavior in good times to create the surpluses that you can then spend in bad times. And broadening means that one should go beyond

the focus on fiscal to encompass other dimensions, in particular the issue of external imbalances within the euro area and the vulnerabilities that go together with that, to encompass the rule of financial markets and the transmission mechanisms that financial markets imply for the working of monetary policy, for the working of fiscal policy, for the adjustment within the euro area in terms of reallocation of resources, in terms of risk sharing, et cetera. This was the gist of the recommendations on the domestic agenda.

On the external agenda, we actually looked a bit at the title of the volume here, leaving the question mark at the end of course: the next global currency. But we saw an evolution of the euro as gradual but acquiring a stronger weight in the international scene and calling for Europe, the euro area, to streamline its voice and representation in international financial institutions, seeing that, considering the political difficulties, as a medium-term project. So we highlighted the need but recognized the political constraints on that.

And the third dimension was the issue of governance of the euro area and in particular at the time, what we saw as the possible feeding role of ECOFIN, which is the decision-making council for all the European Union, actually taken over by the euro group, which is the informal body managing the euro area. So we said that we have to make sure that ECOFIN remains at the center and it's not crowded out because we need to have a collective decision-making process and that should be done by ECOFIN.

Now, in the light of what we have observed in the crisis, how do we revisit this? I think on the issue of the domestic agenda, deepening fiscal surveillance has I think come to the fore. We have to adopt our fiscal framework in a dramatic way, because the fiscal framework was to keep deficit down, to control it, to be close to balance, and to allow room for automatic stabilizers and maybe for some moderate discretionary policy but without endangering the sustainability of public finances. Looking at the deficits and the increase of debt that we are experiencing now directly or indirectly due to the crisis, the fiscal framework has to be adopted, has to be implemented in a more flexible way.

Nevertheless, I think it is important that we maintain a sustainability anchor in all this. This is not only because we care about the medium to long term but also because the effectiveness of the fiscal stimulus that we are administering to the economies now. Multipliers depend on the confidence that you maintain in the medium to long term. If there is an anticipation that higher deficits and debt becomes entrenched, then the multipliers themselves actually are cut in half because you have more of the typical Ricardian effect come into place.

So for many countries, entering the crisis with relatively high deficits and debts has actually reduced the room to maneuver and their fiscal space. So not having done their homework in good times or relatively normal times, limited the room for maneuvering in bad times, and these are indeed very, very bad times.

The other element is the broadening of surveillance and clearly there are some vulnerabilities within the euro area. I think the attention that we have to put on intra-euro area external imbalances and the way we tackle them, so that they do not become a permanent feature, an adjustment feature of the euro area functioning—it is very important that it has been reinforced by the emergence

of the crisis. Within the euro area, some of the countries more hit by the crisis are precisely those that are more exposed in terms of the model of growth, high external imbalances, reliance on external capital, and a model of development based on asset booms in real estate. So those are—take Ireland, take Spain—the ones that have been more exposed. So here again, we'll have to do more in order to encompass this dimension here.

On the external side, look at the G-20 that we just had in London. So the objective there of consolidating voice and representation, which was a medium-term objective in our study at the time, became a short-term one. It has become a very short-term one. In London, the agreement was that we review quotas and representation by January 2011, so basically the day after tomorrow, and we know what are the expectations of emerging countries and rightly so. So the Europeans have to get their act together in order to overcome the paradox of having too many seats around the table and precisely because of that, too little power. So I think this, what we saw as a medium-term objective, now becomes something very much on top of the policy agenda.

In terms of governance, I think the crisis has shown that ECOFIN is back in the driving seat. Compared to the euro group, that's normal. If you think about financial integration in Europe, the response to the financial crisis, you have on the one hand London, so you cannot do without the United Kingdom, and you have the whole Eastern European dimension, where there are high vulnerabilities, at least in several countries. So in the financial area, the eurozone cannot go it alone. So I think the EU dimension will come forward with the proposals for reforming financial governance for stronger and more consistent supervision, implementing the De Larosiere report. And then I think we'll make decisive steps toward stronger microsurveillance and stronger macro-surveillance. And I think it will be very important to discuss also with the United States how to have a financial architecture at the global level that makes sense and is consistent.

So my conclusion here is that the domestic agenda has not changed substantially. It has shown that we need to accelerate in what we had figured out were the key developments. The goals are the same, probably even more dramatically, for the external dimension. So we have to accelerate what we had envisaged, in particular on voice and representation, and we have to streamline and better organize our governance system to be able to punch at our weight. All these will have to be done in the context of a consistent exit strategy.

It is not too early to discuss the exit strategy now. I don't think it is so much a question of timing—don't discuss it now because we are still in the middle of the crisis and you risk managing the timing wrong. I think we have to talk about exit now because the kind of response that you give to the financial crisis will have to embody already the exit and not be seen as a response for the short term, I will think about them medium to long term later on. And here, I think the impact of the crisis on potential growth, on the capacity to adjust innovation, on the need for stronger global governance, I think will have to be part of this exit strategy that we hope to devise together with the United States and other partners.

Thank you.

C. Fred Bergsten:

Thank you, Marco. Adam.

Adam S. Posen:

Thank you, Fred. Thank you, Marco. Thank you, Jean. Thank you, everyone. It has been a great pleasure for me to work with Jean Pisani-Ferry and with our various esteemed authors on this project, and in particular to continue working with Marco, with the people representing the commission and the European Union here in Washington as well.

We are believers in the euro project, not just because Fred wrote it several years ago but out of a genuine intellectual commitment that we believe this is the right thing. And we believe very much in the euro itself and in a sense, the starting point for our volume is very different from the *Euro at Five* volume I edited five years ago, in that we feel that the record is very clear: The euro has been a huge success on its own terms. And in the midst of the crisis, it's actually been an extremely safe haven benefiting the member countries in terms of keeping interest rates down. As much as they've widened, they have not widened anywhere near what they would have for countries who have been outside the euro, as Eastern Europe is finding out. And not only in good times, but in bad times, the euro has been of true benefit to Europe.

Now, for the people in this room, who are a self-selected group, that may not be revolutionary news. And the study that the commission did under Marco's leadership, *The Euro at Ten*, that he mentioned from a year ago, which we distributed last fall, a study that Bruegel did a bit earlier, clearly emphasizes this. So we sort of stipulate to that, and our project was then to go beyond and focus a little more narrowly and say, given that, what do we think will happen to the euro in the global sphere, what is going to be the euro's international role, what role is it going to play in the international monetary and financial governance, how is this going to relate to the dollar and the other leading currencies. And there, we are, in broad terms, in agreement with a number of the initiatives or at least priorities that Marco sets out. But we do have admittedly a slightly more challenging view of where the euro stands, and are little less satisfied on this front.

Why should we care about the euro's global role? I mean this isn't a matter of machismo. This isn't "I want my currency to be as big as yours." Or as both Larry Summers and Erkki Liikanen put it in the volume—and you will be getting the nice, good volume, everyone who came today will get the full volume shortly—put it, this isn't about the national effort to be on top. The general advantages of being a reserve currency are available to both the members of the eurozone, members of the euro area, and to the United States. We can both borrow in our own currencies. Seniorage has gotten slapped around a little bit, which wasn't helped by the ECB issuing 500 euro notes. We're all familiar with that story. But in the end, for rich countries, this is a second-order issue.

So why do we care? And I think what Jean and I and the authors of the volume would conclude is we care for two fundamental reasons about the global role besides simply the predictive power, which matters for markets going ahead.

The first is we think the way the euro has behaved and the eurozone policymakers have behaved in response to the crisis reveals something about the

underlying performance of the euro, and the underlying determinants of the euro's functioning. While the euro has done very well in, as Marco I think correctly puts it, domestic terms or, I would say, also in narrow monetary terms, there are some real limitations to what is still developing in terms of euro area functioning that we will talk about.

The second thing is that we think there is a real role for international monetary leadership, and that for long-term reasons as well as the recent errors of financial and economic policy in the United States, the United States cannot do that alone. And the euro is the only realistic alternative; I don't want to say rival, but potential serious partner. Fred Bergsten and Randy Henning in our building have been writing for a number of years on the need for the euro to step up into this role, and remind us along with a number of other mandatory historians of the idea that you want to have an alternative so that when the leading currency messes up, there's something to shift to. Now, we don't believe that this is that moment. We don't believe the United States has messed up quite that badly, although it certainly has messed up. And we don't believe that there is an alternative to the euro, but we are still not ready to say that the euro is stepping up as well as it should be at this point. And that is a loss for both the United States and for Europe, and that portends a risk in the future if the euro in a sense does not seize this moment of recalibrating, providing more multipolar monetary leadership, that we'll have something of a power vacuum, which in a time of contractionary economy is not a very good thing, as Charles Kindleberger and many other distinguished economists have argued.

So I'm just going to go through a little more specifically some of the conclusions we have about where we feel the limits to the euro's take-up as a global currency come from and what that says about the euro, and then Jean is going to take over and talk about what are the policy measures, the agenda, that we would suggest. And that also draws on some work that he has done on his own, some of which is in your packet.

In particular, we think that for all the successes of the euro in domestic terms, we would emphasize three major obstacles to the euro's take-up as a global currency in playing a full international role. The first is, for all the progress on European financial integration, it remains well behind in depth and integration what the American money markets look like, what a number of other financial markets are, and that does still constrain the attractiveness of the euro. And this is best demonstrated by the fact that in this time of crisis, the flight to quality, whenever somebody with money wasn't just bringing their money home to wherever home was, remained US treasuries, remained US assets, even though arguably much of the crisis began in the United States.

Kristin Forbes, the distinguished MIT economist, had a very nice contribution to the volume in which she goes through this in I think very sober detail. This was also echoed by Philippe Martin, who did another volume on the importance of financial centers to determining how the markets function as an attractive source for capital. And underlying both of these is the fact that while monetary and financial integration have gone very well in Europe, particularly in the bond markets, there are a number of other legal, institutional, and particularly governance barriers that make it less attractive and less liquid. It

isn't about you get higher returns on average in the United States; it's about these other qualities.

The second point that I would make is that we're very concerned about euro area governance in terms of crisis management or in terms of representation at the global level. And here, frankly I don't think we're saying anything controversial. We've actually been singing from the same sheet as the commission for a long time, which is part of the reason we have certainly welcomed Commissioner Almunia to come here and speak on a couple of occasions very frankly about the need for greater euro area coherence and representation. And again, Randy Henning, our colleague Ted Truman, now at the US Treasury and coming back to us soon, have both written about this as well. This is not new noise. But what we do talk about and in particular, in Jean Pisani-Ferry and Andre Sapir's chapter in the volume, is that the ability of the eurozone to react to crisis, particularly in the non-narrowly monetary area, has been limited. We look back and we can see the ECB actually being ahead of the Federal Reserve and ahead of the Bank of England, for example, in early parts of the crisis in 2007 and in the first half of 2008, in terms of providing liquidity to a wide range of counterparties very coherently and very well. But as we characterize it, the responses to some of the banking problems have been more ad hoc and have run up repeatedly against national supervisors and national interests. Now, one can of course cynically shrug one's shoulders and say, gee, that's just the way it is, it's national governments that have to bail out the banks when there's a problem so that's how it's going to be. But in the same spirit as the De Larosiere report, we would emphasize that this is not how it has to be and if anything, along with the other governance issues that are better known, these issues do constrain the global use and trust of the euro.

Third, and this gets into probably the most controversial part of our remarks, based on my comments in the book, we are very concerned about the way euro area member governments in the euro area as a whole has responded to the crisis in Eastern Europe. As our colleague, Anders Åslund, has pointed out, a copy of which is in your packet, the G-20 in terms of mobilizing the International Monetary Fund (IMF) and resources for the IMF has done a great deal for Eastern Europe. And it is certainly understandable and in some sense, perhaps, even preferable for eurozone, euro area governments to say, "We don't want to impose conditionality on Eastern Europe, we want to have it done through the IMF on a multilateral basis." But if we're talking about the euro area as more than just a monetary relationship and if we are talking about the euro as more than just a regional currency, that is not how you want to go. You do not want to be abdicating responsibility for the bailouts and for the performance of your near neighbors, your fellow European Union members, your closest trading partners, to a very strict and, I would argue, excessively narrow interpretation of the rules. We have the irony that at the very same time that euro area membership becomes all the more appealing, countries like Poland or even Denmark that were opposed or reluctant to go through the hoops for euro area membership are all the more eager right now, seeing its benefits. But at the same time, those poles, those goal posts are being moved further away from them by a lack of consideration, a lack of flexibility.

To me—and I will take responsibility for the next statement and not incriminate Jean—to me, I find it rather odd that at what should be the euro's

moment, it has gone into kind of a defensive crouch. It has said, “We cannot extend euro area bonds because that would imperil our price stability and our fiscal policy even though it’s to help out these small countries; we cannot lose on the ERM2 requirements to keep countries on a waiting room for an extended period of time,” even though, as the IMF European Department I think has quite accurately said, it might be useful to accelerate eurozone membership; and “we are going to go with the strict conditionality that sets Poland against Hungary, Bulgaria against Romania, Slovenia against Latvia, and country-by-country comparisons rather than engaging in eurozone and European solidarity asking who does the right thing.” This again, may be narrowly correct in terms of both the statutes of the eurozone, in terms of maximizing its price stability. But it is to me, short sighted and part of the way that the eurozone undercuts its claim to becoming more than a regional currency, and in fact lets down its region in an important way.

The final point we would make—we had some excellent contributions in the volume for people taking regional perspectives on the take-up of the euro outside of the euro area. Mohsin Khan, who recently joined the Institute, did a short paper on the take-up of the Gulf countries, the Middle Eastern oil exporters, and other oil exporters of the euro, and has since published a much longer working paper that just came out from the Institute on this topic. And he concludes that while for example, Kuwait, went off its dollar peg, fundamentally the GCC countries are still orienting toward the dollar and it is quite practical for them to continue to do so despite the ties to Europe. Randy Henning, who has done a lot of work on Asian monetary cooperation, goes out to Asia, and he is certainly a euro fan, but in our volume also finds that there hasn’t been a huge take-up of the euro there and if anything, the crisis has tended to accelerate moves toward Asian monetary regionalism, not a switch to the euro. The distinguished Hungarian economist, György Szapáry, came in and talked about and documented how the euro is becoming much more widely used in Eastern Europe, both among EU members and potential future members, but echoing something done by Linda Goldberg in her chapter on trade and invoicing in the book, it’s only been growing and used to the degree that the real-side ties between euro area members and the nonmembers are growing. There is an increase in financial integration, there is some eurozation, but it really is still driven by the real side of the economy and not so much by other factors, which again I would argue represents the euro area leadership deciding to make it difficult rather than easy, deterring rather than opportunistic to get countries involved.

Finally, we had a market view from Thomas Mayer of Deutsche Bank, a very well-established European market economist, and he echoes things that were said using imagery similar to Jean and Andre’s chapter about whether the euro area is ready for the storm, that the markets do of course perceive the euro as a stable area. And of course, and I would say this, anybody who bets on those intra-European interest rate spreads is going to probably lose a lot of money in the end. But that’s far different from saying that the young, the 10-year-old euro is the economy or the currency that you turn to in time of crisis, which gets us into the crisis management issues we’re concerned about.

So let me leave it there and turn to Jean for where we would go from here.

Jean Pisani-Ferry:

Thank you, Adam. Before I start, let me say how pleased we are to collaborate with the Peterson Institute on this project and I know that Fred was kind enough to say that we are its sister institution. I don't know whether that implies that the Peterson Institute is a brother or another sister, let's leave it open. But anyway, there is a spirit of family and cooperation and we're very happy about that. Let me also say that the commission not only provided support to the study, but I would also like to commend the attitude of the ECOFIN vis-à-vis the external approaches criticism debate. I think it's extremely important not only for us researchers but also for the evolution of policy thinking, and we may criticize the commission for what it does but I won't criticize the commission at all for lack of openness to ideas.

As Adam said, crises are challenges to existing orders and this applies both to the global order and to the order within the euro area. And this crisis is very much a challenge to the global order and it creates opportunity for the euro, but at the same time it reveals some weaknesses and challenges some commonly held views on how the euro area should work. And how that plays out, how this combination plays out, what degree of initiatives there can be, and of learning there can be for the euro area, will be essential in determining what's the consequences of this crisis for the fate of international currencies.

Let me take just three points because we want to save time for the discussion. Now, to come back to some of what Adam said...and actually, I don't want to distance myself from your strong words. I mean we are in full agreement on that. On integration, and especially on financial integration, we are crossing the river and we are discovering that we are just in the middle of the river. Everybody has heard Mervyn King's line about banks: "Banks are global in life but national in death." And that very much captures the tension about incomplete integration. On the one hand, you have this degree of integration that goes beyond borders, and the cross-border dimensions of this banking crisis are present at each and every moment in the discussion. At the same time, the rediscovery of the fact that whenever we speak about budgetary matters, we deeply enter national responsibility, and this tension on how it is going to be resolved is essential.

So Marco said we now have the blueprint, the De Larosiere report, and we're moving toward implementation. I think that's good news because it's a thoughtful report, it's a good analysis. At the same time, we don't know whether it's going to work because it's very much a compromise between all these different aspects, the different dimension of the adoption. It's a rather cumbersome process of creating committees and committees over committees and coordination between committees, and we don't know whether it's going to work. So this tension remains, this tension at this stage cannot be addressed in a very radical way. I think we have to recognize that and that's why the De Larosiere report is the game in town, but the question remains how good we will be in addressing the tension. The word on the bond market that Adam mentioned—we don't discuss that in detail in the book but Kristin Forbes in her chapters points out very clearly that one of the key reasons, or perhaps the key reason, for the attractiveness of the United States is the depth and the integrated character of its financial markets. So fragmentation within Europe has a cost.

Now what we have discovered is that this fragmentation can show up in the risk premium and in the widening of the spreads and so that markets are finally pricing the national risk that for a decade they hadn't been pricing. Whether there would be a possibility for creating an integrated bond market is an issue that has started to emerge in discussion. It has started to emerge in a not very precise way. There is no blueprint on the table. There are some ideas floating around that there could be some ways of ensuring that the gains from integration would not be compromised by the risk of blurring responsibility over national debt. And that is a tension that has to be addressed, but it's a discussion that is starting, so I want to just mention that we don't have proposals on that.

On crisis management, we have discussed that in the book and I think that, first, we have to recognize that the notion that there can be a crisis within the euro area is very much part of the conversation now. It wasn't the basis of the treaty or of the thinking behind the whole policy framework how that crisis prevention would do the job, that essentially there was no need for provisions relating to crisis management within the euro area because by being part of the single currency, you would avoid, you would eliminate the risk of national crisis. Now, we see clearly that a euro area crisis can occur. We see with the spreads widening that at some point, one country could be facing an inability to raise money on the bond market and that would be the type of crisis we would have in the euro area, an economic debt.

Now, what we have seen is that this perspective, this possibility—we don't have the clear instruments for managing this type of crisis because again, this notion that prevention would eliminate the problem resulted in first, creating a differentiation between countries that are members of the euro area that are eligible for financial assistance. So we were able to lend money to Hungary or to Latvia and countries within the euro area that are no more eligible for financial assistance. So that's a technical problem of having the instruments ready. We have a second problem, which is the question of which institution should be in charge of monitoring the lending to a country we would wish to assist, and especially which institution should be in charge of conditionality.

We have a global institution for that at the International Monetary Fund (IMF). We don't have an institution within Europe because that's not essentially the job of the commission. The commission does not do conditional lending on an ongoing basis, as the IMF does. It could do it. The question is, in the case it happens, whether we want to go for a solution that would involve the IMF or whether we would go for a European solution. The policy thinking at this stage is "Let's go for a European solution because the political cost of calling the IMF would be too high." I understand that. At the same time, I have my doubts on the feasibility of this type of solution, not so much because of the technical problem of having the instruments or because we can go around that problem, but because that's a very specific business. You need to have a staff that is especially trained to do that and, more importantly, you need to have an institution that's built to resist the difficulties that this kind of lending business creates. The IMF is not at its core a political institution. The IMF is a technical institution and everybody knows that the IMF can afford to be extremely unpopular in a country. This is not true of the European Union. The European Union is a political institution and having the European Union being tough on

conditionality vis-à-vis a member-country would possibly create a political problem that we'd need to be aware of if we start going in this direction.

So I would be sympathetic to the notion that there needs to be a European dimension, that there needs to be a European stage, but that they wouldn't exclude entirely the idea of going to the IMF. On crisis management, the broader issue, as Adam said, is how we address the problem, because our policy system was not built for crisis. Our policy system was built for fair weather conditions on the notion that prevention eliminates or make extremely unlikely the possibility of crisis and therefore we don't have a crisis management facility. How did we address the crisis? Very much on an ad hoc basis, by ad hoc coordination and cooperation. And that's good to be able to do that, but it's good also to have procedure and institutions that are able to perform that role in times of crisis.

And if you think about it, what you expect from the policy system in terms of crisis is just the opposite from what you expect from a policy system in normal times. In normal times, you want flexibility, you want rules, and you want to make sure that you play by an incentive rulebook in which various players can know the rules and conform to the rules. In crisis time, you want centralization, you want flexibility, you want the ability to think out of the box and to take initiatives that are not in the rulebook. And that's very different so we have a system that is tilted toward the normal times and doesn't have sufficient ability to deal with crisis, and that's something we may have to reflect on. The euro group that Marco mentioned was in fact the institution created in a way to address the residual problems that were not envisaged in the rulebook because the euro group did not have a precise mandate. In fact, the euro group did not pass the test of crisis. It was expected to be able precisely to take initiative at this moment; it did not take the initiative, so I think that's in a way a casualty of this crisis.

To end on the external and the regional dimension, on the external dimension certainly, as Marco said, consolidated external representation has become a short-term objective and I agree with him from the perspective of what's changing in the world economy and the world governance. The reasons why it's not happening in my view are twofold. One is very much what I could call the Du Barry syndrome. There was a French mistress of king Louis XV who, when she was brought to the executioner to be beheaded, said, "One little moment more, Mr. Executioner." So you know it's going to happen but you waste time because it's so nice to be there at the table, so you try to gain just a few years. That's all benefit. But there's a deeper reason, which is the quality of the internal governance, because you don't want to go for external representation if you don't have the internal governance in place. That makes this external representation effective; otherwise, there's no gain. And here, we have seen the problems in internal governance in this crisis. We have seen a certain weakening of the institutions. We have less appetite, I should say, I think my diagnosis would be that there is less appetite for external representation now than there was 10 years ago because the strength, the internal strength of the system and the ownership in it has been weakened. So that's a difficulty we're in and it's key to see whether we are able to address that.

Finally, I want to say much more on the regional dimension than what Adam said. I think a key message of the book is that the regional dimension has to be taken extremely seriously, that you don't become a world currency if you're not a successful regional currency. And that requires, exactly as he said, playing beyond the script, not to just look at the rules of the club as they are but recognize that in the club, there are different types of members, some of which are shadow members or clandestine members, associate members, honorary members, or all those who were not really envisaged in the treaty. But that's a reality and you have to confront the reality. So you have to cooperate and to consider that you have a role in bringing stability to the region and if you succeed in bringing stability to the region, then this is a platform for doing more.

So what does it mean? It means cooperation, monetary cooperation, swap agreements. A key example: The ECB is not doing what the Fed has done with a number of emerging countries, at least not yet. Second, it requires a clear and better pass into the euro. We criticized the entry criteria before the crisis. In the publication you mentioned, we criticized the entry criteria for not making good economic sense. I think it's even truer in this situation. It's not a question of softening the criteria; it's a question of having criteria that make more sense. And I would say we have to also look at the overall situation and the debt in euro or other foreign currencies that has been incurred by private agents in the region and the threat this represents to future prosperity. And that's something also that needs to be addressed.

So very much consistent with what Adam said, I think this is a test on many fronts and first of all on the strength of the euro and the fact that in spite of all the talk by market participants about a break-up, the reality is just the opposite. It says the test was passed but in some other aspects, the test still has to be passed.

Thank you.

C. Fred Bergsten:

Thanks very much to all three of you. I think since Adam and Jean raised a number of questions from the book on policy and the prospects for the euro, it would be highly appropriate to ask Marco to give some responses to some of the questions that have been raised. So I'll ask him to do that and I'll add one question to the list. In your initial remarks, Marco, you made a very tantalizing comment about the need for discussing the global architecture with the United States and perhaps thinking about additional transatlantic cooperation in that respect. And I would simply ask if you could elaborate on that view with your own thinking and any results that have come about as yet from your discussions with your American counterparts on that possibility. But more broadly to ask you to respond to some of the questions that have been raised, and then we'll open it up to the audience. Marco.

Marco Buti:

Okay, thank you very much. Very nice comments as usual by Adam and Jean, and provocative as it should be.

Now, let me give a couple of points, actually three points. One is the response to the crisis and the fair-weather architecture that we have in Europe as compared to something else that would be needed in stressful times. I think that

may be a fair comment. We do not have an efficient or fully efficient governance structure. We would like very much to have the possibility of better decision making and more swift research or consensus. But then I ask myself, I look from across the Atlantic and there we are supposed to have all this. And then, I look back in October at the time of the conference and Lehman Brothers was not in Europe, the mess was made here with all the swift and very efficient, let's say, waterproof architecture that would imply strong decision-making.

If one looks then beyond that and at the response to the crisis, the TARP mess was not made in Europe. If one looks at what is coming out from the G-20 blueprint for response to the crisis, one may like that or not, but the three-pronged approach in terms of government guarantees, in terms of recapitalization, in terms of treatment of impaired assets, look at the G-20, not the London Summit, but the ministerial one in Horsham a week before the summit or 10 days before the summit. There is at the end an annex on how to deal with impaired assets. That's precisely what has been done, has been devised in Europe beforehand in the guidelines that were published by the commission, which was almost perfectly overlapping with that.

Now, I acknowledge in terms of implementation, we are lagging behind, there is more to be done. We have seen the estimates in the global financial stability report by the Fund in terms of recapitalization, stress test, acknowledgement of losses, more has to be done. I do not see elsewhere in the world something that is better than what we have done and I can see a lot worse actually. So the conclusion that one needs a better governance system, a better decision-making process, which I would acknowledge, does not necessarily translate immediately into better and more consistent policy. I don't see this as emerging from the crisis. This was the first point.

The second point that I think I cannot let go is the impression that we left our Eastern European countries on the side, not caring about them. I think this is not true. It's not true at all. I mean we have adopted, we had a facility, a balance-of-payments facility, to support EU countries in trouble, non-euro area countries, which until a few months ago was 12.5 billion euros. We have doubled it twice to 50 billion euros in the European Council about a month ago. We are already, together with the IMF, establishing the conditionality in implementing the programs, with the Fund helping; we started with Hungary last year, we have Latvia, we have Romania, more will come. Unfortunately, that's my modest prediction here. So we are doing all this and we are helping them out. We have also, as part of the European recovery program, we have decided with the member-states on how to respond in terms of expansion in fiscal policies. We have also accelerated the flow of funds from the EU budget to these countries, in particular to these countries, so from the structured funds, from the social funds, et cetera. So we are helping them and they benefit quite a bit from this.

In the implementation of competition policy, we are very, very careful about home-host relations and we make sure that in implementation of the financial rescue packages, there is not the withdrawal from these countries, from the parent banks in other members. This is an explicit condition and I think that in spite of the fears, this will not materialize, but so far we have not seen a wholesale withdrawal of funds from these member states. We are now having

discussions with Romania, with the parent banks, nine parent banks in several European countries. I mean there is an explicit commitment on rollover recapitalization of the stress test. So I think this will help the country.

Now, true, we have not gone for a uniform approach vis-à-vis the Eastern European countries. But this is not so much because the commission dragged its feet or because the old member states did not want it. It is because the new member states themselves do not want to be put in the same basket. Now, we have had last week the flexible credit line applied after Mexico, the first country to use it. They are not in the same basket. They refused, when there was a proposal from the Hungarian prime minister to have a huge fund to bail them out altogether, the others told the now former prime minister of Hungary: “No, we don’t want that because we are not in the same basket, we have a differentiated situation so you have to treat us on a case-by-case basis, in a different way.”

On euro area entry, first of all, that the club is not closed is evident. We have just expanded with Slovakia, Slovenia, Cyprus, and Malta. It’s true that we have not enlarged to all the others. I think we have to apply primarily the law here. I mean in Europe, believe it or not, it’s not a bureaucratic exercise; the treaty counts. The treaty counts and if we do, we would not have the kind of reliance on rules-based mechanisms, which sometimes lead, on a partial equilibrium approach, to inefficient or maybe not the best solution on local equilibrium. However, they lead to something that is consistent over time and we will not have the kind of European integration now, we will not have the kind of euro if we go for a case for violating the rules when it is convenient. So we cannot get to the euro area on the one hand via convergence strategy; on the other hand, via divergence strategy. That is not feasible and I am expecting, nevertheless, that the euro area will enlarge, it will enlarge substantially in the next few years.

I think the final point on crisis within the euro area, I think here, I don’t have to elaborate. I repeat word-for-word what Commissioner Almunia said when the question was asked a couple of weeks ago. We are politically, intellectually, and economically ready. We will see if we are put under pressure what that means. I’m not going to elaborate further.

On global architecture, I think we are discussing this not only with the United States, I think that’s part of the G-20 to converge on a regulatory framework. I think there is still a different interpretation across the Atlantic regarding what better regulation and more oversight actually means. I think we do not always use the same concepts. I think they’re also, if one looks at the new consensus, if I look at the Washington summit in November, look at the London summit now, I think we have converged, but we have not converged halfway yet. I think we have converged more on traditional European views than on classic American views. But again there, I think there will be more work to be done and I would hope that in the next summit, we will make some further progress on that.

Thank you.

C. Fred Bergsten: Okay. Marco, thank you very much. I'll give Adam and Jean a shot at responding to the response later on when we get to the wrap-up period. But I want to open the floor to questions.

Mr. Fischer: I would like to add two political considerations that in my view were instrumental for arriving finally at the creation of the euro.

The first one is the political friendship of two political leaders at the time, Helmut Schmidt and Giscard d'Estaing. They were determined, firmly determined to move ahead. And since they had been finance ministers before, they were aware of the inertia of the orthodox conservative administrations and the central banks, so what they dictated was a revolution from above. And I hope that in the future, we have something similar.

The second political element has to do with German unification. It's no secret that France was not too enthusiastic about it, nor was Britain. But since it could not be prohibited, they insisted very strongly that the European Union did away with the deutschemark and created something new and that also drove the development toward that. Now, Germany at the time was not too happy to have the euro because the only national symbol of pride that West Germany had was the deutschemark and to give that up was something. Also since the East Germans wanted the deutschemark, the East Germans went through a quick transition period from their money, which was worth nothing to deutschemark, to the euro.

Now, in conclusion, Mr. Chairman, I'd like to end on a reflective mode with respect to caution about uniform proposals and suggestions, and I have in particular, I have in mind the IMF, but also I encourage institutes like yours that do valuable work to be mindful of strong history and traditions that sometimes stand in the way of uniform solutions. Take the traumatic memory in Germany of the hyperinflation of 1923, which was even reflected in the summit discussions in London. We had Zimbabwe's inflation and 15 billion marks were equal to \$1 at the time. That is still very vivid and that is the reason why we are a bit hesitant to come forward with more packages. So my advice is to differentiate and take into consideration the traditions and history, sometimes very negative ones. Thank you.

C. Fred Bergsten: Okay, message is taken. Next question.

Miranda Xafa: Miranda Xafa, IMF board. My question relates to Jean Pisani-Ferry's comment on the importance of having the right instruments to address crisis, specifically he mentioned that only the non-euro area countries can access the EU BOP facility and that the opposite applies in terms of provision of liquidity by the ECB. This liquidity is generously provided to euro area members, but nonmembers can only do BOP operations, they cannot do swaps. My question is, what is the reason that these gaps exist? And I want to speculate and you can confirm or deny the reason why euro area members don't have access to a BOP facility is because having such access would be prima facie evidence that the excessive deficit procedure does not work and the lack of liquidity provisions through swaps to Hungary and Poland and all the Eastern European countries probably derives from some Germanic idea that you need to have collateral in order to extend liquidity, so a BOP provides the collateral, which is the bond,

but the swap has no collateral and that's probably why the ECB does not do it. Thank you.

C. Fred Bergsten: Marco, you want to answer that?

Marco Buti: No, I think it was for Jean.

C. Fred Bergsten: Jean?

Jean Pisani-Ferry: Well, let me respond to that question. I think in a way that relates to the previous question about the origins of our system. I mean there was, at the time of the creation of the euro, there was a very strong view on the German side, and I think a very right one, that you don't blur the distinction between going into the euro and then remaining with your currency because there was a temptation to say, "let's have a common currency but let's keep our autonomy," and so the Germans were very strict, either you're in or you're out, either we make the transition and the day we make the transition is a completely different policy system. And that was right, that was absolutely right, because there were crazy ideas about the fact that you could have the best of two worlds. So I think historically, it has played an enormously important role.

Now, does anyone believe now that we still have those illusions? I don't think so. And I think the lesson has been learned. So now, we can afford to go back to a number of issues and say, "now that we've learned, do we need this and that provision, strictly to reinforce this message"? If you take the reason why there is no possibility of giving assistance to a country within the euro area, it was clearly to reinforce the view that there was no coresponsibility on public debt, which I think is a fundamental tenet to monetary union and rightly so. Each country is responsible for its own public debt. Now, the fact that you lend to a country doesn't mean you may take responsibility for its debt and the proof of that is when the IMF lends to a country, it doesn't take responsibility for its public debt. It provides temporary assistance and it has to be repaid by the country.

So we could not have that now in the euro area without creating confusion between the national responsibility and the responsibility of the European Union. And I would say the same applies to the swap agreements. We also have to recognize now that we have created the euro at the core, and at the periphery a number of developments have taken place as a consequence of success of the euro. So I think at the margin, we can be more flexible than we could afford to be 10 or 15 years ago.

C. Fred Bergsten: Question at the back.

C. Randall Henning: Randy Henning here at the Institute and at American University. My question is for Marco. Marco, you talked a little bit about the European Union's contributions to programs in Central and Eastern Europe. And it is true of course that the European Union, probably through the commission, has been deeply involved in the shaping of those programs in Latvia, Hungary, and Romania, and has negotiated these along with the Fund, and that the European Union has contributed financing along with the IMF. There have been some differences over the conditionality that should be applied in these packages but the important thing was that those differences were overcome in negotiations

among the parties with the borrower. We hope that that cooperation isn't tested by failure of these programs over the next couple of months or too strongly tested by disagreements over a common approach to Central and Eastern Europe. But I wanted to ask you, Marco, what lessons you draw from your work with the IMF in negotiations with countries like Latvia? What lessons you draw for how to structure the relationship between regional financial arrangements and the International Monetary Fund more generally?

Marco Buti:

The IMF has undergone a genetic mutation in the past six months. From an institution very much sidelined and having lost its soul, it's now in demand. You see at the London summit, we asked the IMF to do many things: to provide early warnings together with the Financial Stability Forum, to strengthen surveillance, to provide indications and blueprints for financial stability reform, and of course to be ready to help countries in trouble. And not only that but the leaders also have put the money where their mouth was, increasing substantially the resources and actually much of Europe has done its part with €75 billion committed for this bilateral support in the first phase now.

And now the IMF has found again its soul. It has also found its purpose and it is very good for everybody. What I have found is that the openness of the IMF to cooperate has increased substantially. They are here some in the room; look at Vito Tanzi here who has the historical memory of the IMF forever. Openness to cooperate was not really the main feature of the Fund in the past, it was actually quite jealous of its prerogatives. I think now, we have established a very, very close cooperation in sharing the financial burden. For all the countries you have mentioned, others that may come, they will jointly support the financial rescue for these countries. And also we have defined together the conditionality, certainly as you alluded to. In certain cases that one has to discuss we came with broad and somewhat different views at the beginning, but for all these countries we have converged on the same views on conditionality and we have a monitoring system that is working relatively smoothly.

Of course, there is a lot to learn on our side, the commission's side. I think Jean was right in saying that our culture of surveillance is different from what we are implementing now for these countries. We have a softer type of surveillance, more rule-based, and here instead it's much more the typical conditionality that you have in implementing Fund programs. Also there is a lot to learn on our side. I think we have increased the resources in quality and quantity. At the same time, I think the IMF is also benefiting from cooperation with the European Commission because, to go beyond what a speaker said before—namely apply a one-size-fits-all or the typical standard conditionality.

I think this is important so there are mutual benefits. I see this cooperation as evolving even more in the future from a case-by-case approach in the case of countries in trouble to a more structured approach in which we share the diagnosis, we cooperate in a much more organized, ex ante way, acknowledging that we have different comparative advantages. We, the European Commission, cannot rival the expertise of the IMF on financial issues of the application of stress tests in banking when we compute financing gaps. At the same time, I think we can acknowledge also that we have our own comparative advantages, for instance, on knowledge of public finances, budgetary policy in these countries. We are much more on the spot than the IMF. So I think there is a

good complementarity and I think that both institutions benefit from that and there are areas of cooperation that we can further develop in the future.

C. Fred Bergsten:

Adam, you want to add to that?

Adam S. Posen:

Well, this just seems like an opportune moment to respond briefly to both this issue and some of what Marco said earlier about the response of the European Union to the Eastern European crisis. While acknowledging the facts of the impressive-sounding list that Marco put out, I have to respectfully disagree. I mean talking about admitting Cyprus and Malta to the monetary union is sort of like when Japan bragged about its agriculture free trade agreement with Singapore. Let's not be too cute about this. You have a bunch of countries that are of noticeable size and human population that are being still told and I think Jean put it very well, not so much that we don't need softer rules, we need more sensible rules; that on the current inflation, rules of how the ERM is supposed to work should be targeting deflation as their goal.

We also, talking about the first speaker, Mr. Fisher, spoke about differentiating between countries, and as Marco points out, there are countries that are standing up and waving their hands, and Poland just standing up and saying, "I'm not Hungary." And I was subjected to a lecture from someone when I was in Berlin last month from from the Bulgarian foreign ministry telling me why they're not Romania. From a market point of view, if your goal is to try to enforce one standard of judgment and of membership, then that kind of what economists would call a separating equilibrium is a desirable outcome. But presumably the European Union's goal for member countries is not to create a separating equilibrium and a constant set of "me first and him behind" instances, with that person never within the membership. There is supposed to be some principle of European solidarity that extends beyond the structural adjustment funds being slightly sped up.

Moreover, and this is the one place where Marco and I, or perceived wisdom at the European Commission and perceived wisdom at least at this Institute and I think at Bruegel, are very different. Which is that Marco made the sophisticated claim in response to Jean's point about these rules being set up to preempt crisis, not respond to crisis, that well, in general equilibrium, it works out, which if I understand him correctly, and I think I do, is a way of saying, "if we deter people along the way from making bad decisions, in the end, the functionality will be better." This is empirically questionable. When you have Hungary and a number of other countries in Eastern Europe who voluntarily and by laissez faire were encouraged to de-facto euroize and borrow up a lot, if not in euros, in Swiss francs and other foreign currencies without being allowed out, an exit out, you are de facto encouraging them down a very bad path. And that strikes me as short-sighted and in a 10-year period, if you're going to set back growth in some of these countries three years, even if say, taking the Hungarian case, they are the poster child for needing an adjustment program, that hardly seems like a good general equilibrium record.

Moreover, if we think about the functionality and the stability of the European Union and the euro area, these are not imperiled by bad developments in Eastern Europe, but they are certainly not helped. And a world in which Poland sits there and cockily says, "you're just like Mexico," well, Mexico is not having

too much fun at the moment either, your guarded situation, where the interest rate benefits of being the more relatively virtuous of the emerging-market countries may well be swamped by the fact that your immediate next-door neighbor suffered a 30 percent currency devaluation and has a lot of unemployed people who can take away jobs from you.

Finally, there is one more point that has to be made. Mr. Fisher said something, and I was joking with Marco that Marco's predecessor, Klaus Regling, would have killed him for saying that and with my friend Ambassador Scharioth here, I feel the need to set the record straight. The idea that the EMU was in some sense a bargain for German unification is not supported by the historical record. The EMU was undertaken not as some way to cage Germany. The EMU was undertaken as a spirited, right-thinking aspiration of the European nation states. It is in this regard that I find it slightly unfortunate that Marco raises the idea: "Oh look, the United States screwed up, so why are you complaining?" Well, this isn't about comparisons to the United States. With the notable exception of the empirical matter of bond markets, Jean and I were scrupulous about not making any comparisons to the United States in this context. The reason it matters is that the euro was an idea beyond anything anybody had seen before, a transnational currency imposed not from the outside but through willful acts of sovereign democratic governments. Similarly, the fact that there isn't a better crisis management mechanism in this country or elsewhere at the moment is not a reason to dismiss Jean's recommendations for a better crisis management mechanism. Thank you.

C. Fred Bergsten:

Okay. Vito, your name was taken in vain. You'll get what I think will be the last question because then, I'll come back to the panelists for a final remark each.

Vito Tanzi:

I just want to make a couple—by the way, I am Vito Tanzi, former IMF and former Italian government. By the way, I was president of the euro committee in 2001, when the lira was changing into the euro. Just a couple comments. Some of the observations that have been made made me think—well, replace Hungary with California, and ask yourself what is the fragmentation of the bond market, and ask yourself whether California today can borrow the same way as... I don't know which is the best state now in the United States. I mean one cannot easily overdo this kind of fragmentation. I'm not sure exactly what it means, does it mean that Hungary should keep on borrowing from the central bank as much as it want? Hungary had a problem before the crisis so that... Also this distinction between the technical and political institution to help countries, having spent 27 years at the IMF, 20 of these years as the director of fiscal affairs, I'm very sensitive to this. Technical decision, for example, is independent of the central bank. When we all applauded the independence of the central bank, now the central bank in the United States has become an off-budget budget and essentially that is what is happening. Now, that's political change from a technical to a political thing. Do we really want to move completely away from technical institution to political institution?

C. Fred Bergsten:

Okay. Let me come back to the panel. Jean, you've been least vocal of the panelists so let me start with you. Then, if Adam has anything else... All right, so Jean, Marco, and Adam for the final word.

Jean Pisani-Ferry: Okay. Let me start with the questions and the remarks by Vito Tanzi. On the bond market, I am not suggesting that we should somehow blur the distinction and I said each country should remain responsible for its own debt. That being said, the fact that this is no government bond market of a similar size and depth as the US bond market is a limitation compared to what was expected or what could be expected from financial integration of the European Union. But we have a corporate bond market that works well. We don't have a government bond market because we don't have a federal institution that issues bonds. So I think the question is and that's very much a question I said: There is no blueprint on the table. The question is: Is there a way in which there could be the creation of a market for government bonds that would reap some of the benefits of integration, without leading to confusion between the debt of country X and the debt of country Y?

Audience member: Do you have a market also for states...

Jean Pisani-Ferry: Yes. I mean, there is a market for states, yeah.

Audience member: But the market in Europe...everybody can buy an Italian bond so I don't know what is...

Jean Pisani-Ferry: Everybody can buy an Italian bond. When you're an investor somewhere in the world and you want to buy plain, vanilla European government bonds and have the debt that corresponds to that, what you buy in fact are German bonds because that's a substitute, the best approximation there is to it, not only because of the credibility but also because of the debt of the market. So in fact, we have a benefit that is limited compared to what financial integration could bring. And there is a reason for that and we know very well the reason: that we don't have a federal institution that issues bonds. We're not going to create a federal institution or federal budget just for the benefit of issuing bonds, in the same way that we're not going to create a federal institution just for the benefit of doing macrocoordination. We know that a federal budget emerges from other things, but from the fact that you delegate some policy responsibilities at every finance level to an institution of this sort. So that's a reality but this should not prevent us from thinking about whether there are sensible ways to do the job.

On your point on political and technical institutions, I was not implying that we have to move away from technical institutions. What I was saying is that when you want to exercise conditionality, you better be an institution that has a mandate to exercise conditional lending and be able to be as unpopular as necessary. This is not the case with the European Union. The European Union has to be supported on a permanent basis, voted for by the citizens. The European Union has a permanent legitimacy problem, so if you engage in this kind of conditional lending, you will be facing the fact that people can be very angry about the European Union. And that's not something I think is sustainable. The IMF can be unpopular for two decades or extremely unpopular in some countries, but it survives. I mean it's not essential because it doesn't have to be voted for by people. There are no referendums and no treaty changes and no election to IMF parliament and everything that we have in the European Union. So there are limitations to what we can do if we have to be very tough. And that's why I'm saying it's a dangerous game to say we're going to have a purely internal solution and we're excluding the call to the IMF, which actually

has been done by several European policymakers, including Commissioner Almunia himself. I don't exclude—let me quote also Joaquin Almunia—"I don't exclude a crisis within the euro area; what I exclude is an IMF intervention within the euro area." And I think that's questionable for the reason I gave.

Now, let me end on just one remark. We may appear as though we are criticizing too much, being too much on the side of the glass half empty compared to the glass half full. The reason for that is that in times of crisis, people learn about the performance of an institution and they learn things that they will remember for decades. So in a crisis, you don't want to just perform averagely, you want to perform excellently because you know that you will not be given the opportunity to correct whatever failures have been revealed during a crisis. People will just get interested about what actually this institution is performing, is doing, and they will learn and then they will remember. So the test is essential internally and externally.

C. Fred Bergsten:

Marco?

Marco Buti:

Okay, thank you. Just a couple of points. On comparison with the United States: No, I think I was stating the simple fact that while acknowledging that we have to improve our governance system, our financial architecture, our decision-making, and we are trying to do that—we will come forward with proposals very soon—this improvement here or the failure or the weaknesses of the current system do not necessarily translate into better policies or better choices. That was the simple observation that I made here on this side of the Atlantic: In principle you do not have any of the failures that you have pointed out, yet policy mistakes were made and this is a simple observation. So I do not deny that one has to improve and seize the opportunity presented by the crisis. In the past, Europe has had polar behaviors in crisis times: Sometimes it reacted in a subdued way and ended up in eurosclerosis; other times, it seized the opportunity, the creation of the euro was one of them, to leap forward and to make very courageous decisions. I would hope that this crisis here is an opportunity for the second type of behavior.

On eurorization and currency exposure, currency mismatch in several Eastern European countries, I think that is indeed a fact. It is a program, I think it is an issue that is, we hope, able to be corrected for the future. What we are going to come up with in the month of May as a follow-up to the De Larosiere report is the proposal to create a European systemic risk council, which would give recommendations, which would give early warnings, to address potential problems of that sort. So this is a problem that we had in the past. We did not have this supervisory authority, and we'll have it, I'm sure, in the future and we'll be able to correct these problems before they arise. So it's a failure of supervision that we'll have to correct.

Another point on euro bond markets: Yes, I think this is a good idea and there is a debate ongoing there. It is a difficult one. One has to acknowledge it's a politically difficult one, because of moral hazard problems and the resistance on the part of a number of countries with the very good AAA ratings to having to take care of the debt of profligate countries. Nevertheless, I think the debate has been undertaken anew and has come up to the fore again. There are some small

steps in terms of common issuance, in terms of coordination of debt issuance between the member states and we are helping these efforts at the commission in a more technical way. And I would predict that this debate here is not going to go away, and hopefully the crisis provides an opportunity to make important steps in this direction.

The final point on Adam's several comments, just one point that is factually incorrect. We are not recommending, we have never recommend, we do not recommend now, and we are not going to recommend in the future targeting deflation in the implementation of the master criteria, in particular on the inflation side. In the past, negative inflation or inflation very close to zero has been eliminated in the calculation and we have implemented the price convergence criterion, I think, in a sensible way. We will continue to do it in the future. We'll definitely not recommend that countries target deflation in order to qualify for euro area membership.

Adam S. Posen:

Okay, real quick. First, Marco, thank you for correcting me on that. That's good news. I hope that's in writing somewhere so that when people without your wisdom succeed you, that will continue to be the case.

Second, two quick points to Vito Tanzi. First, the issue of the Federal Reserve being politicized or independent is not a result of the fact that they're expanding their balance sheet now. The question is: In two years from now, when it's time for them to tighten, do they reverse or are they too slow? And that's when we'll find out. The fact that they reacted well to a crisis doesn't indicate a lack of independence.

Third, and second point to Vito Tanzi, the IMF has largely in recent years and I think, in my opinion, correctly changed its stance on a number of the fiscal policy issues that were advocated in the past, including some things like the expansionary consolidation chimera and I think that's helpful.

Final point, and then one logistical point. Rabbi Hillel, the great sage, once said, "If I am not for me, who is for me? If I am only for me, what am I? And if not now, when?" If the euro is not advocating for itself in international areas, no one is going to do it for them. If the euro area is only for the euro area, and not sufficiently for its near neighbors and fellow members, then it's really not living up to what it needs to be. And where we started this conversation, which goes to Jean's response to Marco about why we're talking about this: If, in the time of the US government's greatest financial screw-up in seven years, the euro is not asserting itself as a global currency, when will it ever do so? And those are the questions I'd leave you with.

The logistical point I would just say is Fred Bergsten today is celebrating his birthday. And so, besides the fact...

C. Fred Bergsten:

More than 10...

Adam S. Posen:

Besides the fact that it is indeed the 10th anniversary of the euro today, this is the, what, 43rd anniversary of Fred's birth? And he gave up basketball to be with us today, which is what he normally does on his birthday. So I'd like to ask you all to wish Fred a happy birthday.

C. Fred Bergsten:

Thank you very much. Thank you all very much. I won't say what birthday. I will thank Adam and Jean for the superb book. I particularly thank Marco for the openness that he and the commission exhibited on these issues, steadily and consistently. We're particularly pleased and proud, as you do so much with us cooperatively. We thank you again for your very strong support for all of our work in this area, and we look forward to much more continuation, much more cooperation, and many more decades of expansion of the euro. Thank you, Marco. Thanks to all.