

**Remarks at the JEF-Chatham House Conference on Post-crisis Analysis**

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[ Mr Chairman, Mr Director-General, distinguished participants,

I am very honored to be in Tokyo today to discuss exit strategies from the crisis. I would like to thank very warmly the Japan Economic Foundation and Chatham House for their invitation.

I trust the bleak weather today in Tokyo is not a bad omen for post-crisis economic perspectives, but rather than it will be followed by cherry blossom.

As you know, international trade is based on the notion of comparative advantages, and for the sake of collective interest, my comparative advantage here is to speak English rather than Japanese.]

The world economy has experienced the worst crisis since 1929, and the first global crisis in a globalized economy. Millions of workers have lost their jobs in developed economies. Years of efforts to curb poverty in the developing world have been at threat.

Growth is now back on track both in developing and in developed economies. This has not happened not by chance but as a result of an unprecedented coordinated effort, led by G-20 leaders and implemented at a national and at a regional level. The G-20 has been instrumental in the coordination effort. Not only has it put together an unprecedented package of fiscal and monetary stimulus and financial rescue. Even more importantly, it has forced an historical change on international financial institutions, by mandating them to assist developing economies in their counter cyclical action.

Growth is recovering at different paces in different economies and the first challenge is not to recreate the imbalances that led to the crisis. As Tommaso Padoa-Schioppa remarked in a conference recently, "everybody is looking forward to returning to the pre-crisis growth path, but they have not noted that it is the very path which has led to the crisis".

It is well accepted now that reducing global imbalances will require an upward adjustment of savings in the US and an upward adjustment of consumption in China. This cannot be forced upon the US or Chinese corporations and people. It should come as the outcome of structural and behavioral changes, and it will take place only if it can be proven to be in the own interest of the Chinese and the US people. The newly established G-20 'Framework for a Strong, Stable and Sustainable Growth' is a key forum to establish dialogue on these issues.

Global rebalancing will also require some amount of exchange rate adjustment. It is important that this adjustment does not only weight on currencies with flexible exchange rates vis-à-vis the US dollar, such as the euro and the yen. This supposes at some point to enhance the flexibility of currently pegged currencies.

As a European, I am not suggesting here that Europe does not have a role to play in global adjustment. Although Europe as a whole does not contribute to global imbalances, it has its own homework to do. Let me mention three challenges.

The first challenge is for Europe to fix its public finances. We are entering uncharted waters where accumulated liabilities, on-balance and off-balance, may feed back onto our financing cost and depress animal spirits in our economies. This is an instance where the precautionary principle advises to act sooner rather than later. This sounds like climbing a mountain, but there are actually three mountains put on the top of each other: first, adjust the unsustainable pre-crisis path of public expenditure growth; second, absorb the fiscal cost of the crisis; third, prepare for the fiscal cost of an aging population.

France has committed to bring its general government deficit from 8.2% of GDP in 2010 to 3% of GDP in 2013. This is a daunting challenge but we do not have the choice. It will require thorough re-examination of public choices and re-engineering of the way public services are being delivered. It may require tougher fiscal rules as a complement, maybe at a constitutional level. Former IMF managing director Michel Camdessus has been tasked by President Sarkozy to reflect on these issues and put forward proposals before Summer. In addition, pension reform will be proposed in June with an aim to extend the retirement age and improve the employment rate of senior workers.

These reforms will be painful but I trust they will support confidence, and eventually consumption.

The second challenge is for Europe to raise its long-term growth rate. There is a risk that reducing global imbalances would result in a lower, not a higher growth rate of the global economy. Demand arising from emerging market economies will not be enough to drive global growth. There is also a risk, although it is difficult to quantify it in a precise manner, that the crisis may have dented the growth potential of developed economies. This is a risk we cannot afford to take. We now need to invest in higher education, research and development. France is doing its part by investing €35Bn in universities and technologies, with a dedicated governance and delivery scheme. Let me add that this will create many cooperation opportunities between France and Japan in the field of new technologies, processes and products.

The third challenge is for Europe to address its internal imbalances. Europe resembles those Japanese gardens which have been constructed as small-scale images of larger landscapes. It is a microcosm of the world economy, with countries where saving is in excess and countries where savings is insufficient. Insufficient attention has been devoted to reviewing the growth models and competitiveness of European countries, particularly inside the Eurozone. This will change and European Leaders are committed to oversee closely this process.

Finally, let me say a few words on international trade. G-20 Leaders have committed to fight protectionism and avoid repeating the destructive trade wars of the 1930s. This has been successful so far, as WTO monitoring has evidenced. We need the Doha Development Round to come to an agreement as a signal that major economies remain committed to free trade. Bilateral free trade agreements are a relevant option as long as they are not used a substitute to reaching a multilateral agreement, and as a substitute to proper enforcement of existing WTO rules.

Let me conclude by saying that France is committed to do its part in raising world growth and strengthening international cooperation. We are looking forward to our 2011 G-20 Presidency to achieve these objectives.

Thank you very much for your attention.