Unedited Event Transcript

Stavros Niarchos Foundation Lecture

Can Globalization Still Deliver?

David Lipton (First Deputy Managing Director, International Monetary Fund)

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Adam Posen: Good evening everyone and welcome back to the Peterson Institute for International Economics. Those of you fortunate enough in your cultivation of relationships here to have a seat at a table, please go to your assigned table.

Those of you we love anyways but who are seated at the back, it's like the bleachers at Fenway Park, those can be the best seats. Please take those seats as well.

Thank you all very much.

My name is Adam Posen. I am the President of the Peterson Institute and it is my privilege to be presiding tonight and welcoming you as host to the 16th annual Stavros Niarchos Foundation lecture at the Peterson Institute.

I will be shortly introducing our board member, our executive committee member, an advisor to me, and I would like to say my friend, Andreas Dracopoulos and the Stavros Niarchos Foundation.

But, just a reminder to all of you, I think all are known that we are delighted to have with us the honorable David Lipton tonight as our lecturer. Much more, I hope, will be said about him over the course of the evening. I will simply say that David is the exact kind of person we had in mind for this lecture series.

Someone who combines analytical strength, policy relevance, distinguished public services, and we're just very pleased and honored that David, his family and many close colleagues from the fund could be with us tonight.

The lecture series is named for and generously supported by the Stavros Niarchos Foundation, forgive my pronunciation. It has been one of the many pleasures I have as President of the Institute to get to know the Foundation better and its Co-President Andreas Dracopoulos.

Andreas, even less than David, I think doesn't like to be singled out so I will skip over him. Although, of course, he does many wonderful things. And talk a little more about the Foundation.

As I said last year and two years ago, and in a sense sadly I must say again this year, the Niarchos Foundation has stepped up in Greece and in Europe in a way that almost no one else has. Where there has been insufficient funding of a civil society and a social safety net in Greece, the Niarchos Foundation has made huge contributions to keep that going.

When there's been questions about Greece's future, the Niarchos Foundation has created, funded, and has overseen the construction of a fabulous cultural forum including a national library and opera in the center of Athens.

It's a comparison I've made before and it merits comparison. This is the same kind of visionary work in the face of a great recession that David Rockefeller, Nelson Rockefeller, and the Rockefeller family did with Rockefeller Center in New York during the Great Depression in the US. It's a sign of faith in the country. It's a sign of faith in the future. And a sign of faith in the value of artisanship.

These are some of the most visible things that the Niarchos Foundation does but they also are incredibly generous to research in biomedical areas, in ethical areas.

And in particular, here at the Institute, they have long funded not just this lecture which allows us to honor and bring together some of the best people in the international policy sphere including Lawrence Summers, the honorable Lawrence Summers who will be introducing tonight's speaker.

Including, last year, Agustin Carstens is the current Governor of the Bank of Mexico. Including my predecessor and the Founding Director of the Institute, Fred Bergsten.

But, importantly for us, and we are just one example, they've also funded what I hope is visionary research including our program on ethics and globalization which Steve Weismann contributed a book and which we've had numerous ongoing conversations and various other efforts to make capitalism socially responsible but still capitalism.

We are very grateful to the Niarchos Foundation which has its general belief, don't ask why we should do something, ask why shouldn't we do something, or that's probably misstating it but I think it's the right intent that they've seen it fit to support these activities at the Peterson Institute for International Economics.

And so, for some opening remarks, may I call on Andreas Dracopoulos, Co-President of the Foundation.

Andreas Dracopoulos: Thank you, Adam, for your kind introduction. Distinguished guests, tonight carries on a tradition that is now in its 16th year, the annual Stavros Niarchos Foundation lecture and dinner.

Since the launch of the first lecture in 2001, it has always been the Peterson Institute's as well as the Foundation's goal to attract distinguished individuals in the field of international economics to share their unique perspectives on the critical issues of our times.

Our long standing hope and wish is for this event to perennially foster a deep and substantive exchange of ideas about issues that will have long-term domestic and international policy implications not simply those that currently dominate the new cycle.

I have no doubt that tonight's lecture from our esteemed keynote speaker, the first Deputy Managing Director of the IMF, David Lipton, will do exactly this and we continue a long tradition of excellent speakers.

The Peterson Institute has elected globalization as the focus of this year's lecture and dinner. While this issue is, of course, a center of international economics and global affairs today, it also directly relates to the work we do at the Niarchos Foundation. And to the questions we ask ourselves daily as an international philanthropic organization striving to operate ethically and effectively in an increasing complex global environment.

Tonight's lecture poses the question, can globalization still deliver? To approach this bold and complex question, we must first take a step back and consider what and to whom globalization is supposed to deliver in the first place and then the extent to which this is occurring.

A couple of years ago, the Foundation was proud to support a project that Adam spoke about. Conducted by the Peterson Institute, they, in many ways, attempted to address the first question by examining a number of issues and questions related to the moral dimensions of globalization.

These various topics including the international movement of capital, goods and services, and increasingly people was so ripe for analysis and discussion that the project concluded with the Institute's Vice President for Publications and Communications, Steve Weismann publishing an entire book and it's entitled the Great Tradeoff: Confronting Moral Conflicts in the Era of Globalization.

It is also noteworthy that this conversation is not simply academic in nature, nor contained to a small community. In fact, one would argue that globalization has been one of the defining issues of the current presidential election cycle.

The extensive and spirited conversation that has taken shape in primaries throughout the country about both jobs and trade agreement is essentially a back and forth on the effectiveness of globalization and its ability to deliver and be effective in America.

I would also recommend that you read today’s Wall Street Journal Op-Ed, titled How Anti-Trade Nativism Wrecked the Ancient Greeks. It's worth reading.

And this conversation has been had in a more international context as well, whether it is about the extent to which foreign governments are obliged to assist others financially, who is responsible for actually confronting the current international refugee crisis, an area in which our Foundation has provided and continues to provide significant support to international and local charities working non-stop on the ground in Greece, the entry point for tens of thousands of refugees.

Or whether it is about how to address global income inequality which has become a defining problem in our time in both the developed and the developing world.

I just would like to mention here that the Foundation’s 5^{th} annual international conference on philanthropy which will take place in Thessaloniki on June 21^{st} and 22^{nd}.

This year’s focus on the Mediterranean Basin. The conference title is the Mediterranean in Crisis: Seeking Global Solutions to Critical Regional and Local Issues, and the Refugee Crisis, figures prominently in the proceedings of the conference.

In discussing each of these issues and many others, there's a constant temptation to pick and choose according to one’s interest but we all know there's no free lunch.

One may end us supporting globalization in one area and not in another. For instance, advocating for free trade and capital movement while also advocating at the same time severe restrictions in the movement of individuals and labor.

And now, I would like to extend a warm welcome to the Chairman of the Institute Board, Peter Peterson, who’s support and vision for the institution has contributed enormously towards becoming one of Washington’s most important and impactful think tanks.

Chairman Peterson’s distinguished career undoubtedly speaks for itself and is very familiar to the vast majority of this audience. However, I would like to highlight his service on behalf of his country and several of his noteworthy professional accomplishments and contributions to the study of international economics.

Chairman Peterson served as US Secretary of Commerce during the Nixon administration and later served as the Chairman of the Federal Reserve Bank of

New York. In a private capacity, he served as chairman and CEO of Lehman Brothers and went on to co-found the Blackstone Group.

His continuous occupation and passion with matters of fiscal responsibility and the serious consequences of an ever increasing national debt, are well-known to everyone in this room, Pete has dedicated his life to creating awareness about the critical consequences of long-term debt for future generations, and advocating for policy changes to address it.

It is significant as an example to mention here a grant of about $2.5 million to Teacher's College at Columbia University by the Peter Peterson Foundation for the purpose of establishing a high school curriculum on fiscal responsibility which will be offered to every public high school in this country.

Most importantly, for our purposes here tonight, I would like to draw attention to the institute itself. As many of you may be aware, this forward institute will celebrate its 35th anniversary and its 10th with its current name, the Peterson Institute for International Economics.

The Institute's commitment to excellence and its pre-eminence among its peer institutions should not surprise us as it is indicative of Chairman Peterson's well-proven commitment and strong leadership.

Please join me in giving him a very warm welcome.

Peter Peterson: Thank you so much, my friend. I always thought this place was brilliantly named.

Occasionally, an economist comes along that rises to the top of his academic profession. Then, it is rarer that that great economist goes to Washington and ends up in top positions including Secretary of Treasury and Director of the President's Economic Council.

In addition to that, our speaker has many other distinguished characteristics. The Niarchos lecture and he spoke of the US in the global investment process. He's a member of the Peterson Institute Executive Committee.

So, it is my special pleasure as you might appreciate to ask Lawrence Summers to come up and join us.

Lawrence Summers: Rest assured, you do not have to hear a speech from me. My task is to introduce David Lipton. But, before I do, I just want to thank you, Pete, for the remarkable things that you have done. There are many people, not many, but there are a certain number of people who have been extraordinarily successful in business. But, I know of no one who has been so successful in business, who has been so committed to better public policy in the United States and better public policy in the world.

You have generously made available your resources to support remarkable institutions, most notably this one. But, more important than your resources has been your consistent wisdom, your consistent insistence on excellence, your consistent insistence on relevance and impact, and the example you have set with your own passionate advocacy over decades now for the importance of preparing for an ageing society.

You are a remarkable figure and an inspiration to us all. Thank you, Pete Peterson.

It's my privilege now to introduce someone I have been friends with for more than 40 years. David Lipton and I met on something that was very close to the first day of graduate school. We were in days when we were both younger, thinner, and faster, for a time, squash opponents.

At one brief moment in graduate school, we were actually co-authors of a paper entitled *Multiple Shooting in a Solution of Rational Expectations Models*. And if anybody wants to know about the content of that paper, David probably remembers what it said.

We were friends in graduate school and I remember being struck and admiring in David the fact that he found the intellectual gymnastics associated with economics not to be that interesting. What he was interested in was how it helped you understand the world so that you could make it better.

He gravitated early on to international economics, and he had, perhaps because of the family he came from, a commitment to recognizing that one could never divorce the economic from the political.

David could, because he was an extraordinary student, have launched what I suspect would've been a terrific academic career but he didn't want to. He, instead, chose to go to the IMF where he worked for eight years, gaining experience in the political economy of economic stabilization.

That prepared him for a period of several years when he worked hand in hand with Jeffrey Sachs, one of them was always calm, one of them was always moderate in his statements, one of them was always gentle and judicious in his approach to all issues.

And Jeff and David worked together promoting economic reform in Poland, most notably, also in Central Europe, and in the early stages in Russia.

It is a vindication of their work that many years later, former institute fellow, Anders Åslund discovered -- this is not how he would've put it but essentially with his regressions demonstrated was that the closer you followed the Lipton-Sachs program, the more your economy grew between 1989 and fifth of period 15 years later.

I think my boss at the Treasury, Bob Rubin, thought that the single most useful thing I had done in my time as the Undersecretary and Deputy Secretary of the Treasury was having the wit to recruit David Lipton to come work at the Treasury.

In the crucial moments when the United States crafted a response to Russia at the beginning of the 1993 period, the fundamental author of that program and of our approach to the former Soviet Union and Central Europe was David Lipton.

Merit rises and David rose from being the Deputy Assistant Secretary to the Assistant Secretary to the Undersecretary, but through his time at the Treasury, he had one job really, Fireman-In-Chief.

Every time there was a crisis country, sort of ironic now but I'll say it. Every time the IMF needed to be second-guessed, David was the person who went to the country, who provided trusted advice to the country and to those of us who were supporting it.

What impressed me about David along with many other things was his wisdom and all of that but he was tough. He was insistent that the laws of economics were like the laws of physics. If you violated them, bad things happened and you really couldn't wish them away even when their message was politically inconvenient.

But, he always understood that this was about the lives of tens if not hundreds of millions of people. At one point at the Treasury, I nicknamed him KHA Lipton for Keep Hope Alive Lipton because at moments when the rest of us would conclude that the policymakers in some country really didn't get it and there was really not much that could be done. David would always have another approach to reaching out, another approach to try and to influence the situation, another approach to making things better. All of that without ever relaxing his standards.

The Treasury was a lesser place even if Susan was a happier person when David left in 1998 to pursue life in the private sector. Some people go to the private sector to prosper and I suppose David did prosper to some degree. But, he also learned an enormous amount about how financial markets work, about how financial participants think, about how bank risk systems do and do not operate.

And I know because we kept in touch in those days that he was always committed to returning at some point to public service.

George W. Bush probably delayed his return to public service relative to what he would've preferred by winning elections. But in 2008, David was ready to serve and served a crucial role on the Whitehouse staff working on international economic issues where he provided an important part of the intellectual agenda for the London Summit in 2009 which I regard as being the most successful example of international economic cooperation in the last 25 years. It had David as an unsung hero.

And that is one of David's many virtues. He illustrates the old maxim that it's remarkable what you can accomplish if you don't need the credit. It was natural that the IMF would look to David and that the United States would strongly support David when the position of First Deputy Managing Director at the IMF needed to be filled in 2011.

That is a position that has had a number of distinguished occupants in the past, notably, current Fed Vice Chairman Stan Fischer. It is a position that David has filled with extraordinary distinction. It is not that hard to be trusted and liked by the IMF countries, client countries, and those who receive its funds.

It is not that hard to be rigorous and vigorous in insisting on strong standards. It is actually very difficult to be both of those things and that is something that David has brought to the IMF, to the great benefit of the Fund and to the world.

These have been five remarkable years at the IMF. Could any of us have ever imagined years ago that the IMF would be making the case for more fiscal stimulus in order to have more aggregate demand? That that is the current position of the IMF is a reflection, yes, on the situation of the global economy but it is also a reflection of its most senior Ph.D. economist, David Lipton.

David, the world has you to thank for a great deal and we are honored to have you here tonight. David Lipton.

David Lipton: Thank you, Larry. Thanks for that very warm introduction. I have to confess to all of you that yes, we met on the very first day and after talking to Larry for about 15 minutes, my reaction was if they're all like that, I'm really in trouble.

Good evening everyone. It's really a pleasure to be here to deliver this year's Stavros Niarchos lecture. I'd like to thank Adam Posen, the Stavros Niarchos Foundation for inviting me here.

Over the past 35 years, the Peterson Institute's made its mark by working on policies that could help make globalization beneficial and sustainable. And of course, Stavros Niarchos was thinking and acting globally long before the term globalization was coined.

Well, I know I may be preaching to the choir tonight in rallying support for globalization. I guess we'll find out during the Q&A. But, I thought that with so many questioning whether globalization and interconnectedness are worth the trouble and some seeing only trouble that it was important to assess what more globalization can do to boost living standards.

What would take to reap the benefits more fully, spread those benefits more fairly, limit the costs and ward off the risks? Can we renew a spirit of internationalism now that we live in a world where no single country can be the guardian of globalization? I want to talk about those subjects.

When Larry and I studied economics in the 70s, we learned that the future of globalization was bright. Trade theory told us that high tariffs meant substantial potential gains from trade available for all, rich and poor. And that while there would be winners and losers. You could compensate the losers and still come out ahead.

Well, much of what was then called the third world was very poor, there was several newly industrializing countries then dubbed NIX in Asia. They were proving that with trade openness integration, receptivity to foreign direct investment, a country could cross the great divide and join the ranks of the rich countries.

And of course, we studied how just a generation earlier, our predecessors have had the wisdom to create a set of international institutions -- The GAP, the IMF, the World Bank, to guide trade liberalization, globalization, and development along a stable path to ensure that politicians and economists would not repeat the misguided policies that had disrupted the previous wave of globalization in the early 20th century.

So, in my own work as a graduate student, I set out to explore how poor countries might take advantage of globalization to achieve an increase in their living standards heading towards eventual convergence with advanced economies.

Working with Jeff Sachs, we did what graduate students do. We built a mathematical model. It was fancy for its time. Two countries, fully maximizing, infinite horizon, rational expectations, et cetera, et cetera. And in that model simply put a poor country which has cheap labor and inadequate capital acquires the superior technology that the rich country already has.

With everyone rationally expecting greater things in the poor country, investment takes off there. People in the rich country save more to invest and take advantage of the new higher returns in the poor country what we might now call ‘reach for yield’.

And the poor country citizens anticipate that they're going to be richer overtime because capital accumulation and new technology will raise their productivity and their wages. So, they save more too. They invest part of their newfound wealth what we may call ‘domestic resource mobilization.’

The poor country runs a substantial counter account deficit and imports the capital that it needs from the rich country and the rich country happily and profitably provides that.

In the end, everybody gains. The poor country experiences a boom and living standards converge upward. Even the rich country gets richer as investors reap the returns to capital higher than are available at home.

So, with that narrative in my head, I went off to the IMF, as Larry said, I went off to the IMF for my first real job to help promote globalization and convergence.

We're destined to spend our adult lives finding out whether the preconceptions of our youth were right after all. And I think, for economists that means and certainly for me, that means finding out whether our graduate school models have any real world relevance.

So, what I want to do tonight is humbly tell you a little about what I found. I spent most of the 1980s at the IMF. Developing countries borrowed and rich countries lent as the model suggested that they should but the end result was not always investment in growth.

For Latin America, the borrowing eventually led to a debt crisis and a lost decade. Instead of fostering growth, the IMF spent most of the decade trying to help our members both debtors and creditors to resolve problems created by the problems that were created by imprudent borrowing and the poor use of resources.

Elsewhere, developing countries showed limited willingness in capacity to open up to competition. They had only limited ability to attract foreign direct investment.

The IMF ended up studying why some of our members failed to progress despite prolonged use of fund resources. Philippines, for example had about 20 nearly consecutive IMF programs.

Then, as the communist east bloc fell apart. I left the Fund, went off to Poland as Larry mentioned again with Jeff Sachs. Looking back at that transition, it's tempting to believe that it was natural, even inevitable that those countries would advance along the transition path in the way that they do. But, in 1989, nothing seemed inevitable, at least nothing good.

In fact, the communist period had left these countries with what the IMF today might call significant macroeconomic imbalances and structural problems but those labels hardly capture the Soviet legacy that they had. There was a wholesale need to disassemble a decrepit economic system and create a market based system in its place.

As one Russian reformer saw the problem, it's easy to turn an aquarium into fish stew but quite another thing to turn fish stew into an aquarium. In the end, of course, it happened. Transition wasn’t easy nor was it complete. You can see that in the continuing struggles of Ukraine. And it took a lot more than a simple model called for.

People mattered. Courageous politicians and reformers took on the challenge of designing reforms and explaining their consequences to a wary public. Reform strategies mattered. The best performers liberalized prices, stabilized their public finances, privatized State assets, and built strong governance frameworks.

Rejoining Europe mattered. The prospect of rejoining Europe provided an essential motivation for policy makers so that they could justify implementing difficult reforms. And official external support from Europe, the United States and the IMF helped bridge the growth chasm that transition created.

In many countries, living standards rose sharply and steadily over the next 25 years. Poland, now has grown more steadily than any European country. It was the only country that avoided recession after the global financial crisis.

Then, came the crises of the 1990s. Mexico proved the harbinger of a new phenomenon. A cautionary tale of the risks that a company, the potential rewards of reform and opening.

By this point, I was working for Larry at the US Treasury Department. There was a theme here that Larry has been hiring me to a lot of different jobs. We, like many others, had admired Mexico's sensible policy making and the accomplishment of NAFTA in 1994.

But, over that year, the scale of its financial problems became unimaginable. With capital fleeing and the exchange rate falling, the Mexican crisis became too severe and too big for the IMF to handle on its own. Direct loans from the United States to Mexico were needed.

IMF Managing Director Camdessus recognized that this crisis was different. A crisis of global financial markets. He dubbed that the first crisis of the 21st century. Unfortunately, it would not be the last.

When Thailand, Korea and Indonesia fell into crisis less than three years later, we saw that even countries with successful policies and access to foreign finance can develop vulnerabilities.

We also learned that global financial markets could focus on those vulnerabilities. Move as a herd and generate a reversal of capital flows. Not only for one country but for many others that they viewed as similar.

We were forced to re-examine our effort to promote capital market openness and integration. Many countries came to fear the political and the economic costs of financial sudden stops -- recession and banking sector crisis.

Emerging market countries worried about market access, they began to act more defensively and built up international reserves through intervention. They weakened their exchange rates and run smaller current account deficits concluding that low reserves and sizeable current account deficits just added to their vulnerabilities to capital flow interruptions and saw that a sudden current account adjustment was just too painful.

Meanwhile, while these events were unfolding, two remarkable growth stories were playing out. The rise of China and Africa rising. Both relied on globalization integration but each had its own special story.

The rise of China involved foreign direct investment. First permitted in the late 70s but really -- that really only took off in the 1990s but the growth story was about much more than foreign direct investment. The new development model in China depended on features not contemplated in our simple model.

Policies and practices, some of which were quite unorthodox that generated high savings and investment, sustained export competitiveness, current account surpluses and a huge accumulation of reserves.

China created an export machine that drew hundreds of millions of people out of subsistence farming and into the global economy. And in the end lifted some 600 million people out of poverty in the course of one generation.

Africa rising also required a combination of powerful historical forces. The end of communism had swept away ideological arguments over economic orientation. After two decades of disappointing growth and crippling debt, creditors including the IMF relieved the burden of debt in return for improved governance and better policies.

A new generation of African leaders and policy makers with more exposure to mainstream macroeconomic thinking charted a new direction. Again, exports provided the engine of growth, in this case powered by oil and commodity prices and China’s booming demand.

By 2008, 14 countries in sub-Saharan Africa had achieved a decade or more of 5 percent growth. Nine have exceeded 7 percent growth over that decade.

In 2009, as Larry mentioned, he offered me another job, “Come to the Whitehouse to cover international economic policy.” I arrived in what turned out to be the worst days of the global financial crisis. Global growth was heading off the cliff. There was talk of a new Great Depression. Markets had frozen. Fear was spreading across emerging market economies and particularly hitting hard in Central Europe.

By 2009, many saw the crisis spiraling out of control. And most expected global inaction as had happened in the 1930s. Fortunately, that didn’t happen. Internationalism prevailed at the G20 Leader Summit in London, first in London, then in Pittsburgh, by bolstering the resources of the IMF and agreeing to act in concert to provide policy stimulus. A global economic collapse was avoided.

Rather as some of our Asian executive directors at the IMF liked to say, “We only experienced a North Atlantic financial crisis.”

During the years since the global financial crisis, the future of globalization has darkened. Global growth has slowed along with international trade.

For many, vulnerabilities and insecurities had become more salient than the gains from interconnectedness as those linkages have brought more market volatility, powerful spillovers and economic dislocations.

Politics have soured, whether justified or not, much of the resentment is focused on globalization.

The IMF had correctly warned that the recovery from the financial crisis would be slower and weaker than from a simple cyclical slowdown but even we and I'd say a few others realized that what we would face in the end is what Christine Lagarde has now dubbed the new mediocre.

I've been IMF’s First Deputy Managing Director since 2011. It's a great privilege. We are weighing in on the debate about what's making this global recovery weak. And I'd say there are two leading competing theories right now.

Some see the legacy of crisis, debt laid in balance sheets, crisis-wary consumers and investors, overstretched monetary policy and too austere fiscal policy as headwinds that perpetuate economic slack and discourage investment. Those legacies generate permanent negative effects, a kind of hysteresis.

Others believe that low growth is really a symptom of an increasing scarcity of profitable investments, something that began well before the 2008 financial crisis. After all, real interest rates have been falling for about 15 years.

And when one looks at the very low interest rates on long-term bonds, one can see that markets appear to expect a long lasting economic stagnation. But for the most part, these are theories that explain and predict sustained slowdown in advanced economies. So, what of the emerging world?

The bad news is we're seeing a slowdown in emerging and developing countries as well. It really looks like long run or potential growth in emerging markets is declining.

Looking at today’s IMF median term forecast, the emerging world which had been on the path of catching up to the advanced world is now converging at best at two-thirds the pace that we had been foreseeing a decade ago. Perhaps more worrying, our IMF projection suggests that many emerging market economies are not headed for convergence at all.

For many countries, even abstracting from currency movements, per capita income is either flat or falling when compared to US per capita income. Productivity gains and capital deepening looks at to fall short contributing to political strains as expectations of better jobs and higher living standards are just not realized.

Sadly, this appears to be the case right now in countries like Brazil, Russia, Mexico, South Africa and others.

This is a counterintuitive phenomenon. The model I described earlier says that convergence should depend on accumulating capital, educating labor and improving efficiency by acquiring technology.

In principle, each of those should be easier now than ever, why? Because capital has become more mobile and financial innovation has made it cheaper and easier to carve up and distribute risks across borders. At no point in history has knowledge been more available. One only has to look at the massive online courses at Harvard or MIT or even the IMF to see the potential.

I was in Rwanda just 10 days ago and visited a company that the government has engaged to provide a laptop for every student in the country for about $200 per laptop.

As internet access grows, the cost of remoteness should fall, and that should open up opportunities for many, many people. Technology has never been so transportable, so reproducible. This should have the potential to raise productivity for millions of people, maybe billions.

Of course, as parents everywhere know the internet also provides something not contemplated in the model productivity destroying apps like Angry Birds and we hope that those stay out of the hands of innocent young students in Africa.

But, in any event, the ongoing slowdown and the lack of convergence simply seems at odds with the promise of globalization and increasing connectivity.

Presuming a suitable business climate and investment environment, globalization and the IT revolution should be creating more technology transfer, better educational opportunities, and more mobile capital.

Bear in mind that over the last decade, the bulk of emerging economies have better fiscal and monetary frameworks, improved education levels, and reduced inequality. They've made progress on their reform agendas.

So, why is convergence moving in the wrong direction and what can be done? The usual recipe that you hear is each country needs to get its own house in order. At our executive board, we hear calls for the Ohio strategy 'own house in order'.

I think there are three relevant components of that that countries should bear in mind. Countries still have to reckon with the legacy of the global crisis, slower growth in advanced economies, and China, the challenges of diverging US and Euro zone monetary policies, and the volatility of the financial market response to those events.

Second, many countries have adjustments that they need to make. Oil and commodity price declines have helped some but hurt many others. Producer countries have to adjust to the lower export revenues and lower government revenues that they face.

The current excess global capacity in oil commodities and more generally in manufactured goods could take years to work off. Those adjustments will produce distressed firms and distressed financial institutions that will have to be dealt with.

And third, much of the emerging and developing world has unfinished business. They need to improve the legal institutional and policy foundations of their economies to be more fully supportive of investment in infrastructure and in private companies.

Well, all of that kind of change and adjustment is good. The Ohio strategy certainly is needed. But, I fear that it is not likely to be able to stand on its own.

Key elements of that approach are likely to be strongly pro-cyclical further deepening the slowdown in global growth that we're so concerned about. What should concern us all the more is that the international monetary and financial system is itself generating vulnerabilities that could worsen the situation.

Scared by recent bouts of capital market volatility, many countries may conclude that they need even larger buffers, more reserved accumulation, stronger current account positions, and more self-insurance. All of those would be pro-cyclical.

So, I think the time has come for us to reexamine a bit the global architecture. We need to ask what can be done to make the global architecture more supportive of growth and convergence. This calls for collective actions, CAs, or let’s call it the California strategy.

So, what elements of the architecture are worth reexamining? First, there's a need for a better international financial safety net. One that the emerging market world believes is reliably available and financially sufficient so they can count on it. One that the emerging market world regards as their safety net where they have an equal voice and where it's not the case that others are setting the rules of the game.

This could be done by better weaving together the patchwork of global and regional safety nets, but it probably will require something new. The IMF is looking at this question and we intend to play a constructive role.

Second, we ought to consider whether the short term and the volatility of capital flows are problematic. There are, of course, natural incentives and natural reasons for capital flows to be concentrated in short term maturities. Those flows with their reversibility can be a useful disciplining force for debtors creating a market incentive for positive reforms, positive behavior.

But, the reversibility also has its costs. Costs when capital stops suddenly. I think we should look again whether the supervisory frameworks and tax systems in the source countries unduly encourage short terms debt creating flows.

I know that here on think tank row in DC, it's heretical to say so. But, I think we had to consider where there are more coordinated approach to capital flow measures and macroprudential policies in the capital destination countries may also be warranted.

We also ought to reassess the tax policies across the global system to lessen the inherent debt bias and thereby facilitate greater equity flows that would be of tremendous value in the emerging market and developing world. And we need to be sure that financial institutions in advanced economies particularly the non-banks, have the right regulatory incentives to properly price the risks of short term international debt and put sufficient capital behind those instruments.

Third, we ought to look to see how we can permit a greater transfer of technology from advanced countries to emerging and developing countries. We should take a fresh look at property rights protection including whether the protection of advanced economy ideas stifles global adaptation through overly generous patents and trademarks.

There's an active debate on this subject related to pharmaceuticals and medical treatments, and TPP has drawn attention to the subject. Opening up a broader debate on the question and grabbing the attention of civil society.

These are complex issues financially and politically. We're no longer just talking about removing tariff barriers and opening up to FDI. It's time for thinking about a new generation of reforms.

Unfortunately, collective action in many of these areas has been very hard to mobilize. The G20 acted decisively in the face of global financial crisis but now everyone feels much less urgency. Differences are proving too hard to bridge global for or too long on talking, too short on action.

As just one example, well despite four years of discussion to try to mobilize finance and support for building a better global infrastructure, cross-border project lending is actually declining. There's been little progress in carving a larger channel for wealthier country capital to flow to lower income countries.

The model says this would be in everyone's interest. They would offer greater returns to capital for the providers, essentially in a world of zero or negative interest rates. They would offer more growth and jobs in recipient countries.

What better time for global infrastructure initiatives than today when capital is cheap and available? But it's just not happening.

Turning to politics, I believe that now more than ever, national leaders need to work together to fulfill the aspirations of their people. Dissatisfaction with national leaders is growing pretty much worldwide but especially in advanced economies and resentment about economic prospects is increasing.

Once we discount the empty promises for easy solutions, I think the hard truth is that national leaders no longer have the power acting alone to deliver what their people want and need.

We see this truth in so many issues today from how best to promote global economic recovery, how to safeguard banking systems and capital markets, what's needed to tackle climate change, how to manage the issues surrounding migration into Europe.

Global problems require global approaches and global action, or at the very least, collective action.

So, in other words, the California strategy needs to go hand in hand with an Ohio strategy. We all need to work harder to convey to politicians and electorates the benefits of globalization and to help manage as best we can the spillovers and the vulnerabilities that are bound to accompany it.

Greater efforts are needed to help emerging and developing countries get back on an accelerated convergence path. This would brighten the prospects for many people, probably billions of people, and serve as an engine of growth for the world economy. It's in everybody's interest including the developed world. It's something that the IMF or the IMF wants to play a constructive role.

So, what would a good scenario look like? As Larry Summers has reminded us in writing, China must inevitably slope. It would no longer be a supercharged economy but it certainly can continue to make a significant contribution to global growth. Don't forget that in 2015, China's growth was the equivalent of adding an economy the size of Poland to global GDP.

India is probably the only other country that has the potential to mount a transformation of a similar scale and a similar global consequence. But, there can be strength in numbers.

With country action to boost growth potential, an action to make international monetary system more supporter, I could imagine 10 to 15 smaller countries taking off. Countries with young and dynamic populations, rapidly rising educational standards, improving institutions; countries learning lessons from others.

Together, a group of countries like that could become a new engine of global growth.

For example, 6 percent annual growth in 10 to 15 countries with a starting total GDP of $4 trillion would add more to global growth each year than the Euro zone growing at potential.

A list of potential contributors could include Vietnam or Bangladesh, the Philippines or Indonesia, Peru or Colombia, Ethiopia or Nigeria. We don't know which on that list may take off, may succeed but I think all of those are candidates.

I can imagine your skepticism so let's recall the case of Korea. Its success may seem obvious from the vantage point of today. But, in the early 1960s, Korean living standards were on a par. In 1963, I believe, Korean GDP per capita was the same as in Ghana.

There was little reason to expect what happened next. For 50 years, Korean growth has averaged 7 percent. Its standard of living has risen from less than 10 percent of the US level to 55 percent.

But, the right decisions of generation from now, success stories that we find hard to contemplate today may seem just as obvious as Korea's case. But, to make that possible tomorrow, we'll need to rise to today's political economy challenges.

Most important, of course, is to actually secure the benefits of cooperation, integration in a globalized system. That means continued encouragement and support for countries to move along a path of integration and reform, but we also need to work collectively to manage the spillovers and the volatility to deal with the capital markets of today.

Some old lessons remain relevant. A loss of faith in global solutions offers no way for all. We all know that protectionism in trade and finance are self-defeating.

We also are learning new lessons, how economic inclusion, especially gender inclusion and reduced income inequality can boost growth and may be a key to growth in the near future.

Finally, we need to do more than make the case for globalization and interconnectedness and convey to our citizenry the opportunities of collaboration and integration.

Too many people in the developed world see only a loss of jobs to low wage destinations. Too many people fear that immigration is compromising their economic well-being. Too few see clearly the payoffs. Poverty reduction, the innovation that comes from shared ideas, higher living standards from greater access to trade, and higher returns to the wealthy world from investment partnerships with developing countries.

Let me end where I started in the 1970s. In 1975, the United Kingdom was preparing its first ever referendum on whether to remain a part of the European common market. The UK Government released a pamphlet which argued in a characteristically understated British way that we cannot go at it alone in the modern world.

This statement is even truer today. Only by standing together can we foster a new form of globalization that works for all. We cannot go at it alone.

Incidentally, in case you're wondering two-thirds of the UK electorate voted yes on that referendum.

I want to thank the Peterson Institute for inviting me here today and giving me this opportunity. It's been a special honor. Thank you very much.

Adam Posen: David, that was fantastic, unlike our sound system. You covered so much ground, so much to think about. I want to open it up, you'll find that even if you think you were preaching to the choir, it's actually a group of largely dedicated soloists who occupy this auditorium. And so, it will be a very interesting discussion.

The one thing which I wanted to ask you though before we turn to the audience is, as Larry said, and as many of us know you, you're thought of as the cool head in the crisis, the creative problem solver, the firefighter. Your remarks were those of the long-term visionary to development economist, the person concerned about growth.

This is not a contradiction in any sense but there is a repeated trope we hear particularly in Europe but we're just back from China and we heard a variant, that sometimes crisis is necessary to promote the reforms. That you can't get to Ohio without going through Mississippi in other words.

How do you view this issue? I mean, in real time for the IMF, to get the kinds of goals you so eloquently put out there, is it sometimes salutary to have a crisis or make best use of a crisis. I'm not going to quote Rahm Emanuel, but how do you think about that issue since so many people seemed to be advocating that from their armchairs?

David Lipton: I think we have enough crises to spur us to action. I hope we don't need more. We will surely have more because people are not ready to act.

First, I think, I've been sort of a country doctor thinking about how countries can stabilize or go through transition or deal with financial destabilization. I think what's different now and what I'm trying to say here tonight is that there are things that have to be rethought in the international monetary system.

The usual IMF job is to go to country X and convince them to get their house in order. This is in a way a bigger and more complex job because we're talking about how to deal with the size and predominance of capital markets. We're talking about subjects where there's really very different views. Different views in the United States, then in one of other countries.

I hope that we can -- that the IMF can come up with some modest steps that will show the way to the longer term path that the world has to go down but we are, I think, operating in some uncharted territory. And that we've been very comfortable with an international monetary system that really just evolved and where there wasn't much guidance. It served us well for a long while but I think since 2008, the flaws, the problems have come to the surface.

Adam Posen: Thank you very much for that. David has graciously consented to give answers and take questions on the record. This is being video cast live. We work with the Fund to make sure David's words of wisdom and your questions get out to everyone.

There are two roving mics towards the front. There's a standing mic for those in the back.

Two ground rules, please wait to be recognized and that you have the mic and please state your name and state a question that actually is a question.

The first question to President Zedillo. If one of you could give him a mic please.

Audience Member: Thank you. Well, first of all, David, thanks for all your good public service particularly the good one you did with and for Mexico for 1985.

Larry said that the London G20 meeting was the most successful exercise in international cooperation in the last 25 years. And then, you have made very lucidly the point that we needed more and better international cooperation if we want to have sustained a globalization, which I think is a very important point to make.

However, we see the history of what has happened with this sectional exercise of international cooperation, the G20 at the leaders' level, the outcome of the London Summit, and you mentioned also Pittsburgh. I think the record is highly disappointing.

We can make the least of the commitments that the leaders did at London and then they did at Pittsburgh and I am afraid that the final assessment is extremely negative.

So, the question is one of political economy. Why after going through that big crisis, the G20 sets up an agenda and then fails to deliver on that agenda? Why is it so hard to build that global public good of international cooperation for financial stability and economic growth? You gave us a hint because you said that it was heretic to speak about cooperation and coordination in this time but maybe it's also heretic in Beijing and in Brussels, and therefore my question is, why it's not happening? What will happen if things continue to be as they are?

David Lipton: Let me give a reckoning of what I think of the record of the G20. The G20 in London had two goals -- to end the crisis and to bring about reform of the financial and regulatory system to make sure it didn’t happen again. I think those things were accomplished.

The first was a combination of finance providing more money, the half a trillion dollars of NAB money for the IMF and some other funding. And implementing the agreement that had been put in place to provide some stimulus.

And the financial and regulatory reform which was begun then, I think it's a success when judged from the vantage point making the banking system safe, making sure the banking was not liable to run the risk of a repetition of the kind of crisis that we just saw.

Now, it may be that those reforms have led to very cautious banks and very cautious supervisors but I think the two goals were accomplished.

So, I think it's important that -- then as I said, other agenda items like trying to find ways to mobilize finance for global infrastructure. There's been a lot of talk but it really hasn’t turned into investment in finance yet. I think it's important that the G20 is best when it has a narrow and well-defined agenda and when it's motivated.

It may be that as Adam has suggested, there won't be as dramatic action when there's not as dramatic a problem. I guess, I think that there may be a need for some creative destruction. I hinted in my talk that there our assessment of the IMF is that there's very substantial over capacity in oil and minerals. This was partly the result of the oil and commodity super cycle.

Related to that, I think there's excess capacity in manufacturers around the world and we see still capacity being accumulated, not de-accumulated. I think we will see creative destruction. There will be the need for excess capacity to be eliminated. There will be a need for a lot of adjustment in countries that have relied on those sectors. The problem is that all of that will be pro-cyclical for the global economy.

So, I think the challenge right now that we try to capture this in our message, IMF or macro message at the time of our spring meetings in April, the key challenge is to make sure that that creative destruction doesn't drag down the global economy.

I think there's a history of, if you think of the legacy of the idea of creative destruction, it's easy to have a company go out of business in a robust economy. People loss jobs over here and they go work and get hired over here.

But, when an economy or the global economy is slow, the idling of resources even though it's part of the solution can lead to really quite dangerous and unhealthful slack.

So, our message was that all countries needed to be cognizant of this and contribute to what we call the three prong strategy of more fiscal support, more monetary support, and structure reforms with emphasis on infrastructure that would be very helpful in order to compensate for the needed adjustments in the world.

It maybe that the world won't take our message or act on our message until the problem appears to be more grave but that's our message.

Adam Posen: Thank you. I actually asked you the questions so you could explain why my colleagues who love crisis are wrong. So, that was good. Peter and then Bertrand.

Peter Orszag: David, Peter Orszag from Lazard. Quick question on the Chinese currency. There was a report out this morning or yesterday suggesting that in March, the Central Bank decided to back away from commitments to have the currency be more market oriented. I don't know if these are true but I just wonder if you had any comments given that the IMF has committed to including the currency and the STR in October, I believe, based in part of that currency moving more towards a market-driven determination.

David Lipton: It will not surprise you if I don't comment on Chinese currency movements. Our decision and our membership's decision to include the Renminbi in the STR basket which is now scheduled for the fall is something that's based on the usability of the Renminbi.

So, it's about whether the Renminbi has come in to common enough usage and whether there are institutions in which one can borrow and lend Renminbi and issue instruments in Renminbi.

There have been currencies in the STR basket that have been -- that all manners of exchange regimes. There have been currencies in the STR basket from countries that have had capital controls. So, it's really not affected by short run exchange rate issues.

On the Chinese situation, we certainly believe that China needs to move overtime to a more flexible exchange rate. We've been saying that for many years and we think that's the right message for them.

Adam Posen: Thank you. Bertrand and then we'll go to the back.

Bertrand Badre: Thank you very much, Bertrand Badre from the Peterson Institute. I'd like to come back to a more microeconomic issue which has a macroeconomic economic which is the one you highlighted underneath for a global infrastructure initiative.

I think everybody agrees that these infrastructure and beyond that investment. So, everybody agrees that it's part of the solution. On the other end, one of the legacy of the crisis is the emergence of these dual investors. They are really dominant players in finance today and they have, whatever, under a trillion dollar of assets in management and they are struggling to find yields and diversification today.

So, we are confronted with needs, we are confronted with money. It's been debated forever and we can't find the key to unlock that. We've been discussing that. I think it's more and more pressing. How we can organize a system, I mean, at the global level of course but even the European never was a where the European plan is struggling when, okay, we have 25 billion of public money and we want 250 billion of investment and it's very tough to move.

So, how can we make the G20 effective on this very particular pressing issue?

David Lipton: Bertrand, we worked very hard to promote this agenda and had, I think, really great ideas for the World Bank's involvement in this. But, I think that we haven't -- I think you're absolutely right. There's lots of money and there are great needs and surely great returns for infrastructure. And the match hasn't quite worked.

I think there are probably a number of reasons for that. I mean, this is all despite the fact that financial engineering is a lot more clever than it used to be in terms of dishing out risks to people who wish to hold those risks. I think there are range of issues.

One, we've been trying to devise -- the world has been trying to devise public-private partnerships and I think it's turning out to be a harder thing to do. If there's going to be a public-private partnership, the rights and responsibilities have to be clear today and reliable for 30 years. And there aren't any settings in which, even the United States, where that's proving to be okay.

Second, I think there's an economic question. We used to say that public goods needed to be put in place by governments because if it's truly a public good, my consumption of it doesn’t prevent Adam from consuming and so its marginal cost is zero and the price should be zero.

And so, you can't use a public-private partnership with a fee to recoup the investment.

So, there are some things that just ought to be done by government. That doesn’t mean the construction company can't be private and contracted by the government but it may be that we've been nudging too many projects towards public-private partnerships and that governments, some legitimate but ultimately unhealthful reasons are reluctant to undertake public sector infrastructure projects.

One can look at the United States where a number of proposals have been made by the present administration to make infrastructure investments and are not just been welcomed in the political environment, in the political arena.

And then, there's another issue which is that infrastructure projects used to be financed by banks who did project lending. And now, one of the consequences of the financial and regulatory reform, the new capital standards, for various reasons, it's just less economical for banks to make long-term loans of that kind and there's very little project finance.

There are plenty of institutions, asset management companies, other institutional investors that have money and have a long term perspective. They could make a loan or make an investment that’s a 20- or 30-year investment but they don’t have what banks in the last generation had. They don’t have a branch in Acre and a branch in Nairobi.

They aren’t naturally going to be the institutions that will be able to help with the starting up of an infrastructure project to know the players, know the setting and all of that.

Now, whether there is a way to rekindle interest in financial potential for the banks so that they can be involved in the first phase of infrastructure projects. And at some point sell off their interest or have the institutional investors come in behind and buy out their interest and put in money with a maturity that’s more appropriate to the project. We'll have to see.

But, I think there will have to be some, still some, innovation in finance to overcome this problem. I know from having worked with Bertrand that the World Bank certainly could be a pioneer in this area by providing either direct financing or backing up the financing of private to the IFC of private institutions that wanted to do this finance.

I think whether it's the World Bank or other multilateral development banks, I think some greater involvement would be welcomed. The problem is that the scale of finance available in the multilateral development banks is actually quite modest when compared to the scale of the needs.

So, I'm not offering any answers, really just some thoughts on the obstacles we will need to get past. I think it's an extremely important matter. Our model says that you got to raise the investment rates in these countries if you want them to grow faster and the capital comes in with technology attached.

So, it's really is part of the answer. I think there's, I think, no way around it but this is an obstacle we have not yet gotten past.

Adam Posen: Thank you, David. For our last question at the back mic, please.

Katerina Sokou: Thank you. Katarina Sokou with Greek Daily Ekathimerini and SkyTv. You mentioned in your talk a backlash to globalization and we've seen a lot of developed countries and the middle class is actually thinking that it's losing out. I was wondering whether you think this is an actual fact or is it a perception.

And on international political economy question, as we're talking about globalization, and the challenges of it in Europe are the Ministers of Finance of the Eurozone are trying to find a common approach with the IMF on the Greek bail out.

So, I was wondering there do you think that the politics of the issue are trumping the economics. Thank you.

David Lipton: I wasn't sure if I was going to get a Fed question or a Greek question. I don't know what's going on in the discussions which are happening as we figure in Europe. But, let me come to your question.

Economic adjustments, almost always have what I call a growth chasm that there's a period while countries are adjusting, making changes, building for a new tomorrow where people lose jobs, where capital is stranded or idled or cast aside, where banks and companies, some are stressed or even go out of business.

And what is key to maintaining, I think the history is what's key to maintaining popular support which is never every easy, is what's on the other side of the valley that there's a clear vision for a better future in the case of Eastern Europe, it was joining Europe. Greece is already in Europe so it's really a matter of the better days that could be ahead in Europe.

But, the problem is that yes in Greece, the period of adjustment, the period of slowdown has been very long and the adjustment has been very substantial. Greece has made very substantial adjustments.

So, still, the best that we can do, the IMF, the Europeans in support of Greece is to try to come together on an approach and help Greece climb out the other side of the valley as soon as possible. I think the political lesson is that one needs to have for the people a vision of how and when things are going to get better.

It's never easy to get the patience of a population that's feeling the ill effects of the adjustment but that's I think the only way.

Adam Posen: Thank you so much, David. Thank you for giving us such a visionary lecture that was still relevant; such a rigorous thinking that was still accessible; and such globally minded thinking from your position. These are all the things that made it a fantastic 16th Stavros Niarchos Foundation lecture but also reflect just who you've been as a public servant throughout your career. Thank you.