Unedited Event Transcript

World Trade and Exchange Rates: From the Pax Americana to a Multilateral New Order

Mervyn King (Former Governor of the Bank of England)

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Adam Posen: Ladies and gentleman, I'd like to ask you to take your seats, please. This is a very special evening. It is always the highlight of our annual calendar and this year, perhaps in particular. Because we are honored to have as this year's Stavros Niarchos Foundation lecturer, Lord Mervyn King.

This is also a special occasion for us every year because it brings together our Board of Directors and our best friends, at least those who are able to come, which is most of you, and we are deeply grateful to the Stavros Niarchos Foundation for giving ongoing substantial support to the Institute, not just financial, and not just for this dinner, but with the service of Andreas Dracopoulos on their Board of Directors Executive Committee, with the participation of Stavros Niarchos Foundation people in our events, and with the ongoing substantive dialog.

It's my pleasure tonight to introduce Andreas Dracopoulos, who will in turn introduce Larry Summers, who needs no introduction, of course, who in turn, for the nth straight year, will be introducing our guest of honor. This is because, thanks to Stavros Niarchos Foundation, we have established a lecture series here that frankly is without parallel. We intend this series and the people who speak in it, to be people who have combined the highest levels of economic research and policy making. The who's who list of the previous speakers is in your program, and I'm sure others will make reference to it.

And I'm sure for those very few of you who do not yet know Mervyn King, it will be evident that he's exactly the kind of person for whom this was designed. I had the privilege to work with Mervyn King with him as Chairman of the Monetary Policy Committee of the Bank of England and he generously did not block my appointment to the Monetary Policy Committee of the Bank of England. I had the privilege to know him before that in his successive roles there, and even very briefly at Harvard, one year Mervyn visited and I believe he and Larry started co-teaching the graduate course on Public Finance. I went to two classes of it, decided they were too smart for me and dropped the course, and shifted to macroeconomics because it was easier. True story. And yet, I then still have the privilege of introducing Mervyn and Larry, but first off, I want to introduce a person I think I can legitimately call my friend, Andreas Dracopoulos.

Some of you have heard me say this before and I'll just say it very briefly. The Stavros Niarchos Foundation, with Andreas as Co-President, in his leadership has performed extraordinary services to the US, to the globe and especially to the people of Greece. One of the most visionary things they have ever done, or for that matter, any 20th century, 21st century foundation has done, was in the midst of the crisis in Greece to visualize and continue with building the Niarchos Cultural Center in Athens, giving the country of Greece its first true national library, as well as a huge performance space, creating employment and faith in the future in a way that was very hard to come by.

Some of you have heard me make the analogy to Rockefeller Center in New York City during the depression here. This, I don't want to compare such wonderful things, but I will just say, the Niarchos Foundation and Andreas and the whole team showed incredible vision to say that they were turning over the whole center directly to the Greek government. They were not demanding they stay on the board, they were not demanding -- I hope he stays on our board -- but they were not demanding ongoing rights. They just wanted to do the right thing. And whether that's providing health and social services to people at the working level in the islands in the crisis in Greece, or whether that's supporting the Peterson Institute for being honest and fighting for globalization, the Niarchos Foundation does the right thing. Thank you, Andreas, thank you for helping us do the right thing by both leadership and example. If you would be kind enough to introduce.

Andreas Dracopoulos: It’s a pleasure to be with all of you here this afternoon, and Adam, thank you, as always, for your kind introduction.

Today's lecture marks the 17th annual Stavros Niarchos Foundation lecture at the Peterson Institute. The lecture is almost as old as the Stavros Niarchos Foundation, SNF, itself. We are currently celebrating our 21st anniversary. The longevity of the partnership is in many ways a testament, not only to the importance of the lecture itself, which is manifested in its ability to attract over the years, speakers such as Alan Greenspan, Mario Monti, Jean-Claude Trichet, our own Fred Bergsten, but also to the productive collaboration of our foundation and the Peterson Institute.

The purpose of this lecture has always been to attract distinguished thinkers to share their expertise on critical economic and geopolitical issues of the day. These issues may not always dominate the news cycle, but they are nonetheless issues that have long term domestic and international policy consequences and demand the serious conversation and analysis. The annual Stavros Niarchos Foundation lecture has striven from the very beginning and hopefully has actually succeeded in becoming a forum for civil debate and discourse, something much needed in today's highly polarized environment.

Tonight's lecture is entitled World Trade and Exchange Rates: From the Pax Americana to a Multilateral New Order and is delivered by the esteemed former Governor of the Bank of England, Lord Mervyn King. Each spring you can feel as if the topic of the evenings lecture somehow has the highest stakes and is the most important yet. One could argue this phenomenon is a product of the high quality work being done at the Peterson Institute, led by Adam Posen, and of its enduring value, as well as the organizations, international reputation as a first-rate non-partisan think-tank. Yet again, tonight's lecture feels momentous, given global events throughout the past year and their economic reaches.

A year ago, many of us gathered here for the 2016 SNF lecture, which explored the question, "Can Globalization Still Deliver?" At that time, the United Kingdom's referendum on EU membership had not occurred and the year's presidential election was still months away. In a way, I guess we could just have a repeat of last year's topic. The world continues to be highly uncertain in so many ways, and serious discussions need to take place on such many issues. There is no longer any question that change is afoot. However, it remains to be seen exactly how each of the major international political debates of the day and the economic ramifications will play out. Given this period of change and uncertainty in the international sector, Lord King's topic for tonight's lecture is ripe for discussion.

As we have been witnessing for some time now, most recently with last week's election in France, the global structure, as we have come to understand it over the last century, is reinventing itself and unfolding in real time. As already mentioned, at the time when polarization appears to be the rule of the land here in Washington and in the US, but also globally, it is vital to support and maintain forums like tonight's lecture that facilitate a free and respectful exchange of [inaudible 0:08:43.3] and ideas.

Today many people are deeply frustrated about all sorts of issues, economic and otherwise and are coming up empty handed in efforts to find solutions and establish common ground with individuals with whom they disagree. It is not just that one has to distinguish between fake or not news, it is that most news ends up being polarizing from the let go.

I am optimistic that this kind of stalemate stems less from malevolence and can be attributed much more to the complex challenges that have emerged from national and international communities that are deeply interconnected economically, digitally and physically in ways that are often without precedent. Our own Foundation is currently thinking deeply about public polarization in the US and internationally, and how it might begin to hopefully be diffused. While few speakers and followers will be able to discuss the finer points of world trade and exchange rates with the precision and expertise of tonight's speaker, Lord King, or the Peterson Institute, I believe that this annual lecture series serves as a model for the transparent constructive sharing of views on issues that can quite easily become, or are already, polarizing.

This is why we are happy to celebrate today the 17th such lecture and to be also looking forward to organizing the 18th next spring. Hope you all enjoy today's lecture, which seems to have coincided with the arrival, finally, of beautiful spring weather.

And now to introduce someone who doesn't need any introduction, the honorable Larry Summers. Among his many achievements, he is the President Emeritus of Harvard University. Among his best achievements, he gave the 2004 Stavros Niarchos Foundation lecture at the Peterson Institute. He is a member of the Board and Executive Committee and another thing, of course, he served as, as the Director of the National Economic Council for President Obama from 2009-2011, during the global financial crisis. And something which could be seen as fake news, but it is not, is that during Larry's tenure as Secretary of the Treasury, US used budget surpluses, budget surpluses, to repurchase treasury debt for the first time since the 1920s and extended the life of the Social Security and Medicare Trust Funds. So thank you all, enjoy. Larry.

Larry Summers: Thank you very much. It's going to be my great pleasure in just a moment to introduce my friend, Mervyn. But before I do, I just want to say how important I think gatherings like this one are, and how important this institution is at a moment when premises about the desirability of an open global system are subject to more challenge than they ever have been before, and ideas about fact, reason, logic and evidence shaping public debate seem also to be increasingly under challenge. And I see Michael Peterson here, and I would ask him to carry back to his father, on behalf of all of us, a salute for his extraordinary vision that has made this very important institution available. Thank you to the Peterson family.

And while this event is in a sense a flagship event each year, where at least in the years when I, at least in the years other than when I was a speaker, there is a celebrated international economic official who has an opportunity to speak. I think it bears emphasis that the Peterson Institute has had a remarkable capacity over many years, to produce the papers that probably represent 1% of all that is published each year on international economic policy, but probably represent 30 or 40% of what Mervyn read when he was in office, about international economic policy and what I read when I was in office about international economic policy, and that is a tribute to the extraordinary scholars at the Peterson Institute and the extraordinary leadership that was provided first by Fred Bergsten and, in recent years, by Adam Posen. So thank you to all the Scholars and Fellows here.

You know, Mervyn is quite a remarkable guy and I've known that he is quite a remarkable guy for a long time. I've known him for almost 40 years now and I knew that when you complete a distinguished career of public service in England, you become a kind of royal and you get called Sir This or Lord That, but when I was reading Mervyn's bio, I thought to myself, this is really quite extraordinary. I've had several friends who've become Lords before, but I've never had a friend who became a Lord King before.

And I realized that Mervyn had a particular trick to achieving that, which didn't go, which kind of went more to his father's surname than to his own prowess, but Mervyn has had a remarkable career. I met Mervyn first when I was a graduate student and he was a visiting faculty member at Harvard, and at that time, he was the most brilliant young thing going in public finance, who had written very important works on the nature of the corporation and the right way to think about corporate taxation, in particular, the right way to think about the taxation of dividends. And he had an extraordinarily productive career as a scholar.

And then in 1991, he joined the Bank of England as its Chief Economist. I confess, if you had told me that my friend, Mervyn would be at the Bank of England for 22 years at that moment, that would have exceeded by about 18 or 19 years my estimate, or I suspect, his estimate, of how long he would spend at the Bank of England. But he was first the Chief Economist of the Bank of England and then the Deputy Governor of the Bank of England and then the Governor of the Bank of England. Through turbulent and tumultuous times.

And never has there been, never has there been as thoughtful, creative and scholarly a Governor of the Bank of England as Mervyn King was. He was constantly aware of the lessons of history and he provided a rich and textured analytic perspective behind every decision that he made. It was not just the United Kingdom, but it was the international community that was fortunate to have Mervyn King as the Central Bank Governor of the country that contained perhaps the world's greatest financial center at crucial moments in 2008 and 2009.

There's another thing that is striking about Mervyn but it didn't surprise me. Many long-time policymakers, after they leave, write books. And the books that they write drawing on their policy experience, typically are of the genre, "It was terrifying. We didn't know what to do. We figured it out as best we could. And then we did this. And yes, there were some small mistakes made, but ultimately it was fantastic, what we did." And that is the standard policymaker autobiography.

Mervyn did something very different in his book, *The Alchemy of Finance*. He tried to step back and think about what it all meant and what lessons could be distilled from his experience and the experience that he lived through. You can think he got it 100% right, you can think he got it 80% right, I don't see how you can think he got much less than that right, if you're rational. But, whatever exact percentage you think he got right, you have to admire enormously the intellectual courage, the creativity and the vision behind that important book. And therefore I suspect it will have a much longer half-life than most policymaker autobiographies.

We are fortunate to have Mervyn with us today and he has a title that offers high promise, both from its length and its boldness. Mervyn, we look forward to hearing you on the topic of World Trade and Exchange Rates: From the Pax Americana to a Multilateral New Order. And I would at least record myself as pleased that you think we are headed into a new order, rather than a new disorder, and interested in hearing your reasons for that relatively optimistic conviction. Lord King, Mervyn King.

Lord Mervyn King: Well, Secretary Summers, Mr. Dracopoulos, President, ladies and gentlemen, what an honor to be introduced by my friend, Larry Summers, the most brilliant policy economist of our generation. And as Treasury Secretary, Larry often reminded the other participants in international meetings that nothing of any significance happened in international economic policy without American leadership. And I must admit that it's actual quite difficult to think of any exceptions to what I shall call the Summers Rule. So it's a particular pleasure to speak on this topic tonight, here in Washington, where past international initiatives, such as the Marshall Plan and the creation of the G20 originated.

And it's a privilege to be invited to deliver the Stavros Niarchos lecture in the Peterson Institute. All of us here tonight, as Larry said, have cause to be grateful to the Niarchos Foundation for its generosity in supporting, not just this lecture series, but a wider program of research at the Peterson Institute.

When Fred Bergsten launched the Institute in 1981, few, I think, could have imagined the immense contribution that it would make to economic policy over the following three decades. I have known Fred longer than almost any of you. His remarkable curriculum vitae omits one crucial stage of his life. As a teenager, in the late 1950s, Fred spent a year in Wolverhampton in England and unsuccessfully tried to introduce basketball to other members of his father's congregation. We are allowed one lapse of judgment. But basketball seems to be Fred's Achilles' heel.

Fred, you should be immensely proud of your intellectual offspring. Your successor, Adam Posen, is of course, well known to me through his service as a member of the Bank of England's Monetary Policy Committee, our MPC, from 2009 to 2012. Last week was the 20th anniversary of independence of the Bank of England and the creation of this MPC. So tonight's lecture gives me an opportunity to thank Adam publically for his contribution to monetary policy in Britain and to remind you all, that for his service, he was made an Honorary Commander of the Most Excellent Order of the British Empire, CBE.

Now my talk this evening starts with another anniversary. One hundred years ago on the 6th of April, 1917, Congress declared war on Germany and the United States entered the First World War. It was the start of a century during which America became the dominant global power, not just militarily, but economically and financially as well. After half a century of conflict, the world emerged into the sunlight to enjoy a period of rapid economic growth, underpinned by free trade under the American security umbrella, the Pax Americana.

America first did not mean the rest of the world last. Free markets and open borders generated prosperity. But that very success contained the seeds of its own destruction. The rise of emerging market economies and the continuing damage to the reputation and performance of the US economy, from the financial crisis almost a decade ago, have diminished the importance of the industrialized world, and created a backlash against the current system of international economic relations.

The inevitable transition from a regime of Pax Americana to a multipolar world brings us back in some ways to the situation before the First World War. Significant trade and financial links between the competing empires did not prevent their going to war. In 1909, the British author, Norman Angell had published a book entitled, *Europe's Optical Illusion*, in which he argued that the great economic interdependence of the European empires meant that conflict would be irrational. Sadly, the illusion was his.

Germany felt that others had sewn up the opportunities for colonial expansion, leaving her with little room to find her own colonies and access to natural resources. Angell's idea that a world court would be able to resolve such international conflicts might have been attractive to a hypothetical set of countries behind philosopher John Rawls' veil of ignorance, but countries never are in that position. They know their current interests and act accordingly.

The problem of creating any sort of world governance in the economic arena is precisely the same. Countries are not waiting to discover how big or important they will be. They know already and they pursue their national interests. The failure to appreciate this, I think, has bedeviled proposals for reform of the international economy and the international monetary system for decades.

A multipolar world is inherently more unstable than the world of Pax Americana. So how best to manage this challenging, if not brave new world? Do we need new rules of the game for trade and capital flows in a world in which American dominance will no longer be its prime feature.

Two years from now we will celebrate the 75th anniversary of the Bretton Woods Conference to settle arrangements for international trade and finance after the Second World War. As Paul Volcker remarked a few weeks ago, Bretton Woods is not a particular institution, it's an ideal, a symbol, of the never-ending need for sovereign nations to work together to support open markets in goods, in services and in finance.

The Bretton Woods arrangements themselves proved only a short term palliative to the problems of post-war reconstruction. Fixed exchange rates were possible only in a world of severe capital controls, which crumbled as economic growth depended on private investment.

And after 1971, a new regime, of floating exchange rates and domestic monetary policies, based on a credible commitment to price stability, became the late 20th century equivalent of the late 19th century flexible gold standard. But in turn, that regime faded, as emerging market economies pursued export-led growth by pegging their exchange rates to the dollar and the infamous current account balances reached record levels.

During and immediately after the financial crisis, current account imbalances shrunk as demand fell. Economists and policymakers were focused on preventing another great depression. With a modest recovery, there are signs that the imbalances are growing again and current account imbalances are back in fashion, both in practice and in theory.

The largest imbalances have resulted, I think, from a sustained attempt to fix exchange rates at levels that are inconsistent with an underlying intertemporal equilibrium. The two examples that matter for the rest of the world are China on the one hand and the European Monetary Union on the other.

China has had a large current account surplus for much of the past 20 years. In 2007, that surplus was 9.9% of Chinese GDP. It has since fallen and last year, the current account surplus was a mere 1.8% of GDP. But the sheer magnitudes of China's export surplus and its high savings were enough to start the unprecedented fall in real interest rates, which has continued now for a quarter of a century.

Central banks in those parts of the industrialized world, with current account deficits made no attempt to resist this fall. And indeed exacerbated it, to boost domestic demand so as to offset the drag on total demand from their trade deficit. In this respect, no country is blameless and there's little point in trying to apportion blame for the outcome of a general equilibrium.

In the lead table of current account surpluses, China has now been replaced in first position by Germany. Since the early days of monetary union, the German current account surplus has risen steadily and it reached 8.5%, 8.5% of GDP last year. Now during my time at the Bank of England, the European authorities would dismiss concerns about the German surplus because the euro area as a whole was broadly in balance. No longer.

For the past five years, the current account surplus of the euro area was a cumulative 1.52 trillion dollars. Far exceeding that of China of 1.1 trillion dollars. And over the same period, the cumulative US current account deficit was just over 2 trillion dollars.

Now, table 1 here. I'm sorry if the numbers are too small, but the only ones that matter are a few countries on this table. They share the imbalances among the G20 countries in 2016. I have taken the liberty, which perhaps I shouldn't, as a Brit, in assuming the euro area to be one country for this purpose.

And I've divided the countries into two groups, the high and low saving countries. They correspond to those with gross national saving ratios above or below 22.5%. The highest saving ratio in 2016 was 46% in China and the lowest, I regret to say, was 12.5% in the United Kingdom, even lower than in Argentina.

This dividing line between the two groups closely corresponds to the division between surplus and deficit countries. The exceptions being India and Indonesia, which have high saving ratios but small current account deficits. Saudi Arabia, which has been affected by low oil prices and Turkey, which has unique problems.

Together, the G20 had a combined current account surplus of 58 billion dollars with the rest of the world last year. Now the surpluses really are concentrated in four countries. The Euro area, China, Japan and Korea. Taken together, their combined current account surplus last year was 886 billion dollars, just over 3% of their GDP.

The deficits were also concentrated in four countries. The United States, United Kingdom, Canada and Australia. Their combined deficits were 680 billion dollars, just under 3% of GDP. It is a striking example of the difference between the two groups of four.

The Anglo-Saxon world, with its instinct of openness to trade and competitive financial markets and continental Europe and the Far East with perhaps a more mercantilist outlook.

Do these current account imbalances matter? Well obviously for some, the imbalances threaten jobs and prosperity. The new US administration has set out its stall to reduce the US trade deficit, even to the extent of embracing protectionism. For others, capital flows and their arithmetic counterpart, current account surpluses and deficits are the reflection of individual decisions to save and invest in different parts of the world, provided the public sector does not run excessive budget deficits, private sector decisions would lead to an efficient allocation of investment and capital flows.

And in this view, imbalances are benign. A view sometimes known as the Friedman Lawson Doctrine.

Now can we reconcile these two very different positions? In his 2012 Elie lecture, Maurice Obstfeld, now the Economic Counsellor at the IMF and here tonight, I'm glad to say, gave three reasons for being concerned about current account imbalances.

First the current account may be a symptom of underlying macroeconomic problems. Second, sudden reversals of capital flows induced by a concern about unsustainable borrowing are very costly in terms of the implied short reduction in domestic demand. And third, cumulative surpluses and deficits do a pretty good job, as Maurice shows, tracking the overall path of national indebtedness.

Now, in a sense, these three all blend into one question. What is the distortion or market failure of which large current account imbalances are the symptom? After all, the Friedman Lawson Doctrine is simply a restatement of the efficiency properties of a market economy. And I want to suggest two reasons for the potential existence of a distortion of current and capital flows in the world economy.

The first is the distortion of real exchange rates when a country or block of countries fixes its exchange rate and it is large relative to other countries. The Friedman Lawson Doctrine was given new life only a week or so ago when two of this country's elder economic statesmen, George Shultz and Martin Feldstein wrote an [inaudible 0:36:15.2] in the Washington Post entitled "Everything you Need to Know About Trade Economics in 70 Words." It actually is worth reciting.

"If a country consumes more than it produces, it must import more than it exports. That's not a rip off, that's arithmetic. If we manage to negotiate a reduction in the Chinese trade surplus with the United States, we will have an increased trade deficit with some other country. Federal deficit spending, a massive and continuing act of dissaving is the culprit. Control that spending and you will control trade deficits."

But we need to add 10 more words, which are: "Provided the dollar falls, stimulating domestic, rather than overseas production." And I fear this is the nub of the problem. It takes two to make an exchange rate. And as I suspect the Trump administration would argue, if the others won't play ball, the dollar won't fall, and jobs will be lost in the US.

Fixing nominal exchange rates has led in a world of downward wage rigidities to distorted real exchange rates.

In their new book, published today, I believe, Fred Bergsten and Joe Gagnon, used the phrase "currency manipulators" and defined this behavior in terms of foreign currency intervention. And by this token, Norway is included in the list of currency manipulators and Germany is excluded. I prefer the term "currency distorters" because even if a country does not accumulate reserves through foreign exchange intervention, it can, by creating an unsustainable set of fixed exchange or conversion rates, distort real exchange rates away from any conceivable notion of equilibrium.

Monetary union in Europe has done precisely that. Whereas Norway has sensibly created a sovereign wealth fund to invest overseas its oil and gas revenues to spread that newfound source of wealth over time, that is not the case in monetary union. So in my terms, Norway is not distorting exchange rates, whereas the monetary union is. And it follows that IMF rules should be modified to relate to currency distortion rather than currency manipulation.

The second source of distortion may be less familiar. It stems, in my judgment, from the weak discipline imposed by intertemporal budget constraints in a world of intrinsic or radical uncertainty. It's impossible to know with any degree of confidence what our future real incomes will be. And so intertemporal budget constraints are inevitably fuzzy in the phrase I used in my recent book.

No probability distribution captures the uncertainty facing households and businesses and fuzzy constraints matter. Because when households can borrow and lend, the discipline implied by a lifetime budget constraint, can be extremely weak in the short term, and inadequate to constrain mistaken judgments about sustainable levels of spending.

It is possible therefore, for spending to deviate from what turns out to be at sustainable level, for quite a long period. And the longer this state of affairs persists, the greater the ultimate correction will be, as we saw when the Great Moderation came to an end. And the correction, when it came, produced a first order loss of output and employment.

Now in the deficit countries, they went along with the fall in real interest rates, which had started with the growth of high saving countries. No central bank in the deficit countries could easily have stood out against this except at the price of a domestic downturn, with little impact on the global economy. And this collective action problem produced a fall in real interest rates to a level incompatible with any plausible relationship to long-term growth rates or household intertemporal preferences.

As a result, the allocation of resources, both investment and consumption, has been distorted. Investment in some sectors will have to be written off and consumption will have to grow along a different path than its pre-crisis trajectory.

Although Keynesian policy stimulus was certainly necessary to prevent an even bigger downturn in 2008-09, it could not be a sufficient condition for a sustainable recovery. General demand stimulus will not resolve a distortion of spending patterns, rather it leads to what Larry Summers has called "secular stagnation." Not from the supply side, but from the demand side.

With the major deficit countries close to full employment, there is no Okun Gap, but nor is the distortion of spending patterns merely a Harberger triangle. Its effect in lowering the path of growth constitutes what we might call a Summer's Gap, with first order implications, output and welfare.

Now the interdependences between countries can be illustrated by a simple three by three table that I call "Sudoku for Economists." In the two blocks of countries that I discussed earlier, the high and low saving countries in the G20, same division between the two blocks. What this table shows is domestic demand, the current balance and GDP in 2016. A total demand, or GDP, is the sum of domestic demand and net trade.

For simplicity here, I'm going to disregard, as Fred and Joe do in their new book, the difference between trade and current account surplus. I'm also going to ignore the rest of the world and divide this combined surplus of the G20 equally between the two groups so that they are in balance overall.

Now, just as in a Sudoku puzzle, the nine numbers in this table cannot be chosen independently. "Sudoku for Economists" is actually lot simpler than an ordinary Sudoku, because the economic adding up constraints mean that of the nine numbers in the table, only three can be chosen independently. So for example, if both group of countries want to achieve full employment levels of GDP, and the high saving group targets a larger trade surplus, the low saving group cannot target a reduction in its trade deficit.

Now, I'm going to put a little bit of algebra on the screen now, not because you should look at it, but just to convince you that I did do it. And I'll explain the message. So, just imagine this world comprising two trading blocks of equal size, the high and the low savings economies. Okay?

H stands for High, L for Low in the high saving and low saving distinction. And what the table shows is basically just the accounting identities at the top relating GDP denoted by Y to domestic demand, D and the excess of exports over imports. Nothing terribly new about that. And imports I've assumed to be a fixed proportion of total final demand. And the two blocks have different import propensities, M_h and M_l.

Now recognizing that in this case the imports at one block are the exports of another, the equilibrium levels of domestic demand can, with some pretty juvenile algebra, be solved in this picture. Sorry, I've gone too far here. This is four, table three, that's the accounting identity at the top, the import propensities as a fixed proportion of total final demand, and you can solve for the levels of domestic demand in the two cases.

Now, I just want to consider two examples here, which I think make the point I want to give. The first is, suppose both blocks are at full employment and have the same level of GDP, call it $\bar{y}$. What we now show in table four is that you can solve, in case one, for the levels of both domestic demand and the current account surplus and deficit. They have to be equal and opposite in the two blocks.

Suppose that the import propensities of the high saving countries were 15% of total final demand and that the low saving block, 17.5%. You know, not such a big difference, but still a difference. Then the equilibrium current account balance here at full employment would be a 3.5% of GDP surplus for the high saving countries and a 3.5% deficit of GDP for the low saving countries, which is not that very far off the numbers shown in table one.

But now suppose that for some reason the deficit countries can't borrow to finance an external deficit. And so we're forced to a position where the current account balance has got to be zero in both blocks. And suppose that the exchange rate is fixed, so the import propensities remain unchanged. What's going to happen to the levels of output and demand? Well, table four shows the result. The low saving block is forced to accept a reduction in both demand and output, relative to the high saving block. And this illustrates the famous asymmetric obligations on surplus and deficit countries.

If the high saving block maintains full employment, they were the same numerical values for the import propensities of 15% and 17.5%, output in the low saving block falls by no less than 17%. A significant fall. But of course the answer to this conundrum is of course to allow exchange rates to move, allowing the import propensities of countries to change in such a way to allow full employment to be restored.

And so the failure to allow exchange rates to adjust has exacted a large toll in terms of lost output and employment. And that is exactly what we have seen with the European Monetary Union over the past decade. Output has had to fall by enough to eliminate external deficits in the southern periphery countries.

In Italy today, GDP is barely higher than it was in 2000. It's a remarkable long period for GDP not to show any growth. And Greece has suffered an even larger fall in output than in my simple numerical example.

Now some commentators have argued that as a surplus country, Germany should expand domestic demand by deploying expansionary fiscal policy. After all, it currently has a budget surplus and in the WEO of the IMF in April this year, the advice given was that in countries with fiscal space, such as Germany, fiscal policy should be geared toward bolstering productive capacity as well as demand. In turn, this would help reduce their current account surpluses, support intra-euro area rebalancing and generate positive spillovers for others.

But what makes me nervous about this recommendation and makes me worry that it doesn't actually make a lot of sense, is that Germany's already at full employment. Unemployment in Germany is well below the level in the US and the UK, which we think of as close to full employment. Germany doesn't need greater demand overall. What it needs is a higher real exchange rate in order to rebalance demand away from exports towards domestic spending.

The problem in Germany is not that fiscal policy is too tight, and in this sense, I have sympathy with German policymakers, but that it has a markedly undervalued real exchange rate, but they share no real enthusiasm for changing that.

Now these two sources of market failure, fixing exchange rates and the inability to be confident, the private decisions will lead to sustainable paths for spending, I think suggests that there is a flaw, produces a flaw in the international monetary system.

I should proceed with caution down this path, on which so many have trod. At the Bretton Woods conference, John Maynard Keynes identified the asymmetry of the obligations placed on surplus and deficit countries as the main source of the problem. Surplus countries could accumulate assets indefinitely, but deficit countries could not go on borrowing without limit.

Keynes made little progress in persuading the American delegation, led by Harry Dexter White of the need for a system of symmetric obligations. And in his own Niarchos lecture four years ago, Fred Bergsten stressed that and I quote, "The single greatest flaw in the entire international financial architecture is its failure effectively to sanction surplus countries."

But there are two problems in trying to create a system of sanctions or perhaps more fairly stated, an insurance scheme for countries trading under internationally agreed rules. The first is the difficulty of quantifying distortions in real exchange rates. And the second is, that insurance depends on the veil of ignorance. You can't take out insurance once the accident has happened. The reason for Keynes lack of success at Bretton Woods and the resistance of surplus countries today to any suggestion of sanctions, are the same. The US, then, and surplus countries today, are not operating behind the veil of ignorance.

Harry Dexter White knew that he was in no need of insurance and Keynes knew that he could not afford to buy it. It's the circumstances that are asymmetric, not the obligations. Harry Dexter White and Fred Bergsten were born 50 years apart.

Now cumulative deficits imply an increase in indebtedness and we should be concerned about the level of debt in the world today. It's higher than it was before the financial crisis broke out and at the end of last year had reached, according to the Institute for International Finance, 217 trillion dollars, or some 325% of world GDP.

As Larry Summers remarked in his own 2004 Niarchos lecture, there is surely something odd about the world's greatest power being the world's greatest debtor. The retort from the advocates of the Friedman Lawson Doctrine is that, and I quote from Friedman, "There is nothing wrong with being a debtor nation if the debt has been accumulated to get assets." But President Trump is not the only one to look in vain for signs of significant accumulation of productive assets, whether public infrastructure or business, plant and machinery, extremely low real interest rates.

Yesterday the 10-year real rate on TIPS was 0.5%, have boosted these low real interest rates, have boosted asset prices and the associated debt necessary to finance those higher asset values. When interest rates rise, asset prices will fall back relative to income levels, but debt burdens will remain unaltered. And I think the next financial crisis may well start with a few uncoordinated defaults that then lead to a wave of debt restructurings.

Time does not permit a proper examination of the composition of capital flows and national balance sheets. They reflect the gross flows of capital among countries. Gross rather than net flows matter because the assets of some economic agents may simply not be available to service the debt of others. We don't live in an economic commune. And as Hyun Song Shin, the Economic Adviser of the BIS recently pointed out, in the crisis, the current account revealed little about the underlying vulnerabilities.

I remember commissioning an internal paper from staff of the Bank of England where I gave them just the title, "Why the United Kingdom is a Hedge Fund." In essence, the UK had borrowed short and lent long, earning a profit on the turn. In the same way as the United States, with its so called exorbitant privilege. Earning a higher return on risky overseas investments than the interest paid on overseas liabilities may reconcile continuing current account deficits with a stable net international investment balance. But the cost is a growing maturity mismatch between assets and liabilities on the national balance sheet. And that came home to roost in the financial crisis.

Much of the rise in external indebtedness and in maturity mismatch in the industrialized world, was closely associated with the expansion of their domestic banking systems. Whereas the stock of assets and liabilities to GDP reached only 1.5 times GDP in the United States, it reached 6 times or more in the United Kingdom, The Netherlands, Switzerland and of course Ireland and Iceland. And almost all of those differences reflect the size of their banking systems. In a world of free capital movements, what matters is the maturity mismatch of the national balance sheet and of the banking system in particular.

Forty-five years ago, John Williamson, of this Institute now, wrote the definitive survey of international liquidity. Anticipating a world in which official reserves were no longer the only source of financing, John argued that a country's international liquidity might best be measured as, and I quote, "A weighted sum of its foreign assets, liabilities, commitments and credit lines. The weights would represent the authority's estimates of the fractions of the various instruments or credits that they could expect to activate or will have drawn down."

This concept has a remarkable similarity to my own proposals for measuring the effective liquid assets of a bank and relating them to its liquid liabilities. The suggestion in my book that a central bank should act as a pawn broker for all seasons by asking banks to preposition collateral.

And if it's true that the maturity mismatch on national balance sheets is predominantly concentrated in the banking sector, it suggests the idea that if banks had to maintain effective liquid assets, sufficient to cover their runnable liabilities, as in my proposal, then national maturity mismatch could actually be handled in practice largely by domestic banking regulation, avoiding the need for an international agreement on the size and composition of capital flows.

Now finally, how should we reform the international monetary system? We need rules, an impartial referee and a governing body. Bretton Woods created a set of rules, dealing with changes in exchange rates and the short-term financing of current accounts, a referee in the international monetary fund, and a governing body in the form of the IMF Executive Board.

All three need to be adapted to a world in which the Pax Americana is giving way to a multipolar arrangement. A full-time executive board, resident in Washington, is anachronism in an age of jet travel, even allowing for the infrastructure of US airports. Replacing the executive board by a new governing body, comprising the finance ministers of the G20, would, I think, streamline and improve the governance of the fund. And as the referee, the managing director should no longer be drawn exclusively from its European members. In terms of rules, we will need a sovereign default mechanism. But the big issue is the rules of the game for exchange rates and current account imbalances.

Since the Bretton Woods regime broke down, two very different approaches have been canvassed. The first is a return to fixed exchange rates. In his 1996 book, *The Rules of the Game*, Ron McKinnon advocated a common monetary standard in which target zones for the three biggest currencies, which today would be the dollar, yen and the euro would be supported by concerted intervention.

The margin of fluctuations would, he anticipated, be reduced to no more than 1% once inflation and long-term interest rates had converged. That's very small in comparison with actual movements in exchange rates. The effective exchange rate of the dollar, for example, has risen by over 30% over the past five years. Now, of course, a target zone regime would in the first instance reduce the volatility of exchange rates that we see today in a floating rate regime.

But would this target zone regime be credible? Experience of target zones hasn't really been encouraging. Provided markets have confidence in the regime itself, then speculation may be stabilizing. But once the credibility of the regime is called into question, speculation will be almost impossible to resist. We saw that in the early 1990s with the exchange rate mechanism in Europe.

And shocks to equilibrium real exchange rates, such as German unification, a war, or the discovery of new resources, cannot easily be achieved solely through internal devaluations as we see today in Europe.

Moreover, as we move into a multipolar world, more than three currencies would be needed to participate in the arrangements and before long, I suspect the zones would be widened and we would be back to roughly where we are today.

Now the other approach represented by the new book by Fred Bergsten and Joe Gagnon, is to embrace floating exchange rates but to introduce the idea of countervailing foreign currency intervention as the main instrument to prevent currency manipulation. Now there may be a place for this in the future. The trouble is, I think that finding agreement on a common set of criteria for intervention to make it a sort of system, would be difficult for the same reason that Keynes failed at Bretton Woods. You can't take out insurance once the accident has happened. Countries can't retreat behind the veil of ignorance, which is why mechanisms to enforce action on surplus countries are difficult to agree and enforce.

Enlightened self-interest supported by the IMF behind the scenes, is, I think, the only plausible way forward. Surplus and deficit countries have a common interest in allowing a deficit country to restore its competitiveness and service its external debts. Failure to do so will lead either to a downturn in demand, affecting both sets of countries, as we have seen since the financial crisis, or a probable default on liabilities to the surplus countries, as we see today in Europe and as happened in Germany in the interwar period.

How could US leadership make a difference? We don't hear much these days about four power conferences. That idea seems to be in the distant past. But the US and the UK, as the two largest deficit countries, could, I think, work with China and the euro area as the two biggest surplus blocks, to find a mutually advantageous path to restore growth. It may be that the US will need to make threats behind the scenes, and I think the euro area will need to recognize the importance of ending the current muddling through and slow growth. But the US has an opportunity now to try and put together an arrangement, a deal, between two or three other countries, so that they could put together a way forward. And deals seem to be the flavor of the month.

Following the financial crisis, the US and the G7 gave other countries the chance to play a bigger role in the management of the international monetary system by leaving the stage to the G20. The G20 has not lived up to the role. The Pax Americana may be coming to an end, but the Pax Globus Viginti is unlikely to replace it.

American leadership will be vital. Rather than acting as the cheerleader of the euro area, the biggest currency distorter in the world, Washington should try its best to make the leaders in Europe confront hard decisions about the future of the euro. A little more ruthless truth telling, in Keynes' phrase, would not go amiss.

President Macron and German leaders have said that the euro won't survive another decade without fundamental reform. The problem is that they don't have the same view about what direction that reform should take.

The Smoot-Hawley Tariff Act of 1930 spread the destruction of the Great Depression to the rest of the world. In 1878, a namesake, Richard Hawley, wrote a pamphlet, extolling the benefits that free trade could bring to the United States, citing the example of England. Free trade, he argued, would reduce the problem of smuggling on the Mexican border and alongside free trade, Hawley recommended, reducing free traded labor by controlling immigration and replacing unjust tariffs by directly taxing the rich.

He was obviously a man ahead of his time. Only 64 pages long, Hawley's book would make the birthday present for President Trump in four weeks' time. But President Trump is right, when he identifies a problem with current international trading and monetary relationships. Change is needed and Summer's Rule means that only American leadership can bring it about. Thank you.

Adam Posen: Lord King, dear Mervyn, that was fantastic. Normally when I'm seated up here with someone, I get the chance to ask the first question, but there are so many good folk in the audience with serious things to say, including many you graciously cited during your talk, I'd prefer to open it up. Who would like to pose a comment or question to where Mervyn King got us. And just before I tell you that, I should just say, I think the right gift for everyone this season is the two volume set of the new paperback edition of Mervyn King's book, and the forthcoming book by Fred Bergsten and Joe Gagnon. We will start advertising them on our website shortly. Please, is there someone who would like to pose a question or comment to Lord King? Please at the back. Can you wait for the microphone please and identify yourself.

Dan Cunningham: Long-Stanton Group. Lord King, the one thing, and perhaps you mentioned this, but the rapidity, the increasing rapidity of having to pivot what we used to call "Losers in Global Trade" to living and high paying jobs, to reduce political instability. Where does that fit and I mean it's obvious we have to do it, but it has caused an election here in the United States where the concern about the lack of pivoting, people not getting living wage jobs and we see this in other countries, too. Is that one of our top priorities we should be talking about? Pivoting people, retraining people for living wages and high wages after they've lost in the global trade.

Lord Mervyn King: Well certainly the question of how we can help people who feel that they've lost out from globalization is maybe the key issue that we face at present, but it's a much more complicated issue than either simply trade or international monetary arrangements. I'm very struck by the, by two things.

One is the research by Angus Deaton and Anne Case in the United States about the problems facing ordinary white working class Americans, where the problems go much deeper than a question of income or even wages or jobs, and indeed the IMF recently published a study, Maury will know all about this, that showed that it's actually not easy to, if you like, pin the blame, on trade for the biggest changes in relative wages.

The second thing is that there are obviously big differences between countries and I don't think that it makes sense to argue that there's just one magic solution to this. It will require a range of policies and I think the brunt of the Deaton/Case argument is that this may take many decades to correct, because, to the extent that it relates to inadequacies in the educational system, we're not going to turn that round very quickly.

What I wanted to do was to say that in the arena of current account surpluses and deficits, it can be very easy to rush to judgment and say, well, this is the problem with free trade, whereas in fact, to the extent that it's a reflection of imbalances in macroeconomic policies, distortions introduced from the macroeconomic policy front, it doesn't then make sense to intervene in arrangements for trade. And the benefits of free trade that we've seen over many decades seem to me genuine.

Now, none of that suggests that we should not do what we, all that we can, to ensure that the benefits are shared, but I do think that when President Trump raises the question of imbalances, etc., there is a real point here, and this is very much the brunt of what Fred is writing about. It's not enough to do what George Shultz and Martin Feldstein say, which is, well, you know, we'll just have a lower budget deficit.

The question of distortions from both [inaudible 1:08:45.5] and also in my judgment from the fact that it's no one's fault, but in the Great Moderation, to some extent, people came away with the impression that was going on was sustainable when it fact, it wasn't. And there's an interesting question as to how far policymakers should deviate from their conventional norms, in order to correct mistakes which market participants we think are making.

That's a different subject and difficult question. But I do think these are the things which have given rise to some of the problems. What is important is not to vacate the ground here and say to people, "No, no, you just have to -- the market economy does all the job. We can forget about anything else." To the extent that President Trump has identified a real problem here, what I would like to see done is for people to say, yes, you have identified a problem. You're absolutely right.

The answer, however, is not to mess around with trading arrangements. The answer is to use American leadership to see whether we can't, with these four blocks, China, euro area, US and the UK, sit down and come to the recognition that we could all four of us be better off, if we could find a way of reducing the scale of the imbalances, because it's not the case that the US and the UK are borrowing to finance a lot of productive investment domestically. That's not the source of this.

And, you know, Fred's got ideas about how the US can trigger a reappraisal of other countries. And if other countries are unwilling to take part, Fred's got ideas about how to make them wake up to the fact that it's in their interest to take part. The countervailing currency intervention will probably achieve that. What I want to do is to see, the facts to me, suggest that this is not the case where we've got 188, how many member countries have you got now, Maury? 189 countries, of roughly the same size, and you've got a massive collective action problem.

Here, I think, with the G20 as illustrated, the difficulty of doing anything, with even 20 countries, because of the collective action problem, no one's willing to put their head above the parapet. The US is the only country willing at international meetings to put its head above the parapet and no one seems more willing to put its head above the parapet that your new President. So let's try and encourage him to put his head above the right parapet.

Adam Posen: I can say a bunch of things about encouraging heads above parapets, but, let me suggest, since they were most invoked, that we get a question or comment from

Maury Obstfeld and then after Lord King replies, from Fred Bergsten. So, Maury, microphone's coming to you.

Maury Obstfeld: Thank you. Mervyn, I'm inspired by Larry's wonderful introduction to ask you a tax question, if that's okay. In fact, on corporate tax. President Trump, in his tax plan released a couple of weeks ago, proposed a very steep cut in corporate tax in the US. That would obviously have complicated effect, but might be, to the extent that it raises investment that might increase the US trade deficit, it might also set off a round of tax competition among countries. Do you see these as threats to the global economy or as offering some promise?

Lord Mervyn King: So I think it's going to be very difficult to move to a world in which we all agree on what the rate of corporate tax should be. That is something which ought to be the domain of national sovereignty. I think that you could argue that to the extent that the trade deficit widened because of more domestic investment in the US, that itself wouldn't be a matter of a concern.

I think what I'm surprised that we have not made more progress on is the idea that all countries have an enormous incentive, not necessary to have the same rate of corporation tax, but have a common agreement on the tax base of multinational companies, because the problem with transfer pricing, in which you can transfer profits to a tax haven, is something that people rightly are concerned about.

And the US has the right model, in my view, which is that you agree, across the US as a whole, what the tax base of a company is, and then you allocate it according to some inevitably arbitrary formula among the states, but then you don't constrain what the state does in terms of its tax rate. Now the real benefit of doing that with a common tax base, is that the benefits of cutting the corporate tax are entirely in terms of whether it genuinely increases economic activity in the state.

But under a regime which we have worldwide, in which you don't allocate a common tax base across nation states, if you cut your corporate tax base, actually, it's not that you get lots more investment, it's that you get lots more revenue because everyone starts to channel profits into your domain.

And that is a definite, you know, lose/lose situation. And I think, what I found interesting was, I talked about this, 40 years ago now, in the book that I wrote with John Kay on the British Tax System. At that point inland revenue authorities were pretty dismissive of it. But as the scale of transfer pricing and revenue losses has risen, it is very interesting that revenue authorities are really concerned about this question and that the G7 has been particularly active since the crisis in trying to reduce the scale of tax and regulatory havens.

I mean, at long last, something is being done about that. It's the one area I can think of, of the G7 activity was good. I mean, the crisis innervate, energized the G7 to do something about it. So, it certainly isn't a panacea and, you know, many countries have gone down this road. And I think within European example, whether it's the action on Apple in Ireland or whether it's the discussion of a common tax base in the European union, this is one area where sharing agreements on tax would have an enormous benefit. It would build on the US example.

Adam Posen: Thank you. Again, just to be clear, that's the US example of within states, not the US current tax system, which I don't think you intend as an example.

Lord Mervyn King: Not many tax systems are a great example.

Adam Posen: Right. Thank you. Fred Bergsten.

Fred Bergsten: Mervyn, thank you very much for coming. Thank you for the brilliant remarks. Thank you for the several kind references to myself and particularly the new book with Joe. I'd like to ask two questions -- you already addressed them a little bit in your response to the first question, and they both relate to things we say in the book.

Early in your lecture, you quoted Maury in citing the difficulties with imbalances. All three that you cited were part of the typical concern about international financial instability, or unsustainability, but we argue in the book, and you hinted that in your response to the first question, that there's another whole category of unsustainabilities of imbalances, namely the domestic political unsustainability of running persistent deficits of which we now see the extreme example in the United States.

But it's not only in the United States. It's showed up in other countries. It showed up in the US historically. That's what caused the Plaza Agreement, with congressional pressure for protectionism. Now, we have an extreme case of it with Trump. The US has no trouble financing its current account deficits. It has huge trouble maintaining a domestic political base for continued globalization. And a large part of that is the imbalances, the job effects that the first question to you referred to, the complaints about currency manipulation that play a big role in the congressional reaction against open trade policy in the last two years.

So, I think we have to explicitly recognize that and try to deal with imbalances, in part to deal with a trade problem, not the typical international financial problem.

Second, much more briefly, I appreciate your openness to our idea of countervailing currency intervention, but you said it would be hard to agree on criteria. To define the term and do something about it. Lo and behold, US

Congress did so. Passed a law about a year ago, which set out two very simple criteria. If you run a current account surplus, which the treasury interprets as more than 3% of your GDP, and if you intervene in the currency markets, building your reserves to an amount exceeding 2% of your GDP, ipso facto, you're a manipulator and action should be taken.

Now that's simple stuff, it avoids the whole complicated business, which you rightly inveigh against of trying to define misaligned exchange rates, that is an impossible task. But those two simple criteria, which are now in US law, do, I think, provide a basis for proceeding down that path. What do you think?

Lord Mervyn King: So, what worries me is that, you know, Maury just said there are 189 member countries of the IMF. Now, for quite a large number of those 189 countries, Maury may know the answer off the top of his head, but quite a few of them will have surpluses which are bigger than the numbers that the legislation you mentioned uses. And actually have very good reasons for it.

So I think, in my judgment, I would not want to label Norway a currency manipulator, because I think that having discovered these oil and gas reserves, instead of going down the route of the Dutch disease, which both the Dutch and Britain went down, when we discovered North Sea oil, actually investing the proceeds overseas, was a sensible thing to do, through a sovereign wealth fund. And I think that you can also be a currency distorter, in my phrase, without actually being involved in buying and selling foreign currency.

So, you know, I worry that trying to have a strict formula isn't going to work for all members of the IMF, and I think the observation that struck me when I looked at the numbers was, do we actually need to have a formula that applies to everyone? Why don't we take the spirit of doing a deal and say, look, two deficit countries, two surplus countries, round the table, with Maury advising them behind the scenes, encouraging them, to realize that they could all be better, all four could be better off, if we could find a way through it.

Now, I think some of your ideas may be very helpful, because I believe that this group is never going to start unless the US takes the initiative. That's the lesson I draw from going to so many international meetings.

The other thing I'd say about trade is this, that I'm very struck by -- so I tend to see films a long time after they come out, and many of you will remember the film "Primary Colors" from 1992, I think it was. It was, "Primary Colors" was a fictionalized version of the first Bill Clinton presidential campaign. And in the film, I think it's John Travolta plays Bill Clinton -

Adam Posen: Yes.

Lord Mervyn King: - goes into a textile factory in New Hampshire, which has lost jobs and wages are being held down. And he does two things. First is, he talks to them and explains that he, too, can understand what it's like, to lose a job, have low wages. He comes from a poor family and he successfully empathizes with them.

The second thing he does is to say to them, but I cannot bring back your jobs. Because if you want to export your textiles, you can only do it, it doesn't matter what we do in the US, you know you've got to export it to the rest of the world if you, too, have very low wages. But that's not the point of what you want, is it?

So I can't bring back your jobs, what I can do is to try to make sure that your children have access to an educational system, which means that they will have the ability to get good jobs with higher paid wages in the future.

And they give him a standing ovation. Why? Because the first thing he did was to empathize with them. And the second thing is he was honest with them. Now I don't want to go over the entrails of the last presidential election campaign, but both candidates seemed to me to lack one or both characteristics. And that is part of the problem, and it's got worse since 1992.

And what we have to do is to find a way of explaining the benefits of having a free market economy while saying, but of course, you're dead right, guys, that the imbalances as a whole are creating a problem. But it's not creating a problem because we're, somehow we should put up artificial barriers to low wage products, it's because we need to find a better macroeconomic stance around the world to deal with that.

And here I think is where Mr. Hawley from 1878, you know, hit the nail on the head. Which is, in many parts of Europe, people are willing to embrace free trade, but what they're not willing to do is to embrace free immigration. And the reason is that in the non-traded sectors, non-traded goods and services, immigration really does act as a depressing effect on wages in that part of the economy in a way that free trade doesn't.

And I think, therefore, that somehow, you know, the divisiveness of politics is underpinned in a way by a divisiveness of analysis, between one group that believes that, you know, the market is the best thing that we can do and the best thing is not to stand in the way of it. And the other group says, no, we'd better distort the market, interrupt the benefits of a market economy because it's doing bad things to people. We can do better than that. We really can do better than that.

Adam Posen: It would be hard to do better than Mervyn King for the Stavros Niarchos Foundation lecture at the Peterson Institute. Please join me in thanking Lord King.