MR. WESSEL: --and countries like the U.S. and Europe better get used to this because we are going to be less and less relevant in the future with emerging markets. And I would say that, in the last six months, maybe there's been some rethinking about that.

So, my question to you is, is the golden age of emerging markets behind us and what are the chances--what are the factors that the next decade won't be so pleasant for emerging markets as the last 20 or 30 years will be. There's certainly--

DR. KIM: Well, you know, if you look back over the last five or six years, even Africa has over 5 percent growth rates. And you know, there's been a slowdown. If you look at some of the biggest countries, it looks like India is going to have a good third quarter. China came in at an annualized rate of 9.3 percent in the third quarter. And you know, there are all kinds of downside risks, you know, the biggest one being what's going to happen here in this country when February rolls around. But we think that, over the next year, growth in the emerging markets is going to be over 5 percent, and we think that's going to continue. And so, you're not going to see, I don't think, the 10-plus percent growth rate that you saw prior to 2008, but you know, a lot of the fundamentals in these countries are in much, much better shape than we even knew.

You know, in 2008, we thought that Africa was going to go off the deep end with the financial crisis, but then kept a 5-plus percent growth rate all the way through.
And you know, I traveled all the way to--I just came back from a long trip to the Sahel, and you know, the leaders--the leaders there, I was very impressed with their understanding of, one, the importance of their own sort of management of macroeconomics, managing their debt watching their current account deficits.

And also, every single one of them, what they tell me every time I talk to them is, "We've got to figure out a way to attract more capital." So, something's happened over the last 10 or 15 years, and I think that emerging markets understand that they've got to be competitive and they've got to create business environments that will attract all of you, and one message that I wanted to bring for this group is, you know, think creatively about opportunities for all of you in the developing world.

You know, we now are doing the--focusing a lot of our effort on trying to make deals. There's so much infrastructure needed--so much investment needed in these countries, and they all know that they're going to have to attract private capital. And so, the opportunities may be much greater than you think sitting from the outside, looking at places like the Sahel.

MR. WESSEL: Stan Fischer, what do you think?

MR. FISCHER: Well, I think the emerging markets have done very well for a decade. It was a decade of very easy money, of very easy access to finance.

But if you look at the BRICS, Brazil, Russia, India, China, South Africa, the BRIC is China and the others have not yet built a framework that is going to be very stable.

The Chinese, the [unclear 0:03:20] has actually produced a plan which nobody understood at the beginning and now, as time has gone by, it looks better and better, including radical changes in changing the one child family gradually.

China grew for 40 years at 10 percent. It just outstripped Korea which, up to that point, was the fastest for the longest. Rule of 70 says, if you are growing at 10 percent, you double ever 7 years. So, that period increased GDP by "two to the fifth" plus something, which is unprecedented in history.

And it looks like, from the [unclear 0:04:07] they got most of what they should do, including structural changes, in place. So, that's good news. Now, whether they'll be able to do it and whether, in the end, they'll be driven back to bank financing under orders from the government, we don't know. That probably could happen.
For the others, they absolutely have to improve their policies. This is a sad story of life that if you have all the prerequisites in place but you pursue policies which get worse and worse, you get into trouble. There is this phrase, "The Fragile Five," which consists of India, South Africa, Turkey, and Russia and Brazil. It's interesting that--

**MR. WESSEL:** I was afraid you were going to put the United States on that one.

**MR. FISCHER:** The United States, more or less no.

The fact is that every one of them was either a BRIC or, shortly after inventing the BRICS generally, invented something called the MIST. The MIST consisted of ten countries of whom the leaders were Mexico, doing well, Indonesia doing reasonably, South Korea doing well, and Turkey, not clear.

And you can't stay on top if you don't keep adjusting your policies, and they haven't, and they're beginning to pay the price. Will they learn their lesson? At some point they will, the sooner the better, we don't know about that, and I just second what Jim Kim said about Africa. Africa has continued to grow at 5 percent. It's largely based on exploitation of natural resources, but there's more than that going on in quite a few countries, and it's well worth looking at.

And lastly, Latin America is divided in two: countries doing the right things, countries not doing the right things. The ones not doing the right things don't look especially good right now, that's Venezuela, in particular.

So, even there, we see the same fact that you better get your policies straightened out, and I hope they do it.

**MR. WESSEL:** Okay. Glenn Hubbard, so, we have an optimist and I would say cautiously pessimistic Sam Fischer.

Where are you on this?

**MR. HUBBARD:** Well, I would say caution, as well.

Certainly, the easy credit has been largely responsible for the emerging market boom, as has China's own development.
I think that Stan is essentially right, that the policies are paramount. You know, there's so much attention now being paid to tapering in Fed policy in the U.S. will spill over to the emerging world. That's a bit like the torture of Jerry Baker's early morning music analogy--it's like blaming it on the bossa nova. You know, the Fed is not responsible for structural problems in emerging economies.

And if you take China, for example, and agree that some of the recent economic developments have been good, but it is still a financial sector whose policies don't work. Structural reforms, likewise, are needed in India, as well.

And so, I think around the world, rather than looking at big monetary or macro factors, these are individual policy factors. And I would agree with both the other panelists that Africa remains really an exciting bright spot, particularly for the climate in entrepreneurship. I know in my own school we've been on the ground in Africa now for a decade, training people who train entrepreneurs, really exciting.

**MR. WESSEL:** Interesting.

Let's talk about a couple of developed countries, start with Europe.

I am always fond of writing about Europe because it makes me feel better about Washington.

Stan, why don't you start. Do they have any reasonable chance of finding their way to a set of institutional arrangements and policies that allows them to grow and a rate that raises living standards?

**MR. FISCHER:** They have a reasonable possibility of doing that, but it's going to take longer than is politically convenient, and we'll see whether they can maintain that balance. They're trying to create something which took the United States 100 years to create, which is a more or less unified center based on the European Monetary Union.

And this banking union, for instance, is moving much faster than anybody thought they could. But take note, the United States fixed its banks by 2009, basically, and you've seen the difference between American banking and European banking. Now, the European Central Bank is about to undertake an [unclear 0:09:04] of the banks which are going to be [unclear] by it, which means they're not going to be fixed until 2014 or 2015 at the very earliest. They have the money to do it. The European stability mechanism can recapitalize
banks, but that can be done, but they've got to get the work done. So, that means [unclear 0:09:26] because persuading 15 countries that they want they want to be in a banking union and hand the supervision to some other group rather than their own regulators is not easy, it's happened. And then they've got to move on at some point to the fiscal side.

Now, everybody thinks you have to move immediately to American centralized government, which is larger and more important than the national governments. They don't have to do that to begin with. They just need to have a reasonable sum of money at the disposition of the central authority so it can move funds around among countries, and that's a different proposition. They'll be able to do that if the political will remains, and that's going to be a very tough issue.

I would say that, just think about this two years ago: Everyone was sure the Euro wouldn't survive the year. Well, here it is. People aren't even talking about its disappearance. They have a habit of overcoming these difficulties despite everything. And so, I'm moderately optimistic it will happen, a long time from now.

MR. WESSEL: Glen, what about Japan? They're kind of rolling the dice on policy. Do you think they have a good chance of success or not?

MR. HUBBARD: Well, I think that, you look at the various arrows, I think you'll see a range of chances. The change in monetary policy under [unclear 0:10:48] has been very welcome. Japan has had persistent deflation that can be arrested. It's a monetary phenomenon. It is simply not the case central banks are powerless here.

The government, I'm a little more skeptical. Certainly, the talk from the incoming administration was very promising in the beginning and continues to be, but the real issue inside Japan are structural reforms that have bedeviled the Japanese economy for decades, and I really don't see a whole lot of progress being made there. So, good discussion. If the progress could be made, an excellent outcome, and monetary policy welcome.

MR. WESSEL: And Dr. Kim, what do you hear from people when you travel around the world about what they think about the United States in 2013? Are we seen as a place that-- envy and admire because we all have all this entrepreneurial fervor, or are we seen as a laughingstock because we can't even figure out how to keep our government open?
DR. KIM: Well, I think if you just look back at what happened in August of 2011, the last
time we had a near miss, I mean, we followed the numbers very carefully, and stock
markets in developing countries took a 15 percent hit. Borrowing costs went up 75 basis
points. And so, whatever happens here has a very direct impact on what happens in the
developing world.

But I think there's still tremendous admiration for the ability of the U.S. to innovate. And let
me tell you, every single country in the world is thinking about what they need to do to build
an innovative sort of new generation coming up.

So, my experiences, by running a university, it has come up with almost every leader I talk
to, because they're saying, "What do we need to do to become more competitive? What do
we need to do at the primary, secondary, and especially at the tertiary level?"

And so, the admiration for that part of the United States still remains very strong. I mean,
there are a lot of countries--you know, China is one, Korea may be another, who have done
so well at process improvement, but their real, real innovation is still, I think, a bit out of
reach, and those countries want that and they know that we have that here in the United
States.

MR. WESSEL: Stan and Glen, you both mentioned periods of easy money and central
banks' behavior. I wondered if you could--there's beginning to be some criticism that the
central banks have done too much, that they have taken too much of the responsibility for
getting growth going, particularly in the U.S., maybe in Japan, and that there are risks now
of financial instability or whatever.

In the circumstances, Stan, do you think that the central banks, the Fed in particular, are
doing too much, or is this what the doctor ordered?

MR. FISCHER: Well, the--without the Fed, we would have a much deeper recession,
without the extraordinary things that it's done the economy would be in much worse shape
today and we need to remember that. Precisely how to get out of it, of what speed to get
out of it is a much harder thing to measure and to calculate, and there's this problem of not
quite understanding what's happened to the participation rate of the labor force. There's far
fewer percentage of Americans working today.
So, there are dangers and as a central bank Governor, we have to reduce our interest rates in Israel, because United States' rates were so low that if we had kept them where they should have been, 4 percent, say, we would have had an inflow of funds that would have just created a lot of damage. So, we cut the rate. Housing prices have taken off. You're beginning to see housing prices take off in the United States.

But these are things which you can watch closely. Everybody knows now about asset prices and presumably they will take that into account and moderate policy accordingly. So, yes, it's dangerous, but it's much--but it was necessary.

There's another line, which is you shouldn't help the government [unclear 0:15:04] face the dilemma that they should be facing. Leave the job to them.

Well, as a central bank Governor, I saw that one very nice, but it really wasn't our job to try and figure out how to teach the government to behave better. We had certain tools at our disposal, this is what was going to happen, we used it. And that, I think, is the only way you can behave.

The moment you start thinking you're disciplining governments when you're an unelected [unclear 0:15:37].

MR. WESSEL: Glenn.

MR. HUBBARD: I think there's no question that we're asking too much of the Federal Reserve and that the Federal Reserve is in dangerous territory.

It did start out with extraordinary positive responses and the response to the crisis, Stan, I mean, has it right, without the Federal Reserve's aggressive response, we could well have had a depression.

But it's worth noting that the Fed's early actions in things like mortgage-backed securities markets were in the structural issues of the financial system. Unless persuaded that some of the other measures, long-duration treasury, riding the quantitative easing measures, that had much of an effect on the real economy and run the risk of misallocating capital in the economy.

If you go back, what we needed, it was closer to negative interest rates that we could not engineer. The textbook answer for that would have been big fiscal policy changes, massive
investment incentives, things like that, that would mimic exactly that kind of industry, but the government sat on its hands.

So, the problem really is not the Federal Reserve. The problem has been the government.

I agree with Stan that it's not the Fed Chairman's place to give lectures to government officials, but nor should we believe that the Fed can engineer an unemployment rate of 6 percent or 6.5 percent simply by its own power.

MR. WESSEL: I have another question for you, but I don't want to deny you the opportunity to second-guess the Fed.

DR. KIM: Thankfully, that's not part of my job description.

MR. WESSEL: I want to just--before we turn to questions in the audience, I want to ask you about climate change.

To what extent do you think the global governments are doing enough to prepare for the risk that we're really going to have a problem?

DR. KIM: Well, I think, first, let's start with the science. You know, this is something that I dug into deeply when I came on board. And there are a couple of things. First of all, I think the science is pretty clear that there is a phenomenon of manmade climate change.

And the second question is, so what do you do about it? And what we were looking for is, are there things that governments, corporations, that everyone can do right now that pretty much people agree.

So, one of them, 70 percent of all greenhouse gases come from cities. So, is it possible to build more livable, cleaner cities?

Well, New York City--and Mayor Bloomberg has shown this--that you can make tremendous progress, and his goal of 30 percent reduction of the carbon footprint by 2030, they're going to get there by 2017. That's something that we can do and we're actually working on that with China.
China has completely changed its approach to global warming and climate change because they've had to close down their cities due to pollution, and they're losing a million people a year. So, there are things we can do, cleaner cities--

**MR. WESSEL:** So, you mentioned some good examples but are, in general, they doing enough or they're not—

**DR. KIM:** Not yet, not yet. But here are the things we can do more on: So, cleaner cities, renewable energy, climate-smart agriculture, forms of agriculture that not only have better yields but actually put carbon back in the ground. We can do that and rather than arguing about—you know, rather than arguing about only political solutions, we have to try to reach a political solution globally but in the meantime there are so many things we can do that's good for people, good for business, and good for the environment.

**MR. WESSEL:** Okay.

John Passo [phonetic], are you here somewhere?

If you have a question, raise your hand and someone will bring you a microphone, and wave your hand. Otherwise, I will keep talking, even though I can do that.

There's one in the back. Just speak loudly. Tell us who you are.

**QUESTION:** [Off microphone.]-the first one is China has been a hugely important consumer of [unclear 0:19:25]--and second part is the real question--we've experienced two decades of over-investment booms around the world, housing in the United States, technology, emerging markets. I'd like each of you to put odds on the probability that China is experiencing an over-investment boom [unclear]—

**MR. WESSEL:** Let's take the second question first.

**MR. HUBBARD:** 100 percent.

**MR. WESSEL:** 100 percent to having—

**MR. HUBBARD:** Between the odds--I mean, China has been massively over-investing. It has invested in large numbers of negative net present value projects. That's not because
their leaders don't understand economics. It is a bet about generating employment. I think it's a bad bet, it's one that leads to financial problems down the road, but absolutely there's massive over-investment.

**DR. KIM:** I mean, if you look at the numbers, if you go back 10, 15, 20 years, China was investing at about 28 percent of GDP, and then it's gone up over time. Now, it's 45 percent of GDP. We've actually never seen that level of investment in the world before. So, the Chinese know they have to unwind. They have said they are very serious about moving from an investment focus to a growth model to one more focused on consumption, and I think the sounds that you heard coming out of the plenum are very much in that vein. You know, I've met with him, I've talked with all of the leaders there, and they understand what they're doing. And this group of leaders has much more savvy around economics than previous groups of leaders, but it's going to be tough because that unwinding has to happen gradually, but they know they have to do it.

**MR. WESSEL:** All right.

Martin Starr [phonetic].

**QUESTION:** [Off microphone]--next year, it looks like nominal GDP will be a little bit better than this year, though the underlying current might be a little stronger generally, but can you just—

[Overlapping speakers.]

**QUESTION:** BRICS and next 11, which are going to be the stars and which are the duds?

**MR. WESSEL:** So, of the 15 emerging markets, who's going to be a star and who's going to be a dud? Don't all answer at once.

**MR. FISCHER:** My guess is that China will turn out more positive than is expected; there will be about 8 percent growth.

Remember that when China grows at 8 percent after 10 years of growth at 10 percent, it is adding for more to global GDP at 8 percent growth this year than it added when it was growing 10 percent 10 years ago, because the economy is two-and-a-half times larger than it was previously.
Well, duds, there are a lot of candidates and I'm not sure I'm one to sort them out, but I think there is a chance that policy in India is a great disappointment. I don't know if you want to go as far as call it a dud, but India had it right and then politics is taking over and doing things that do not make a whole lot of sense economically, and there's an election coming up. And wherever there's an election coming up, it's worth considering what they're going to do up to the election, and then how long it will take them to undo it.

One last thing: We used to have this saying in the IMF, it takes ten years to build up a country and to build up its framework and it takes one election to destroy it, and it happens time and time again, and it's very sad.

MR. WESSEL: You're a ringing endorsement of democracy here, Stan.

MR. FISCHER: Huh?

MR. WESSEL: A ringing endorsement of Democracy. [Unclear 0:23:05] about Brazil? Brazil more likely--Glenn, Brazil: more likely to be a dud or a star?

MR. HUBBARD: Well, I think probably somewhere in the middle, back again to the policy mix question that we talked about in the panel discussion.

I would add an easy to the dud, too, of Argentina, which continues its century-long obsession with terrible public policy [unclear 0:23:27] pile of duds.

DR. KIM: Although they cleared their arrears with us.

MR. WESSEL: So, you want to nominate a star and a dud? You have to nominate a dud if you nominate a star.

DR. KIM: Let me tell you a couple of places where I'm hopeful, right?

And again, let's go back to Africa. So, one of our--almost half our business now is private sector. And so, our jobs is to help to find ways of de-risking investments, if you will. And you know, just in Burkina Faso--you know, who's ever been to Burkina Faso, but they've got great leadership, the private sector has been growing, the leadership is totally committed to building a better business environment, and they pay $0.75 a kilowatt-hour for electricity, which is seven times what we pay here in Washington, D.C.
If we can find ways of getting long-term capital for them to be able to invest in energy at a much lower rate, those countries are going to grow. I mean, they're educating their people much more, it's a totally different scene now. And I would just say, once again, that if anyone is interested, please talk to us, because our role is to find ways of making the—we think the innate attractiveness of investing in Africa apparent to people like yourself. And I think you'll be surprised of how much we know about individual economies their governments and the policy environment, and you may think differently about the possibilities.

And another place that I hope grows quickly that we're doing everything we can is Myanmar. Myanmar has a huge potential upside. They've made some very courageous decisions and we, as a global community, have to show that there's a democracy dividend. So, we're running like crazy to build energy infrastructure there and, if we do, I think they're going to—they could be very strong.

**MR. WESSEL:** What about Russia? Does anybody think Russia is doing...

**MR. FISCHER:** Russia is not going to do well. With the current cuts of policy they're implementing. Incidentally, Martin, on Brazil, there is an election coming up and there's going to be one party that believes in what I think of as good policies, and one policy has implemented what I think of as not good policies. And so, that's a very uncertain outcome.

**MR. WESSEL:** Anybody else?

[Pause.]

**MR. WESSEL:** Oh, come on.

All right. Let me ask you this: Do you think that we have a chance, Dr. Kim, in eradicating global poverty, extreme poverty, which is, as you define it, people who live on $1.25 or less, in our generation? Are we close enough to doing that?

**DR. KIM:** We can. You know, China lifted more than 600 million people out of poverty in the last 20 years. We have a chance to do it, but our research shows that about two-thirds of the poverty alleviation comes from growth and about a third comes from various policies, methods to support the poor directly.
And so, the thing that gives me--is encouraging to me is I think there's not a single country that I have visited--and that's--[unclear] visited country--that doesn't understand the importance of private sector growth as a part of their overall economic strategy.

Even in India, they have a $1 trillion infrastructure deficit over the next five years, and the government has said to all of us that more than half of that has got to come from the private sector, “So, we want to learn how to help the private sector do better.” Now, they've got a ways to go, as Stan and others have said, but I have to tell you, they're committed to it. At least they clearly understand that private sector growth is going to be critical if they want to reach their aim.

MR. WESSEL: Here, tell us who you are?

QUESTION: [Unclear]. So, one of the issue of--I guess 5 percent growth, 8 percent growth is all interesting in some larger emerging markets, in BRICS actually, [unclear], in Brazil and in India, 20 percent for currency exchange just [unclear], all the growth--and so, what becomes of our 5, 8 percent when I lose 20 percent in foreign exchange? I think the risk of foreign exchange for investment today will be much higher than the growth of GDP.

Any comments on how do you see foreign exchange develop, especially as it comes to Euro and dollar because most of reporting [unclear]. So, [unclear] that's the way you have to be measured.

MR. HUBBARD: The most honest thing an economist can say is currencies fluctuate. I'm not sure if you [unclear] but I think the question you raise is really two things, one at a micro level about whatever hedging strategy is optimal for your business and different businesses have different strategies.

The other is there are predictable movements based on policy differences that you can certainly look at, but hedging comes from other things.

MR. WESSEL: [Unclear]—

A question--Europe--in your mind, is there any reason why Europe is not going growing in the next two to three years.
MR. FISCHER: Start growing, yes, but—

[Overlapping speakers.]

MR. FISCHER: --5 percent—

[Overlapping speakers.]

MR. FISCHER: The rationale is that [unclear] everybody says [unclear] periphery countries there is--there are changes in relevant prices that has been happening. The countries that are in programs, the PIGS have, except for Italy, significantly reduced their costs relative to others. So, they can start coming out of it.

We've also got the ECB coming back to life, which will give a partial [unclear 0:29:16] for some time. And then we have--there's a dynamic that will take place in the global economy. There's a chance it will work out.

I mean, everybody was--you have to realize how quickly views change. Britain was the sixth man of Europe until six months ago. All of a sudden, it's the start. It's grown for three quarters. And that sort of thing changes moods and changes investment rates a lot. Whether it will be growing at 3 percent, I doubt it. Will it have grown consistently for several quarters? Quite possible.

MR. WESSEL: I know we have a couple more questions, but I'm told that it's time to move to the next panel.