



**TÜRK SANAYİCİLERİ VE İŞADAMLARI DERNEĞİ**

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Mr. President and Madam,  
Dear Friends,

I am very happy to be here today and recognize a lot of friends in this room. I was happy to be invited in June in a meeting in Bodrum and I was disappointed when it was postponed but I am happy that we can make it. Actually I feel at home in this country not only because I was always told without explanation that my name is Turkish second because I come to your country very often, 3rd I am proud that I've created the European Bank for Reconstruction and Development now operating in Turkey not only as a member but as a country where Turkey can receive funds from the European Institutions. Fourth because I am the founder of a worldwide nonprofit organization called PlaNet Finance which develops microfinance projects all over the world. We work in 80 countries and next year we'll open an office in Istanbul which will give me other reasons to come into your country. And 5<sup>th</sup>, because I've always been a strong advocate of Turkey's membership into the EU despite the situation not happening and even things being more difficult for the moment. As you have asked me my point of view regarding where we are, the world economic crisis and where we are on the prospect of Europe and consequence of that and I am happy to give you my point of view. Turkey is a very important country in itself and in a certain sense it is ironic to see that two success stories of Europe are Turkey and Poland. And today the locomotive of European economy one "in" and one yet "not in" are the only success in the situation of the Europe today.

Europe is in difficult situation today but let me first explain why I do believe that we are far from coming out of world economic crisis. And you all are managing global companies and you all are very international minded managers. There is a huge risk of double dip in the world economy and we have been a strong victim of the economic crisis. Emerging markets have a huge amount of potential for growth worldwide of course because we know that most important factor of growth are demography, finance and technology and those three factors are available for the next forty years. The world population will be increased by 40% in the next 40 years which is a huge amount and we provide a lot of demand for infrastructure, agriculture, health, education and any kind of devices which means huge potential for demand. Finance is also available and huge amount of savings each year of worldwide. GDP of world something like 80 trillion dollars and out of which between 15 and 20 are savings which is huge and able to finance the world without even talking of "creative" financing instruments, may be too "creative" as we have seen in the past. And third not least, technology is bringing a lot of potential for growth. Usually in the past in mankind history we have only one industrial revolution we need only one new technology that was bringing growth. Now today we have the prospect of 4 or 5 waves of technology changes that are going to bring growth for the next decades. IT is far from being finished and we have seen a lot of new progress in technologies that are going to change not as science fiction but as relative tomorrow. The life of companies such as 3Ds in IT, cloud computing, web processing many many different new technologies in IT are already still having a lot of future. Biotechnology is just beginning to change also not only agriculture which is vital for the reason I gave before in term of demography but also changing pharmaceutical industry which is beginning to be switched from chemicals to biotech drugs.

Further nanotechnology, I don't know where Turkey is in this field but nanotechnology is now going to have huge consequences on housing, chemistry, textiles, weapons and it is going to be a very important technology for the future. And neuroscience will be the next one as the population of the world is aging, neuroscience will bring a lot as well as other technologies

which are linked to health, which are linked to saving energy, to climate change therefore we see huge amount of technological change that will bring growth for the future, we have huge potential of growth of world.

Most difficult question of course is “governance” and what we have seen in the last years has been mainly problem of governance. The world has not been able to organize a global governance to run and to lead to organize this growth why because we have a global market but we don’t have global rule of law and because we don’t have global rule of law the system is very unstable. The system has been working as you all know with only first to begin with by bowing dimension to finance the demand mainly in the US and actually a lot of people believe that this growth of debt was a solution in itself; actually, it was not because when you look in detail what has happened the demand was only pushed by the “increased value of the assets.” The American economy for many decades has been an economy where demand was only coming from the increased value of assets and not “the increased value of revenues.” People were selling assets and use the money they make from the increased value of the assets to increase their standards of living. But an economy cannot live on the long run only on the increased value of assets, of bubble of assets. And that is what the American economy was doing and actually unfortunately it is still what the American economy is doing. They are still living on “bubble.” Asset bubbles, it is not anymore real estate bubble, it is again little bit markets, stocks bubble but it is more than that now today treasury bill bubble a third one. And actually when we look at what has happened in the American economy the amount of debt has not shrank but total debt of the American economy in 1929 and beginning of 1930 beginning of Great Crash was 250%. At the end of 2007 when great new crisis began the total amount of American debt was 350% of GDP much larger then of 1929. Not a lot of people realize but today the total amount of American debt 450% of the GDP which means that the debt of the American economy has just grown through the crisis. It has been slightly changed because the American banking sector has succeeded to begin to organize dealer version but by only transferring debts to the public sector. And the public sector is just financed by printing money. When you are printing money being called “budget deficit” or will it be called “quantitative easing” or will it be called by any means all “nationalization of financial sector”. Actually the whole housing sector of the American economy has been nationalized. Even if it is not said, it is nationalized. The whole system is “bankrupt” and when we live with the American system which is amazingly fragile. With the rate of growth which has raised a little but now we know that the growth of the American economy in 2010 will be less than 2% which is much below than its earlier forecasts. The level of unemployment is much higher than 10%. The American recognized that the official level of 10% is not true because they hide the statistics between 6 and 7% therefore we are not far from the Turkish ratio of unemployment 16 or 17%.

The fact that this year 1/4<sup>th</sup> of the Americans cannot afford to pay back their lease for the housing as the value of the house is lower than the value of rent, what we’ve borrowed means that it is almost impossible for a lot of Americans to sell the house and therefore one of the most important triumph of the American economy which was mobility of labor force is not anymore there because they cannot move because they cannot sell the house. This year more than 1 million Americans will be personally bankrupt which means that the American economy is far from being out of its crisis and the total debt is 13 trillion \$ today and it is definitely going to grow because both parties agree not to solve the problem. And actually, that can work for a while. American economy is a strong one, American economy is full of technology, American economy has an army which is larger than the total of 11 following armies in the world and therefore there is no reason to put its money elsewhere than in

America and therefore we will find financing for a while. But, the prospect of huge growth for the American economy as it always happen after a crisis is not there; and, we'll certainly have either a slow growth or a double dip and we all have to live with that.

I will also add that in order to survive the Americans may try different techniques. First one which is certainly already in place is to increase the money supply as I said they are doing all they can to avoid what happened in '37 where there was double dip in the crisis and Mr. Bernanke who wrote his PhD thesis on this '37 event is quite aware of its danger and then put as much money as possible is certainly the solution. Second, there is a potential danger for the world and the people. We may begin to lose trust in the American economy or in the American potential of the American society to get out of the crisis easily. And we may see a dip in the dollar, plunge of a dollar. I wouldn't say that as a forecast but I think that when you look at history there is always same kind of sequence, private debt, public debt, and devaluation always in mankind history. And we may enter into a period of "competitive devaluation". Nobody will say publicly that we are happy to have a low currency exchange rate but everybody in fact will be very happy to have a low currency exchange rate; because, it will be better for its exports being the last available engine of growth when any domestic demand are not available and of course as we all know, the world cannot be a global exporter if there is no consumer on Moon or Mars and therefore as a whole the planet cannot be a global exporters except excellent Turkish retailers or exporters are finding one somewhere. Therefore I believe that there are lots of dark clouds on the American economy. I wouldn't say it is certain but as the leaders of your businesses, you should be aware that there is a danger and that the whole mood we are out of the crisis is not true. But it is important to say it, because as I said we are in a world where the only value is coming from the value of assets and the value of asset is clearly linked to "optimism." Optimism is making an increase of price earnings ratio on the stock market and optimism is a key dimension of growth. Therefore we have to balance between being "realistic" which is to be pessimistic and to be lucid which means to be pessimistic. And it is a very very difficult balance. Minimum is to have a plan B available if something wrong happens. One will be the consequent of that for the rest of the world. First "decoupling" does not exist for the moment. We cannot say that the world can be decoupled from the American economy. It is not true, it may happen to be true; but it is not true. China, Brazil, Europe, Turkey all are linked and are linked to the American society and American economy. It is a fact and we all have an interest in the success of the American economy. Nobody can hope that the American economy fail because if they fail, we fail. Therefore we should not be happy if there are problems on the contrary we should be very worried if there are problems. But each of us also have different problems, Brazil will have problems next year, we all know, it is well known that Brazil economy will have a much lower growth after the elections. China is known also to be at the beginning of decline and will certainly have a lot of tools to maintain its growth which is vital. One of the ways to maintain its growth is to lend as much money to the US in order for the US to buy Chinese good and then there is kind of diabolical couple between the US and China politically they need each other. America needs China to finance its debts and China needs the US to have deficit in order to sustain its growth, there is this couple which is in place. And, actually the G20 is just a way of hiding G2 which is now in charge of the world. G7 moved into G20 to hide the fact that it is G2. Strange equation, but it is the fact of history. And this couple is in terrible in disequilibrium, I gave the example of disequilibrium of the US but if you look at the figures of China, it is amazing. Can the country survive with 50% GDP of export, yes you are not far from that but can the country survive with more than 50% as saving ratio? Of course, it is not politically sustainable. Because it is a very aging country therefore China will certainly face a lot of problems. Japan is facing a lot of problems, we all know that Japan's

debt is more than 200% of GDP but Japanese growth is 0%. But not a lot of people realize that 0% growth in Japan is amazingly positive figure. Because Japan demography is declining and when GDP per capita is growing very fast in Japan; therefore, they live kind of very strange period but for a while the aging population is good but in less than 15 years they'll pay huge price for that because nobody will be here to pay the pensions and private debt. But for the moment the standard living of Japanese of reducing number of Japanese is growing, therefore they can survive with the suicidal situation.

Two parts of the world not doing bad so far, one is India which is quite closed and very very well organized and I'll bet a lot on the future of India and not far from Turkey and I am sure you are interested in this huge world. I am more optimistic on India in the long run than on China. And Africa which actually not a lot of people realize but it is already 1 billion people and in 40 years it will be 2 billion people and Africa is the continent of tomorrow. The growth of Africa now is more than 5% a year and they have the huge numbers of problems of governance but who have not! And they are certainly in difficult situation from place to place but some countries like Nigeria, Ghana, and South Africa and lot of others are amazingly promising, developing and emerging markets, not a lot of people accept China realize that there is huge potential of growth.

Europe, what is Europe by the way? Is it the EU, is it European continent and where does the European continent stop? Here? Where, here? Is it the Euro group? Last week I was giving a speech with my friend Joe Stiglitz the American Nobel Prize Laureate and China advisor to the president of China in front of a huge panel of Swiss banks and each of us were going to explain what we are. Joe was explaining the American situation, Lang was explaining the Chinese situation and, I was explaining Europe. And I did a lot of research to prepare that speech and I was amazed to realize that Europe is number one everywhere. In terms of population, of course far from anything 500 million people, in terms of GDP far from anyone even in terms of GDP per capita, even in terms of number of students in PhD, more than the Americans strangely enough, even in terms of course of in ODA not a lot of people know that Europe is giving 55% of the ODA of the world and if we take 30 most important economy industrial sectors of the world, take 30 sectors, out of 30 sectors try to look at what are the 10 most important companies in these 30 sectors, in one sector IT, you'll find only one European company, in all the other sectors you'll find at least 3 and in some sectors 5-6-7 and more than 10 out of 30 sectors number 1, number 2 and number 3 are Europeans which means that European continent is still today is a rising continent, most very powerful. Of course in saying that I include Switzerland which is an amazing country in terms of industry and in many sectors number 1 and number 2 of the world and I also include Turkey not in the population yet but I hope it, in the future, will increase this 500 to much more. Therefore Europe should not be discarded. Of course if there is a G2 Europe will become a game, a hunting game, not a game to play but a game in hunting, someone you look for! And these very wonderful companies that I was mentioning are going to become targets for hostile take-over bids coming from China or elsewhere. But for the moment Europe is very strong; and, even Europe has many weaknesses, one of the most important weakness of Europe today is well-known is "public debt." As in the US, we have managed to deal with the debt with the economic crisis which was triggered by the American financial sector by increasing the public debt as in the US we transferred the private debt to public debt. And it is true that the amount of public debt in Europe is as an average in each country 80% of GDP which actually does mean nothing we should never use this ratio. Everybody use this ratio but it is a silly ratio it is exactly like a household comparing its debts to a GDP of village in which it is living. No real correlations. You should compare the debt to the amount of fiscal revenues or service of the

debt to the amount of fiscal revenues which companies that you are aware debt for a company you compare to the revenues of the company either the debt or service of debt and we have terrible figures in Europe. Ratios in some countries in terms of debt compared to revenue fiscal to revenue is 600% and if you compare the service of debt is beyond 30% and depending if we take into account the debt which is not real debt but only a virtual debt which is the pensions by the governments is bound to pay the civil servants which is certainly part of the debt even in companies it is part of the debt. If we take all that Europe is certainly in a very difficult shape. But we also have some sign of hope. First let's take back for a moment the American situation, the Americans are very often joking about Europe and saying well Europe is in bad situation, "ClubMed" countries are very bad and when they want to be more polite they say "ClubMed" because even today the country with most difficulty is Ireland which is not really ClubMed country when they use the word "PIGS" which is not very polite, but Portugal, Ireland, Greece and Spain. There was a very interesting article written two weeks ago in an American academic magazine explaining, the title was very clear, "we are 50 PIGS" means that 50 American states are PIGS. They are debts of the American States as well as of cities in the US is very bad but they have a level which is the Federal level and we in Europe we have both this weakness and with sense but for the moment in the EU, we certainly have national debts, we have lots of governments who begin to tackle it seriously, look at what the Greek government has done which is amazing and they even not only have announced it but strangely enough they do it and they implemented and their public opinion seems to be accepting it which is quite bold and quite amazing. Spanish has done the same, even Italy has done the same and Ireland which is facing amazing figures is also doing the same. Can you imagine 34% GDP deficit, not debt deficit but they (Irish) will deal with that. The UK has done it and France has announced budget yesterday which is beginning to tackle with debt as well. The whole European countries have understood the issue and are using all tools to do it. I am quite confident that they will succeed. But the EU has not yet used the tool of European debt. Europe as a Union has no debts, zero debt. Europe as a Union has tax burden of 1% of the European GDP. If Europe decides and it will be decided will it be tomorrow or day after tomorrow, next year but it will be decided; to create European treasury bills to make a potential capacity to borrow for Europe. Therefore Europe can launch new amounts of public investments to develop what European Investment Bank and European Bank for Construction and Development are doing which is to get an instrument for growth. Therefore I am not on the long run pessimistic on the future of Europe.

Of course there are at least two issues which are vital for the future of Europe and one of course is clearly linked to Turkey. One which is the question of governance, will Europe be able to have "a better governance," will Europe be able to have which is absolutely needed which is a "ministry of finance" next to the Central Bank because never existed in a world to have a country with a Central Bank and no minister of finance. No currency can survive on the long run without a minister of finance, a tax system. Therefore, on the long run, if Central Bank is let alone, Euro will disappear, I would say this tomorrow and I will say this 15 years from now as we have seen in the past. It never survives if you don't have Federalist Budget. It will happen and this will trigger a lot because if you have budget federalism, we'll have a political integration because you cannot have a tax without a parliament, this will trigger a new dimension of European integration. Second is who is enlargement and actually both are linked; because the important question for Europe is "identity." *The reason d'etre*, we say in French actually in English they use this in French. What are we and why are we Europeans?

When we look at the past of Europe most important *raison d'etre* of Europe was four reasons: 1. We were afraid of the German devils, 2. We were afraid to see the French cowardice of

Second World War, and then we were quite afraid of new war between France and Germany, 3. We were afraid of seeing the Americans “getting out of Europe” and let us without defense and 4. We were afraid of “Soviet threat.” These were four reasons to build Europe and four reasons why Europe moved ahead. But today those four reasons have disappeared, no one is afraid of Germany anymore, no one is thinking about the French behavior during the war, no one is afraid of a Russian threat, the Soviet Union disappeared; and everybody is very happy if the US is leaving, very often for bad reasons but as you mentioned “the American image” is not so good. Therefore there is “no threat” in front of Europe. And, as you know in your companies also, if you don’t have a threat, challenge, enemy it is very difficult to build an identity. The danger will be to build an identity for another enemy which will be surrounding migration; Islam, whatever, Turkey is part of that. The danger is Turkey is being considered as an element to build anti-Turkey, the identity of Europe. If we want to be honest, it exists as a threat. That is why it is so important for Europe to know it is a “silly” behavior and that Europe should build not “against” but “for” something. And it is an amazing project for Europe to build for something.

We begin to see with what we have seen in the elections in Sweden, in the elections in Netherlands, in Belgium, in my own country and in Italy; that the threat of “communism,” “red threat” is replaced by kind of “green threat,” “green” having two meanings but “Islam.” This is a terrifying danger and we should fight as much as we can against that. Many things to be done on that and I would be happy to elaborate on that. In terms of Enlargement and in terms of Turkey, first as you know for Europe there are free groups of countries which are knocking at the door: One is a group of country which is not knocking at the door but that Europe is asking to knock at the door, which are countries, which have a natural place to be in the Europe but these countries are not happy to join, Norway and Switzerland. There was also Iceland but Iceland is in different situation today. Second group are countries that have a natural place because they were already in the process of joining which is former Yugoslavia, Croatia, Serbia etc. They are not far from joining they may join. The third group is countries that are beyond that. But some people like me believe “must join” and I put in that group Turkey, Ukraine and what is in between. In my view, this will happen because Europe will realize that we need to have a common rule of law with a large group of nations to stabilize European environment. But that of course will not be the group of nations which we will build political integration. Political integration will be built in Europe only by a smaller group, Euro group, 15 nations or even a smaller one but Europe as a whole will be an area of common rule of law. Of course, we are aware Turkey has already its place. On the long run, I am sure it will happen. It will be long, but if I may without irony, Poland waited 50 years before joining the EU and I hope Turkey will wait less than that. But I would say the reason why I believe that it will happen is that, I think, first it is in the interest of the EU for a lot of reasons: because of oil, diversification of networks, because of markets, because of water which is an issue that is not yet well realized, because of access to Middle East markets. Of course it is also in the interest of Turkey, but I think Turkey should not choose between Europe and the Middle East and the rest of the world. Turkey is a huge historical power as it was said before, Turkey in front of the Arab world, in front of Persian world, in front of India as “a role to play” and as a very important “stabilizing power” in the region. It will also be a triumph for Europe to have this very important, growth country in Europe.

In order to do that, I would say, Europe has a lot to change as it has been said the public opinion in Europe is not good for the moment, a lot of things to be done. I would advise if I were you to improve as much as you can the relations with Greece which is absolutely fundamental as it was fundamental to have good relations between France and Germany.

Deepen your relations with Germany and France because everything will go between France and Germany, the key of Europe is France and Germany, whatever happens everything is still decided and will be decided in the future even if nobody realizes that or accepts that but France and Germany is still vital and you know the French and German government positions very well. But governments change minds as governments change also and, in the long run, it is sure in the interest of France and Germany to have Turkey in. Do not give up! As we in Europe! That we are in favor of Enlargement, we don't give up, we believe Turkey is a huge chance for all of us for Europe and we believe that for Turkey it is a very important route to be in that position.

It is interesting to see what Russia is doing and I am sure that you are looking at what Russia is doing. In terms of demography it is interesting to take note that in 25-30 years there will be more French and Germans and there will be more Turkish than Russians. That is a huge change in terms of balance of power, demography means a lot. Russia is having a very interesting approach to the EU. Russia is not knocking at the door but Russia is willing to join. Russia does not want to be rebuffed. And therefore, I believe that you should watch Russia carefully in its relations with Europe to understand a quite subtle strategy to create links to make it unavoidable to have those kinds of links. Russia is doing quite well in terms of creating irreversible links to Europe to join without even asking. That is a very interesting long term strategy and I think there are lots of lessons to be drawn by Turkey on that. Therefore, I believe that we are going to face a lot of difficulties and 2011 will be a difficult year because it will be a year of disappointment, a lot of people are trying to make people believe that the crisis are over when the public opinion will realize that it is not over I am sure that there will be a huge "backlash" against the ruling elites. Who are the ruling elites? Governments, economists, bankers, CEOs, we all are for "scapegoats" in this room, that will be a very difficult year but if we can manage it is a fascinating future. Thank you very much.

## QUESTION & ANSWER

**Question:** Thank you for a visionary speech, I'd just like to ask if we should rethink some of the theoretical constructs although some physical constructs as well in our minds to solve some of our problems. For example, in Europe you mentioned that Europe has to go through a better post merger integration to have European government and it has to expand its merger by acquiring Turkey and so forth as well to solve its problems, how about a merger of China and US to solve the governance issues of the world as well, will balance sheets of both countries solve most of the problems if we can solve the governance of these two countries?

**Answer:** Well, I think it is a "theoretical jump" which is far beyond any of my own capacity of imagination. But already as in Chinese way it exists implicitly as I said there is the G2 where you can see peg of accentuate between the two countries which are amazingly managed. Just look at their decisions, their decisions are always well coordinated at our expense. For instance, when G20 decided to get rid of tax havens, strangely enough, they only attacked European tax havens, no Hong Kong, no Delaware, no what so ever, not even London which is more American than European. Therefore it exists does not have to be a government palace in Hawaii, in the middle of nowhere, as a Pacific government.

**Question:** In one of your last books, may be the last one you are asking a question, are we all going to bankrupt in 10 years time? Now today what would be your bet?



**Answer:** Thank you very much, first it happened to be not my last one because I hope I will write some others but actually I wrote another one after that so it is not my newest one, this book is about the history of public debt and what are the risks of public debt. We can be ruined if we do not manage serious public debt. The risk is still there, because the way to get out of growth of debt is only growth. In the long run, it is only growth that can swallow debt and if we cannot succeed in reorganizing the structural mechanism for growth, we will be ruined. But I might say that today European countries are dealing with structural problems quite well, Americans have seem to decided not to deal with it. Let me take a metaphor: in all our civilizations we all have our own cosmogony or mythology, beliefs which are that we wait for the Messiah or someone who is going to help us coming from somewhere else. In the American society, there is a kind of childish version of that which is the Western movie. In the Western movie, cowboys are attacked by the Indians and they are almost lost. At the end of the movie you hear the music of the cavalry which is coming and saving the cowboys. The Americans are always waiting for cavaliers to come and we all are in that situation, when we hear bad news we never accept bad news. Not me, not now, it will not happen, even in your personal life or in your companies, no we are going to postpone that, it will not happen to me. That's how we get ruined when we do not believe that it is serious and we should take care and actually the problem with the Americans is that they were right, the cavalry always come. It was the technological progress; it was the 2<sup>nd</sup> World War; it always comes. Actually the cavalry is the banking cavalry. In effect, real theoretician of world economy is Mr. Madoff, we are in a Madoff world, *madoffization* of world is in place. We borrow from somewhere to put somewhere else. That is it! Mr. Madoff is real theoretician of the world economy of today. It can last as long as growth is coming as a cavalry in the long term and that is the most important question mark, "will we have technological progress soon enough not to be ruined?" or "will we have to go for war to push energy and to create condition for war?" I do not have the answer for that. I think it is possible to avoid to be ruined by growth but it is far from being certain.

**Question:** Thank you very much for the very interesting speech, what do you think about the behavior of the governments who are supposed to support the exporting sectors of goods and services of any kind, industrial and so to carry on the competitiveness of the country like Turkey had been I think very very successful in terms of industrial cost competitiveness.....

**Attali:** Can you be more specific because I see something behind your mind but you don't dare to say.

**Question:** Well, I am just wondering about the monetary policy of the government of Turkey what is expected behavior.

**Attali:** Well, I am not going to comment on your government behavior. I just said that my forecast is that entering into war of currencies and competitive devaluation is coming and therefore any country who has a strong currency will be panelized and will do its best even without saying it without confessing it to avoid it.