Fred Hochberg: Good afternoon. We're about to wrap up. I spend my Sunday mornings watching Sunday shows some people call it yell TV but that's not the case when I watch Fareed Zakaria's GPS. And I want to credit Fareed with two things actually that he keeps me very informed and he keeps me very fit because I actually watch the show from my elliptical machine. And the only thing is I will end up spending a full hour on the machine because I get very engrossed in the show and I can't... each segment is a little bit of a teaser to stay on. So I thank you and my trainer is particularly thankful. Matt is very happy that I have become addicted to Fareed's show. And frankly last Sunday was no different, last Sunday I was watching as I always do and there was insightful reporting on the Ukraine and reporting on what's going on at Brazil as it prepares for the soccer matches. And I thought alright those are two markets I'm watching on a regular basis. So I really see this show for those of us here I'm not supposed to make an endorsement but as a must view on a Sunday morning if you want to look at global markets and understand the global economy and the global world form better. So I feel very fortunate that Fareed has agreed to join us today. This week you get a double dose you can get him on Friday today you can catch him again on Sunday and he also volunteered that we'll have time for Q&A so you'll be able to ask questions as opposed to on television. So with that very briefly let me intro... let me bring up to the stage Fareed Zakaria.

Fareed Zakaria: Thank you thank you Fred thank you so much. I've realize always from first meeting Fred that he was a charming and persuasive man but I've discovered just how persuasive he is by looking at this conference and the lineup of speakers he's been able to get. I have to say I think this is quite remarkable and a testament to Fred's tenacity and ability to get people here. I... part of what I do is just talk a little bit about the world as I see it. I was looking at that list of people and I suspect that you heard a lot about all the challenges that we face going forward: the challenges to American competitiveness, the challenges to growth, the challenges for emerging markets. And its all true and I hear it all the way, all the time when I travel around the world in fact what I'm struck by is the level of I wouldn't say gloom but caution that you hear everywhere I mean the Americans are cautious apprehensive you see it in the polling data and then of course if you go to Europe, America looks positively cheerful in comparison with Europe. But even when you go to emerging markets like China and India which were once kind of oasis of optimism, what you see now is a much greater sense of wariness. People in India of course worry that the economy has not been delivering, people in China worry that it's slowing down. Brazil is already growing at around 1% if that you see this happening almost everywhere. Turkey went from seven and a half percent down to you know about half that base and I thought it would be worth stepping back a little bit and asking ourselves what's going on in a kind of historical context because sometimes you cant quite see what's happening and when things are going well we assume that will continue to go well forever and when things are going badly or when you hit a rough patch you also assume that that rough patch will extend. You know its straight line projection in both cases. I think that part of the reason it's difficult to figure this out is we are in the middle of creating a new global system. And as a result of it it's very difficult to figure out exactly what any one hiccup, any one crisis any one cyclical adjustment means. So I think back to when I was growing up, I grew up in India in the 1960's and 70's. And the world could not have looked more different right? By the late 1970's when I was thinking about leaving India to come to the United States to get an education to go to college, India was going through probably the worst phase it had gone through in its independent history. You had marshal law which was called the emergency, you had the lowest growth it had had in four decades, you had the highest inflation and so I was thinking of doing something going to the United States. I met with an American friend of mine in Bombay in what was then called Bombay and he says to me "You're thinking of going to America for college?" I said "Yeah" he said "Why would you want to come to America its hell out there." So I said "What do you mean?" And he started to explain to me he told me about this thing called stagflation the worst economy since the great depression he said a combination of unemployment and inflation rates that were verging in the 21, 22% range. We talked about Vietnam, Watergate you know you think people don't trust politicians today, think back to the few years after Vietnam and Watergate and the degree of suspicion and hostility towards politics and politicians. He talked about how the Soviet Union was on the march about how Japan was destroying Detroit and destroying the auto industry. And I was certainly sobered but I have to confess it's always a wonderful trait of Americans that they really don't know that much about what's going on in the rest of the world so if America looked bad he really hadn't spent enough time in India. And so I still decided to apply and I've applied to college I got to college right in the middle of what was being described as the worst recession since the great depression that is the recession of the early 1980's. And what was striking to me was very quickly the mood turned and by 1983/84 you had a robust recovery in the United States, you have Ronald Reagan campaigning for re-election on the morning in America theme and by 1985/86 the real question everyone was asking is not what is happening to the United States but what is happening to the Soviet Union and are the Soviet Union's problems cyclical or structural and the answer of course was deeply structural and by four years later there was no Soviet Union. That reality of the extraordinary shift that took place in the publics imagination of an America that was besieged by the Soviet Union by stagflation by Japan and then moving to a very different place very quickly still stays in my mind because at the time that was not how people were reading it you know in 1987 you had the stock market crash still the largest crash in percentage terms that the stock market has every had 22% in one day. And I remember I was at Harvard at the time. The New York Times asked probably the most famous economist in the world John Kenneth Galbraith at the time to write and explain what had just happened. And he said "Oh this is very simple we have just gone through our version of the clash of 1929." he should have known he was the author of a great book about it. Let's just hope our recession is not as bad as the recession of the 1930's. Well one week later the stock market was back to normal. The economy actually had barely budged and things started you know were pretty much back to normal. But then we did get a few years later a real recession and a pretty bad one the recession of 91/92. And to remind you of just how bad that was in those days, the most famous line out of the campaign the presidential campaign of that era the 1992 campaign was Paul Tsongas the senator for Massachusetts who said the Cold War is over and Germany and Japan have won. And that was conventional wisdom maybe you don't you know you don't have a campaign slogan that people don't agree with. It was so... so great was the economic anxiety that a sitting president did not get re-elected despite the fact that he presided over the end of the cold war. This is George H. W. Bush that he presided over victory in the Gulf War remember that was the war against Iraq that went well with 91% approval ratings at the end of that war. And within a year and a half he is...he loses the election to up to then an obscure governor from Arkansas with a history of marital problems right? That was the event by the way this was the time also you had a third party candidate come up which is you know remember whenever America has a deep sense of anxiety and the feeling that the two parties cannot provide for the aspirations of the average person, there often is a third party that comes up now bizarrely in American recent history that third party that third candidate has often been a billionaire. So it was Ross Perot in this case speaking to the needs of the average American (laughter) Donald Trump tried to play this role in the last go round and it didn't quite work because Donald didn't like shaking hands with people. A small, small problem if you're trying to run for a political office. But the point I'm making is Ross Perot got a larger percentage of the vote than any third party candidate since 1912. Since Theodore Roosevelt, Woodrow Wilson and William Howard Taft run against each other. Such was the economic anxiety about the hollowing out of America and yet two years later the story that was dominating the headlines was the fact that the Clinton boom was so robust that economists couldn't make sense of it. They couldn't make sense of it because there used to be this thing called NARU the non accelerating rate of unemployment which said you can't get unemployment down beyond a certain point without triggering inflation. And for four years that's exactly what happened during the Clinton years. The unemployment rate just kept dropping and dropping and dropping 25 million jobs created and inflation was nowhere to be seen. But that wasn't how people saw it at the time remember there was the Mexican crisis which morphed into the Thai crisis which morphed into the Asian crisis and everyone said this is it you know the emerging markets were a fad, they're over. I even remember I was editing foreign affairs magazine at the time, I ran a piece by a very distinguished super intelligent guy he was somewhat an unknown professor at Princeton at the time Paul Krugman and it was a... the cover story that we ran called The Myth of Asia's Miracle. And the basic point was Asia has had a good couple of decades but it's over. You're not going to see any more growth in Asia; you're going to see a long period of stagnation. This was in 1997 I think and by end of 1998 every Asian economy was back, booming. But of course that gets you to 1998. And in 1998 the Russians default. So long term capital management explodes and Robert Rubin stands at the steps of the United States treasury and says this is the worst financial crisis the world has experienced since the 1930s. Well one week later the Federal Reserve of New York organized a bail out which it insisted was not a bail out. Russia paid a price, there was no contagion and again we're back in... there you go, the economy was moving forward. But of course that gets you to 2000, March of 2000 the NASDAQ crashes. $3 trillion wiped off American stock exchanges and everyone said this technology bubble was just crazy I mean you know everyone was sure that other people had invested in these crazy companies that made no sense because they had nobody had themselves bought any of these stocks. And the one thing we were sure we'd never see were these crazy companies that were really website that kids used with no business model. You know that was the one thing we were never going to see again for sure we didn't see it for a good 18 months until Myspace and Twitter and Xanga and Instagram and all of these things started, which were all websites that kids used with no business model until Goldman Sachs said one day said that Facebook was worth $50 billion and then they all had business models right. And that brings us to our current crisis. Now I'm not trying to suggest that the current crisis the recession was not real deep painful of course it was all those things, it combined two huge aspects of western economies, credit and housing markets and as a result the interconnection between the two really collapsed the economies. The point I'm trying to make is notice that in each of these times people are sure that the bad times were gone for a long time and they missed the recovery and they missed the resilience of the system. And what I think explains that fact is that over the last 30 years what we have done is created a very different and new global economy and actually this bank has been at the heart of it. If you look back to 1979 the world was divided geopolitically but also geo-economically. The number of countries that were part of the open trading system in the world was the United States Western Europe, Canada, five countries in Asia and that was it right. And you can see that in the growth numbers. The number of countries growing at three percent or more in 1979 was about 30. The number of countries growing at 3% or more in 2007 before the crash was 124. The number growing today even after all the troubles is 85. So what you have seen in the last 30 years is a kind of tripling of the number of countries that have found a way to plug into a new global system and somehow take advantage of that and move forward and raise incomes. And that's the big story honestly of the... the world that we have been living through when people look back from the end of the Cold War to today this is the headline. Al-Qaida will get a paragraph somewhere for sure but the real story is something I've called the rise of the rest. For 400 years you had western countries rising and in the last 30 years, about 2 billion people from outside the west have found a way to enter into this new global system and to participate in it. And if you look at almost all the things that are happening as a consequence, they are a result of that reality. You know the extraordinary decline in inflation for example that has taken place around the world. In 1979 the number of countries with hyper inflation was about 30. The number of countries with hyper inflation today is zero. Two years ago I would have had to say one but Zimbabwe dollarized its economy and so today there are actually no countries in the world that have hyper inflation. Think about how big a change that is from the 1970s where every country was experiencing out of control inflation and the political and social instability that came out of that. Think about this extraordinary access to capital that has taken place around the world. That is you know really truly breathtaking. And think about the underlying condition of all of these by the way which is political stability. If not for the end of the cold war and the political stability that that produced, you would not be able to have this open world economy which sits as if it were on a platform of political stability. In the 1980s there were 18 civil wars taking place around the world in which the Soviet Union was funding, arming, supplying a group of government and insurgency... so some band that was in some way waging war. And the United States was funding, supplying and arming the other side of every one of those 18 conflicts. And so you had these proxy wars taking place all over the world and these are not small affairs just to remind you; 3 million people died in Indo-China in the 1970s. A million people died in the Middle East in the 1980s. 4 million people died in Africa in the late 1980's early 1990s. So these were very, very traumatic. And if you look at the data now, the violence has just declined dramatically since then. There are many centers that track all these violence; it's pretty clear that the numbers are down either 50% from a 30 or 40 year average or 70% depending on how you count it. But the point is we're living in much, much more peaceful times. So you take these two forces, if you would, political stability and economic convergence and you put them together and you have this new world that's been created and now you layer on top of it one third force a kind of super accelerator which has been the information revolution. And the information revolution has really you know had this extraordinary effect of truly creating a global market that didn't really exist and people used to trade with one another when you talked about globalization in the 50s what you meant was that the Germans made stuff and they sold it to the French and the French made stuff and they sold it to the Germans. Now you have a situation where you know a Genie jet engine is made is some way between 14 and 22 countries. And actually there is a very important question as whether or not we know what countries GDP it should be placed on you know. The economic data that was created in the 1930s for industrial economies really don't even apply today; you're not even sure how you would make sense of it all. And so that kind of world with this extraordinary degree of convergence economically, stability in political terms and connectivity in technological terms is the world that we're living through now. Now when you look around at that world of course it is going to have you know characteristics that are not a straight line projection. So remember the world I was describing. Many, many crisis, many, many points of high peaks but also troughs. But during that period I described, global GDP doubles global trade triples global capital flows are up four fold. So the secular trend is very clear despite the fact that you go through very significant economic down turns. And if you want to look at how these work your typical developing country or typical emerging market goes through this cycle. It does reforms particularly once it gets through the initial phase of you know getting out of quasi socialist quasi high tariff barrier, a high import substitution model and it starts the reform process with a big bang bold reforms. It attracts a lot of capital. It grows fast. The growth makes it believe that it has found some magic formula for growth and that it's smarter than everybody else and it stops reforming. It stops reforming, it gets lazy and complacent. Growth slows and you get a crisis. It's almost like a clock. So you know if you look at Brazil. Brazil perfectly exemplifies that clock. Reforms under Cardoso, huge boom, lots of foreign investment and then China by the way starts growing and importing a lot of Brazilian stuff. Under Lula they begin to think that they are geniuses, so always and Mr. Warren Buffet has this great line where he says "The biggest mistake you can make is mistaking whether you are lucky or smart in business" and you know the Brazilians mistook the fact that they had been lucky for the fact that they were smart and growth starts slowing down. And now they face that challenge, do you do the second push of reforms, and you will see that the emerging market countries that endure are the ones who at that... if you think of this as a clock at the six o'clock point, the ones who then institute a second and a third wave of reforms and if you want to look back historically that's Taiwan, that's South Korea, that's Singapore, that's Hong Kong, that was Japan let's see whether they do it this time around. But in general people find it very hard to do and because you're talking about you know in a sense getting your GDP from $200 per capita to $2,000 or $3,000 the government just has to stop doing really stupid things right? But then getting from 2,000 to 4,000 now you're talking about really modernizing and marketizing many elements of your economy. Then getting from 4,000 to say 10,000 now you're talking about modernizing you know your legal system, your accounting system, getting corruption; that's much, much harder to do and so that's why you get what's called the middle income trap. So you know it's... you get the low hanging fruit first, you get up to $4,000 per capita and then you find it very hard. All of Latin America with the exception of Chile is stuck in that place and has been stuck there for decades. Argentina has been stuck there since the 1920s. I mean it just gives you a sense of how difficult it is to move out of the cycle and move forward. And if you look at the reforms in Taiwan and look at the reforms in South Korea after the Asian crisis you see that that acceleration that allowed them to move forward. And so we face that in... you have got... you have a fascinating experiment going on around the world right now with the six big emerging markets that are going to have elections right. You've got South Africa, Indonesia, India, Brazil, Turkey, I'm missing one more; Mexico. All of them are having big elections and the question will be will this political change produce the reform process that you're looking for. Where it will not I guarantee you there will not there will not be any significant up take in growth, where there will you're likely to see it and markets are already beginning to recognize that. So India people are hopeful because they see a new leader who seems committed to economic growth. South Africa people are writing off because it doesn't seem much hope, Brazil frankly people are writing off because it seems as though Dilma is likely to get reelected and that doesn't seem to be a particular story of change. You know you have... you have an interesting case with Turkey where there's going to be reforms... there's going to be an election he'll probably get reelected but so far they have actually continued to do a lot of economic reform all the while becoming politically more authoritarian. And so this challenge is part and parcel of the new global economy that you're in. Nobody said that because you have a single global economy countries won't make mistakes, you know. When the cost of capital goes down everybody does stupid things and that's the one piece we're not going to be able to legislate or regulate away, I guarantee you that throughout history from the south sea bubble to the present, when the cost of capital collapses people do stupid things. And so that is... and that's going to happen again and that is what will separate the people who succeed as it should from the companies, countries, individuals who don't. What you will have to do looking forward is ask yourself whether the big picture that I'm describing is in any way threatened by some of the forces that you've talking about. I would argue there are challenges of the margins, certainly the idea that Russia would defect out of the settled consensus of the post Cold War world is very troubling but I think one of the very helpful things here is that the Russian economy is paying a pretty heavy price already and of course Mr. Putin will not do anything now because he's got a big boost in the polls, and it's very clear that this is popular but you know more capital has left Russia in the last month than in the preceding 14 months, the Russian economy growth rate is set to be zero, it was going to be two against a backdrop of average of five over the last five years. If you look at where the... S&P has put it at I think a B minus which is you know one notch up from Junk Bond status. So the funny thing about Russia is it can play this 19th Century game that John Kerry described it as but its economy is actually quite integrated into the global economy and so there is this price that it's paying and it will have to decide whether or not it really wants to take on this price. By the way the odd thing about the whole Ukraine business is the winner loses right. The winner of Ukraine, if imagine if Russia got Ukraine, managed to wrestle it away and there's a part of me that feels like we should tug a little bit on that rope and then say you win, you get it. First thing that happens is you get a bill for $15 billion, that's just for this year. That's what will keep Ukraine afloat for this year, then you've got to deal with the ongoing problem so in a very... in a very real sense there's a part of me that wonders you know isn't there a Bob Dylan line that losers will one day be the winners and the winners will one day be the losers? I feel like this is a perfect example of that. Getting Crimea is going to cost Russia at least $5 billion and so maybe we should give them all you know all of it and then let them... it's their problem. Of course we get Ukraine; we have to pay that $15 billion. So you ask yourself are these trajectories that I've been talking about likely to be in some way interrupted? You know the basic trajectory of economic convergence, the basic trajectory of technological connectivity and I would argue no in fact. What you're seeing is you know many of these are now in hyper speed because if you look at companies today, you will be sitting next to a lady who is selling pickles and she's already a multi-national. I mean the idea that when you were you know 20 or 30 years ago when you thought about a multi-national, you thought about a big company, headquartered in New York, nowadays people start companies in their college dorm rooms and they are sourcing from one country supplying to another, using the cloud... the cost of... the barriers to entry have simply collapsed and that is only going to continue as computing power continues to expand. All this raises challenges that are very, very real and very deep but the way I put it is there are likely to be challenges of success and abundance and kind of acceleration not of decline and collapse. We are planning too much for the downside when what we should be planning for is problems for the upside. What happens when machines get so good and so fast that you don't quite know what to do with human beings? I was talking to a guy who runs a whole bunch of factories, where he is replacing the foreman with a machine because these are furnaces where they used to... the guy used to adjust the thermostat the foreman required quite a lot of judgment to figure out the way you were going to do these things. Well he's finding that you know the guy used to take the temperature every minute and adjust it. Then they got a machine that helped him and it would take it every half a minute, and now they have a machine that takes it every tenth of a second and simultaneously corrects the furnace and obviously can do it at a much greater level of precession. So I said to the C.E.O what happens to the foreman, he said "Honestly he's just in the way now and we just have to figure out what to do." And there's a part of me that wonders whether that line is a kind of... is almost it's totemic line about human beings and manufacturing processes, they're just in the way and they... you know the task of manufacturing and advanced manufacturing is going to be to find a way discreetly and politely to get the human beings out of the way and allow these things to go on. I mean this is true, happening in other professions as well. You look at medicine and you look at surgery and they're finding that you can have this laser operated computer, operated surgery where the computer is mapping to the you know a milicentimeter the exact shape and nature of the tumor and the laser cuts it, and you said yourself would you rather that or would you rather the doctor who may have had a couple of glasses of wine the night before or may have had a fight with his wife in the morning and you know it suddenly makes you realize those are the kinds of problems that you might face. The final point I just want to make before we open it up is we've talked a lot about what's going on aroundthe world and I continue to believe you know this broad trend that I'm describing is going to be very good for the rise of the rest; with obviously some winners and some losers, what will it mean for the United States? I am still very optimistic about America let me tell you why. If you would have looked at the United States 30 years ago, 40 years ago and say in the technologies of the future, in the industries of the future how does the United States do? I think people 30 years ago 40 years ago would have said very well, but it has real competitors, Germany, Japan think about you know the Dutch consumer electronics, television sets. If you look today at the technologies of the future, the reality is literally there's no non American company in the... you know the top ranks. The top eight technology companies in the world by market cap are all American. If you look at the German economy that everyone talks so much about, Germany has basically a second industrial revolution economy. They make cars, chemicals, machine tools. Great stuff they do it very well, in the whole space of information technology, in the whole space of the third industrial revolution they have one company SAP, and that was founded 30 years ago. If you look at anything in the future, nanotechnology, biotechnology 3D printing, no dimension, social networks, telephony you basically have American companies and of course there are a couple, I mean Samsung for sure but it's a remarkably small number. And American dominance in this sense of the future has increased in the last 30 years not decreased. Secondly the United States is the only demographically growing rich country in the world. So when people talk about the housing recovery in the United States I know you know that it goes up and down, the mortgage rates up and down. Here is the basic point; America is the only rich country in the world that adds people to its population. We will add three million people to the population this year. We will do that every year, we take in more immigrants legally every year than the rest of the world put together. And so when you have that profile demographically, you know you are going to get some growth. Housing is going to grow, housing is going to grow; my theory, my complicated theory behind this is very simple. Kids don't like to live with their parents forever, you know. And by the way this maybe true on both ends of that transaction. And so when you add three million people to the population, you're going to have a demand for housing, it's how you know how exactly it works itself out I don't know but you're going to get a demand for housing. Third, the energy revolution, I'm not going to say much about this, you've read enough about it but its real and it's very deep and it's very wide spread. Finally, government in America is working and now I know you think I've lost it. And I've probably lost the audience. But here is what I'm going to tell you, Washington with the exceptional Fred's fine institutions is not working for sure. Everybody knows that you know I'm not going to contest that that is one of those conventional wisdoms that alas is true. But here is the beauty, in the United States and Tocqueville noticed this in 1832, the truth of the matter is the federal government doesn't do all that much, in comparison to what goes on at the state and local level. A lot of the economic action takes place at the level of state and local government. And if you look at what is happening at state and local government particularly big cities, you see a remarkable renaissance of good government. So 30 or 40 years ago, most of the big cities in America were run by political hacks awarding you know making decisions on a totally partisan basis. Today you have much sharper people, often technocrats surrounded by technocrats using data very carefully and you can see this. If you look at Bloomberg's 12 years in New York you see an extraordinary technocratic administration, you look at what Garcetti is doing in LA right now, you look at what Rahm Emanuel is doing in Chicago, you look at what Denver is doing, the largest expansion of rail, you look at Nashville which has become the healthcare center of the united states. In all these places mayors are reaching across party lines, combining with the private sector, finding a way to foster growth and on the ground conditions for private sector led growth in the United States are very strong. Don't trust... and take my word for it, ask the Germans who are moving manufacturing facilities out of Germany into the United states at record numbers and why; because they are finding that if you go to South Carolina, if you go to places like that you have extraordinary opportunities and you have you know... the one problem they have is trained labor but the truth is manufacturing doesn't need so many people so they train their own and they're able to make it work. So all of which tells me yes there are problems and we could all talk about the problems forever and I'm reading the Thomas Piketty book right you know like everybody else or at least pretending to read it; it's 750 pages, a lot of graphs but the truth of the matter is, the United States remains the most competitive rich country in the world and that is the relevant comparison. We are not competing with Chinese laborors that work you know at five dollars an hour, we're competing against other rich countries and the United States still has an extraordinary portfolio to offer. So my basic message to you I suppose is very simple, don't worry be happy. Just you know plan for the upside that's the only way you are going to make money, thank you. Okay, questions, comments, disagreements and please feel you know; feel free to do all of that, yes sir. There are people with mics running around so if you just wait for the mic so that everyone can hear the question, the only thing I would ask is that there be a question mark at the end of the question and just remember everybody is waiting for you to finish asking the question.

Chuks: Okay, my name is Chuks from Pan African Chamber of Commerce, my question I just have two of them. What is the global implication of the top 1% having more than the 99% in terms of effective demand and global growth? Secondly will the big to fail (inaudible) thank you.

Fareed Zakaria: I didn't understand the second one.

Chuks: Will the big to fail when... there are some companies that have said they are too big to fail.

Fareed Zakaria: Oh sure, sure.

Chuks: Do have to bail them out again?

Fareed Zakaria: Sure so let me take the second one first, the too big to fail problem. This I think you know Tim Geithner has tried to explain this and I think it continues to trouble him. The problem that you have in a very large interconnected global economy, in which capital flows very freely, is that, the banks are the absolute center of it; the banks are the central nervous system of the global economy. And therefore you have this extraordinary paradox at the heart of the, of what has happened over the last five or six years. It is largely true that a key contributor to the crisis and recession that followed was the irresponsibility of banks. It is also true however that the only way to quickly re-stabilize the system was to shore up those very banks. And you're not you know you're not going to get around that problem so in my opinion the too big to fail is you know we want to believe that we have solved this problem. But this problem is at the heart of modern capitalism, you can't solve it. And you don't want to solve it in the sense that you want there to be big global banks that are very liquid, yeah you want them to do a little but less of the risky stuff but a lot of what got them into trouble by the way was giving loans to people to buy houses. Right I mean it's true they were also doing fancy derivative stuff but by and large what got them in to trouble was pretty simple vanilla loans to people who couldn't afford to pay those loans. And everyone is complicit in that and the question again as I say is when the cost of capital goes down again can you be sure that those banks won't be doing things like that? You can put in place some regulations but the whole history of capitalism tells you that people will do things like that, so what you want to do to the largest extent you can, is to try and ring fence the rest of the economy so that it doesn't have the quite the down turned faced. The simplest way you can do that is to raise capital requirements which have been done. You raise capital requirements you cross your fingers and you think that that is likely to be the single most important piece of all these. So if I look at all the bank reforms I think the Basel III stuff which the banks of course hate, is probably the most effective. Because more than anything else, that cushions you in down turn, I don't believe regulators will have the power to foresee what the next crisis was, if they were there wouldn't be regulators, they would be running hedge funds and making billions right? The reality is what you're trying to do is put a cushion in place so when the next inevitable crisis happens the... you know the down turn is not as sharp and things like that. On the one percent, I think it's a huge complicated subject, let me just say my view is when looking at it from the point of view of the United States and even African countries, here is what I would say, there are three problems that inequality really is referring to. The first is the right of the super rich, the 1%. The second the enlargement of the super poor, that's 46 million Americans on food stamps right now okay? The third is the stagnation of the median wage. The first one gets a lot of publicity frankly because you know we all see it, and we all look at these hedge fund guys and the private equity guys and we think to ourselves, you know there is no justice in the world, how can this make any sense, why do they you know how can they afford to buy planes, trains and whatever else? But it's not entirely clear to me how solving that problem changes the other two. That is to say that there isn't enough money up there to frankly do massive redistribution I'd be perfectly comfortable with more progressive taxation. The real problem I would argue is the other two, the growth of the super poor and in a country like the United States it's shameful because you could very easily fix that problem, there is very simple ways to spend more money on the poor. We don't spend money on the poor because they don't vote in the United States. It's a very sad brutal, reality that you know the people who don't get represented in the United States are two groups of people, the very poor and the young because neither of them vote. In one case constitutionally if you are under 18 you can't vote and in the other case we frankly do all we can to stop people who are poor from voting and as a result they don't get represented. And that could change with limited amounts of money that would make a huge difference; nutrition programs all kinds of stuff that was targeted at the poor. The flattening of the medium wage is the big problem because it affects everybody it's the largest piece of this problem. We don't really know the answer to it obviously it has something to do with globalization and technological change it has something to do with the collapse of educational standards. But nobody has a quick fix and certainly it doesn't, you know it's much easier to blame again this is my own view it's much easier to blame the 1% for it. But it's entirely clear what the relationship between the rise of the 1% and the stagnation of the median wage is. So if I were to focus on this I would say first fix the problem that's the easiest to fix. Spend money on poor people secondly ask yourself how do you get the median wage up? And getting the median wage up would be the biggest pay back. If you have to have higher taxes to finance all this, we should view it as a necessarily way to get revenue rather than some kind of punitive action because I don't think that the United States is really about punishing rich people. I think that as, as that great American Deng Xiaoping once said "It's glorious to be rich." At the back there yes ma'am yeah.

Julie: Thank you for being here today my name is Julie [inaudible] my question is, it's a follow on to what you've just said, some countries the lowest paying person in a company is a... their wage is a factor like maybe seven or 10 of what the, the highest paying person is. And do you think that could somehow help reach this medium wage that you're talking about without violating the rules of capitalism?

Fareed Zakaria: Well, here is how, I think you'd have to think about it. At the end of the day wages are competitive right and the supply of labor is you know this are set by markets forces you're not going to pay much more than your competitors because you don't want to be at a competitive disadvantage. I would say that when you start getting up into upper management that becomes less and less true and what is more and more happening is that you have a kind of game that is being played by compensation committees, consultants who are hired by compensation committees, boards and CEOs whether you know it's a little bit like Lake Wobegon that, that radio show in the United States where everyone is above average. So no compensation committee no board wants to believe its CEO is below average right. How do you make sure that your CEO is above the average? You pay him above average? In fact every board is convinced that the CEO is in the top decile. And so you have this ratchet effect where everybody keeps getting pay and if the CEO is getting paid that, the CFO gets paid it. So I think there is something inherently corrupt about the way in which the top layer of American management is paid and a lot of it has to do with the failure of boards. I'm not sure that, that will lift up the average wage for the worker who is being paid under a competitive basis based on what you know the another company somewhere else is providing and you look at German wages, American wages this are all factored in. So I tend to imagine that boards don't function well in the United States, this should be fixed but it won't unfortunately help with the... you know what do you do about... one of the reasons that these median wages are going down is people are being laid off. It's not that the guy at Intel who works at an Intel chip manufacturing plant is not being paid well it's that there is a new $4 billion Intel plant that was just put, in place in the Northern United States somewhere I forget which state, let's say in Minnesota. It's two football fields long, it's a $4 billion investment and it employs 2000 people that's it. If you had seen a comparable plant put in by Ford in the 1950s it would have I think reasonably... one could have guessed it would have been employed 75000 people right? That's the difference and so you have lot of these unemployed auto parts makers in Michigan dragging down the, the wage level. So, I'm trying to look around so if you just put your hand way up it will help me.

Person: Thank you, Barry, in terms of the energy policy in the United States what's your view about the Keystone Project, for Canada do you think it should be approved?

Fareed Zakaria: Yeah, let me be honest, my bottom line is this; I understand the concerns about tar sands I think it's a dirty fuel you know I wish it were not if we're in a perfect world the stuff wouldn't be used. But here is the thing I don't understand how building or not building the Keystone pipeline will have any impact on that. Because the tar sands are Canadian they are going to mine them, they are going to turn them into oil and they're going to burn. The Co2 is going to be released in the air. It's not going to be released in the United States by the way under any circumstance because Keystone would take it down to New Orleans and it will be probably be sold from there you know in some way or the other or it goes on boats to Asia. So it seems to me that it has became and when you talk to many of its supporters they will admit this. It has become a symbolic battle. Keystone itself strikes me as something that will help the United States without in any, it can have much of a net effect on the environment because the stuff is going to be burned anyway. It will either be burned in Asia or it's not. The Canadians are not going to stop themselves from developing this because the United States doesn't build Keystone and in fact if it isn't build the most likely thing that will happen is it will go on rail down to the same place in United States and off course that is much more energy intensive and polluting. Pipelines are actually a very energy efficient way to transport energy, to transport liquid energy because you know once you lay the pipeline you're not using trains you know that burn coal etcetera. So I think that on the merits it's very difficult to make the case against Keystone, the whole argument is one about the symbolism and shouldn't the United States be moving to another kind of energy entirely. My heart is with those people and my heart is with the... you know I would like us to move much more quickly to a green energy future. We were just talking about photovoltaics and it's clear that the cost of photovoltaic's are collapsing. And so I very much hope we can go in that direction but meanwhile, while solar remains under 5% of our energy use, we do have to figure out what is the most efficient economically productive way to get energy and it doesn't seem to me that there's any reason not to build Keystone. Should I do one more... ma'am.

Wanda: Thank you, Wanda (inaudible) EXIM bank this was riveting. The countries that you described that have completed the development cycle and took the hard medicine were all Asian if I recall and the conventional wisdom is that it takes authoritarian regime and I just want to do that. And I am wondering if you could shed any light on what allowed those countries to do that and if you have any insights, thank you.

Fareed Zakaria: Sure, well and for those of you have kids who go to school and if you have seen any Chinese parents, you remember the tiger born book, the tiger you know the Amy Chua says when you ask a Chinese parent how do you get your kids to do violin practices for two hours on top of all their homework? She says the difficult question for a Chinese parent is not how to get them to do the two hours of violin practice it's the third hour that's, that's the trick. Look there is no question that there is something about the collectivity in some of these Asian countries that has allowed them to perform. And that is in some cases authoritarian regimes in some cases it has just been a sense of solidarity. So the Japanese did not have a particularly authoritarian regime but you go to Japan and you see that sense of, you know group solidarity which by the way has been one of the reasons it has been tough for them to get put of this crisis because when all the companies are doing equally badly they don't want to let the bad ones go down. They feel like you know these guys are with us together, so it's the same model that that helped them on them way up. There's no question that that group mentality of setting a goal helps them enormously. So if you look at the way in which the Chinese viewed the Olympics this was seen as a great national project that everybody in China was rooting for building for. If you look at the way the Russians viewed Sochi you know this was this kind of crazy idea of Putin's entirely and it was the Russians were not invested in it in quite the same way. So some of it is cultural a lot of it I would argue though is a political system that allows you to invest in the future and to take pain in the present for future. This is I think one of the big challenges for all countries going forward. Which is can you take short terms pain for long time gain. If you look at the United States as an example we find it very hard to do that. You know we lecture everybody else about this but when we have growth do you see you know the Federal Government saying 'oh lets run surpluses and put that away and retire the debt and make you know all these prudent investments' no. Do you see the Federal Reserve which is insulted from all this can't even do it. So when growth was good and people were telling Greenspan to raise rates, he couldn't do it. The last Fed chairman to do that was Paul Volker and Volker came out of a tradition that William McChesney Martin the Fed chairman of the 50s, he said, he said the definition of a Fed chairman is you are the man who takes the punch bowl away just as the party has begun right. And nobody in America wants to take the punch bowl away when the party has begun. You know Greenspan put grain alcohol in the punch bowl when the party had begun. But that's the real challenge and it's not just for emerging markets its for all of us which is can you take short term pain for long term gain and if you can do it you are investing in the future, if not you are just consuming and consuming consumption can give you growth for a while but eventually you know it's over and if you've taken grain alcohol you've got a hangover thank you all very much. (applause)

Fred Hochberg: There's more on Sunday. Not here, on CNN 10 o'clock let's give Fareed another round of applause that was spectacular. He has got to get back to New York to finish the show, you were very generous for coming today. That's the end of our program thank you for joining us. I have only one request, two requests. One export more, two you're going to get an email survey in the next day, a few days please fill it out so we can do a better job next year we want to do a much better job and the only way we can do that is by getting your feedback of what you liked, what you didn't like, and how we can change things. So thank you. Thanks for joining us and have a safe trip home. (applause)