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Introduction:

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KEYNOTE ADDRESS: PRESIDENT BARACK OBAMA AND EUROPE – THE RECORD SO FAR

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P R O C E E D I N G S

MR. TALBOTT: Good afternoon, everybody. I'm Strobe Talbott and it's my great pleasure to welcome you here this afternoon to a conversation with Phil Gordon. And I do welcome all of you. And Phil, in your case I'm going to say welcome back and welcome home. I think all of you know that Phil was a very distinguished member of the Brookings community here for quite some time. Even more to the point, he was the founding director of the Center for the United States and Europe.

And I might add, it's also a great pleasure to see Ambassador Delattre here this afternoon. François, thank you for the support that you've given to Brookings and your predecessors gave to Phil and you were giving to Fiona Hill, who is the current director of the Center on the United States and Europe. And she would be addressing you from this lectern had the date of this conference not changed to a time when she was locked into a commitment to be in Beijing.

But I want to assure you on behalf of Brookings and the Center on United States and Europe that this does not represent a strategic pivot on the part of the Institution or the Center to East Asia. It has been our pleasure and I hope of some contribution to the policy community in partnership with the Heinrich Boll Foundation to bring this conference to you on an annual basis. And I think it is particularly appropriate that we should have Phil with us today.

He is, as you know, in his capacity as Assistant Secretary of State for European Affairs, responsible for U.S. policy towards about 50 countries as well as 3 key – and I would add to that currently somewhat challenged international institutions – the North Atlantic Treaty Organization, the European Union, and the Organization for Security and Cooperation in Europe. Phil is just recently back from the NATO summit. He is going to talk to us this afternoon a bit about President Obama and his relationship with our European friends and allies, the record so far, and I'm sure he will be looking

ahead a bit, as well.

After Phil finishes his opening remarks, there will be a discussion involving as many of you as possible, moderated by Justin Vaisse, who is the director of research at the Center. So Phil, over to you.

MR. GORDON: Strobe, thanks very much indeed for that warm welcome. It is indeed nice to be back home, so to speak. I'll always be -- always glad to be back here at Brookings, and I see a lot of old friends and colleagues in the room, some distinguished ambassador colleagues, and many others that I'm really delighted to see again.

Strobe, I continue to feel somewhat guilty about the degree to which the Obama administration raided the ranks of Brookings when we took office just over three years ago. I say, though, just somewhat guilty because I think U.S. foreign policy has benefited from the Brookings scholars that are serving in the Obama administration. We've given a few of them back in the meantime. And in any case, Brookings is clearly continuing to thrive as the serious independent research institution that it has been for so long.

I'm also very pleased to see how much the Center on the United States and Europe continues to thrive under the leadership of Fiona Hill and Justin Vaisse. Obviously I'm biased, but it seems to me that the original logic we had when we founded the Center of a place where we could follow dynamic developments across the Atlantic and within Europe.

The case for having such an institution is as strong now as it was when the Center was founded six or seven years ago. Indeed, I think it's fair to say that today's conference -- today's annual conference is occurring at a time of incredible activity in Europe. Strobe mentioned the G-8 and NATO summits that President Obama participated in, hosted in Camp David, in Chicago just last week. And then of course,

literally as I speak, European Union leaders are sitting down for what will be a very interesting dinner confronting the challenges of the euro zone and the question of how to generate jobs and growth. I will return to the implications of these recent events later in my remarks.

But where I'd like to begin is to take a step back and just recall how the world looked when President Obama took office three and a half years ago. And so before I talk about what we think we've accomplished in that period, the topic for this session is the record so far, I think it's worth recalling the basic thinking that we had about Europe at the very start.

And I think it's pretty simple to say -- I think it's fair to say that what President Obama inherited was one of the most daunting global set of challenges that any administration had faced for some time. If you think about the ongoing war in Iraq, the ongoing war in Afghanistan, the growing nuclear challenge from Iran, the scourge of global terrorism, and, of course, the greatest financial crisis since the 1930s, strains in transatlantic unity compounded the difficulty of handling these complicated issues.

Think about the really unprecedented divisions across the Atlantic we had over Iraq, but also questions about European engagement in Afghanistan, disagreement about how to handle Iran's nuclear program, and the relationship with Russia that was probably at the worst point since the end of the Cold War. A German Marshall Fund Poll taken in 2008 found that just 19 percent of Europeans approved of our handling of international affairs and only 36 percent viewed American leadership in the world as desirable. So when President Obama came in, I think he understood that the challenges that we faced were so considerable that even America's unparalleled power could not deal with them alone. And so he came to office with the conviction that the United States could address these challenges more effectively by working together with partners. And he was convinced that we had no more important set of partners in

dealing with this set of challenges than those in the democratic countries in Europe.

The thinking is that alliances are a qualitatively different set of relationships than just coalitions of the willing. They produce habits of cooperation, they involve standing institutions and procedures, and they provide operational capabilities that can be called upon at a moment's notice, as we demonstrated in using NATO in Libya just the last year. But when President Obama took office, these alliances had frayed and were in need of repair.

Already in that summer of 2007, then Senator Obama wrote in *Foreign Affairs* that the mission of the United States is to provide global leadership grounded in the understanding that the world shares a common security and a common humanity. In order to achieve this goal, he stated his intention was to rebuild the alliances, partnerships, and institutions necessary to confront common threats and enhance common security.

In a speech that he gave in Berlin a year later, then Candidate Obama underscored the priority placed on revitalizing these alliances. He observed that no nation, no matter how large or powerful, can defeat such challenges alone and when looking for partners to deal with this challenging world -- alongside to deal with this challenging world, Europe was the place that we would find them. This administration has, therefore, invested deliberately and consciously in strengthening these essential transatlantic ties. Next week I will depart with [Secretary] Clinton for what will be her 30th trip to Europe in office as secretary of state.

So in addition to multiple bilateral visits, these travels have included ministerial meetings, summits, and, importantly, international conferences on a range of global issues, including Afghanistan, Sudan, Somalia, Libya, Syria, cybersecurity, and women's issues, just to name a few. This commitment of time and effort to the relationship with Europe, not to mention the jetlag that comes along inevitably with it, has

been far from routine. Instead, it has been driven by the profound belief that successful alliances require investment and that such investment pays real dividends.

And we think it has. I believe that one of the most important and lasting legacies of this secretary of state will be her revitalizing of America's alliances, and first and foremost our alliance with Europe. A direct result of this investment is the following thesis: I would assert that the United States and Europe have never been more strategically aligned. This is not to say that there aren't differences between us, just as there are debates within the United States or the European Union. But the reality is that we have developed a common transatlantic agenda that enables us to join forces to meet the demands of a very challenging world to a degree that I don't think was paralleled, not just in recent times in the previous administration, but the one before that or the several that preceded that. And this unity of purpose, I think, is now recognized on both sides of the Atlantic.

The German Marshall Fund Poll that I cited earlier saying that 36 percent of Europeans had faith in the President's handling -- in U.S. leadership in the world, is now at 75 percent and has consistently been in the upper 70s and lower 80s since President Obama took office. And this, I would assert, is an asset that serves us well when we call on these European democracies to follow our global international leadership, which we do all the time.

Rather than just asserting that we are more strategically aligned than ever, let me give you a couple of examples to illustrate what I mean. I mentioned already, President Obama's hosting the G-8 and NATO summits this past weekend. I think these two meetings embody American leadership on the global stage. As the President himself put it in Chicago, one of his top foreign policy priorities was to strengthen our alliances, including NATO, and that's exactly what we have done.

The centerpiece of the NATO Summit, I think it's fair to say, was

Afghanistan. With nearly 40,000 European troops fighting alongside American troops for pretty much the past decade, we have sustained NATO's largest ever overseas deployment. And from the beginning and notwithstanding serious financial pressures and domestic political pressures, the alliance has held firmly to the principle of in together, out together. At the NATO Summit in Lisbon 18 months ago, allies, ISAF partners and the Afghan government agreed upon a transition strategy that would result in the Afghan government assuming full responsibility for security across Afghanistan by the end of 2014. This strategy is on track. It was reaffirmed in Chicago. And today, approximately 50 percent of the Afghan population lives in areas where Afghan national security forces have taken the lead. This summer that proportion will rise to 75 percent of the country as we implement the third phase of transition. In Chicago, NATO leaders and ISAF leaders also established a milestone in mid 2013, when ISAF's mission will shift to primarily train, advise, and assist, and Afghan forces will be even more responsible for their own security.

We have no illusions about the difficulties in Afghanistan now or in the years ahead. But we also believe that it's worth recalling the tremendous progress that has been made in the past decade. The country's GDP has tripled since 2001. Sixty percent of Afghans now basic health care -- have access to basic health care facilities, which is nearly six times the number in 2002. The number of Afghans in schools continues to rise now to more than 8 million. And perhaps most importantly, the recent polls in Afghanistan underscore that the number of Afghans who say they sympathize with the insurgents is at record lows.

In order to maintain a secure environment that will enable Afghanistan's continued political and economic development, the alliance also agreed on a plan for future sustainment of Afghan forces. And while the Chicago summit was in no way a pledging conference, we did want to demonstrate to Afghans, to the Taliban, and to our

own societies that we were prepared to support Afghan national security forces after the end of 2014 in the way that will be necessary, and the international community came together and made political commitments of more than a billion dollars for that project after 2014. More than a billion dollars per year after 2014.

Furthermore, the alliance reaffirmed its enduring commitment to the Afghan people beyond the end of the combat mission, and in Chicago leaders defined a new phase of cooperation that will focus on training, advising, and assisting Afghan troops.

I think all of this together demonstrates our ongoing commitment to working toward our shared goal of building a safer and more secure and prosperous Afghanistan where al Qaeda has no role.

Beyond Afghanistan, the summit also highlighted the alliance's continued commitment to defense capabilities. I'll just mention a few. We announced an interim capability for missile defense that will, for the first time, protect European populations, territories, and forces from the growing threat of ballistic missiles, potentially nuclear weapons as well. The United States will provide critical assets for the system, but it's hardly a U.S. effort alone. Turkey will be hosting a radar that will be placed under NATO command. Romania and Poland will host land-based interceptors. Spain will home port AEGIS ballistic missile defense-capable ships. The Netherlands will upgrade sea-based radars and contribute deployable Patriot systems. Germany is also contributing deployable Patriot systems. France is planning to contribute a space-based early warning radar, as well as a deployable radar. NATO, as a whole, will provide commonly funded infrastructure, and allied heads of state and government agreed in Chicago to explore additional voluntary contributions. So, be clear about that, the United States is making a major contribution, but it is, once again, an alliance-wide effort with Europeans playing a major role.

Very conscious of the tight defense budgets that we face across the alliance, we also announced progress under the rubric of what NATO Secretary General Rasmussen called smart defense. For example, the commonly funded allied ground surveillance system that will give the alliance, for the first time, a fleet of remotely piloted drones that will provide intelligence, surveillance, and reconnaissance, and also the agreement to extend NATO air policing for the Baltic states so that they can devote their resources to other common projects.

We also announced completion of the alliance's deterrence and defense posture view that spells out the appropriate mix of nuclear, conventional, and missile defense capabilities that the alliance needs.

We are well aware that measures such as these do not obviate the need for continued defense investments that will be required if the alliance is going to remain the most successful ever. And in Chicago, President Obama made that very clear to his European counterparts. But we also know that in these difficult financial circumstances we should pool our efforts to the maximum extent possible, and this is what the smart defense initiatives and, really, the concept of the alliance itself allow us all to do.

Finally, the NATO Summit recognized the crucial role played by partners in NATO operations. Remember that the Libya operation brought 28 allies together with 5 partner nations while ISAF in Afghanistan involved 22 non-NATO troop-contributing partner countries. They're playing an increasingly important role in all of NATO's missions, and these successful partnerships demonstrate the extent to which the alliance has really become a global hub for our collective action.

At President Obama's request, the North Atlantic Council will look at what is to further enhance our partnerships, not just across Europe but in the Middle East, North Africa, and Asia as well.

Allies did not take decisions on further enlargement in Chicago, but they

sent a positive message to Bosnia and Herzegovina, Macedonia, Montenegro, and Georgia in support of their membership goals. At a meeting in Chicago of the 28 allies and those 4 NATO aspirants, Secretary Clinton made clear that NATO's door must remain open to European democracies that are willing and able to assume the responsibilities and obligations of membership.

Within the NATO context, let me say a couple of words about Libya. It is easy to take for granted the role that NATO played in giving the people of Libya a chance for a better future, but it was not a given that NATO would play a significant role or indeed any role at all. It was a conscious decision. It was in response to Qaddafi's all-too-real threats against the people of Benghazi that President Obama led the way to establish a U.N. Security Council-endorsed no-fly zone, as well as an authorization for member states to take all necessary measures to protect civilians. And, again, it was a conscious decision to seek to involve not just European allies or other partners around the world, but the NATO alliance itself.

During the first 10 days of this operation, the United States used its unique assets to eliminate Libya's air defenses and lay the groundwork for a handover to NATO. Washington then passed command and control of the mission to NATO while continuing to provide the bulk of the intelligence, surveillance and reconnaissance, in-air refueling, jamming, and other critical capabilities. Every ally contributed through NATO's integrated command structure, while 14 allies and 4 partners provided the necessary naval and air forces.

United States flew 25 percent of all sorties, while France and the United Kingdom together accounted for 40 percent. But, again, I want to underscore the genuinely important role that European allies played in this, not just France and the United Kingdom, but Denmark, Norway, Belgium, Italy, and Canada all carried out large numbers of strike missions and sustained them over many months.

Think about a comparison. In the Kosovo conflict that NATO undertook in 1999, the United States provided 90 percent of the precision-guided munitions and around 85 percent of the strike sorties. In Libya, those proportions were exactly the other way around. We are now of course continuing to work closely with our European and international partners to help Libyans build a more inclusive and democratic society.

Beyond these joint efforts in NATO, the United States is working extraordinarily closely with Europeans to address a range of other global challenges that I think also fit under this thesis I'm advancing about more closer partnership and more strategic alignment than ever. And to take maybe the best example, think about Iran.

Another timely topic is our negotiators as we speak are in Baghdad meeting with the Iranians. I think it's fair to say on this one the United States has coordinated with our European partners more closely than ever before. We have enjoyed unprecedented unity with the European Union in our dual-track approach of putting pressure on the Iranian regime to meet its international obligations, but also being ready to undertake a diplomatic path to ensure that their nuclear program remains civil.

With the Europeans we have together agreed on U.N. Security Council 1929 and several IAEA Board of Governors resolutions, and we have seen the EU decision to ban imports of crude oil, Iranian crude oil, and to freeze the assets of the Iranian Central Bank. Those of you who have been working on these issues for some time, as I know a lot of scholars at Brookings have, I think would have to appreciate the unprecedented nature of this cooperation on sanctions and an oil embargo, which I think probably couldn't have been predicted just a couple of years ago or even six months ago.

And so as I say, today as we speak the E3+3 is in Baghdad to engage in serious negotiations regarding the international community's concerns. And the United States and its European allies have not only never been more united on Iran, but I think that the pressure on Iran to abide by its international obligations has also never

been greater. Those two things are linked. It is the common pressure that we are putting on the Iranians that we think has brought them back to the table.

On Syria, we've also worked very closely with our European partners to steadily ratchet up pressure on the Assad regime through various avenues, including multiple rounds of sanctions. We have engaged in active diplomacy in the major U.N. bodies to unite the international community behind the Annan plan, responded to a growing humanitarian crisis, and expanded our communications and logistic support for the opposition. Secretary Clinton has joined her European counterparts and other regional leaders to coordinate our approach to these goals and to send a clear signal that despite minimal success in the U.N. Security Council, the broader international community will continue to pursue all available measures to secure a peaceful resolution of the crisis in Syria.

I've been talking mostly about our cooperation with Europeans around the world, and I obviously think that is worth stressing, but in no way should it suggest that our agenda within Europe is somehow diminished or has gone away. Beyond the global challenges that I'm talking about, there is what is sometimes called unfinished business in Europe, namely the integration of these countries into the Euro-Atlantic community of democracies. And we've been working side by side with our European partners to address remaining political and economic issues across the continent.

In the Western Balkans, it is clear that the region's stability and prosperity will depend on its countries pursuing reforms necessary for their eventual integration in Europe. We have said very clearly from the start that Europe will not be complete until all of the Balkans are integrated into Euro-Atlantic institutions.

Some significant milestones have been reached in recent months. Croatia's succession to the European Union, for example, sends a very strong signal to the entire region that, admittedly, difficult reforms bring genuine progress. We're

encouraged by the new Bosnian government's efforts to meet EU and NATO integration requirements, including the passage of laws on census and state aid, as well as the political agreement to solve the defense and state property issue. We hope to see Bosnia fully implement these agreements in order to make progress towards joining Euro-Atlantic institutions.

We are also pleased that both Kosovo and Serbia moved closer to Europe as the EU granted Serbia candidacy status and agreed to give Kosovo roadmaps for visa liberalization and a feasibility study for a stabilization and association agreement. Once again, the United States worked very closely with its EU partners, and in this case the OSCE, to ensure during the recent elections in Serbia that Serbian citizens with dual nationality, including those living in Kosovo, would be able to exercise their right to vote in the Serbian parliamentary and presidential elections.

The EU-facilitated dialogue has provided a means for the two countries to address issues that complicate daily life for ordinary citizens, but only to the extent that the parties implement the resulting agreements.

Although we are still assessing what Tomislav Nikolic's election as Serbia's president means for Kosovo in the broader region, we welcome his stated commitment to Serbia's European future and encourage him to work constructively with the new government to achieve that goal. In that spirit, the United States and our European partners need to work together with leaders across the region on new ideas to resolve the challenges in northern Kosovo in line with Kosovo's sovereignty and territorial integrity. In particular we need to help develop a framework that permits a normalization of practical neighborly relations, frees up both countries to move on their paths to European integration, and avoid sowing the seeds of further zero-sum confrontation in the region.

Finally, we're working with the EU and its member states to help the

people of Ukraine, Moldova, and Belarus. We fully support Ukraine's efforts to deepen its integration with Europe, including steps taken thus far to reform the criminal procedure code. Unfortunately, Ukraine's European integration process has been hindered by limited progress on the political and economic reforms needed to move forward and by what appears to us to be politically motivated prosecution, selective prosecution, of opposition leaders.

We, closely working with the European Union, continue to call on the government of Ukraine to release these individuals and to ensure that the October parliamentary elections are free and fair.

Moldova's presidential election in March opens the door for reforms needed for closer integration with Europe. We're also seeing encouraging signs on the international efforts to produce a Transnistria settlement.

Belarus remains an outlier in Europe, particularly following the December, 2010 presidential election when hundreds of political and opposition activists including several presidential candidates were arrested without cause.

We and our European partners continue to call on the government of Belarus to release political prisoners and allow opposition parties, civil society, and independent media to operate freely.

Let me say a few words about another very important part of President Obama's record, which is the progress we've made in developing more productive relations with Russia. The President's approach to Russia has been guided by the conviction that we could cooperate on areas of mutual interest while speaking very plainly about areas of disagreement, maintaining support for our friends, and holding firmly to our principles.

The development of a more effective working relationship, we believe, has, in fact, led to an impressive list of mutually beneficial foreign policy achievements,

including, just to mention a few, the New START Agreement, the 123 Agreement on Civil Nuclear Energy Cooperation, military transit arrangements in support of our common efforts in Afghanistan, a visa agreement to promote bilateral business ties, major bilateral trade deals, and unprecedented cooperation with Russia on Iran sanctions.

The list also includes the conclusion of negotiations to welcome Russia into the World Trade Organization, a goal that had been an objective of U.S. and Russian administrations for nearly 20 years.

We're currently working with Congress to terminate the application of the Jackson-Vanik amendment for Russia. Lifting Jackson-Vanik and extending permanent, normal trade relations with Russia are not gifts to Russia, rather, they are in the fundamental interest of the United States to create and sustain jobs as well as ensure that U.S. firms will benefit from Russia's WTO market access commitments.

Were we to fail to graduate Russia from Jackson-Vanik, we would be disadvantaging American companies relative to their competitors in other WTO member states.

We should not forget that in Vice-President Biden's 2009 Munich speech, which first articulated the strategy that has come to be known as "the reset", there were three important corollaries. The Vice-President said that the United States will not recognize Abkhazia and South Ossetia. He said the United States does not recognize spheres of influence with Europe. And he said that the United States maintains that sovereign states have the right to choose their alliances.

And despite some initial questioning among some of Russia's neighbors, we have not given an inch on any of these principles. Indeed, our improved relations with Russia have not come at the expense of our allies or our values and we have continued to speak frankly about our differences.

I know some have asked whether the progress with Russia that we have

made in the past three years will continue under President Putin. All I can say is we are certainly ready to pursue that goal. I would point out that Mr. Putin was the head of Russia's government for all of the past three years when all of these positive things were accomplished.

We obviously have to be realistic. We know that achievements going forward will be the result of hard work on both sides and will require a continued focus on mutual interests. We know there are ongoing issues of disagreement, such as over missile defense, and Georgia.

There are contentious issues that have arisen recently, including our differences over how to respond to the crisis in Syria, but even as we discuss these difficult issues, we are going to continue to operate on the assumption that we have many common interests in Russia and we can pursue those while also being very clear about the things we differ on and without sacrificing our principles or our friends.

All of the common transatlantic achievements that I have outlined are, we think, fairly impressive in their own right but even more notable when you consider the context in which they have come about. Obviously, I'm referring to the great economic challenges that we face on both sides of the Atlantic.

As President Obama has said many times, the United States has an enormous stake in the resolution of the Euro Zone crisis. The European Union is our largest trade and investment partner. The EU and its member states account for 58 percent of overseas development aid and when you combine that with U.S. spending, we together provide 80 percent of the world's development assistance. We clearly need strong and prosperous European allies.

The same is true on common defense. I underscored our message to European allies about the importance of sustaining defense spending. It's obviously only possible when Europe's economies are succeeding.

Despite our significant stake in the outcome of the economic steps taken in Europe, we also recognize that these are European issues that require European solutions. We have urged European governments to act decisively to resolve the debt crisis, we've offered our perspective about the risks that Europe's crisis poses for the global recovery, and we've shared lessons of our own financial crisis about the importance of responding to market challenges decisively and focusing on job creation and growth.

We're encouraged by the progress that our European colleagues have made in recent months, including significant actions that would have seemed out of reach a few years ago. In Ireland, Portugal and Spain, these countries have reduced their structural budget deficit by 5 percentage points since 2009 and Greece by nearly 12 points. In Italy, Prime Minister Monti has marshaled really sweeping economic reforms including pension reforms and dozens of measures to free Italy's markets and streamline its bureaucracy in just a matter of months.

Euro area governments have taken steps to put in place an 800 billion euro firewall for what we think is a good reason. As Secretary Geithner has said, reforms will take time. We've acknowledged that there is no silver bullet and even if all of these measures work, it will take time, and will not work without financial support that enables governments to borrow at affordable rates and keeps the overall rate of interest across the economy at levels that won't slow growth.

And also EU member states have come together in record time to endorse the fiscal compact treaty, which provides a path for deficit reduction, strengthens oversight and coordination at the European level in unprecedented ways, and reassures populations across Europe that new lending will be accompanied by needed reforms and fiscal discipline.

We have also said that fiscal reforms are only part of the solution. The

harder challenge in Europe and globally is to boost competitiveness and growth. Much of this is for Europeans on their own to do, but there is a U.S. component as well and President Obama has undertaken discussions with his European counterparts about how we can free up the transatlantic economy, notably through the U.S.-EU High Level Working Group on Jobs and Growth, which is reviewing all options for deeper transatlantic economic cooperation including the possibility of a comprehensive free trade agreement.

The United States welcomes the evolving debate in Europe about opportunities for creating jobs and growth.

At the G-8 summit this past weekend, President Obama led a discussion with leaders about a comprehensive approach to managing the crisis and getting on a path, a sustainable path, to recovery. He reaffirmed that America is not only confident in Europe's ability to meet their challenges, but we are supportive of their efforts.

The President and his European counterparts agreed on our shared interest in keeping Europe's monetary union intact and in remaining engaged on the world stage despite budget constraints on both sides of the Atlantic.

I have covered a lot of ground, so let me conclude. I will -- in closing, I would like to return to the thesis with which I began, which is that the United States and Europe have never been more strategically aligned, and this, as I have said, is not an accident or the fortuitous or temporary alignment of geopolitical tectonic plates. It is, instead, the result of a deliberate and conscious strategy to invest in a partnership with the world's most advanced, military-capable, and democratic peoples who share our values and ideals.

History will determine whether this approach and this investment was a wise one. We believe, as I have argued, that it has already paid off and that it will continue to pay off for years to come.

Thank you very much. I look forward to your questions.

(Applause)

MR. VAISSE: Thank you very much, Phil. While Phil is coming here and getting mic'd, I'll just indicate that we'll have about half an hour of questions before the beginning of the next panel and I will use and abuse the privilege of the chair to ask a few questions to Phil first before going to you and I would add, in the tradition of the respectful -- the tradition of respectful debate that we have always had at Brookings, I would like to push Phil on a number of points including this issue of coalition of the willing and also the risk of seeing the alliance hollow out for lack of military capabilities.

So, you started your presentation using a point that Tom Donilon, the National Security Advisor, also used, which is that nurturing standing alliances was an important goal of the Administration since these alliances provided much more support for the U.S. national interests than coalitions of the willing, meaning, presumably, what had been done before.

However, in some of the examples that you mention, including Libya or Syria, it's precisely coalitions of the willing that we saw. I mean, you mentioned yourself that between March 19th and early April of last year, for the operation in Libya, NATO was not involved as such, it was an ad hoc coalition between basically the U.S., France, and the UK and then afterwards when NATO got involved, there was a contact group at the political level involving the other partners. So, it seems to me that the borders between coalition of the willing and the alliance itself are blurred.

Of course, the difference with other past intervention is the presence of a strong mandate from the UN Security Council, but in terms of the shape of the group that intervened, it was certainly a coalition of the willing.

On Syria we've seen, because of the obstacles at the UN Security Council, a sort of contact group being created called Friends of Syria, so here again it's

more sort of soft multilateralism of the title the coalition of the willing, and of course, Iran, the Obama Administration has just been continuing the efforts that was started by the Bush Administration, which is also done by the P5+1 group.

So, you know, I could give other examples and you mentioned yourself that NATO acted as a global hub to which other partners could be plugged, but it seems to me that it's probably, at least, debatable to sort of present the policy of the Administration as relying primarily on standing alliances rather than coalition of the willing as the borders between the two seem quite blurred.

MR. GORDON: Thanks. There are a lot of interesting points in there, Justin. I would never -- I'll make a couple of points -- would never make the claim that standing alliances or NATO in particular is the single response to every international crisis that we face. Clearly as you look at different range of challenges that we face, many of which I mentioned, whether in Europe or as you say in Syria, Libya, Afghanistan, and Iran, you need to be flexible and adaptable. There are some cases for which a standing alliance, an existing alliance like NATO, might be most appropriate, and there are others in which it just doesn't work.

But in the cases that I mentioned are appropriate for NATO, Afghanistan and Libya I would stress the benefits of doing it within the formal organization. We did have a conscious choice in Libya. It would have been just as easy to, almost easier in a way, to say "Well, let's just do this among the handful of countries that want to do it and not worry about doing it within NATO." We took a conscious decision to do it within NATO, express confidence that we could show leadership and get countries to follow along and use the alliance and genuinely think it paid off. I think I mentioned in my speech, it's easy to take a NATO for granted. But without the investment in that alliance and the personal connections that come from working together and the inter-operability of military forces and the standing command structure, you can't just whip up a military

operation. And so even for some of the activities that you're not using a standing alliance for, the very fact that it exists has very positive spillover effect.

So let's be clear. Of course, there is a place for ad hoc cooperation. And for many different subjects and challenges you'll be putting together different groups with different types of leadership, but it doesn't take away from the reality that investing in standing institutions and alliances remains hugely valuable, and we have been acting in a way to make it flexible and adaptable to the question at hand. And that's why I emphasized this partnership question in Chicago. And NATO in Afghanistan has never been just the alliance. We've had partners all along. As I mentioned, in addition to the 28 NATO allies, you have 22 partners working intimately within the alliance. And we've taken steps over the years to make NATO more adaptable so that countries who aren't in the alliance can work with it. In the case of Libya, you actually had that extended, not just to European partners such as Sweden, but also for countries from the Arab world and Middle East.

So yes, you're right that it's a nuanced spectrum rather than a choice. Do you just use the alliance or do you just use ad hoc groupings? But it's still a very long way from just saying, "Well, let's just see how it goes" and put together some coalition.

MR. VAISSE: Uh-huh. So a second challenge to the alliance, of course, is the massive reality of budget cuts, budget cuts here but even more so budget cuts in Europe. Indeed, it has been calculated by some experts that budgets could go down in Europe from 2006 to 2014 by about a third of what they were. And certainly inside NATO the balance between what the U.S. is doing and spending on the one hand and what European members are doing and spending is changing rapidly in favor of the U.S. So what we see -- and you mentioned the importance of having a standing alliance with procedures, with a habit of working together, with interoperability, how confident are you

that we're not witnessing a sort of hollowing out of the alliance because of these budget cuts and that five years from now we can still pull off a Libya?

MR. GORDON: Okay, let me make a couple of points. First is that this is a real concern, and I won't sugar coat it in the least. We have concerns about declining defense budgets and continued investment in defense across the alliance. The trends that you describe are real, and they are of great concern. This is, of course, an old issue and people have been worried about NATO's and a particular European defense spending as long as the alliance has existed. But I do think there's a qualitatively new dimension to it following the financial crisis and with the very severe cuts.

And as you suggest, it would be a sad irony if Libya turned out to be actually the demonstration that Europeans really can provide important resources and assets for a military operation that you hadn't planned for, which they did as I pointed out in my remarks, seeing not just France and Britain but Norway, Denmark, Belgium, The Netherlands, make real and important military contributions. It would be ironic if Libya demonstrated that, but then within a few years we permitted those capabilities to atrophy to the point that it was no longer the case.

And that's why, as I mentioned, President Obama raised this issue with his counterparts and underscored that goodness knows, we are sympathetic for the need to get countries' fiscal houses in order. We're undergoing some pretty significant defense cuts ourselves. No one doubts the need to cut budget deficits and examine very carefully defense budgets, but we do have to be careful lest we, the alliance as a whole, end up not being able to perform necessary defense tasks.

At the same time -- and let me be clear. This is not a substitute for defense spending, but at the same time this is why we put all the more emphasis on the smart defense initiatives within NATO. If ever there was a case for more pooling and sharing and integration, it's now. One of the things the Libya operation did was show

both the benefits of commonly funded assets, but also the gaps that remain. So to have a commonly funded pool of AWACS as NATO does enables all allies to benefit from the information that comes from AWACS without every one of them having to buy their own planes. And that's why we decided together at the NATO Summit this time to collectively purchase drones for -- one of the things that was clear from Libya was that we didn't have enough intelligence surveillance and reconnaissance, and so you have a couple of choices. You can expect the United States to do everything, which I don't think is a viable option, or you can expect every country that wants intelligence for such an operation to buy its own advance drones, which are very expensive, not a particularly good or affordable option, or you can collectively buy some -- and here again I get back to your first question about investing in the alliance -- collectively buy some so it costs less money for everybody, but everybody can benefit. That's exactly what was done with the decision to commonly procure allied ground surveillance. And once those UAVs are procured, every ally will have access to advance intelligence information without having to spend the necessary money. And let alone the drones -- the infrastructure, the technicians who can read the data that comes from the drones -- it really is cost effective.

And there are a number of other examples that we pursued in Chicago and need to continue to pursue. I mentioned Baltic air policing. It doesn't make sense to expect the Baltic States, for example, to spend scarce defense euros or dollars on advance fighter planes when others can do that job, and they can invest their money in other things.

So that's why we're so focused on more efficient spending, more pooling and sharing. That's why the alliance itself is valuable. It doesn't replace the need for continued defense spending, but it is necessary in any case.

MR. VAISSE: Thanks. I have a list of other questions, but I should now be quiet and let you ask questions and Phil give answers.

I'm going to group questions by three and so please make sure you identify yourself when you ask the question and you disguise your statement as a question. Yes, sir, here in the front. Wait for the mic, please.

MR. EHRLICH: Judd Ehrlich, documentary filmmaker. Public opinion polls in the United States don't give a lot of support to the administration's position on Afghanistan, much less the multi-billion dollar commitment it will take even after our troops have left. My question to you is, all we've heard is the reason we're there is to deny Al Qaeda a safe haven. And the real reason is because, in my mind at least, a radical Islamic regime in Afghanistan would make normalization or relations impossible in the sub-continent. If you agree with that my question is, why doesn't the administration shape a more coherent and a more believable position to convince the American public on this issue?

MR. VAISSE: Thanks. Second question? Yes, sir.

MR. STACEY: Jeffrey Stacey from the Center for Transatlantic Relations. I left the State Department late last year and spent some time not working directly under you, Mr. Assistant Secretary, but in a functional bureau that worked a lot with you.

I have two questions, one personal diplomatic, one more deeply strategic. The first is when we began in early 2009 to meet with our European counterparts. I recall a very interesting dynamic. It was strange that when I began meeting European counterparts, I experienced a sort of cold shoulder and I noticed others were, too. And it was sort of as if, to use a metaphor, that we were welcomed back to the table, but we weren't really allowed to speak up right away. We were supposed to sort of sit there for a while and maybe do some penance and not really lead discussions. But you can track it; I did. Nine months it took, and then we had to persuade people I think at most levels of government of our renewed commitment and

trust. And we had to do it in personal terms and with actions, not just words. I wonder if you can look back and if you had a similar experience yourself.

The other more strategic question takes off from the record that you just outlined, which I think is valid in terms of the claims and the record really does speak for itself. But there's an interesting element to this that is also a little alarming, and that is how much more dependent the U.S. is on Europe. You used the words "never before" quite a number of times, and I would add to that is it not true that at least since World War I the U.S. has not been more dependent on Europe? With economic terms that's a little more clear perhaps, but I think even strategically. And the question is to you, is Libya the high-water mark or going forward with the U.S. doing our own fair amount of cutting and not necessarily pivoting, but realigning in certain ways, what are Europeans now going to do? Are we not more dependent on them handling some of the burden themselves, not just with defense spending, but possibly even a single European military capability that is modest but expeditionary?

MR. VAISSE: Thanks, and one last question here, and then we'll go in the back.

MS. O'DONNELL: Thank you. Clara O'Donnell, a Fellow at CUSE here at Brookings and originally from the Center for European Reform. And the Turkish authorities have mentioned the possibility of invoking Article V if instability from Syria were to spillover their border. If, indeed, such a scenario were to occur, what would be the best response for NATO?

MR. VAISSE: Thanks.

MR. GORDON: Okay, all important topics. On Afghanistan, I think we've been quite clear about what our objectives are and how we are seeking to accomplish them. And the objectives haven't been very different than they were at the start. It is, indeed, to deny Al Qaeda a base from which it could operate globally. And the United

States was attacked from Afghanistan, and we set out not just to get rid of the Taliban regime, but to make sure that Afghanistan could never again become the place from which the United States and other countries could be attacked by this global terrorist organization. And to do that, not just we, but we and our allies around the world, determined it would be necessary to give support to a democratically elected Afghan government which needed outside help. And we have invested an incredible amount of resources over the past decade to give them a chance at doing that. I started with what President Obama inherited; I can't speak to decisions that were made before that. But his view was clear, that we really did have a chance to succeed in this way, to denying Al Qaeda the opportunity to reestablish even in Afghanistan, and, so, he increased our military effort in the short-term and in order to enable us to get out of Afghanistan in the longer-term and that's exactly what he's been doing. And, so, the surge that the United States undertook to reverse the Taliban's gains has taken place and we're now in the process of turning over responsibility for Afghanistan to the Afghans.

It's been a long and expensive investment. I think the president's view was that after all of that investment to simply say well, this is too costly and it's not really our problem and we're just going to leave would have been irresponsible. And, so, now, again, together with our partners under what I would argue has been real American leadership, these 50-plus countries are working as hard as they can to put Afghans in a position to be able to provide for their own security so that we can responsibly end the war and bring our combat troops home. That's what we're on track to do, that's what more than 50 countries came together in Chicago to recommit to and we're determined to succeed and I think we are succeeding.

On what you describe as the relationship with Europeans starting in 2009, and my experience, I have to admit I don't remember the nine months purgatory that you refer to. I think we were warmly received and welcomed. Indeed, the

enthusiasm for the Obama Administration was very high, perhaps excessively high. I think there were maybe expectations that we had created that would have been hard to live up in terms of this glorious new chapter in transatlantic relations in which we would disagree about nothing and we would march together as in some past that never actually existed. So, I think that we were warmly welcomed from the start and the message that I conveyed to just now we tried to convey to our partners from the start that we were absolutely sincere about wanting to work together in a mutually beneficial way and that we would listen and that we would share leadership because we have the same interests and values. And, so, I guess it was pushing on an open door trying to articulate this message and I think it's been reciprocated by our European partners.

It goes hand in hand with the point you made about dependence. I wouldn't use that word. I think it has been demonstrated that to deal with the tremendous challenges that we face, we do need these strong, democratic, likeminded, and, yes, militarily-capable partners. Just think of some of the examples I gave and imagine doing it without the partnership with Europe. You don't even have to imagine it because it's been tried before.

Iran. It's been the United States' policy for more than 15 years to apply sanctions, pressure. United States hasn't traded with Iran or invested with Iran or bought Iranian oil for decades. We tried the financial pressure, diplomatic pressure approach on our own and it didn't get us anywhere. I think it's fair to say it's only when this became a genuine international effort, and first and foremost, the Europeans that it really started to sink in with the Iranians that they had better get serious about the nuclear program. So, imagine doing that without partnership for Europe.

Afghanistan. Could we do what we're doing without European partners? I suppose, but it would be a lot more costly to us. I don't know where we would get the nearly 40,000 non-U.S. troops that have been fighting alongside American ones for

mostly a decade, and, frankly, they're not from other regions; they're for the most part NATO allies or other European allies.

So, is it dependence? Maybe you could call it dependence. We could pursue some of these same policies, but I wouldn't want to imagine doing it without the maximum partnership with Europe. Look, would we like even more support from Europe, more resources and support for some of these things? Yes, and we have this discussion with Europeans all the time, but on none of them would I really want to -- and that was part of my point and I cited what the president said about not being able to tackle these challenges alone.

Libya. That's another case, and we had an interest in protecting civilians and Libyans and stopping Gaddafi from massacring the residents of Benghazi. Could we have done that operation alone? I think so. But we certainly didn't want to for a whole range of reasons, ranging from the military assets to the legitimacy to the aftermath and funding that would be necessary.

So, we can debate whether you want to call that dependence, but I would certainly say that we have gone about all of these things with a full appreciation of what Europe can bring to the table and I think we're stronger because of it and I think we're more successful in dealing with these problems because of it.

Clara O'Donnell asked about Article V in Turkey. I mean, just to be clear, Turkish leaders have alluded to our Article V. They certainly haven't invoked it. They haven't invoked Article IV and called for formal consultations with the NATO. They have briefed NATO on the humanitarian situation in Serbia and in Syria. They briefed NATO and G-8 on what's going on in the region, but they haven't asked for formal NATO consultations, and I don't think that's on the agenda.

Let me just say as a general rule, the United States, and we reiterated this in Chicago, is absolutely committed to a credible Article V, and it needs to mean

something and if a country's sovereignty or territorial integrity is threatened, then we have an obligation under the North Atlantic Treaty to treat that as an attack on ourselves. So, we take it very seriously and I think that's what Turkish leaders have suggested when they have even referred to Article V as simply an underscore that their sovereignty and territorial integrity is sacred and were it to be attacked in any way that would be a very grave matter.

MR. TALBOTT: Thanks, Phil.

We're going to take just two more questions. Steve Hill here in the middle. Wait for the mike.

MR. HILL: Thank you. Steven Hill.

Question on China. China occupies this rather unique niche in being, one, a world power, but also a developing nation, and many things about China, when you look beneath the surface, it's quite shaky. The idea of China as a failed state is too terrible to contemplate, and, yet, it seems to me that the administration's policies towards China don't recognize this complexity.

I'll give you a couple of quick examples. One is one currency exchange. China's currency policy is basically a social program to create jobs in China, and without that policy or replacing it with something else, that it has as much potency, China would really be in a lot of trouble, and the administration's policies of pushing China on that currency exchange, it gives members of Congress ample opportunities to bash China and not recognizing the real reasons behind this.

The second one is Marines in Australia. It seems to me that this just feeds into a narrative in China in which they are suspicious of the west, and if we acknowledge the history there, for very good reasons, and perpetuates a relationship that is not one of cooperation and it seems to be one more of confrontation when really the

relationship with China, it seems to me there's opportunities there to create one that's more about cooperation and mutual recognition of each other's needs.

I would love to hear your comments. Thank you.

MR. GORDON: Thanks, and we'll get a question in the back. The gentleman's there.

MR. PULESH: Thank you for this opportunity. My name is Eba Pulesh. I'm from Al Jazeera Balkans.

Mr. Gordon, Secretary Clinton said in Chicago that this was the last non-enlargement NATO summit. What does that mean for Bosnia, Herzegovina, Montenegro, Macedonia, and how Croatia can help those countries to become sooner NATO members?

And, second, Serbian new president, Tomislav Nikolic, which is hard nationalist, you know that, and how to deal with him, especially talking about Kosovo and Bosnia?

Thank you.

MR. TALBOTT: Thanks.

Phil?

MR. GORDON: Well, your question about China takes me a little bit farther away from presentation on Obama's Europe record than I would like to go. But I would say, I mean, it's not unrelated in that people shouldn't think about the challenges we face in China as some alternative to what we're trying to do with Europe. And when I present a record of engagement with Europe in dealing with the rest of the world, it is a recognition of the reality that it is precisely because we face such tremendous challenges in other parts of the world, including those that you mentioned about China that we need this partnership.

Now, the reality is, and I gave you a large number of examples of how we're working with Europeans on the global agenda, and I think I would be the first to acknowledge that if there's a region where it's underdeveloped, it might well be in Asia and specifically on China. That is something we would like to change because we think we have an interest in partnering with Europeans in Asia, just as we really do in North Africa, in the Middle East, and Africa.

So, far from accepting this, it's just the reality. We invite and have I think launched a dialogue with our European partners so that we're together tackling this type of challenge because, once again, we're just better off if we're doing it together with our strong and democratic European partners.

You asked about Secretary Clinton's comments on the Balkans and NATO enlargement at the NATO summit in Chicago. The Secretary vigorously endorsed the historic U.S. support for NATO's Open Door [Policy]. We have long believed that NATO is stronger when its door is open to countries that can contribute to security, that are democratic. We think that the very prospect of keeping NATO's door open leads them to undertake reforms that are in their interest and collective interest. As countries join NATO, NATO gets stronger.

I've already described the degree which we're working with all of the NATO allies and partners in Afghanistan, Libya, and elsewhere. And, so, she vigorously made the case, remade the case that we should work with those countries. You named three of the four formal aspirants are in the Balkans, and we mean what we say; we're committed to working with them, strengthening their candidacies, and we do hope as soon as they're ready that the alliance is ready to take them in and it's a historic project when I mention that Europe won't be complete until the Balkans are part of these Euro Atlantic institutions. That's a sincere objective of ours, and we're doing all we can to promote it.

You mentioned Mr. Nikolic's election in Serbia, which was just a couple of days ago, and we're still analyzing the implications of that, but there, too, it doesn't change our approach to the Balkans or Serbia. We want to see Serbia pursue the European path and we believe that requires coming to terms with Kosovo, and we're going to continue to support the dialogue between those two countries.

MR. VAÏSSE: Thanks. We need to move to the other panel. Please join me in thanking for this great discussion we had. It's been great just out of the Chicago summit to join us. So, thank you again, Phil.

What we're going to do is we're going to move seamlessly to the next panel. So, if you want to take a one or two-minute pause, we'll start the next panel in just one or two minutes, and I call on John Peet, Sylvie Kauffman, and Martin Klingst to join me here. Thanks.

(Recess)

MR. VAÏSSE: The pause was so short. We're going to start this panel, which we have called "*European Visions of the Crisis*," and I must say that I have my work as a moderator of that panel cut out for me because of all the news we have and we've been having in the past few days, indeed, as Phil reminded us. Right now as we speak, the extraordinary dinner of the extraordinary European Council Meeting in Brussels is nearing its end, and leaders are discussing the Eurozone Crisis and Greece, in particular.

In Greece, as you know, what we've seen in the recent days, starting last week, is not only the very indecisive elections of May 6, but also sort of slow bank run underway, a couple, as many newspapers have noted, on the raid on hardware stores to get home safes and padlocks to keep the euros in kind. The bank notes and the actual kind of currency sort of underlying the severity of the fears that there could be a switch back to the drachma.

Yesterday, as you may have heard, the OECD warned that the 17 countries that use the euro risked falling into a severe recession. Indeed, more than 10 of them already are in a recession. The OECD called on government and the European Central Bank to take decisive action to avoid having a situation in which the European slowdown would drag down the global economy, and yesterday, as you know, the German government reiterated its position to the creation of Eurobonds, although it is supported by most European governments and Brussels and the IMF and the OECD, underscoring the crucial nature of the talks of tonight in Brussels and the negotiation which would be underway not only on a new growth package to complement the Fiscal Compact Treaty, but also, of course, the more fundamental question of whether to create Eurobonds and or whether to let the ECB intervene more decisively to help with the sovereign debt crisis. In other words, to put a sort of backstop, so that the markets would cease doubting determination of the Europeans.

But, of course, in our discussion this afternoon, we don't want to limit ourselves to the very short-term, to two days or yesterday's headlines and we don't want to focus exclusively on economic issues, even if they are, of course, central to the current crisis. We want to start from the current situation to try to take a medium and long-term look at how, I would say, politics and economics interact in Europe to shape a new situation and what, of course, the implications for the United States may be.

To discuss these issues, we have sort of dream team of journalists and editorialists with us, and I would introduce them in the order in which they will speak. I will only provide very brief introductions, and you can read more about them in the program.

John Peet will start. John Peet is the current Europe editor of *The Economist*. He started his career as a civil servant working for the British Treasury in foreign affairs for 10 years before joining *The Economist* in 1986, where he has held a

number of positions either from London or from Brussels, Washington, and other places, that included health correspondent and business editor before getting his current position of being the Europe editor.

Sylvie Kauffman is the editorial director of *Le Monde*, the French leading daily newspaper. She joined *Le Monde* a year after John Peet joined *The Economist* in 1987. They both have long careers in their respective newspapers. After working with the AFP Agency in various locations, at *Le Monde*, just as John Peet did, she held positions as foreign correspondent in various places, including Moscow, the U.S., both in New York and Washington, and Southeast Asia. But she also held executive functions at *Le Monde*, including as executive director of the newspaper in 2010 and 2011.

Lastly, Martin Klingst is the Washington bureau chief of Germany's leading national weekly newspaper *Die Zeit*. Before joining *Die Zeit*, Martin worked as a journalist in other places, including the *Deutsches Allgemeines Sonntagsblatt* and at the North German Broadcasting Corporation. He has reported from various countries and on a large range of subjects, including the Balkan wars and the Israel-Palestine conflict, and he's also a very good expert of Germany and German law in particular, having had various teaching experiences, including at Harvard Center for European Studies, where he lectured on various aspects of Germany's reform.

So, without further ado, I will leave the floor to John Peet and ask him to sort of draw for us a sort of (inaudible) of the crisis where we are at now.

MR. PEET: Right, well, thank you very much, Justin. Thank you very much for inviting me. It's nice to be back in Washington, it's nice to be back at Brookings, as well, after many years away.

I'm going to speak for about 10 minutes, if I can. I'll try and compress everything into 10 minutes, and I'm going to make about 10 points. So, it's roughly one minute per point, and pick up from where you started.

The Euro Crisis is sweeping everything else aside in Europe. It has become, in my view, an existential crisis. It's an existential crisis I think not just for the euro, but possibly even for the European Union as a whole, and given that, almost everything else that is sometimes talked about in Brussels has been pushed, and I include, for example, foreign policy, which you and I have talked about in the past, the efforts to form a common foreign policy of the role of Cathy Ashton. Enlargement, it's quite likely that the talks of Turkey would have run into the sands anyway, but I think the fact of the Euro Crisis has made further talk of enlarging the European Union has not gone further. Even things like further worked, could be single markets, Transatlantic relations, I think everything has been pushed to one side by the Euro Crisis, so, this is a really important moment for the future of Europe, and I think to pick up on the OECD comments yesterday, it's also become critically important for the world economy. If anything could hit Barack Obama's reelection hopes, I think the Euro Crisis would have to be very high on the list of those things if it does turn into something that generates a deep recession in Europe and possibly in the world economy, then I think the implications on this side of the Atlantic are also quite serious. So, this is really a big problem.

The immediate focus today and for the last few weeks, as Justin said, is Greece. I would say that the election on June 17 is still not a full drawn conclusion. The election on May 6 was very unhelpful; it wasn't actually an enormous surprise. I would put a lot of the blame for that on the new democracy leader. It would have been much better if Greece had continued with what it was doing under Papademos, but every now and then, democracy rears its head and you have to put up with the results, and that's where we are.

I do think that in Greece itself and even more in the rest of Europe, we are seeing over the last week, two weeks, a gradual shift towards the acknowledgement that a Greek exit has become quite likely, a Grexit, as we journalists like to call it. The

implications of that still haven't been worked out, but I think across Europe and increasingly in Greece itself, there is a recognition that a Greek exit is quite high on the cards. I wouldn't like to put a probability on it, but I think it's certainly much, much more likely now than it was a month or two ago.

And, obviously, when you start talking about a Greek exit from the euro, this is moving on to my third point, the rest of the eurozone immediately starts to worry. If Greece were somehow or other to fall out of the euro, that is a cataclysmic event for something that was supposed to be an irrevocable currency union. And it will forever cast a shadow over the euro, even if the euro lasts another 100 years without losing anybody else, the fact that a country might have been able to fall out of it will cause a serious problem for the currency and for some of the particular countries that are on the edge in it, and I include in that group especially Portugal.

Portugal is very much in the firing line if Greece falls out, but I also include Spain and Italy in that group. I happen to think that Ireland has just about escaped from being another, as it were, potential victim of the Euro Crisis, although, its referendum at the end of May is something that is worth watching because if the Irish do decide to vote no, which I don't expect they will, if they do decide to vote no, I think the implications for Ireland could be quite serious because it is entirely possible that Ireland will need another bailout and if they vote no, then getting another bailout will be very hard for them. But, in general, the Irish economy looks in much better state than those of Portugal, Spain, Greece, obviously, and Italy. But I would put a lot of focus there on Portugal because Portugal's economy has been very sick for quite a long time, and it needs to do a great deal more to escape being bracketed with Greece. The Government of Portugal is much stronger government than the Greek government that looks likely to emerge from the election, but the country remains fragile.

Fourth point, continuing to my points on Portugal, is to focus a bit more specifically on Spain and Italy. As you know, neither of them has yet applied for a bailout from the bailout fund for the eurozone, but it is increasingly clear that the Spanish banks will need some help. I think some of the numbers that are tossed around for how much help the Spanish banks might want may be exaggerated, but the fact is that Spain had an almighty property bust and those in Spain who tell people like me that Spaniards traditionally always go on paying their mortgages, I think they're going to be tested over the next six months, particularly if the recession intensifies, and Spanish unemployment, as you I'm sure all know, is already at 24 percent, and among youth, young Spaniards, it's 50 percent. That's pretty horrific, although Spain has learned to tolerate high unemployment over many years. Those numbers are pretty bad, and I think the risks that some of the Spanish banks will need more support that Spain itself can't supply is definitely growing. And the worry about Spain and Italy is that the Bailout Fund might just about be able to meet the needs of Spain on its own, but it's quite clear that any conceivable Bailout Fund could not meet the needs of Spain and Italy together.

So, if those two countries get into deeper trouble, the risks that the euro could start to fall apart and the rest of them can't support them becomes very much greater. Italy is not in quite such bad shape as Spain because actually, contrary to some popular views, Italy's public finances are not actually terrible and it didn't have a property bubble, but the Italian economy, rather like Portuguese economy, has been in trouble for a very long time now.

GDP in Italy is more or less back to where it was 10 years ago. That's an astonishing failure in a modern, westernized country, and it indicates that Italy needs to make serious changes if it's going to prosper and grow in the future. As I'm sure you can imagine, all of us think that Mario Monti is the most marvelous man in the world, but he's not an elected prime minister, he's not going to be there forever. In fact, he's

probably going to be before next April, and there are already signs that Mario Monti's high popularity is beginning to fade in Italy, as he starts to push three measures that actually are increasingly unpopular. So, watch the bond yields in Spain and Italy over the next week or so.

How are we going to get out of the Euro Crisis, having just done those brief points on different countries in it? Obviously, we do need in Europe a bigger growth agenda. It's been quite clear that putting too much emphasis on austerity and fiscal tightening alone is aggravating the eurozone's economic problems and not helping to cure them, even if it is necessary for the repair of public finances. But I think, also, now we've gotten to a position where it has become important to isolate Greece or way or the other, even if somehow or other it is kept in as a passenger.

We need more Europe to solve this problem, and that means that Germany does have to at some point accept more Euro-wide measures that will include some system that is Euro-wide for dealing with bank recapitalizations, bank deposit insurance. I think it does imply an acceptance of implicit transfers from richer parts and more successful parts of the to pull apart, so, the kinds of things that happens automatically in the United States, and I think it does mean some part of mutualization of debt. Without moves in those directions, I don't think the euro is going to survive. That's my diagnosis of what needs to be done.

How do we get that done? The answer to that is the politics of doing it are exceptionally difficult and they're obviously most difficult in Germany. I won't dwell at length on Germany because I hope Martin will say more about Germany, but getting consent from the German people, and it isn't just Angela Merkel who's being obstinate, this is the German people who need to assent to changes like this, is going to be extremely hard. The perception in Germany is that their country is doing very well, that unemployment is the lowest it's been for 20 years, it's growing successfully, exports

continue. They are even seeing the beginnings of wage rises and living standards are rising.

German public opinion does not see why Germany should now help to pay for what they see as the sins of the other countries and they tend to say we in Germany, we were in trouble 10 years ago. We made painful reforms; you did not make painful reforms, now it's your turn to make painful reforms. And this mentality in Germany, I think, is quite deep in the psyche.

We've seen it many times over history. This goes all the way back to Bretton Woods. Creditor countries believe that when there is a problem, it is for debtor countries to adjust. The debtor countries are the ones who caused the trouble and they need to adjust. But the truth for Germany, and this is where Angela Merkel needs to do more to explain things to her voters, is that, for Germany, the breakup of the euro would be a complete catastrophe, and it is worth paying almost any conceivable price to stop that happening, and I think that is the dynamics that we are in right now as the others put pressure on Germany.

Of course, the change in France, seventh point, is also going to make a difference. The new president of France, whom we consider to be a rather dangerous man, clearly has arrived in office, determined not just to press the case for things like Eurobonds and a Euro-wide bank resolution system, but also to get rid of austerity, to supplement it with some growth agenda, very commendable, and this is why we consider him to be dangerous, but, again, Sylvia will correct me, I'm sure, he is fiercely against the liberalization and structural reform agenda that we and other commentators believe to be essential for the future health of Europe. I've heard him say twice that those who preach liberalization and structural reforms are preaching the things that got us into the mess, not the things that will get us out of the mess. I happen to think he's completely wrong

gin that position, but, clearly, the position of France is not going to be helpful to pursuing the reform agenda.

I'll finish with three points about the implications of where we go from here.

The first is I do think that, one way or another, they will implement reform structural change, labor market deregulation, and so on because I think it has to. If it doesn't do those things, I think it is going to condemn its citizens and possibly its own currency to a very bad future. In a sense, I see that as the essential logic of the single currency from the beginning.

I wrote a survey of the Euro back in 1999, and my central argument then was that the potential benefits of the single currency, which I saw as a very risky venture, the potential benefits were that it would force structural reform right across the euro. Unfortunately, it didn't do that. In fact, it worked the other way around. Many countries simply took the lower interest rates and failed to implement structural reform, but I think the logic that single currency requires structural reform is still there and I expect it to happen over the years to come.

Second implication, rather more awkward, I mentioned some of the things that I think need to happen, including some kind of Eurobond and a tighter fiscal union. I think getting the voters to accept this deeper level of political integration that I now see as an essential part of resolving the Euro Crisis is going to be quite difficult. In a way, I see the economics of solving the Euro Crisis, hard as they are, as rather easier than the politics of solving the Euro Crisis, and I think already, you're beginning to see across Europe people asking what is the legitimacy of the European Commission? Why should they be telling us what to do? Even the Belgians and the Dutch were asking this question recently. And I think Europe does need to do more to lend legitimacy to its increasingly tight union that is going to be a necessary part of solving the Euro Crisis.

I'm not going to go into details because I'm running out of time, but we are talking about things like do we need more powers for the European Parliament? Do we need to have some system for electing the European Commission, all the European Commission presidents, and without doing something to increase the legitimacy of the European Union, the risk of a backlash against it is very great.

And, finally, I can't stop without mentioning one country that I haven't mentioned, which is my country, and my country has been in a rather interesting and difficult position in all this. It is not the only European Union country not to be in the euro. There are 10 countries not in the euro. So, 17 in, 10 out. As we are all very affected by the Euro Crisis, it's clearly very much in the interest of the 10 that the Euro Crisis should be solved, and the British government has been quite clear about that, too, but as the develops tighter rules of its own, the implications for the outs and particularly for the U.K. are going to be very painful.

When I raise this subject in Brussels, I'm always told well, you could solve all these problems if you all join the Euro. The trouble is that Britain is clearly not going to join the Euro. I don't think Sweden will join the Euro soon either. I'm not even sure whether Denmark will. So, there are going to be some out countries for quite a long time, and they're going to be sitting alongside a club which considers the Euro to be the central part of what they are doing and the rest to be somehow more peripheral, and developing this into a sort of two-tier Europe, where the out countries feel they are left out could be extremely painful. And for the U.K., if it went badly wrong, I think it's conceivable it could ultimately lead to the U.K. leaving the European Union altogether.

MR. VAÏSSE: Thank you.

MR. PEET: Sorry for running over.

MR. VAÏSSE: Not at all. John, that was not only a *tour de raison* that was a *tour de force* as we say.

So, now I'd like to turn to Sylvie and ask her to continue on that theme and also, perhaps, enlighten us on who she thinks François Hollande is in terms of is he a rather dangerous man or do you see him as not that dangerous? And where in particular the Franco-German engine is heading if, indeed, it still exists?

MS. KAUFFMAN: Thank you and thank you very much for giving me the opportunity to be back here. It's very, very nice to be back in D.C., and at Brookings, also. And I also must congratulate you just for timing this talk just as the European Union leaders are meeting in Brussels for this very "crucial," as you said, meeting.

Now, we, the media, have presented this meeting tonight in Brussels as very dramatic and that's the way we have to put it, of course, but it's not that dramatic. It is dramatic, but not for the reasons we usually say. It's not that dramatic because in the sense that I don't think anything is going to happen tonight or is happening. It is, first, there are 27 people around that table, and I don't know if you've had very often conversations with 27 people, but it's rather difficult. And I think it's more an opportunity for François Hollande to meet his new partners and, as he said, put everything on the table. So, that's what they are going to do. And then there will be a long cycle until the end of June. It is a problem because the cycle is indeed long and there is urgency.

So, as John has just described, the situation in Greece, in Spain, and in the EuroZone is really at this time dramatic. So, it's going to be really a few very, very difficult weeks ahead, I think. Elections everywhere. We have parliament elections in France on June 10 and June 17. June 17, new elections in Greece. May 31, the referendum in Ireland. Probably forget a few polls, but it's going to be a very busy June month.

So, what is important now regarding this meeting in Brussels and the next meetings and next round of negotiations is that at least the terms of the debate now are very clear, I think, and it's a good thing, and I must say it's probably to be put to the

credit of François Hollande. I'm not his spokesperson, I don't want to sound like a supporter, but he's been very good, I must say, at staying on message since his election. He's been surprisingly firm, I think. His message, of course, is growth, and I think he's been doing a very good job of taking advantage of this extraordinary coincidence that between the two rounds of the French election in end of April and early May, we had this situation in Spain and in Italy, political crisis in the Netherlands, which showed that countries which had been doing things by the book starting to implement reforms in a very painful way, people taken seriously, like Mario Monti or [Spanish Prime Minister Mariano] Rajoy or the Dutch leader came to the realization that it was not working and those austerity measures had to be done, but just by themselves, they were not producing the results that were expected.

So, François Hollande understood that and I think his genius was to seize the moment and to turn an electoral campaign in France, which up to the first round had been very much a campaign hostile to Europe, where people, the National Front, the *Front de gauche*, the Left Front for Melanchon were very vocally against Europe, and the whole discourse was against Europe. And then François Hollande managed to turn this into a positive agenda towards growth in Europe. So, of course, it's politics, it's easy, he had to be extremely ambiguous on a lot of things and then after the election, the parliamentary election depending on what majority he gets, but he will have to face the truth and face the music.

And you said you think he's totally hostile to those reforms. I don't think he is. I think he had to say a few things or hide a few things during the campaign, but there's no way he's going to be able to avoid some reforms and some very, very important reforms, and that will be his job, to sell it to the voters and to the French people.

So, one thing we learned during the campaign is that François Hollande looks unassuming, but he shouldn't be underestimated, and his "Monsieur Normale," that's part of his appeal, apparently. But he can be also Monsieur Fermé or Monsieur Fermeté whatever you would call it, but, for instance, from the very day of his inauguration, the day where he braved the elements and the rain and the thunder to go and meet Angela Merkel in Berlin, as soon as he landed in Berlin, he mentioned the Eurobonds, and he obviously perfectly knows that this is a word she doesn't like and that the German people don't like. (Laughter) But he said it from the very beginning, and he's been again, on message in America. Again, he raised the issue of the Eurobonds here, and I'm sure he's raised it again tonight or he said he would do it. So, when I say that the terms of the debate are "clear," this is it.

Now, and he's also been quite shrewd, I think, at rallying support behind him. Of course, David Cameron, Monti, so, now he has these conservative leaders who agree with his growth agenda. Of course, there's always this kind of vagueness about what growth means, and we can talk about this later. But for voters, it is a kind of magic word, and then they will have to all agree about what it means concretely among European leaders. But, so, I don't think there's going to be a real showdown, as the media, again, have presented. It's not growth versus austerity, it has to be, and this is some movement which has been done these last few days, it has to be both together.

There have been signs of flexibility, I think, coming from the Germans on higher wages, on the level of inflation, maybe Martin will tell us more about this. But I don't think the situation is so impossible to solve at the moment. Alain Juppé, the foreign minister said I think yesterday that there was no fundamental disagreement; there are differences, but that they can be reduced. So, there's room for compromise, this is what they are going to have to do in the coming weeks. Maybe the terms of the compromise

will be name of the Eurobonds, this term which is so awful; maybe we can do some kind of Eurobonds which will not be called Eurobonds.

SPEAKER: Merkel bonds.

MS. KAUFFMAN: Merkel bonds. We are starting with the project bonds. Maybe we can move towards something else. I think there's a whole area of array of tools. Actually, the German foreign minister, Guido Westerwelle, had an op-ed piece today in *Le Monde*, where he offered a growth pact, but a growth pact which wouldn't imply more debt. So, he gives six pillars, six examples of measures that -- I will spare you the details, but just go *Le Monde* Web site, and you will find it. But there's movement again, I think.

So, personally, even though I agree this is an existential crisis, this is an extremely serious crisis and it's pushing everything aside, there is a lot of sense of urgency, but maybe because of this, I am optimistic because we've already covered a lot of grounds for the past two years. We've gone to lengths that we wouldn't have thought imaginable some years ago, and I think we can find the tools.

Now, I agree totally with John. The problem then is political. How are these leaders going to sell those measures to their public opinions? That's where we have a big problem not only of political representation. It is true that most European citizens don't feel they are properly represented at European level. We have a problem of legitimacy, particularly the young people feel they don't have a voice in the European process, when we have this paradox that Europe has been built for them and they don't really understand because they have not been through all this process as we have. They were born Europeans, so, they don't really understand why it is so important to be European and what does it bring to them? So, politically, I think not only the political leaders, but also the media and we all have to do a lot of big efforts on this.

Now, I spoke about urgency and there is also urgency on the political field. We see that every single election shows a rise of extremism, of populism. I mean, we have these Neo-Nazis in Greece, we have 18 percent of National Front in France, we have all these movements. So, it is really a problem, which will get worse if we don't confront it, if we don't face it really squarely.

There is a problem of confidence. I think this is crucial at all levels, at financial level, at the economic level, at political level. We have to manage to build confidence. It's a problem of vision; it's a problem of expressing what is the Euro fall? What are we heading to? And it is a problem of leadership?

So, very briefly, because I think my time is up, yes, Angela Merkel is against the Europe of transfers. It is understandable from a political or moral point of view maybe, but I agree again with John, I think she has to make the case to her own people about what does Europe bring to the German people? What are the benefits for the German people? I mean, look, the number of young graduates from Spain, from Portugal, from Greece were flocking to Germany to fill up jobs that were unfilled and that are extremely useful for the German economy. I mean, this is a story which has to be told to the German people, I think, and the same goes for, of course, the benefits of trade, of the economic, and including the benefits of transfers if they are properly implemented within Europe.

And the same goes for France. I was always struck by President Sarkozy and I don't think it has anything to do just with him, but that's very French and I hope Hollande will manage to change this a little bit, but Sarkozy used to go to summits to Brussels and say this is what France is going to say in Brussels, and then he would come back and what France had offered somehow -- every country had its position, but then we had a European decision. He would never come back saying this is what

Europe has decided, and this is very simple, but in the political discourse, I think leaders really have to do a big effort in becoming European politically, also.

I mean, this is a huge issue, of course. I don't think we're going to solve it today, but Europe does exist in everyday life, it's amazing that the number of things that we have in common and that we -- internal migrations, education, the number of things which have changed over the past decades that are really inextricably one in Europe and that are part of our life.

I will just finish by quoting the Polish leader Lech Walesa, who used to say about communism, he had this joke. When the country was exiting communism, he said I know how to make a fish soup from an aquarium, but I don't know how to make an aquarium out of a fish soup. Well, it's a little bit the same with Europe. I mean, there's no way we undo Europe now, and I know we're all talking about break up and maybe Greece will leave the Euro. I don't know about this. I know the consequences will be terrible if it happens, but there's no way we can undo Europe, but we have to be much more positive about why does Europe exist?

MR. VAÏSSE: Thanks very much, Sylvie.

I'm now turning to you, Martin, and, of course, we'd love you to explain to us the thinking of Angela Merkel, and more generally the question that comes to mind is: Is there a pilot in that plane?

MR. KLINGST: There is. But I'll come to that, and thank you for having me here and giving me the opportunity even though I'm not a spokesperson of the German government and Angela Merkel maybe to explain a little bit to you the philosophy behind it.

But let me first say talking to the Americans and to my fellow Brits about the European Union and the euro and to try and to convince them of the value of both, sometimes like someone who tries to convince the Salvation Army of drinking a glass of

red wine. But I think the European Union will survive and the euro will survive and maybe, and this is my optimistic note, at the end of the day, when we have gone through all the hardship and we'll be stronger and even more prosperous and maybe an example for some other states, even the United States, but what reforms can do at the end of the day.

I always meet people here telling me well, Germany, people are flocking to Germany now from Spain, from Greece, but that's good for Germany, but it's bad for others, but wasn't this country, the United States, based on the idea attracting others that flocked to the United States because it is the country of opportunity? And didn't the United States always tell the others try also to reform yourself and then you keep the people?

So, I think there is some truth to it and this leads me also to the core of the debate, but first of all, let me say we are somehow in a very dramatic situation. I will not deny the gravity of the conflict. But there is something like a schizophrenic situation. Greece is the problem and it is not the problem. Actually, economically, it's a very weak country, 2 percent of the European GDP. No one from economic point of view would really bother in all of Europe too much if all of Greece one day doesn't belong to the anymore. But as John has pointed out and he's totally right, there is something like a trickledown effect, a ripple effect, a domino effect, however you would like to call it, but there is also a political consequence to that, and this is probably out of the core of the problem.

The European Union is based on the idea of integration. From the first moment to today, we have seen constant steps of further integration. If Greece leaves or has to leave the euro, it will be the first time that a severe step of disintegration is taking place and I think the political consequences of these cannot be underestimated. Therefore, what happens on June 17, when the Greeks again go to the ballot box, the

17th of June will be a referendum on the euro and the European Union. Angela Merkel said this. I think it was not very smart to say so openly, but I think she's totally right.

And the schizophrenic situation in Greece is that 80 percent of the people want to stay inside the, desperately want to stay inside the, but are not, first of all, very willing to take all the necessary steps to reform their countries, but you must also see that the votes they give are all so in opposition to the ruling parties that have led to this crisis. So, I think the extremism you see is also the result of dissatisfaction, of despair with the ruling system in Greece.

So, I cannot say if Greece is going to opt out or if it has to opt out of the euro. I think it is manageable. It is manageable now. It would not have been manageable a year or two years ago. It all depends on the firewall that will be established and the sincere will of then helping all the others remaining in the without letting anyone else go.

But, nevertheless, there is a strong will and still a strong will also in the German government to keep Greece in the euro because of the political consequences. The European Union has also a strong interest not to only keep Greece inside the European Union, but also inside the euro because if it leaves the euro, it will have political consequences on the European Union. Greece is a NATO member, it has a border to Turkey, it has a porous border, it is the gateway, the entrance gate for many refugees pouring into the European Union, so, Greece is an important country, the outside of the European Union. So, there is interest in keeping Greece inside.

So, what would be the consequences if Greece stays inside and also for all the other countries that would stay inside the? I think what is clear is we see further integration, a federalist leap, less national sovereignty. Interestingly, we have seen that Angela Merkel, who was pretty skeptical of the European Union; she was brought up and raised in East Germany, did not have much contact with the European Union, had to

learn what that all meant, and was pretty distant to what that body actually means. But she has become this strong advocate for further integration and for the federalist leap.

But on which basis will this federalist leap take place? What is the economic, the philosophical, and political foundation of this leap, austerity or growth? I think this is a false antagonism. Sure, the Germans and Angela Merkel, as chancellor, have still -- they have not lived through it, but they know Germany is still very much afraid of hyperinflation due to happened before World War II. But Germany is not against stimulus. Germany has used stimulus itself throughout its history after the Second World War many, many times. Even recently, when the financial collapse happened on Wall Street. Everyone says save in good times, spend in dire times. This is a true sentence, but there is a precondition to that and that leads, I think, to the core of the German thinking.

You can say that if you talk basically about sound and save economies. But what happens if those economies are not sound and safe, if they have deep structural problems and need dire reforms? What do you do when you create another growth package without knowing what happens in the consequence do those countries stick to their promise or do they think okay, now the money pours in and we might step back and don't reform our system as much as we have to?

We have seen that, for example, with Berlusconi in Italy, who has promised to do things and then just stepped back and said sorry after he got support. So, I think insisting and saying the fiscal pact has to be carried out is a necessity and interestingly enough, when the fiscal pact was signed by the European Union, there were only two countries that opted out, the United Kingdom and the Czech Republic.

So, I think at the end of the day, and Merkel, like Hollande, is a realistic, a pragmatist, she's also firm and she's very normal. (Laughter) And I think at the end of the day, she will agree in some kind of stimulus, and I think we will see that in the

upcoming summits. There is nothing like a German-French divide. I would also say that Merkel and Hollande are not antipodes. Actually, I think they will probably get better along than Sarkozy and Merkel because Hollande, as far as I have observed him from the far distance, that much better, he is a very, very sober person and sticks to what he says and he's not a flip-flopper. (Laughter) So far.

And, so, I think Germany and France, it could be a power couple and indispensable nations for the European Union and its success. And maybe what one doesn't know here because sometimes the perception of Europe and the Euro suffers a little bit on a very Anglo-American point of view, I think what is written in German papers or in French papers is not really transferred to the general public in the United States, there's always just one angle of the whole problem.

But Germany does not stand alone in the European Union. What you see at the moment is a more northern and southern divide, but there are a lot of countries, the northern countries, the Baltic countries that support the German point of view. Not long ago, the Polish Foreign Minister Sikorski said in Berlin he's not afraid of German leadership, but of a lack thereof, which was very new to Germany and heartwarming that a neighbor that Germany occupied and has done a lot of harm to, 60 years after World War II, comes to Germany and says that.

So, I will conclude with an optimistic note. I think a lot has happened in the last few years. There's more fiscal discipline. We have the fiscal pact. We have what one probably doesn't know here, it's a crazy word; it's called the European semester. That means that budgets and reforms of every nation will be sent to Brussels for oversight, which is very new, and is not very easy for the Germans because our constitution accord has ruled that the budget right is the primary right of every national parliament. So, this is always a very tricky issue for Germany.

The safety umbrella is there, July 1, with about \$800 billion, and I think the stimulus will happen. Maybe not with more debt, but there are other possibilities. The European Central Bank has poured money to stabilize the Euro, even though they're not there to bailout countries and cannot give it directly to the country, but they have poured billions of dollars into the by stabilizing the currency. The European Investment Bank will probably get more money to finance certain projects that generate growth.

And then there is the talk of the Eurobonds. I do agree that we probably have to find a new word for that, but something like that will come, and I think that is very tricky for the Germans, they will not agree. They will not agree in the joint liability for all debts, but what is discussed now and is a German proposal and finds more and more friends among the Euro countries is to partly mutualize the debts and the liability for it. So, part of the money, before a country goes in default, everyone will help, but the principle will be everyone has to pay its own debt, but at the end of the day, if you cannot do it, then everyone should give you a helping hand.

So, I think those are some perspectives that tell you that Europe and the euro is not at the end of the day. We have to go through major discussions. I agree, we have to go through major also referendums and elections and at the end of the day, the people will have to decide whether they agree on what happens or not, but as I said at the beginning, I don't think that in 100 years from now, the euro will be, as you say, irrevocably cast by a shadow.

MR. VAÏSSE: Wonderful. Thank you very much, Martin.

So, I'll just pick it up where Martin left it and ask a question to the three of you. It seems to me there are two narratives for this crisis: One is the one you get when you read the newspapers day to day, the last minute summit, the market hysteria, et cetera, which basically -- a chaotic process like a bottle at sea, no one is really knowing

where this thing is going, there are tensions all around, an accident can happen easily because precisely, there's no real logic to it.

The other narrative which I think Martin implicitly referred to, and if I heard correctly, Sylvie, as well, is more that of a sort of what could be called they're both pangs of a new, meaning that things that were not doable in the 1990s, when the was created, when the rules were set, that is now possible because of the crisis, and in that narrative, you see a development which Sylvie alluded to with the six pack, the European Semester, which you mentioned, as well.

Sylvie said a lot of ground has been covered in the past two years and it's going to continue. And in this narrative, at least there is a logic, which is that the founding fathers if not of Europe, at least of the euro, had in mind the idea that at some point, it would be necessary to get to a sort of 2.0 and that would be precipitated by a crisis. And, so, that's what we are seeing right now. And Martin alluded to a "federalist leap."

So, based on these two narratives, I have three questions for the panelists to draw on. I would like to ask how likely do you think this second narrative is or would you subscribe to the view that what is happening now might actually be precisely the sort of hidden construction of a different and more robust, giving credence to the optimism shown by Sylvie and Martin?

To Sylvie, I would ask the question of the "federalist leap," because, obviously, Martin referred to Merkel's vision for Europe, to which she converted because coming from East Germany, she didn't have necessarily that in her DNA, so to speak, and she has probably come a very long way towards that "federalist leap." However, it's not clear that France has done the same, has covered the same ground, and now the question in the next five years might be whether France is ready for that because a "federalist leap" would be unimaginable if France and Germany do not agree.

And, lastly, to Martin, once again, based on these two narratives, do you think that also the impression is that Merkel is actually using the crisis, she's not putting her cards on the table, so to speak, in order to avoid moral hazard, in order to avoid the political and legal constraints or at least to overcome the political and legal constraints that she has at home and she needs something in return for the Eurobonds that you said you thought were likely to exist? But, of course, the question is: Don't you think there is a risk that the first narrative prevails and that she might miscalculate and that, for example, in Greece, the idea is to keep a very strong constraint on Greece so that Greece actually does the reforms that it needs to do, but by wrongly fine-tuning that pressure, things might get out of hand?

So, I'll suggest to you perhaps John might start.

MR. PEET: Okay. Just a couple of remarks in response to you. I mean, yes, I think your second narrative is, indeed, the one to focus on. I think people should get beyond the immediate noise of the Spanish bond yield being at six-point whatever it is today. And, actually, they should say that gradually, as you say, over the last two years, rather messily, a consensus is beginning to form that the only way forward is to construct a tight federation and to make a federalist leap, and this is not actually untypical of European history; this is how the European Union, in a sense, works. You make use of a crisis to move forward.

So, I think that is the thing to focus on and I think it is going to happen. It's messy and it does entail a number of risks. The most obvious risk, which goes back to Angela Merkel and the point about Berlusconi, which I think was absolutely right. What we saw last August was very interesting in the way it affected German thinking about things. If you are playing a game of brinkmanship, that's fine and it can often produce rather good results and it got rid of Berlusconi, but the trouble with playing a game of brinkmanship is there is a risk always that you might fall over the brink, and I think that's

why the process of getting there is, indeed, quite dangerous and I think it could, for example, eventually lead to the departure of Greece one way or another. So, brinkmanship carries its own risks.

But so, I think, does the general federalist leap. It is also quite a difficult trick to carry off, and, once again, I do think Merkel is the key to it. I think I see two potential problems with it, and that's why I put the emphasis in my remarks on the politics rather than the economics of solving the Euro Crisis.

The first is that if you go back to the 50s, and, indeed, everything that's following, this is essentially a project that's been driven particularly by two drivers, France and Germany, and that's always been accepted and understood. The problem that we're in now, and I accept that actually Hollande and Merkel may end up getting on rather better than the previous duo, but this is an extremely unbalanced pairing. France actually is much closer to being one of the problem countries of the. It's much closer to being part of the south and not part of the north. And I think that that is going to make this move into this federalist direction much more difficult to handle. It is this notion that the Franco-German driver actually is a way of disguising German strength and French weakness, and it makes handling that rather hard.

And the second danger that I see is this one of legitimacy. The reason why the European Project has worked and, indeed, the euro has worked I think is because to the ordinary people of Europe, it seems to have produced benefits.

The single market, they didn't really understand what the single market is and it was interesting in the French Referendum in 2005 that one or two people started to pick up the treaties and say well, what's all this about the promotion of competition. We didn't like that. That had been in since the 1950s, it was nothing to do with the European Constitution they raised it against. But I think was generally accepted because it was

producing good results, good growth in the early years, the single market seemed to produce benefits, low airfares, moving around the continent.

The problem that we're now in is that we're making a federalist leap not as a result of success, but as a result of failure. There is a perception that the Euro hasn't actually worked and it certainly hasn't worked in the south, and now people are being asked to go on another leap as a consequence of what is seen as a failed policy, not a successful policy, and I think that raises much more difficult issues of legitimacy of the system and it's going to be very difficult to handle and it's particularly difficult to handle when, to some extent, the last four or five years, we've seen a process of divergence and not convergence in Europe.

MR. VAÏSSE: Sylvie?

MS. KAUFFMAN: It's a very important question, this issue of "federalist leap," and it's a question that Francois Hollande has been very much silent about. So, it's interesting.

I was wondering these last couple of weeks with all this talk about the Eurobonds why didn't the Germans raise the issue of political integration, which I agree, Angela Merkel has been extremely eloquent about and quite clear in putting forward the very concrete propositions.

So, Hollande, to my knowledge, hasn't said a thing about this during the campaign. I think he personally is in favor of this. He's a son of Delors. In fact, actually, funnily enough, much more than Martine Aubry is, even though she's the daughter of Jacques Delors but he intellectually and politically, I think, is closer to the ideal of Jacques Delors and even enough, of course, of Mitterrand's view of Europe.

Now, he has partners in his party and now in his government who don't see eye to eye with this conception. He has a foreign minister, Laurent Fabius, who led the campaign for no to the referendum in 2005. So, when it was rumored that Fabius

would be the foreign minister, I asked one of Hollande's advisors how are you going to deal with this if he has this baggage of the no, the referendum, and he said oh, things have changed, Laurent Fabius has come a long way since then and Hollande will be the president, and in France, of course, foreign policy is led from the Élysée Palace, and, so, his view was that it wouldn't be too much of a problem because -- well, I don't think it would be easy, Fabius is a very strong personality, he's very experienced. I think you've seen this in America in these last few days. Apparently, he was quite happy to be there and showing his expertise.

And then it's not only Laurent Fabius, it's Arnaud Montebourg who is a minister for -- it's a new denomination of a ministry. It's [Ministry of]

SPEAKER: *Redressement productif* .

MS. KAUFFMAN: Yes, I don't know how you say that in English.

MR. KLINGST: Nor did I.

MR. PEET: Nor did we. (Laughter)

MR. VAÏSSE: Industrial recovery.

MR. KLINGST: We called it "industrial recovery."

MS. KAUFFMAN: Yes, so, Arnaud Montebourg is really extremely vocal against Europe. I mean, against closer integration, at least. He's a sovereigntist, as we say. Melanchon is not in the government, the Left Front, but we'll see how many seats he gets in parliament. So, politically, it's going to be a tough sell and we'll see, but I think this should be part of the negotiation between the Germans and the French. You want Eurobonds? Okay, so, give us --

SPEAKER: Raise your retirement age.

MS. KAUFFMAN: Give us something on the political integration.

Now, just one thing about the German-French engine or couple, remember, a year ago or so, it was dead. I mean, France had disappeared, it was weak,

it had lost AAA, and Germany was just the only leader in Europe and Europe had to start to speak German and all this.

For some reason, Hollande's election seems to have changed this, and, of course, it's too easy. It's not that simple. I mean, the image of before was excessive and the image of today is excessive. I don't think France had disappeared from the radar screen and but it shows that this engine, this double engine is really indispensable that both have to be in the driving seat and they are complementary. Politically, Germany because of its history, because of -- we saw that in Libya, France was in the driving seat - - I mean, of course with the U.S., with the U.K., and Germany didn't want to take part in this operation. So, it's not only economic powers, as you know, is not the only thing which matters. I mean, there are other attributes of power and I think that's where Hollande has been quite good. He's showed that France and other countries in Europe, even those which are economically weak at the moment, must have a voice and are important, and that changes the equation a little bit for the Germans, I think.

MR. VAÏSSE: Thanks.

MR. KLINGST: Yes, I do very much agree, but and I very much hope that both would sit in the driver's seat. I think no one really can carry the burden alone, and it's always good to have a double, and I'm a traditionalist in defense. When I look back at European history and especially the history of the European Union, I think it went always well when Germany and France had a common ground and it did not work well when there was disagreement. I think some will depend actually on how France is going to perform economically. So, little worries about that.

There is a lot of hope in Europe, also, regarding Hollande and especially by the countries that are suffering at the moment and they hope the idea of having more growth will help and that they find support in Hollande, but his way to very much in the long run depend on how France is performing economically, and if he's willing also to

carry out reforms. So, I was a bit worried when he says he's going back to the pension age of 60, which I think he said it once in the election and I don't know if it was part of his program. But, so, I think those reforms have to be carried out and I think as I also know France quite well, my parents have lived there for almost 20 years, I think also the public service needs desperate reforms, and as in many European countries.

And I think this is one of the very, very big, big problems, especially when you look at Greece. A Greek economist told me that even in Greece, they say that about 95 percent of their public service is absolutely useless and should be fired today without any consequence. So, even though that might be exaggerated, but there's some truth to it and I think one has to think about that.

So, John, I also agree with what you said. One more word to Hollande and Merkel. When I look back at the recent German history and also Merkel's predecessor, Schröder, was a Europe skeptic, but while being in office, he became partly an advocate, and Poland could join the European Union is also thanks to him. And, so, and he was the chancellor, and when came into office, he came also with big promises in what he would do even to further strengthen the welfare system and everyone thought okay, we get more money. At the end of the day, he reformed the welfare system and Germany went through also very bitter times, but nowadays, you see that it worked and we still need to reform a lot, it's not the end of the day, but I think what we have experienced shows that reforms can help and I think that is to understand the German position is that they are very much afraid that others will not go this path and more money's pouring into the system, that we'd say okay, we're fine, let's just postpone our reforms.

John, I also think you're totally right in saying that the "federalist leap" is the consequence of "failure." Sure, there is a structural failure of the euro. There's this symmetry between a strong monetary pillar and the weakness of the institutional

foundation of which the currency is based. So, but we have the debate between you and old federalists. The old federalists were the visionaries, the ones that said okay, we need more integration and at the same time, with pushing integration, we also have to find democratic institutions that represent people's will.

The problem of the new federalists, the more pragmatists that say okay, federalism or the leaps towards federalism is the consequence of failure is the only pragmatic view is to say oh, we have to muddle through, we have to get this done because that is the only solution that we have and it's the only thing that makes any sense. But what they don't see is at the same time a growing dissatisfaction among the public because democratic reforms don't come along and I think this is probably also one of the big problems that the European Union has to face once the actual problems might be solved.

MR. VAÏSSE: Thanks, Martin.

So, I'm now going to turn to you, and since we'll have only time for one round of questions, we'll take more than three questions. So, I encourage my fellow panelists to take notes and they will pick and choose the question that they want to answer. We'll start from the back over there, the gentleman here.

SPEAKER: (Inaudible 1:13:02), Johns Hopkins, CTR. I am Italian, by the way, so, you are not alone here. (Laughter)

My question is this: You have described the European problem as the "Franco-German" and whatever vertical problems between countries. My impression is that if we don't put the horizontal question, the generational problem in the context, we don't get out in any way. It means as a Baby-Boomer, if we don't decide together that in Europe, we have the same rules, we will never let the new generation to grow, we will have to support them and to steal their future. That, I think, is the only way to come out

in Greece, like in Germany, like in Italy, and especially, I agree with the German colleague, in France.

MR. VAÏSSE: Thanks.

Next to him over there in the back, please.

MR. KOBER: Stanley Kober.

I'm looking at an article that says France has the highest public spending rate the European Union, 56 percent of GDP. How can that be supported? Can you work that down? According to this article, the IMF says Paris will need to impose 18 billion euros of cuts. Is that possible? If not, have we passed the point of no return?

MR. VAÏSSE: Thanks.

The gentleman here in the front. Yes.

SPEAKER: (Inaudible 1:14:44). I believe that the current exposure to the Greek debt is somewhere around 70 percent on the provincial side. So, I suppose the question really is in regard to whether we have to move back from the 2011 arrangement to a more realistic one, and I'm referring to what was a haircut in the 50 percent of the cut or losses which the private sector incurred. Doing the math, with Germany at 82.5 percent of debt to GDP and France at 83, the average would be, perhaps, 82.5, if you wish.

So, I suppose Greece cannot, unless it's (inaudible) arise from the ashes, we will need an additional cut, and if we capitalize and this all goes in the banks, which is one of the proposals which Jacques Attali has made, and I suppose the piece that you wrote two days ago very much in reference to France and Germany indicates that you've got the world's most stupid mountain climbers.

So, and just a remark to Sylvie's question of why is it that German elite has yet to sell the idea that euro works well. I do remember a speech which Wolfgang Schäuble gave on November 22, the bundestag, and, well, the discussion was on the

budget, but he spent close to five minutes discussing the benefit of the EU to German people. So, I suppose it's a choice of whether people would listen.

Thank you.

MR. VAÏSSE: Thanks.

Here in the very front.

MR. BIRNBAUM: Yes.

MR. VAÏSSE: Hold for the mike, please, Norm.

MR. BIRNBAUM: Okay.

MR. VAÏSSE: There you go.

MR. BIRNBAUM: Oh, all right. I'm Norman Birnbaum from the Georgetown University, and I'll permit myself a personal remark, as the father of a professor in a French university, I don't mind the figure for state expenditure at all.

(Laughter)

But, look, I want to ask our eminent panelists to step back for a minute and deal with an interesting question. If we take the entire spectrum of the European left, beginning with the ex-Trotskyite post-communists, including the greens, left socialists, social democrats, Christian socialists, even social Christians, which accounts, by the way, for Monti's affinities, if we look at this entire group, do you see any indication apart from they're rushing in with ideas and notions to the present difficulty, any idea of new solutions to the enduring problems of the transformations that we've undergone in the past years? I'm aware that the question marks me more like a theologian looking at the early years of the gospel, but, still, it's worth examining.

MR. VAÏSSE: Thanks.

Garrett, here.

MR. MITCHELL: Thanks. Garrett Mitchell, and I write the *Mitchell*

Report.

I want to pose a question that I suppose you could argue it's a thought experiment, and it is if the U.K. had been a member of the and had dealt in the euro, would that change in anyway the nature and extent of the crisis today, positively and negatively? And going forward, can the euro and be successful in a sustainable basis without them? And what is the likelihood that that actually might happen?

MR. VAÏSSE: Thanks.

I'll take one last question and then we go to the panel for conclusions.

Sir, here.

MR. SCARLISS: Hi, I'm Basil Scarliss. I used to work in the European Bureau of the State Department under Assistant Secretary Gordon.

I have just a brief question because I'm not sure whether Ms. Kauffman and Mr. Klingst accept the view or that is whether the elites and their countries accept the view that a Greek exit would lead to a contagion that at this point doesn't look like it can be contained and would likely result in a world financial crisis comparable to that visited upon us after Lehman Brothers collapsed.

MR. VAÏSSE: Thanks.

So, now, I suggest we turn to our panelists perhaps in reverse order, and starting with you, Martin, and then Sylvie and then John.

I'll just add a word because that's something I've looked into about public spending, the 56 percent. The problem is largely a problem of figures. The OECD calculates public spending whenever any spending is mediated by the state, which is pretty much the case for everything in France, like pensions or health care goes completely through the state. So, it's included in that public spending, but in other countries, the same expenses would not go through the state. So, it's not really the same meaning or the same parameter of spending as in other countries, and that accounts for at least part of the answer.

So, I will now leave the concluding answers and remarks by the panelists. Martin?

MR. KLINGST: Yes, I will make it very brief. I'm not an expert on Great Britain, and I have many relatives there, but a very good friend of mine who heard that I'm speaking here today who's working for a huge bank in financial district in London e-mailed me yesterday and said oh, Martin, be happy you don't have us in the Euro, you would have another problem. (Laughter) We'll ask John what he's feeling.

MR. VAÏSSE: We'll ask John.

MR. KLINGST: The public spending of GDP, actually, one has to be very careful because it does not tell you very much. We have countries in Europe that have high public spending and high taxing and have very productive and effective economies. Sometimes, this is misunderstood because when you, for example, add your private spending for what is done publicly in other countries, you sometimes come to similar sums. So, when you think about pensions, health cares, schools, et cetera.

The question is how effective the public sector and how lean it is and what kind of services it provides. Yes, well, generational problems, I totally agree. I think this is the pivotal question, and this is why, for example, the German government and Angela Merkel says reforms and fiscal discipline is needed because, otherwise, we're just transporting our problems, and I think even though I hope that in a few weeks or a month we will see a compromise also in the growth question and I think it's going to happen because there is no other way. But I still hope that one bears in mind that those debts have to be repaid and that it only can happen if you really stick a reform program. But this is going to need a lot of persuasion and at the end of the day, you always have to persuade your own electorate and Germany has the next general parliamentary election in the fall of 2013, and who knows what happens until then?

MR. VAÏSSE: Thanks, Martin.

Sylvie?

MS. KAUFFMAN: Yes, I agree. I mean, this public spending rate is, anyway, whatever the figures are, it's too high in France. That's for sure. And this is one of the hidden secrets of the campaign, I think. None of the candidates in the presidential campaign, maybe the centrist one, François Bayrou a little bit, but the other ones, neither Sarkozy nor Hollande or the others really dare to tell the truth to the French people, and I thought that was a disgrace because I really think that the French voters are ready to hear that we've been living beyond our means and we have to put this in order. It's not so complicated, but it takes some political guts and will and none of them had it.

Now, I don't see Hollande can avoid this now. He has to go through this. So, as you say, we need rough persuasion. It will be very difficult. It's we'll see.

The left I don't think has put forward many new ideas. Knowing France, knowing other countries, I read what this young, Greek leader who is very charming had to say, but nothing new in my view. He says basically, he was in Paris and in Berlin these last few days, and his position was want to stay in the Euro, but we don't want austerity. Okay, how do you do that? I don't know. But it's nothing new that we can use.

And then the risk of contagion, I really have a hard time imagining to tell you what I personally think. I have a very hard time imagining that the Greeks can leave the euro because first, politically, it's going to be very complicated. I think the vote in June will be a kind of referendum, in fact, and they will say they want to stay in the euro. I think there will be a clear message that they want to stay in the euro, but the European Union leaders also say they want Greece to stay in the euro. Okay, so, if that's what everybody wants, then something has to be done, and maybe this election will have served the purpose in Greece, that to make people understand better what is at stake and what they have to do.

But the other problem is that we don't have legal provisions for Greece to leave the euro. So, John has spoken about the financial consequences for everybody that would be really tough, including for Germany and for all the others, but even without talking about the financial and economic consequences, how do we do this? It's unheard of, we've never been through this, there are no legal provisions in the treaty for a member to leave the. Especially if the Greeks have voted to stay inside, how do you organize this? I really don't see this happening. I hope I'm right.

MR. VAÏSSE: Thanks, Sylvie.

John, I'll ask you to conclude in just two minutes.

MR. PEET: Okay, two minutes, very quickly.

Public spending, yes, I mean, I think this issue in France, we had a cover which we called "France in Denial: The West's Most Frivolous Election," and I think it's absolutely true. It's astonishing that the right in France has been in power for so long and did nothing about the state. The state is a serious problem in France.

It doesn't mean you can't have high public spending. Sweden has high public spending, although lower than France, interestingly enough. Finland has high public spending, but it needs to be spent well, and I don't think the evidence is that it is being spent well in France. So, I think tackling the state is going to be a huge issue that nobody was prepared to tackle except vaguely Bayrou, and even Bayrou didn't do it at all convincingly.

A couple of things on Greece, and I'm going to be very crisp on this, yes, I think that Greece is insolvent. That was one of the big issues. It wasn't recognized from an early stage. The others were illiquid, but Greece is insolvent, and I think, yes, it needed a haircut for private creditors and I think it is going to need a haircut for official creditors, as well. But that is one reason also why I think actually in Germany and I think possibly even in France.

I'm not sure I agree with Sylvie about this. I think the notion that Greece could fall out is becoming more widely thought of. In Germany in particular, I find many people who say Greece should never have been let into the euro, it never met the criteria. It is a different case, it is unique, it is not the same as any other country, and we could find some way -- legally very difficult, the contagion risk is very high -- but we could find some way of saying that was a mistake; we want to wash our hands of it. And the Greek exit, I think, could help the Germans make the move towards things like Eurobonds that are necessary.

Yes, on the U.K., I don't think the U.K. was ever likely to join the euro. Had it joined the euro, I think it would have made the problems worse, not better. It's interesting that the U.K. and Italy drew totally different conclusions from what happened in the early 1990s, when the exchange rate mechanism fell apart. The U.K., I think, drew the conclusion that we should steer very clear of any of these European schemes. Very dangerous things, and many U.K. people said the euro would never come into effect because the exchange rate mechanism would fall apart. Italians, being more for European, drew the conclusion that what they had to have was a single currency and they had to be in at the table.

The trouble now with the debate in the U.K., I think, is that many people on both sides of the political spectrum are saying we told you so, we knew the euro was a bad idea, and we told you so, and I think the mood now has become much more hostile to joining the euro than it was before for that very reason and a leap towards a more federal structure is going to make it harder, not easier, for the U.K. to join.

And then a final word on the left and on the next generation. I think it's been striking that the left in Europe has been so weak since the financial crisis broke, very striking. You would have thought that they could have said look, this was a kind of rightwing crisis, this was a consequence of the market, some of the stuff that actually

Hollande has been saying, but they haven't discovered a good response to it. We may just be beginning to see that changing. The arrival of Hollande could make a difference. We have a Danish left prime minister; we have a Belgian left prime minister. The social democrats may do quite well in Germany next well. I think it's possible the pendulum is swinging a little bit, but on the front of ideas, I think left is still a bit short of ideas.

And the next generation, we have to do more for the next generation. Youth unemployment in Europe is a disgrace. Europe has demographic problems, as well, and I think the risk that the next generation is going to feel we stole it is very great and that could lead to a strong reaction against the European Project.

MR. VAÏSSE: Thanks very much. Please don't thank me. (Laughter)
Thank the panelists for this great, great discussion. So, we'll now take a pause and in about 10, 15 minutes will be the last panel on republican versus democrat views of Europe and the transatlantic relations. Thank you.

(Recess)

MR. LAURENCE: I'd like to welcome you all to the second and final panel of the annual conference put on by the Center on the U.S. and Europe. My name is Jonathan Laurence. I'm a Nonresident Senior Fellow here at Brookings and an Associate Professor of Political Science at Boston College. I'd like to provide a very brief introduction to this panel and introduce our distinguished guests.

We've gathered here several foreign policy experts from different perspectives to talk through the role of foreign policy issues in the U.S. elections this year, viewed, of course, through the prism of transatlantic relations.

Now, President Obama took office just over three years ago with unprecedented personal popularity in Western Europe, something that Assistant Secretary Gordon mentioned this afternoon. This led many I think to expect a new

beginning, where America would reap benefits from the popularity of the President.

Early encouragement, of course, came in the form of a Peace Prize.

And yet here we are several years later and Republicans and Democrats seem to disagree on two fundamental dimensions vis-à-vis our current relationship with Europe: First, how do you help solve the debt crisis and emerge from recession; and second, how to spur Europeans to increase contributions to common military defense.

On the first point, the economic crisis, the administration can legitimately claim to have encouraged growth and job creation measures, at least verbally in Europe, over austerity budgets since 2009 in Pittsburgh, advice which, until recently, perhaps fell on largely deaf ears.

Now, the term “growth measures” is often translated in the American context as “more government and higher taxes.” So that is one area where we might expect a Republican administration to take the opposite and perhaps encourage austerity programs in Europe in line with current German policy, which we just discussed, on the principle that what’s good for the goose is good for the gander.

Bill Kristol recently dubbed the administration’s preference for economic stimulus as the “Hollande-Obama alternative.” Well, will this stick? Would the Romney Administration be willing to endorse the German model?

On defense issues, the Obama Administration can point to its success in shepherding NATO partners closer to missile defense cooperation. The national security advisor wrote recently that the administration has a different qualitative relationship than the coalitions of the willing, and we heard Secretary Gordon make a case for that. But while the recent NATO Summit in Chicago had its share of successes, European partners did not yet agree to new financial commitments to Afghan security forces, although Secretary Gordon did mention a political commitment. And, of course, NATO did not press forward on enlargement, although Secretary Clinton did meet with the four

aspiring applicants and endorsed an open door policy.

Now, on the face of it, this does not reflect enormous progress compared to December 2009, when Europeans denounced only a modest increase of forces to match the last American surge in Afghanistan. The European contribution to NATO spending is down from a half to a third in the last decade.

What lessons can this panel draw from the President's difficulty in extracting more resources from European partners? Is there a structural reticence because everyone's hands are tied by the economic crisis? Or is this because Europe has been put on a back burner, as Heather argued in a recent op-ed? Or if we accept that NATO is "running out of gas," as Kurt has written this week, what can we conclude about why Europe is less willing to take political or security risks for the United States?

Now, Candidate Romney gave an answer in a recent op-ed column in the *Chicago Tribune*, he blamed the President's hollowing out of the American military, which has discouraged Europeans from contributing more. Now, Romney was, of course, referring to the hundreds of billions in defense cuts which are politically rather risky to defend. This may explain why Republicans were joined by House Democrats in passing the National Defense Authorization Act rejecting cuts to the Pentagon, but it also may be the colonel of one of the few genuine partisan disagreements.

Ultimately, of course, a focus on foreign policy in the election campaign is not especially rewarding. The President noted that it can lead to summit-itis or worse. According to a recent ABC-*Washington Post* poll, however, voters are more concerned about the economy by the factor of 50 to 1. So we are going to brave those odds with this panel.

And we are very fortunate to have three distinguished speakers whom I'd ask to speak for 10 minutes each. The first is Ambassador Kurt Volker, who served as the U.S. permanent representative to NATO from July 2008 to May 2009. Prior to that,

he was deputy assistant secretary of state for European and Eurasian Affairs for four years.

Second to speak will be Heather Conley, who is a senior fellow and director of the Europe Program at the Center for Strategic and International Studies. Prior to joining CSIS, Ms. Conley was a senior advisor to the Center for European Policy Analysis. From 2005 to 2008, she was the executive director of the Office of the chairman of the board at the Red Cross, and earlier served also as deputy assistant secretary of state in the Bureau for European and Eurasian Affairs.

And the third panelist to speak will be Ellen Tauscher, who, in addition to serving as the vice chair of the Scowcroft Center, is a special envoy for strategic stability and missile defense with the State Department since February. And from June 2009 until February 2012, she served as under secretary of state for Arms Control and International Security Affairs. She was a member of the House from January of '97 to June of 2009.

So thank you all for being here, and I turn now to Ambassador Volker to kick us off.

MR. VOLKER: Okay. Well, thanks very much. I think I have to start off by debating just a little bit the whole characterization of the discussion, because I don't think that the big debate in foreign policy and national security right now is really between Republicans and Democrats, I think it's really between those who would favor a robust U.S. international leadership role in the world across the board and those who are more concerned that we can't afford that anymore and we need to pull back in order to fix our economy, get out of wars that republics are tired of, and focus more domestically. I think that's really the debate. I wouldn't go so far as to call the latter one isolationism, but there's certainly some of that emotional element of why are we spending so much and doing so much abroad when we have so many problems here at home that we need to fix.

So that I think is the real division there. And I think to talk about where we are and where we go, whether it's President Obama in the second term or whether it's President Romney, it's going to be the same set of problems, and it's going to be a challenge to deliver in foreign policy and national security no matter who's the President given the world that we're in.

The world is very difficult whether it's our European allies' ability to contribute to common operations, defense spending that our European allies are able to do, the nature of some of the tough regimes that we're dealing with, whether it's Iran and the nuclear issue, whether it's a Putin-free Russia or whether it's China, and so on. So I think that's just the nature of it.

So if I were to then look at, well, what would I like to see, so if I want to project ahead to where we are in January and what would I hope to find in a U.S. Government foreign policy, one of the things I'd like to see is a renewed commitment to supporting freedom, democracy, human rights, rule of law, market economy, all the core values that we believe in as Americans, all the core values that underline our own society and that really are the aspirations of people around the world. I think that this is tough because this is a very ambitious commitment to say we're going to support these things in the world, and yet I think it's important that for those who are struggling for these, whether it's in Syria or in Libya or in Russia or in China, they know that we're on their side. How we manifest that, that's the second thing that I think we need to look at.

We need to be creative and smart about how we use U.S. power. I think it is not the case to say that the U.S. is in decline, that we can't afford to be engaged in the world, that we can't afford to launch military operations if it's the right thing to do, that we can't afford to use foreign assistance to leverage outcomes, we can. We can do all of that. We can't do it every time, everywhere, open-ended, massive, long-term commitments, but we are still, by far, the most powerful country in the world, the

wealthiest country in the world, the one that has the most projective capability in the world to influence events, so we can still do a lot. And so I think we need to work hard at using our imagination at what we can do as opposed to finding the reasons for things that we can't do.

The third thing I would say I'd like to see in looking ahead to foreign policy is some toughness in dealing with some tough characters. Take, for example, Putin in Russia, although that's not the only one. I think that, for right or wrong, I think that the Russians have tended to view the U.S. now as not willing to stand up for some things. And I think they have behaved more assertively and aggressively as a result of that, and that's just increased the scale of the difficulties that we have to face.

I would say the same thing about Iran, for example. With all the efforts going into negotiating with Iran, I think Iran still feels as though it has a steam valve that it can use. And whenever we get together for a negotiation, such as we've having right now in Istanbul, if they make some kind of small statement or concession, such as they just did with the IAEA saying, well, we're going to have some new agreement on inspectors coming up, just wait, that lets the steam out of the international build-up of pressure for a while, and then we have to work very hard to build that back up again.

So I think a little bit more of dealing with basically non-democracies that are willing to exercise power for a very clearly defined national purpose, we do need to be willing to push back on that a little bit. So that relates to the point about knowing our own strength and knowing our own capacities and then trying to use that as best we can.

And then the fourth one of these that I would mention, and it underwrites quite literally all of this, is, we've got to get our own finances in order. None of this is possible if we are in a budget meltdown, which is very well where we could be in January if we don't get a handle on it. So I think that it means responsible and very difficult decisions at the top on the overall structure of the budget, and within that, doing enough

to preserve defense capabilities and U.S. foreign engagement capabilities as part of a budget, because no matter what we do with our own budget, the world is not going to go away, the challenges to our interest and to our values are not going to go away, so we've got to make sure that we preserve our capability to engage as literally no one else in the world can.

And since you said to look at this through the prism of transatlantic relations, I'll just add one final point to all of this on the transatlantic agenda. I think that we're going through a very bad time, a very difficult time, and as you pulled out of my op-ed that I wrote, in some ways NATO is running out of gas.

Our European allies are not contributing budgetarily, finding it very hard to sustain the military operations that we're in, public support is not there, any further NATO enlargement is not on the table right now, so all the things that NATO has done to transform since 1989, take on military operations, enlarge, build partnerships, transform capabilities, of these four, three of them are on the rocks right now. Capabilities are under deep stress, the enlargement agenda is off the table, we're shutting down operations. Partnership has turned out to be quite a success, but it's a bitter success because partners are making up for what some of our other allies won't do, and that I think doesn't speak well of the alliance as a whole.

So it's a very difficult time for the alliance, largely driven by budgets and public support and imagination of what we can achieve. So I think, against that backdrop, we have a little bit of work to do looking ahead. How do we define again what the interests and values of a transatlantic community really are in the world? What are the common challenges that we feel we need to address? And how do we work together to do that so that we do it in a credible, reliable, and effective way?

I think NATO does suffer a little bit from a credibility gap right now, and I think one of the principal things on a transatlantic agenda should be to try to restore that

credibility.

MR. LAURENCE: Thank you very much, Ambassador Volker. I now turn to you, Ms. Heather Conley.

MS. CONLEY: Jonathan, thank you so much, and thank you to Justin and Brookings. It's a great privilege to be here. Grabbing the 4:30 to 6:00 slot is an extra challenge. I hope everyone's had that coffee after a wonderful afternoon of conversation. What I thought I'd do, spend a few moments in a bit reflecting on the last three and a half years of transatlantic relations, but very much, to Kurt's point, looking towards the future. And again, I couldn't agree with you more, Kurt. Really what we're talking about is the nature of American leadership moving forward.

And before coming here, I got a question from a reporter. Secretary Clinton and Secretary Panetta and Chairman Dempsey were on the Hill today testifying about the Law of the Sea Treaty, and quite a tough hearing, very skeptical. And the reporter asked me, what is this all about or what do we need to care about? And I said, you know what, it's not about the United Nations, although there are many that will say this is about the loss of American sovereignty to the United Nations, this is about American leadership in the 21st century. And are we going to lead and step forward or are we going to step back and stay out of that and not ratify that treaty? And that's what the future is about, so I want to reflect on that in a transatlantic context in just a moment.

You know, I think looking back at 2009, for the administration, there was truly not a problem to solve in Europe. Europe is about helping us solve some very challenging global problems. The President and I believe -- and I'm sorry for not being here earlier today. I understand that some -- we're reflecting on the fact that President Obama, extremely popular in Europe, more popular than many European leaders, so there was that room and that flexibility for the President and the administration to do many things. But I think initially, at least in the first year, I think the administration was

willing to move forward to solve problems without Europe, and I think that was represented at the Copenhagen Climate Change Conference.

Throughout 2009, I saw a stream of European leaders, Angela Merkel and many others, go straight to Congress, talk about climate change. This is a national security imperative for Europe and a dynamism that was required. And then at Copenhagen, you know, to Europe's great surprise, to be left out of the room of the select leaders that were really part of solving some of the challenges related to climate change, and I think that was just -- adds a great jolt to Europe. What do you mean we're not in this table? We put money to this, we put leadership to this, this is actually very important to us not to be at the table.

And I think it tells us that, you know, we're in this fluid moment of international relations, and there's a fluidity, some call it the geometry, whether that's G-2, G-8, G-20. What combination do we need to solve the problems and where does the transatlantic relationship fit into this moving pattern?

I think it was a very critical challenge. And where does alliance and partnership fit into that? And I think in some ways that was an answer for quite some time. And I think, you know, fatally, this was a challenge of managing unrealistic expectations on both sides of the Atlantic when President Obama was first inaugurated.

Europe had very unrealistic expectations of what the President could and could not do certainly within a domestic context here. I think the administration, to Kurt's point, was very eager to see Europe make a, you know, huge contributions that it wasn't making, and that didn't turn out exactly to be the case, and so it was managing, managing through these unrealistic expectations.

For a moment, to be a little critical, and I say this having served at the State Department, knowing how incredibly difficult this job is, I think, in some ways there were some self-inflicted wounds that the administration committed and, in part, focusing

on two.

The U.S.-Russia reset, the reset itself, in creating a positive U.S.-Russian relationship, was critical to helping Europe, and particularly our Central European friends, create a positive environment. I look at Polish-Russian reconciliation, this was an important thing. But in some way that reset was a little oversold, and it caused anxiety with our Baltic friends, our Central European friends, because at the moment we're resetting, we need to be redoubling our consultation and our transparency for those states that have the most direct knowledge and most direct impact on our policy changes. And, you know, clearly -- and Secretary Tauscher, I welcome your thoughts on this, as well.

You know, again, the rollout of the phased adaptive approach are really important and strong policy, but how it was communicated on the day it was communicated, it just left a huge challenge for the region. And I think the administration has worked extremely hard to overcome that initial challenge, and I think we're seeing a stronger U.S.-Central European relationship, but I think we can do more. But again, it's a self-inflicted problem.

I think another example would be the pivot to Asia. I think in some ways the selection of the word is a loaded word. What is the physical manifestation of pivot? Well, you turn your back. Who did we turn our back to if we're moving to Asia without Europe? Did that cause concern to our European friends? And how do we message that to Europe?

The interesting part is, Europe is pivoting to Asia. They're pivoting in trade, investment, their economic relationship. So how are we managing this together? Right now it feels as if we're managing it separately, but I think we need to do more.

So again, sometimes it is that word use. It is sometimes communicating such a new policy direction so that it actually causes some confusion or some uncertainty

about what that all means. But moving forward, I think -- and I'm going to steal something that Kurt Volker told me a couple of months ago that I thought was really important. When President Obama made his nine-day tour through Asia, he gave a very important speech in Australia, and it really encapsulated our strategy towards the Asia-Pacific region.

And Kurt said, you know what, if you just took out the word "Asia" in that strategy and put Europe in that strategy, that would be a really forward-looking strategy for the transatlantic relationship. It had a security component, an economic component, a cultural, social, you know, a futuristic look. I would argue it's time for us to create a 21st century transatlantic European strategy.

We're a bit trapped in some very old talking points that no longer match the reality on the ground. It's different now. In fact, in a bipartisan way, we're guilty of this. We need to reflect the new and challenging circumstances that are facing Europe.

But ultimately, even if we have the most perfect strategy, we have to make the decision whether this relationship, this alliance is worth the time and the energy and the enthusiasm it takes to sustain it.

I look at my other colleagues at CSIS, I'll use our Asia program for example, our Japan chair. I look at that, you have one country. I'm so envious, you concentrate on one country, I concentrate on 30 countries plus institutions, it's -- I do it poorly. It's a daunting task. It takes an enormous amount of energy and a commitment that you're going to spend the time to invest in leaders, to get to know those leaders and the bureaucracies and everything, and listen to them and understand them.

We have to see if that's worth it. And I've never heard the term "summititis," but yes, that is part of Europe, that is part of how we communicate with Europe, through the USEU, through NATO dialogue, and yes, that can be very tiresome on a very busy schedule. But number one, we have to agree that it's worth the investment, and

then we have to see it through, and I think that's a decision, again, about American leadership. We have to make that decision, whether that investment is worth it.

Finally, I'll end on what I think are some future challenges, and many of these you've discussed this afternoon. When I look at Europe for the next 20 to 25 years, and my apologies for people who have heard me say this before, I see three fundamental challenges.

Number one, it's the profound transformation that Europe is undergoing due to the debt crisis. It is a political transformation that we're seeing, certainly an economic transformation, and a cultural and social transformation that will have a generational impact. When you see the numbers of youth and unemployment in Spain, in Greece, the immigration of youth going outside of Europe, what are they taking from this crisis? In 20 years, when they become the future leaders of Europe, how will they internalize this crisis? This is what we have to understand and get into the challenges of the political dimension of the crisis.

The second fundamental challenge to Europe, to the transatlantic relationship, is managing the rise of Turkey of a regional power whose reach and stretch goes to the Western Balkans, the Caucasus of Central Asia, North Africa, the Middle East, and recognizing that the Turkish EU process has fundamentally stalled for the last 18 months, no new chapters have been opened.

For the first time in my memory, Secretary Clinton said publicly that it's understandable that we put this on the back burner. We've got a lot of issues on our plate right now in the region. When America doesn't push for Turkey's accession or continue to push for Turkey's European orientation, that's a fundamental challenge to the transatlantic relationship.

The third area is managing Russia's -- I call it its evolution, its democratic evolution, its economic evolution. That is going to be a fundamental challenge that, quite

frankly, will span the next generation, decade. How are we going to work on those issues? We have a decision to make about American leadership in Europe. I personally believe that America is a critical European power, and we have to be involved and engaged sometimes in the very messiness that is institution building and policy building.

But we tend to have two approaches to American leadership in Europe: we tend to get right in there and direct traffic or we say you've got it, we're busy, we have some other things to do. We have to find that middle path that allows Europe to lead, but with strong American engagement and action. That's that middle road. That's the new American leadership that I think we have to bring to the transatlantic relationship, and not just commit or recommit to our values, but operationalize those values, particularly in the enlargement agenda, whether that's the Western Balkans, in the Eastern partnership countries, or beyond. That's our fundamental challenge. It is a bipartisan purpose.

And I want to underscore, because if you highlighted the differences perhaps of Democrat and Republican, our policy is best when it's bipartisan. And enlargement, the NATO enlargement point has been successful because it's been bipartisan. Relationship is so important, it has to be bipartisan. So with that, thank you so much.

MR. LAURENCE: Thank you, Ms. Conley. Secretary Tauscher, the floor is yours.

MS. TAUSCHER: Well, let me just say I'm not here as a member of Congress for seven terms, nor am I here as the former Under Secretary of State, nor am I here as the Special Envoy for Strategic Stability and Missile Defense. I am here, I suppose, as the Vice Chair of the Scowcroft Center at the Atlantic Council. So I'm not speaking for the administration in any way.

Kurt and I have known each other for a very long time, and Heather, I've read many of your pieces and very much appreciate a lot that you've said. Since I think I

may be the only person in the room that has practiced the dark arts of politics and actually been elected, let me just tell you from my perspective.

When the Obama administration came into office, we found ourselves with a number of significant situations that immediately caused a pause to prioritize and decide where to go first. Every administration has to do a number of reviews, there are about 11, and the administration was set off to do that. And in this case, many of them were done for the first time with both the State Department and the Defense Department, including the Nuclear Posture Review and the BMD Review, with the State Department as part of the team, not just reviewing it after it was done hoping to get something changed, and that was clearly a decision that President Obama, Secretary Gates, and Secretary Clinton had made. And I think that those products reflected a sense of hard and soft power for the first time, and I think that those were very good.

We found ourselves with two situations vis-à-vis Europe. Number one, that we had not a lot of work done by the previous administration to deal with the fact that we had a START Treaty that was going to expire on December 5th of 2009. And secondly, we had a missile defense proposal by the Bush administration, hated by the Russians and almost hated by the Europeans, because they, I think, understood that it was not meant to protect them, it was meant to, because it was called the Third Site, protect the United States from Europe, and that they were basically and conveniently in the wrong place at the wrong time and subject to threats from Russia if we did, the United States, make that deployment.

Subsequently, during these reviews, immediately the secretary put together a team to look at beginning to negotiate a new START Treaty. The decision was to not extend the START Treaty, but to give a new START Treaty. And at the same time, a decision was made with the White House to use the negotiation of a new START Treaty to reset the relationship, a relationship characterized by mutually assured

destruction, which is no longer the posture that we have between ourselves and the former Soviet Union, Russia, toward a more different, more cooperative relationship that we call mutually assured stability. That success of getting that new START Treaty and deescalating a lot of tensions was very, very important. It also got us a relationship with Russia that enables us to work very closely on things like Iran, more successfully clearly than with on Syria and on Libya. But certainly on the Iran and North Korea situation, we have a much more I think respectful and successful relationship in getting things done.

We also were able to announce in September the Ballistic Missile Defense Review which included, because the President was very insistent, that we were changing the characteristic of what exactly was going to happen with the Third Site. And that review, as many of you know, culminated in the announcement of the European faced adopted approach which was based on a different system, a much more tested system called the SM-3 Rocket currently on Aegis ships that we were going to move it ashore, calling it "Aegis ashore," that we were going to deploy much faster, actually last year in 2011, to protect Europe.

And we were going to go to NATO and get a change in the mission so that it was not just point defense, which was to protect troops in a certain area, the difference between having an umbrella for one person and a canopy for the whole room. So our decision was another commitment, a much more 21st century commitment, to Article V by having U.S. assets deploy immediately into the Mediterranean, first Monterey, and then the Sullivans, and then other ships following on, to get four agreements done in one year with Poland, Romania, Turkey for a radar, and with Spain to take four more Aegis ships, and to deploy the radar by the end of 2011.

That is an enormous set of circumstances, to get NATO to change its mission at the Lisbon Summit in 2010, to deploy a system that can actually protect Europe now against current threats coming out of the Middle East, and to work with the

Russians on missile defense cooperation.

You know, in our own spare time, we got a couple other things done. But I would say on the political side, you know, I spend a lot of my time both in Russia and with my European colleagues, and I think that the turbulence in the channel of the relationship has very little to do, I think, with, in my opinion, with questions as to whether we're still in love and whether we still want to stay together or not.

I think the real issue is, how do we manage together in a time of shrinking resources, in a time of other distractions, real problems, both to security and economic security, real security and economic security? And how do we do it in a way that is reflective of the fact that there's been an imbalance in the relationship for a very, very long time?

President Obama isn't the first President to face the fact that our European and NATO allies are not contributing at the 2 percent that we hope. I think every president since perhaps Kennedy has been dealing with that. So this is nothing new. And no president has been successful in getting anybody to change the way they're doing things, which is to decline their defense budget.

In our case, I would say the biggest problem we have isn't the question of whether we're going to decrease the defense budget, I want to know why the heck we're decreasing the State Department budget. That's the biggest threat to us right now. We're going to have decreases in the Defense Department budget; of course we are, for lots of reasons, including the fact that we've been operating two wars on a credit card for the last 10 years. But why are we decreasing the budget of the State Department, and why aren't people levitating about that? That's the problem.

The problem is that we, you know, whether you call it smart power, soft power, hard power, I don't really care what you call it, you still have to pay for it. And we have a decreasing ability in the Congress to understand that a sign of patriotism isn't to

have a ribbon on the back of your car, begin every speech by talking about how much you praise our fabulous military, we all do, and that's not a default position, but that should be sincere, but that we have to have a balanced foreign policy that includes a real stick, but also a real megaphone. And so we had a crisis last year, and we are going to have a crisis again in the State Department budget. And I don't know of many people that have written about it in a way that compels people to understand that we're taking people off the field.

We're taking prize diplomats, we're taking the ability for us to find counsel, we're taking the ability for us to do anything but sit behind big wire fences further out of town because we're so interested in protecting ourselves. I find that to be a crisis of a relationship when we, you know, we can't even be in the middle of town where people can actually get to us and where we can't send -- having the best Americans that can project American soft power in those places because we've decided that fewer is better when it comes to diplomacy. That's not a sustainable situation for us.

I appreciate very much that Heather said the word bipartisan four or five times. I believe that foreign policy should be nonpartisan, and that is a crisis of our situation, too. We've got too many people on both sides of the aisle, but in the political campaign, clearly, that will use any cudgel they can find to rock anything, and all it does is turn everybody off.

So you don't have anybody that really is paying attention enough to pay attention. You know, I told even my former constituents, I'm blessed to think that -- I've been told that my constituents in California would still elect me. The nice news is that nobody can afford me. But in many places in this country, I don't know who would want to work for the American people. Talk about an absentee landlord.

I was lucky in my congressional district in California, I have two national nuclear labs, and I had, you know, 70, 80 percent of the votes. I have colleagues that

come to the Congress with 30, 35 percent of their voters showing up. They get the same vote I get. I don't know if that's very good. And the American people would rather watch Entertainment Tonight by and large than watch the NewsHour, you know. You don't have to take a test to vote, but you should be able to informed, and you should want to hold people accountable.

And so for too many years and for too long we've had partisanship slinking into foreign policy and national security affairs to the detriment of everyone. Now, Kurt and I have known each other for a very long time, we were kind of concerned that we were going to be on a panel today and it was going to be very boring, because most of the time we say, yeah, I agree with her, yeah, I agree with him, I find now that I absolutely agree with Heather, too. So you may have to take your NoDoz any moment now.

But the truth of the matter is that it should be non-partisan foreign policy, national security. We should be increasing the State Department budget, not cutting it. We have to have a balanced approach to how we work with our friends, but we also have to work with our friends about things that are relevant. And while we may have looked like we were busy during 2009 and early 2010, we negotiated a state-of-the-art treaty with the Russians on one of the most important issues in the new START Treaty.

We are actually taking weapons down to keep our NPT commitments. We are actually working on many different things. We used that to reset the relationship to get their help on Iran and North Korea, maybe not on Syria, maybe not on Libya, but it's a much better relationship.

We believe that we need to move from mutually assured destruction to mutually assured stability. We are never going to agree 100 percent of the time, we can't, we're human. But we are going to identify a sweet spot on a number of issues where we have a common view, where we have a common assessment on the threat,

where we have common platforms where we can cooperate, and where we can find a way to deescalate what has been attention ridden, honest control ways characterized relationship, where a 10-foot fence caused me to build an 11-foot ladder, and, frankly, we can't afford to do that anymore.

So it's an enormously complicated situation, but I think, on balance, that our European friends and allies believe that the United States is at the table and working hard, we're taking down two wars, we're trying to figure out how to deal with increasing problems on the financial side of things, we're trying to work together to get economies balanced and to get people back to work in a very big world where the Europeans are our number one trading partners, and we are inextricably intertwined.

But domestically here at home, I would say as a recovering politician, people better start paying attention, because this is a democracy that is not a sideline game. It is a representative democracy, which means people have to suit up, show up, and vote. And we're losing that battle, and we're losing that battle, unfortunately, I think, because there's more cynicism because it appears to be sheik than there is really an imperative for people to show up.

But part of it is, you know, the sense of partisanship. So I think that if we can get to where Heather wants to be, which is bipartisan, national security, and foreign policy, that would be great. My vote is for nonpartisan and getting ourselves to a place where we -- because we do agree so very often unless we don't take our medication on time, we are really capable of doing that. If we started to project that face and that voice to the rest of the world, they would take a huge sigh of relief, and I think then we would actually be doing everything we can to preserve our democracy.

MR. LAURENCE: Thank you very much.

MS. TAUSCHER: You're welcome.

MR. LAURENCE: So does your message then mean that there are not

genuine differences that are being put forth to the American voters who will, after all, have to enter a booth and choose one of the parties, right? I mean, there are budgets being proposed and counter budgets. Ambassador Volker said that the choice is quite stark between either a robust international role or a quasi-isolationist position. I don't think he was -- had no one in mind when he said that.

MS. TAUSCHER: Well, I won't speak for Kurt, my friend, but I will tell you that, you know, the American voter is not voting on foreign policy or national security in November unless something really cataclysmic happens. They are oblivious to it and they are going to vote, you know, it's the economy all over again, it's going to be about jobs, it's going to be about their sense of their own wellbeing.

There is going to be a piece of it that is going to be about appealing to people's sense of aspiration. There is going to -- people that are upset and are going to be turned off by different parts of the rhetorical battle that we're going to be hearing will stay home. The enthusiasm gap is my biggest concern for what we have coming forward in November. And, you know, I think that, you know, in many ways, there is a laziness about the facts. For the same people that my former colleague said have pitched a fit about the debt ceiling and created a big problem with that that got us degraded in the financial markets just a few months ago, they're preaching from a bar stool. They didn't care at all for the entire eight years of the Bush Administration, while we were going to war on two credit cards, running up debt, you know, playing deficit games all day long.

So, you know, but nobody has called them on it. And that's what the test of a good politician is, can you do it and get away with it, and apparently the answer is yes.

MR. VOLKER: Let me just chime in, because I agree, I don't think foreign policy will push a single vote in the election. No one is going to vote on that. And while you may see people make an effort to use foreign policy as a cudgel in the election,

I --

MS. TAUSCHER: Too weak.

MR. VOLKER: Yeah, you may see that, it's not serious. I mean, it's trying to just calculate where can I, you know, get a little bit of political advantage by saying something this way or that way? It's not really serious.

I'd also say that, you know, in the difference that I drew between those who are working to have a strong American role in the world, resourced appropriately across the full spectrum of things, there are denizens of both parties who want to see that. And when I talked about those who feel that we can't afford that anymore, we've got to cut -- we've got to pull back, we've got to fix things at home. There are denizens of both parties who believe that. And I think that's really -- and I'm not disparaging the second view, even though I don't share it. That's a legitimate point of view, by the way, too, that people are really worried about where we are and how to pull back. I just think that we can't afford to do that because of the costs that will then follow for our country abroad.

But that's really the intellectual debate that's out there, and it really isn't a partisan debate in that respect. And I would just say -- so I didn't see anything in terms of individuals that way.

When you do think about foreign policy and the election, the thing that I would really expect both parties or both candidates to lay out during the course of the campaign is kind of the strategic framework for the way they're looking at the world.

What do we see out there? How do we see ourselves? How do we want to engage in that? And that may offer a hair's breadth of a choice between the candidates on that. There might be some difference in tone and style about that. But I think you're going to see in both cases a fairly traditional engaged, robust American foreign policy articulated from both sides.

MR. LAURENCE: Now, Heather Conley, there may be more difference than just tone and style, right? I mean, if Governor Romney proposes restarting START, resetting the reset, does this have any consequence? Is this really the subject of nonpartisan or bipartisan consensus? If the budget cuts are going to be walked back, if we're talking about capacity and missile defense and the limitations on American's ability to project power, is this really just about style and tone?

MS. CONLEY: Well, I think in part it will be. I agree that foreign policy during the campaign will be opportunistic and it will headline-driven. I think the fine issues that impact the economy, and this is where the sovereign debt crisis will, I believe -- you know, and we pray not, but a worst-case scenario, that, my friend, will have a direct impact on the election, and that is Europe.

In fact, I was briefing a parliamentary group and we were talking about the debt crisis and one parliamentarian said, wouldn't it be ironic if Europe is the reason that President Obama doesn't get reelected? If the economic situation becomes difficult and that is what drives that, wouldn't that be just, you know, ironic? And I said, well, but it speaks to how closely interconnected we are, that how Europe goes is how we go. How we go, we saw in 2008, very much how Europe goes. So we do not have the luxury of saying, well, that's Europe's problem, Europe fixes it, or America, that's your problem, you fix it. We are so in this together that we have to find those common solutions.

Iran is another example, whether the price of oil and stability in the Middle East will have a direct impact potentially on the American economy. So where foreign policy intersects with economic issues I think will have real applications.

Clearly, Russia has become a touch point in the election with Governor Romney noting that Russia was the greatest geopolitical fall. And I think even people saw Secretary Powell's interview, you know, lots of head scratching on that one.

I think it speaks to, again, that this is a difference of opinion from the

Bush Administration to the Obama Administration on missile defense, on the approach to Russia, on arms control in many ways. But, you know, again, I think you'll hear from the Romney campaign a very strong focus on strengthening our relationship with Central Europe, making sure that that's a strong part moving forward, and making sure that we're together understanding the changes and the developments that we're seeing in Russia.

This is an issue that transatlantically we're going to have to stay absolutely in lockstep, it's that important on messaging, and particularly messaging to the post Soviet space. It's going to be critical. We have to get in great alignment. There will be some differences on this issue, full stop. But again, I think the larger strategy moving forward is making sure that we are closely tied with Europe on that approach.

MR. LAURENCE: If I could just say turn that period into a colon.

MS. CONLEY: Okay.

MR. LAURENCE: What does the Republican administration do differently with regard to the euro zone crisis? Are we talking about different kinds of intervention? If President Obama is being depicted now as sort of hectoring ineffectually the Europeans about building a greater firewall instead of focusing on the strategic goal. What is the strategic goal here and how is it pursued differently?

MS. CONLEY: Well, I think we both -- well, everyone, every American wants Europe to resolve this crisis quickly. We want Europe to get back and be strong and be a productive economy. We want the global economy to grow and Europe is such a critical part of that. Nonpartisan, bipartisan, we all are in great unison.

The problem with I think the debt crisis is that it is a dim reflection of ourselves here in the United States, and that's why we have an awfully hard time looking at the mirror, and that's why politically, there's something here for everybody. If you are a deficit or a debt hawk, you look at Greece and you say, see, that's how we're going. If we don't get this debt under control, we will lose our ability to control our destiny and the

market is determinate for us.

On the other side, you say, see, Greece, what happens when you just cut, cut, cut, and you don't grow, and you don't -- we're going to be just like Greece. There's something there for the entire spectrum, from Mr. Krugman to, you know, everybody, there's something in there.

But what it speaks to me is that we together need to support Europe. And this is where I -- in having some conversations with White House officials, I've been frustrated that we haven't made a contribution to the IMF. And I know how politically awful that would be for the administration to go to Congress and say, boy, how about a bail out for Europe, I mean the screaming and the hair pulling and the nastiness.

But I'd like us to be involved, even if it's token, even if it's small, because it says we are investing in Europe as they have invested in us and our foreign policy objectives. For the last 10 years, Europe has been in Afghanistan, not necessarily because of the national security threat that they solve, but because they were there for American solidarity.

Europe is in deep trouble right now. I don't care if it's tokenism. The United States needs to make a contribution to Europe. That's how we give back to one another. But for understandable political reasons we can't do that, we're offering our advice, our counsel, sometimes it's well received, sometimes it's not well received. The Federal Reserve is doing lots of important coordination with ECB and other central banks.

But I do know one thing about my history. When we don't engage with Europe and we say, look, Europe's got this, they're a large economy, they can take care of it, if we're not part of it, we'll return back, but a greater cost for not being there at the beginning, and I don't want that to happen. I want us to be involved intellectually, physically in this profound crisis and that's exactly what it is. Whether Europe tends to

think that it really is our crisis, you know, our issue, I don't want this to be a race to the bottom for our economy. I want us to be a race to the top. And we can't blame each other, we've got to find a solution.

MR. VOLKER: Jonathan, can I just comment on that, too? Because I think Heather made a very good point. We suffer from the same problem that Europe suffers from, which is, we are failing to make decisions. Our budget is stuck now until January and then we'll see what we do. Europe is also failing to make decisions on its debt crisis, and the longer it tries to shave it and push it off, the bigger the problems mount.

And I just want to tweak what Heather said about our being willing to contribute. I don't think it's sensible even, let alone politically salable to offer to contribute to Europe because, in the present circumstance, it's just -- it's, what's the word, it's enabling them to just continue to postpone decisions.

So if it were possible to flip it around, that in exchange for Europe making really decisive decisions about putting up a wall against the further deterioration of debt crisis, which would be very painful and difficult and involve who's in the euro zone and who's not, euro bonds and what happens to -- who's holding European debt, what happens to the further issuance of European debt, then I think if you had those kind of decisions, it would be in our own interest to say we're going to support this, as well. And whatever way the markets require us in order to hold that line so that that stabilizes the goal with financial economy, much, frankly, as Europe did with the United States in 2008 and 2009, that would be sensible.

But until we're at a stage where Europe is making those kinds of choices, I don't think we can even consider putting any money behind it. And, of course, as we all said, it also requires the U.S. to get serious about our own deficit and debt issues as we look ahead.

MR. LAURENCE: Thank you. I'd like to open the discussion to the audience. We have just under a half an hour. I would ask you just to please wait for the microphone to state your name and affiliation before asking your question. We have one up here first.

MR. BEARY: I'm Brian Beary, Washington correspondent for *Europolitics*. I have a question on counterterrorism policy. I know it didn't really come up much in your interventions, but a couple of weeks ago there was an important speech from President Obama's counterterrorism advisor, Mr. Brennan, basically admitting that the U.S. uses drones and is going to continue to in justifying that.

And, of course, you also have continuing Guantanamo Bay which is not being closed. And you have President Obama clearly saying that he believes in detention without, you know, having to bring a charge for counterterrorism, for security reasons.

I'm wondering if you think those issues will, first of all, be issues in the U.S. presidential campaign, if it's going to come up or if you think it just won't be an issue, and if it will become an issue for transatlantic relations, as well. Because it's interesting to me that back in the Bush years, like these were front and center issues, and now it seems like they're not so important anymore.

MS. LAURENCE: Can I begin with you, Secretary Tauscher?

MS. TAUSCHER: I don't think that'll be part of the election. I think that -
- I don't think that there's a tolerance that's developed since everybody has been concerned about the treatment of people that are picked up, but at the same time, I think that the President has been and John Brennan has been very clear about the detainment policy.

This administration clearly has stopped a lot of things that the previous administration was doing. So I think that there's a general recognition that a lot of the

activities that cause people to be very, very upset, including here domestically and our international allies and partners, are no longer going on.

But at the same time, that there has to be a way to manage when you pick up some of these terrorists, that part of the most important piece of detaining them is to extract information about current operations, people that they're associating with, how they have morphed their financial opportunities, how are they dealing with each other through -- what does their network look like, what does their cell look like.

Now, there is a sell-by date on all of that, because at some period of time, these different cells, if you want to put -- is that the term on it, they basically deteriorate and go away, and there's such a firewall around them that nobody knows the next guy, who the next guy is. So for some period of time, that information is fresh and important, and it's important to extract that because it is going to save real lives, both here, as we know, and with our friends around the world. It will not be part of the debate, but you will see in the debate -- the political debate about foreign policy and national security can be characterized very simply as I'm the toughest guy in the world and the other guy is a weak fool, and any way that they can do that, they will do it.

And, you know, whatever hits the headline that day will be what it is, and they will be, you know, manipulated around, and, you know, I'm the tough guy. And then the only other characterization is who loves Israel the most and who is spending more money on Israel than the other guy.

MR. VOLKER: Right.

MS. TAUSCHER: And that's how the love is proportioned, and that's the characterization that you see when you get into the silly season of politics. And, you know, what's important is -- and I just want to pick up on something that Kurt said, because, you know, you have the sterility of, you know, who wants to be in isolation as to who doesn't. Well, I mean, who thinks it's a good idea to be cutting the State Department

budget? Most people don't consider themselves to be isolationists. Really? You can't project American power in a peaceful way, our best face forward? That's really -- that's just destroying seed corn.

So I think that, you know, we have a crazy situation right now where people have gotten ahead of themselves and they can't really justify in the political system what they're doing. But I don't believe that any of these things that you've mentioned, counterterrorism, unless there's an event, you know, somebody secretes something in their underwear again, or their shoes or something, and then there's this idea that -- then all of a sudden who's ever running the government, the TSA is stupid, and we don't have this and we don't have that. But that will be true for anybody and that, unfortunately, takes everybody's eye off the ball.

MR. LAURENCE: Well, if I could just ask you, though, to speak about this in light of Europeans' own evolution on their attitude towards terrorism, and especially their attempts to coordinate amongst themselves?

MS. CONLEY: It was a great question, and I asked the exact same question. I was speaking to a student group in March in The Hague, and I asked the question, I said, you know what, it's interesting, you know, drone policies certainly, Guantanamo remaining open, detaining policy, I don't hear much public reaction in Europe about that. You know, has something changed? Is there an acceptance of the policy? Or, you know, I would have thought Europe would have been much more vocal about these issues because they certainly -- the Bush Administration were very, very concerned about them.

But one gentleman raised his hand and he said, we like President Obama more. And I said, okay, well, that's an explanation, but that's an inconsistency obviously in approach. And if you're concerned about it and this is a value based issue, I have to say, as an American, I have some concerns about, you know, some of this, we

should be able to talk about it, but let's not be hypocritical about it either.

So, I mean, we should embrace the debate because it's an important debate to have, but, you know, my sense is, again, this sort of gets to, you know, we're at a different place and time.

On counterterrorism, you know, I see continued strong cooperation certainly at the USEU level. We held a few weeks back a cybersecurity conference, a lot of really good coordination. We had deputy secretary of Homeland Security and EU Commissioner Malmström there. Those two were literally finishing each other's sentences. There was a real focus there. And I think that's, you know, that is a very encouraging sign.

We have differences, my goodness, on privacy, we have a lot of other differences, but we know this is so important; we've got to get it right. And that's, you know, to my point of, you have to dedicate the energy, the enthusiasm, the time, it's not an easy conversation, but it's the right thing to do and it's important. And so I'm actually very encouraged that we're at a better place on the U.S.-European dialogue and across the board on those issues.

MR. LAURENCE: And Ambassador Volker, when you look at the evolution of European capitals or even the European Union on terrorist threats, on piracy threats, do you see a different set of partners now than you did under the previous American administration? When you see the EU raiding a pirate lair, does this just make you smile?

MR. VOLKER: Yes. A couple of thoughts on this, and then this ties into the question, as well, too, from the security. But first, no, I don't see a different Europe. What I do see is what I would describe is a glass house as Europe. There isn't a whole lot else to do.

They're not happy that we're reducing from four brigades to two brigades

in Europe, but they're cutting even more, so what are they going to say? We should keep forces in Europe because they're not? Or they don't really want us to pull out of Afghanistan and the risk that Afghanistan is going to be a mess, but they certainly don't want to stay in Afghanistan, so they're not going to say anything about that.

MR. LAURENCE: But there is a free rider problem. I mean, what can you say to the theory that, you know, by keeping troops there, you're actually discouraging more investment in defense budgets?

MR. VOLKER: Well, as Ellen said, you know, this has been going on for decades, and --

MS. TAUSCHER: We're keeping troops there for us.

MR. VOLKER: Yeah. No, it's in our interest, that's right.

MR. LAURENCE: But the problem of defense budgets and the percentage of GDP --

MR. VOLKER: No, it's been a decade-long phenomenon that Europe is now putting money into defense budgets as much as the U.S. thinks it should, and we end up subsidizing what is European defense, and that's just the way it is. We couldn't fix that when times were good, and now times are really hard for Europe. So, you know, Bob Gates gave a wonderful speech at a moment when Europe could do absolutely nothing about it.

MR. LAURENCE: But how are they encouraged to increase their contribution if we keep ours at the same level, I guess is my question?

MR. VOLKER: Well, because of the fallacy. So if you reduce Europe's forces, are they then going to spend more money? No, they're not. And the answer is, what's in our own interest. It's in our interest to have a forward platform for dealing with global challenges. It's in our interest to maintain interoperability with our allies so that when we do things, we can do things together. It's in our interest that when we do

something, we have as many others with us as possible so that creates a broader political foundation for what we're doing. So there's a lot of reasons why it makes sense for us to do this and we just have to decide, you know, what's the right level that's right for us. And then you keep working with Europe, and you keep trying to -- you know, as Heather said, it's neither no U.S. leadership or unilateralism, it's how does the U.S. lead with others so that we all try to do the same thing together? And that's -- and you can point to the first Gulf War, you can point to Kosovo, you know, you can point to Afghanistan in the mid 2000s, you know, we're able to do this.

MR. LAURENCE: Thank you.

MR. VOLKER: Can I add one more thing on the counterterrorism point, though, because it comes back to the question I wanted to raise? I'm really glad that you raised this question and that we are where we are, because -- and actually I think it was the Bush Administration that stopped doing things the Bush Administration was doing, and then the Obama Administration continued not doing them, which is good.

But we found a problem in that in order to deal with the world that we're in, you wanted to prevent terrorist attacks, not only arrest people afterwards, when you had people, you had to figure out what to do with them. It is good to have a drone program so that you can take out terrorist leadership. We're engaged in a, you know, legally speaking, still under both administrations, we're in a war, and you have the ability to go after these terrorists.

Now, all that's good. And I think that when you see both in the U.S. debate and in Europe is, when it was only the Bush Administration doing this, people were willing to criticize and to add that's terrible, you shouldn't do that. But then when the Obama Administration comes and does the same thing, it finally clicks with people and they say, oh, we have a real problem here, this is hard, and there isn't an obvious alternative.

So while none of us can be happy about just randomly -- not randomly, that's the wrong word, but using drones as a way to kills lots of people and holding people in Guantanamo for as long as we ever may need to hold them, no one can be happy about that. That is not a good position to be in.

But I think we have right now a much more sophisticated understanding, and we don't have a lot of other good options right now, and that's what we need to spend time as a broader transatlantic community seriously thinking, how are we going to do this for the future.

MR. LAURENCE: There's a question up front on the right.

MS. GOMES: Thank you. My name is Kathleen Gomes. I'm the Washington correspondent for a Portuguese daily newspaper, *Público*. Picking up on something that both Heather and Ambassador Volker mentioned about how the euro zone crisis mirrors many of the problems that exist here in the U.S., how do you see the growing consensus in Europe that posterity is not enough having an impact, if any, on the political debate here in the U.S.? Considering that the political discourse about Europe in the U.S. has been very negative, we've seen that in the Republican primaries, the European use has been -- has a sort of scarecrow. And do you expect President Obama to use Europe as an example of his approach at the risk of being associated with a French socialist, as you mentioned --

MR. VOLKER: No way.

MS. GOMES: -- when you quoted Bill Kristol? Thank you.

MR. VOLKER: Well, I'll say two things. One of them, the risk of President Obama using Europe as a positive example for his own policies is zero, there's no chance of that happening.

The second thing is that if we're honest with ourselves, we have not had any austerity here. We have talked about it, we have flirted with catastrophe, but we

haven't actually cut much of anything at this point. And we're going to have to face this. We probably won't face it -- well, certainly won't face it until January. Even then, we may kick it off again down the road a little bit because we have the reserve currency and find it easy postpone. But in the end, I think in this country, the debate is not about more stimulus and austerity, it's about fundamental fiscal reform, which is going to involve some combination of broadening the revenue base and reforming our massive expenditures in domestic programs with a proportionate effect on defense because you have to do that for fairness across the budget.

That's the debate we're going to have here, very, very different from the European debate, which is levels of debt that can't be sustained with the euro, countries individually that can't sustain their debts, and what happens with them inside the euro zone, and no growth, no real growth going on in Europe so that you can't see with the declining overall population, declining economic performance, how you're ever going to amass enough wealth to change the balance on these debts. That's a very different conversation than the conversation we'll have to have here about our own problems.

MS. CONLEY: Again, pulling back, this is really how democracies, Western democracies are going to deal with deleveraging and pain and changing the social compact between the government and the people. And Europe is now fundamentally making that change at horrific cost and social price. As Kurt said, we haven't yet begun to do that, but if we really think about entitlement reform, we will be doing that. We will be changing a contract with -- whether we're raising retirement ages, as you're seeing in Europe, whether we're reducing benefits, whether we're going to make some future investments in R&D and education. This is about how we all, the West, in Japan and others, how we're going to do this. And it's the most difficult issue for democracy, because who votes for increases in taxes and who votes for less benefits?

But I think we're seeing politically within Europe, this is my own reflection

looking at recent French elections, the ongoing Greek election, is what we're seeing is the center, the establishment is unable to hold in this position, whether it's center left or center right. I'm sort of the moderate that we would say here, but that center position, they're unable to convince others that, you know, we have to do this, it's painful, and what people are -- narratives that people are looking for, particularly young people. And this is what shocked me about the French election, a third of the French electorate in the first round voted for either an extreme left or an extreme right party, one-third. That came out of the center, center left, center right.

We're seeing that exact phenomena in Greece, the soft, new democracy. It's the establishment, the center. And where is that vote going to, that protest vote? It's going to the extreme. That is going to change demographic and democratic patterns in Europe, and we'll see some semblance of that here. Everyone has their own political, historical, cultural adaptation to that. That is the -- what we have to understand, we have to understand the Europe that's going to emerge from this and the United States that's going to emerge from this, and how our societies deal that.

So when Governor Romney in a primary talks about European socialism, and Europe's going what are you talking about, what we're talking about, translation, in my view, is the role of government and society. Should that be a big role? Should that be a directive role? Should that be a limited role?

This is -- we've had in our country for over 200 years, since our founding, the size and the role of government, and that conversation right now is happening in Europe. I've seen no references to Alexander Hamilton in the last several weeks on the euro, how we did our currency, you know. We're going back to those fundamental principles because that's what we're having to look toward to see how this is going to evolve.

But this growth in austerity debate, what I get caught up in, and it's in

part to feed an insatiable need for information, we're analyzing the moment, we're not pulling back and saying what is Europe is going to look like in 15, 20, 25 years. What my children -- how they're going to adapt to this new society. How is my country going to be dealing with that? That's the bigger picture that we're losing in all of this noise and confusion and uncertainty. And as a think tanker, that's what we have to focus on. I mean, we could argue that we already had this debate in the United States.

SPEAKER: We did, over and over and over again.

MS. CONLEY: But we most recently had it in 2010.

But good ol' politics in this country is gone. It's been sacrificed. The worst thing you can be is in the middle of the road, because then you'd get hit by the cars going east and west, going north and south.

SPEAKER: That's called roadkill, right.

MS. CONLEY: And, you know, as a leader of the moderates in the House, you know, I could see my colleagues getting knocked off left and right because they were standing for things that were in the middle. We already have -- we've had the debate about what we should do. I think for all of these debates that say one or the other, it or it, take the "or" out and put "and" in. It's not growth or austerity, it's growth and austerity. They are not polar opposites. They are not -- they have to be blended in in a centrist way, in a moderate way. I would say that we already have a name for it, it's called Simpson-Bowles. We've had the debate, we just haven't decided to pull the trigger. And so we've got to get back around to it.

But, you know, I would say that, you know, in the 2010 election, when Democrats lost the House in '83, '85, '87, whatever the number is, two party people were elected, I would say, you know, where do you think we're going to go if we keep sending people to Washington that don't have the temperament for compromise? That's what it is about going to Washington, except that it's been absolutely turned up on its head over

30, 35, 40 years by what I believe is a concerted campaign to make people that come to Washington to serve their country, to serve their constituents, to serve -- to be part of representative government, to make them look crazy, crazy, lost, and stupid and venal. Some arrive like that, some become that way. Not everybody is good.

But how do the American people actually believe? How do you get a Congress that's at 9 or 10 or 12 percent? These people don't volunteer, they get sent. The same -- we all get to Congress the same way. And how is it possible that the American people believe that the people that they sent, from the moment that they send them to the airplane ride or the car ride, turn into maniacs?

MR. VOLKER: It's everyone else's congressman.

MS. CONLEY: Well, it is now, it's everybody's congressman, including your own. That is completely unsustainable for a representative democracy. So we've got a number of challenges, but we're going to have to -- I think that we're going to have to have a political crisis in this country where the American people decide that they're going to have to pick people that are going to represent them, hopefully in a more centrist, more moderate way, that are going to be willing to compromise, and that are actually going to get things done and not live their lives in Washington.

MR. LAURENCE: We have just under 10 minutes left, so I'm going to collect the last several questions and then give each of the panelists a chance to reply. Since we only have nine minutes left, I'd ask you to keep your questions short. I apologize in advance. Please, sir.

MR. SCARLISS: I'm Basil Scarliss. I had the good fortune of working for Ambassador Volker a few years ago in the State Department. My question is, I hesitate to ask it after Ms. Tauscher's last comments, but you would think that everyone wants to prevent a recurrence of the Lehman Brothers event, that is a worldwide financial crisis. So is there no hope that the issue of contributing to a European firewall couldn't be

explained to the American public in those terms we want to prevent a worldwide contagion after a Greek exit? No, no hope?

MR. LAURENCE: Mr. Hill.

MR. HILL: Steven Hill. It's been a fascinating discussion, thank you. In terms of the issue of debt, I think that -- a couple of points very quickly. One, most countries in Europe, most member states, are actually not in that much debt. It's just really a handful that you're talking about. If you look at the euro zone as it -- in aggregate, it actually doesn't have that much debt. It has less debt than the United States has. It has -- doesn't really have much of a trade deficit. Many of the economic fundamentals are actually fairly good for the euro zone.

The problem that the euro zone has is a balancing, and that's an important distinction, because you have surplus member states and you have deficit member states, and they don't have a transfer union like we have in the United States where California, where I live, we've been bailing out Mississippi and Alabama for decades, right. That's how a transfer union works. Europe doesn't have that, but they're in the process, it looks like, if you look at the trajectory of the last couple of years, of coming up with that, but it's going to take many years.

It's also true that there's just no correlation between debt and your economy being in trouble and your bond rates. I mean, look at Japan, it has one of the highest debts in the world and they borrowed at a very low rate. The UK has actually a higher debt than France has and is borrowing at lower rates. The United States, we're borrowing at historically very low rates even though we have a big debt. So, I mean, we're getting kind of loose in how we talk about these things.

The economists, frankly, don't really know how this works. They say you shouldn't have more than 90 percent GDP-to-debt ratio or 3 percent deficit ratio, but there's no real theory that those numbers are founded on. They're kind of pulling them

from historical research to other things.

So I just think, you know, any comments you have -- but I think that we -- things are not as simple as the narrative is making it out to be.

MR. LAURENCE: Thank you, Steven. And our final question, if you please, in the back.

MS. JOHNSTON: Thank you. Karen Johnston, American University. Ms. Tauscher, I very much share some of your concerns. You mentioned the problem of the public's level of interest and information on foreign policy issues. I think there's a missing link here. That link is the role of the media in providing accurate and sometimes any information about some of the foreign policy issues that are of great concern to you and some of the other foreign policy experts and people in government.

And so seen from your perspective, not perhaps just you, but from the others, what can be done to strengthen this link? Because there are obviously problems in the business of news, the problems of differentiating between news and opinion, the fact that people now in this media landscape self-select the kind of news sources that they have, which does affect their opinions and views on foreign policy issues. So what can be done? Because once the American public is given informed information about issues, they can give informed decisions and be part of the foreign policy debate.

I mean, this has been done with James Fishkin's research on direct democracy. And even the program on international policy attitudes next door has done an interesting report on providing information about the defense budget and how Americans see the defense budget. So what can we do?

MR. LAURENCE: Thank you, Ms. Johnston. I'm going to just give panelists one minute to respond each. I will start on my left with Heather Conley.

MS. CONLEY: Basil, on the debt issue, I mean, again, I'm very sympathetic. I think we should be engaged, but I understand how ruinous the politics

are. I think it's interesting to note that the TARP Program, something like 40 out of the 87 banks that receive TARP funds were international, predominantly European banks. So in some ways, we're already doing this. But I think support is required, but I appreciate its political suicide here in Washington to do it.

Steven, on your question of the simplicity that we talk about this, you're absolutely right. In some respects, I think what we're seeing is a balance sheet recession, and this is why I think some of the differences in approach that Europe has had, the austerity driven efforts have actually made things worse. But my concern is the divergence of economics is economies in Europe where you have Germany, you know, pulling away really from the rest of Europe economically. How do you sustain a more balanced economic union when you have one member that -- I mean, if you took Germany out of the statistics, that trade balance number would not be so good. It's skewing because it's in such a -- I think it's such a different place economically, and that's something we need to watch very carefully. But I agree with you, it's not so simple.

The role of the media, my own little window into this, because think tanks are very much called upon to talk, talk, talk, talk about what we see, and sometimes you feel like, you know, what's the sound bite, you're trying to analyze the second. It's very hard to get long, thoughtful, big pictures. Again, I was telling you, pull back, what's important about this story, the 24/7 insatiable media.

I'm not sure I always help the story. I try to provide context, but they're looking for that sound bite. And sometimes you give 20 minutes of blah, blah, blah, and they pull three sentences out, and I didn't say that, I didn't mean it to sound like that. So it's -- for even think tanks, it's really, really difficult to appreciate that, and in the administration, it's even more challenging than we here in the think tank community.

MR. LAURENCE: Thank you. We have time for two more sound bites.

MS. TAUSCHER: Steven, I couldn't agree more. I would just tell you

that, once again, I'm speaking for myself, this isn't a question of who gets eliminated from the euro zone, it's a question of who gets added. Welcome to Turkey. This is a growth problem, not a debt problem. You're absolutely right, it's about growth, and if you added Turkey, maybe Poland to the euro zone, then the rest of I think the problems would solve themselves very quickly.

And to my friend from the American University, let me say unless we can package foreign policy and national security around *Dancing With the Stars* or some kind of, you know, *Amazing Race* or some kind of snake-ridden, crocodile-ridden swimming of the Potomac -- I have some volunteers for that one -- the American people are just not interested. They're tired, they're scared, they're -- they want to be entertained, they want to have something to divert them. And these all look like problems to them, and they all look, by the way, like problems that somebody else that they hired should solve. So they're not going to pay attention until we figure out how to -- there's Charlie Rose, there's so many things out there that they can watch. They don't watch them.

MR. LAURENCE: So we need to jump the shark foreign policy.

MS. TAUSCHER: Exactly.

SPEAKER: That should be fine for the United States --

MS. TAUSCHER: Yes, the prime minister's question, exactly.

MR. VOLKER: Just two thoughts. One of them, a slightly different point than Ellen's on the economic issues. I think the issue is confidence. And the reason French interest rates are higher than British ones, even though the French debt might be slightly smaller, is because France is in the euro zone, and that imposes a risk on France that the UK, with coherence of control over its own economy and currency, doesn't face.

Japan, people have confidence in Japan and in the U.S. They don't have confidence in Europe. And in Europe, it is some states, not all, many are doing very well, but it is some states that are in unsustainable situations, and that is something that

could have been nipped in the bud and dealt with a couple of years ago, but wasn't, and the problem has grown and grown and grown as a result.

And it can still be dealt with by some choices that thus far Europe is not willing to make. And I would just say one of those choices is to euro bondize the debt that's denominated in euros, and then have a collective process for issuing new euro-denominated debt. That would be a huge transformation of the way things look now. Is that going to happen? I don't think so.

MS. TAUSCHER: We did that, you know, in the '70s, when I was trading bonds, when I was a small child, with New York City.

MR. VOLKER: Yes.

MS. TAUSCHER: The template exists.

MR. VOLKER: Yes.

MS. TAUSCHER: It's -- Felix Salmon did it. It's one, two, three. You add a big premium onto the interest rate and you create a junk bond, but, by the way, you have a lot of people that want to buy it because at this time I think we'd all buy it, even, you know, 8, 9, 10 percent.

MR. VOLKER: Yeah. And then finally to close on a controversial note, I actually think that voters, and I think speaking also about the students that I've seen a lot lately in the last few years, are better informed and more engaged internationally than when I was a student 20 some years ago. People have access to all sorts of information more easily through online media, through social media, through television, through travel, and there's a lot more travel going on. There's just -- people are a lot better informed than they have been in the past.

Now, the quality of information and the quality of the judgment, people are going to make up their own minds. But ultimately, I guess my gut feeling is that people know their own interest and they know something, they have a feeling about it,

they can speak their mind, they can vote in the categories that Ellen described very amusingly, but I think we're actually not in an ill-informed state as it may often seem. The issue comes down really to one of leadership, because it's going to require at every level, whether it's a city, state, federal, Congress, President, whomever, the willingness to use your best judgment, make some hard decisions, even if it means that you're not going to be very popular the next time around.

That's what you need people to stand up for when they go into public office, a slightly different take than looking at the information that people have. It's really what the leaders come back with and say, this is the best we're going to be able to do, for these reasons I support this, and I'm going to do this, and face the consequences, which is hard.

But I think that's what's missing in the equation. People, I think, basically do -- they know a lot more than they used to, and they're angry about it, and they need some people to stand up and give them something to believe in.

MR. LAURENCE: Well, perhaps that's what second terms are for, right?

MR. VOLKER: Well, you know, it's kind of funny, because if you think back on every second term presidency for the last however many years, they've all been better than the first.

MR. LAURENCE: On that note, I would like to thank the panel for coming and thank you all for staying. (Applause)

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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