

THE BROOKINGS INSTITUTION

WILL EUROPE SURVIVE THE CRISIS?

A STATESMAN'S FORUM WITH ALEXANDER STUBB,
FINNISH MINISTER FOR EUROPEAN AFFAIRS
AND FOREIGN TRADE

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P R O C E E D I N G S

MS. HILL: Most of the audience seems to know him personally because Minister Stubb, otherwise known as Alex to everybody who seems to be his friend globally, is very well known in many quarters -- the United States, all over Europe and Great Britain where I originally hail from. And in fact, in a rather unusual turn of events, I've been inundated with e-mails all morning and on Friday when the announcement went out about the presentation, which almost rarely happens, asking me to pose questions to Alex. I think I might just fall with them all onto him and all these people who follow him on Twitter and various other places are very excited that he's here.

Unfortunately, however, we only have an hour as the foreign minister has to fly off to New York for more meetings. So I'm not going to burden him right now with all of these questions. In fact, I'm going to turn over right away to hear what he has to say about the future of Europe. Because Finland is in this very unusual position which we hope it will remain in, to still have a prized AAA credit rating. If only the rest of us had that.

So Alex is in a rather unique position and an enviable one within Europe, and obviously one that is being closely scrutinized at this point. And he's going to tell us how the rest of Europe is going to look in about 15 minute or less. And then we're going to turn over to questions from you and I might just throw in a couple that I've had by e-mail this morning.

But anyway, Alex, thank you so much for joining us.

(Applause)

MR. STUBB: Thank you very much, Fiona, for those kind words of introduction. And given that I'm here pretty much on a trade promotion trip with 30 Finnish startups, we're going to New York to say hello to a few venture capital firms and

to ring the bell on Wednesday morning. And then we're going to Silicon Valley with the startups.

I can't sort of resist the temptation of doing some major trade promotion. This is the new Nokia Lumia 800. It is absolutely fantastic and I can say this because it's a Windows phone, so it's a Finnish-U.S. joint venture. And to all those people who have iPhones, you're just so 1990s. (Laughter) I don't know if I'm allowed to say that but I guess it's a Finnish product so I think I can do it.

It's very nice to be here today, and thanks a lot for the invitation. I think we set this up in Brussels a while back when we were at another forum. And what I wanted to do today is give you a little bit of an introduction and then I'll go into three key points of what is going on in Europe right now. One is the crisis; two is rules; and three is growth. And then I'll try to sum it all up.

By way of introduction I guess I should warn you that I used to have a very heavy southern accent before I married a Brit, and it's been sort of neutralized ever since. The reason I had a southern accent was that I lived in Greenville, South Carolina for four years. I got my B.A. at Furman University, which is a small liberal arts school and it's very proud or I very proudly say that I'm Finnish by birth but southern by the grace of God. (Applause) D.C., of course, is not the South, nor the North, so I can say this, but when I go up to Yankee territory this afternoon I'll be a little bit more quiet.

By way of introduction as well, I find it fascinating and interesting, Fiona, that I'm standing here today talking about Europe for two reasons. One is that when I used to visit Washington back say in the 1990s, early 2000, no one talked about the European Union. All I have been talking about today is the European Union, both at the State Department and then with Ron Kirk at Trade. Everyone talks about the EU and Europe, probably for the wrong reason. In other words, we are in a bit of a crisis, but

nevertheless it's the thing to talk about. Very few countries talk anymore separately about Germany and France and Spain. So it's the European Union. And as a European Federalist, as a follower of Alexander Hamilton, I am very happy about that.

Second observation, Fiona, you mentioned the fact that we are one of the four AAA countries in the eurozone together with Germany, the Netherlands, and Luxembourg. I would argue that Finland has never been more in the core of Europe than what it is right now, but it is unfortunately in the core of Europe for the wrong reasons. We are an AAA country and many others are not. And I wish we would have all 17 Euro countries as AAA countries.

I'm not going to have a magic potion on how to do that because it's up to the individual member state to become AAA countries, but it is also interesting that all of us in Europe are intensely focused on U.S. credit rating institutions giving an analysis on the state of our economy. I welcome that external market pressure and I think it's a good thing.

I'll speak for about 15 minutes max, so that leaves us a good half an hour, 45 minutes for Q&A and the discussion that will follow.

My first point then out of the three today is about the crisis. And on the crisis I'd like to say that in many ways what we witnessed in the last three years after, let me remind you, the downfall of Lehman Brothers and the crisis of the U.S. banking sector. We have basically seen an existential crisis of the western form of capitalism. Remember after the Cold War ended many of us predicted that all countries, 200 in the world, would convert into liberal democracies combined with some kind of a social market economy and we have, of course, been proven wrong. There are various forms of governance that exist around the world in countries such as, for instance, China or Russia, which don't follow the western suit.

It's been an interesting crisis which in many ways started with market hysteria in September 2008, then led to very heavy-duty economic stimulation to all economies around the world. Keynes would have been extremely happy to see what was going on at the time. And after that, of course, it has turned into a debt crisis.

In many ways, I would argue that it's been a triple crisis. It's been a crisis of the public sector, overspending. It's been a crisis of the banking sector, not enough regulation and wild speculation. And in Europe it's been a crisis of trust. We had certain rules that were supposed to be followed, but when those rules were violated, namely by Germany and France in 2003, others started to violate those rules on what we call the growth of stability pact. And then there was this feeling that we can't really trust each other. And what we're doing right now is rebuilding trust.

I'll tell you as a northerner how I feel. I don't like the division into the north and the south in the European Union. I don't think it exists, or it exists as much as Protestant and Catholic or founding state, new state, east and west. I don't like that division at all. As a matter of fact, right now if there's a division there's a division between those countries that take care of their public finances or have taken care of their public finances and then those countries which have failed in doing so. So in many ways I think we're trying to create divisions which don't exist, but I can just explain the frustration that we have, for instance in Finland.

A lot of people have called the countries that are reluctant on bailouts Populists. And I think that's very unfair because it cannot be Populist to follow the rules that I'm going to set among 17 countries or 27 countries. On the contrary, in my mind it's actually Populist if you break the rules in order to get a political gain at home.

Again, I come back to the fact that the EU wasn't an issue in the U.S. 15 years ago. The EU was an issue in Finland and in many countries but we always sort of

talked about let's bring the union closer to its citizens. It didn't work until the Euro crisis hit because when it hits your wallet and when you're going to have to bail out other countries, then suddenly the EU becomes a hell of a lot more interesting.

The basic thinking that I have -- that we have on the crisis is that you have to take a decision -- what comes first? Austerity and rules or stimulation, bailouts, and growth? My argument is that in order to rebuild trust, first you need austerity; first you need stringent fiscal rules, tight rules; and then after that you can start growing.

On the crisis my take is -- so in that sense I'm not following Martin Wolf of the FT or Krugman of the, for me, International Herald Tribune but probably for you New York Times. I don't follow that line of thinking. I think first you need to rebuild the trust and then you get out of the crisis.

On the crisis side, the final point I want to make, I think we have turned the corner. And the reason is twofold. We've had two game changing countries. One is Italy with Mario Monti, and the other one is Spain with Rajoy. These two countries were the ones that were in the danger zone to be in a spillover effect of Greece. Firewalls were built around and political trusts were built around these two new governments. So I feel as a European quite comfortable that we've turned the worst corner on the crisis. Does this mean everything is over and everything is going to be dandy? Of course not, but we've had two months, three months of relative calm.

Second observation I wanted to make today is about rules. Here the reason that Europe spun into a crisis, and I can do this quite easily, there's one thing that's at fault. Well, not one but 27. The finance ministries. The finance ministries of all EU countries. Remember when the Master Treaty was signed, the basic idea was that you should have monetary union combined with an economic union. But at the time the finance ministries refused to go for the economic union part. And the way in which the

system worked is that in my mind you cannot have monetary union without some kind of economic union or at least economic policy coordination. What we ended up doing was to set up loose rules on the growth and stability pact, and the idea was very nice. The idea was that you have certain criteria to get into the Euro about debt and deficit and at the time also about interest rates and inflation. But there was no stick that forced you to say in. The growth and stability pact was supposed to be that but as I said, France and Germany violated in 2003 and then other countries started to follow suit.

So it was a crisis of rules. We didn't have enough integration and this allowed, I think, Europe to spin into a crisis. Have we solved it all? I think we've gone quite far in solving it on two accounts. One is which we in EU jargon call the six-pack of legislation, which in essence gives the Commission a lot of powers on domestic economies, on national economies. It's a step in European integration which we haven't seen before. Can you imagine someone meddling with the U.S. budget, someone from the outside saying, "Well, you know, your budget isn't really well balanced. You should be working on that and that and that and you should be reducing more and putting more money into that." That's what's happening in the European Union for the 27 member states.

The second thing that happened is what we call a Fiscal Compact or Treaty on Economic Union from which the U.K. opted out, the Czech Republic will opt out, and on which the Irish Republic will have a referendum. Is this going to be enough? Perhaps for the time being. What I'm trying to say is that we at least have now the rules in place and I think that's a good thing.

The third issue I wanted to raise in addition to the crisis and the rules is growth. And here, I mean, I guess the best example I've heard is Gideon Rachman of the FT. He made a wonderful comparison a few months back. He said, "Well, China is

becoming the economic superpower. The U.S. continues to be the security political superpower.” And he asked the question, “Where does this leave Europe?” Ah, Europe is the lifestyle super power, which is really nice. I mean, I don’t mind being a lifestyle superpower. I have no problems with it, but in order for you to be a lifestyle superpower you probably need growth. Where is it going to come from in the European Union? I’d say three sources.

Source number one, the single market. And here I’m a bit of a fundamentalist. I get frustrated with a lot of the media which purports the U.S. as the biggest economy in the world. I love the U.S., but the U.S. is not the biggest economy in the world. It’s about 22 to 23 percent of the world economy. The European Union is about 26 to 28 percent of the world economy. The European Union is an internal market with a single currency where you have free movement of goods, services, labor, and money. It is in some cases a more integrated economy than the European economy -- than the U.S. economy is. So the EU is the biggest single market in the world. China, by the way, is between 9 and 10 percent; Japan about 9; Russia about 3 percent of the world economy. So this just gives you the scale. But the feeling is always that, you know, it doesn’t have a single market. It does and we need to focus on it.

The second thing we need to do in Europe is we need to be as good as the U.S. is on the digital single market. Remember in the 1990s when Europe went 10 years ahead of the U.S. in telecommunications? I mean, people around here were still walking with beepers when we had the GSM network. Why did it happen? Because we created a common standard when the AT&Ts and the Southern Bells and the rest of it were still split among the states. Now the reverse is happening on the digital single market; in other words, the different types of applications that you download on mobile phones. The U.S. is by far the most advanced and best market and Europe is behind.

Why? Because we haven't created a single digital market. We have 27 different digital markets with 27 different copyright laws.

I mean, if you are, for instance, a Finnish company called Rovio and you come up with a game called Angry Birds. How many of you have Angry Birds on your iPad? That's a pretty good hit rate for this age group. (Laughter) And my kids clobber me on Angry Birds. But where does Angry Birds want to grow? Well, it wants to grow especially in the United States. Why? Because the digital single market is so much better here than it is in Europe. It's actually 4 percent of the GDP and we need to do a lot of work on that.

The third thing where I think we should grow is by promoting free trade. And I really welcome the new buzz that we have on a free trade agreement between the United States and the EU. There's this wonderful, high-level working group that's doing a lot of work on it. Why is this important? It's important because we have by far over 50 percent of the world economy combined, but there are still a lot of impediments on free trade. So we need to get our act together on both sides of the Atlantic.

By way of conclusion then, how do I see things? First observation, I think Europe has turned the tide on the crisis. I have this gut feeling. I don't really believe in economists because predictions are -- but there's a feeling that we've sort of solved the worst of it. Second observation, I think we have the rules and regulations in place right now, and I think we'll be able to live with those rules for the foreseeable future. And thirdly, by way of conclusion, I think if we want to have growth, of which there is more in Asia, we need to work a lot more closely between the United States and the EU and work on a free trade agreement.

These are the three points I wanted to make today. Thank you very much.

(Applause)

MS. HILL: Now, we'll have to see if we can get your microphone on through here and we've got to get it working properly. As we're doing this I'll have a really nice look here at your new phone here.

I wonder if you were tweeting at the same time you were doing this.

MR. STUBB: No. No.

MS. HILL: I know you can do pretty much everything.

MR. STUBB: Actually, it works quite okay on this but there's nothing I hate more than watching, for instance, a TV debate among Finnish presidential candidates and suddenly, beep, there's a tweet from the presidential candidate. It just shows that you're not tweeting yourself. So I don't -- no, I don't do that. I don't do that. But I do have a nice Twitter application here as well.

MS. HILL: We'll also have to see whether you've got the latest installment of Angry Birds as well. One of the e-mails, in fact, that I got pointed out that you like to call the Finns the Angry Birds of Europe. And I was very curious as to why that was the case. And I also wonder what level we've reached in terms of turning the tide -- level 1, level 2, level 3. For Angry Bird aficionados out here, I play only with my five-year-old. I hope you understand that. Who, of course, beats me hands down every time.

And also, some of the e-mails that we got were asking about Nokia which, of course, is a flagship company for Finland, but of course, is going through quite a lot of changes itself. And some of the e-mails that I got from people pointing out that Nokia is in fact shutting quite a lot of jobs in Finland as it moves global. You know, here you are in the United States and on an important mission from the Finnish perspective, but Nokia is a global company, not only a flagship company for Finland but also with

global ownership. And, you know, the question again about how one keeps the edge for Finland itself was one of the questions that people would like to hear from you about.

So those are a couple of things. But we would like to find out why Finns are the Angry Birds of Europe. And if maybe I can take a couple of questions here from the audience as well that don't have to be about apps and Twitter and Angry Birds.

MR. STUBB: I love a U.S. audience because immediately when you ask for questions, 100 hands go up.

MS. HILL: I have a colleague here that I'll call upon because -- this is Doug Elliott from Brookings, who is one of our experts on the EU and the eurozone crisis. And then I'll ask a couple of other people to ask questions as well.

MR. ELLIOT: Thanks for the ad.

When you look at the six-pack and the Fiscal Compact, to an American it appears to rely very heavily on peer pressure because obviously at the extreme your only other choice is to send the tanks across the border and you're not planning to do that. But I was wondering if you could talk a little bit about how these rules will help deal with countries that find themselves in politically very difficult situations but need to reform.

MS. HILL: Thanks. Another -- the gentleman in the brown shirt with the glasses. Thank you. If you could introduce yourself, please.

MR. STACEY: Sure. Jeff Stacey from the Center for Transatlantic Relations at SEIS. I recently left the State Department and didn't realize until I got out of government how truly this truly, the entire what you might call the U.S. foreign policy establishment, is really focused on China. I worked on European matters inside the government, but outside there seems to be no game in this town for Europe except for, as you pointed out, this topic of the crisis.

But I wanted to ask you if you, yourself, invoked the lifestyle superpower

sort of phrase. Your remarks in a way seem to reflect that. The elephant in the room is really the security side, don't you think? If we've turned the corner in Europe -- or you have, and congratulations on that -- I think a lot of credit goes to the Super Mario Brothers, Monti, and Draghi. And so my question is on the security side. Who will be the Super Mario in Europe?

MS. HILL: That's a great question. And there's a gentleman right at the back and then I'll take some of the other questions. Thanks.

MR. BEARY: I'm Brian Beary, Washington correspondent for Europe Politics.

One of the last times that Finland hit the news headlines here was when the True Finns party did very well in your elections. I'm just wondering if you could comment on what impact the EU crisis has had, and was that part of the reason why the True Finns did very well? And has that evolved since that time? What's the current sort of public attitude in Finland about the EU and all these bailouts?

MS. HILL: Thanks. Great set of questions. Alex, over to you.

MR. STUBB: Sure. I'll try to be brief because I know there are a lot of hands coming up.

First, Fiona, you asked about we are the Angry Birds of Europe. It was just something I threw out I think in an interview. I thought it was quite funny at the time but then --

MS. HILL: It seems to have got a lot of attention.

MR. STUBB: Yeah, it did. And I'm very good friends with Peter Vesterbacka, who is not the marketing chief but the mighty eagle of Angry Birds. And he's perhaps used that in other occasions, please. (Laughter)

The bottom-line is I was just trying to express a certain frustration of what

I said in my intervention in the beginning as well. Finns are a very rule-based people, and I think a lot of the Nordic countries are. And it's kind of a feeling that if you have a set of rules you have to stick to them. And certainly, if you have a set of rules and then we suffer from the fact that someone has us doctor the rules, it feels a little bit unfair. That's the thinking. And this is also probably the reason for the mergers of the True Finns as such. And I say this as a true European, not as a True Finn. I really am a European Federalist, but I'm also a rule-based thinker.

You remember Jean Monet, he said, "Nothing is possible without humans. Nothing is lasting without institutions." And I believe in that in the European Union. Nowadays, although, nothing is possible without Merkel and Sarkozy. Nothing is lasting without the Commission I guess is the version of it. But it works.

You asked also about the level of the level of the turning point. On a scale from 1 to 10, I mean, this is sort of a guestimate. I said in turning the crisis we're at about 5 or 6. It looked really bad for quite a while. But I'll just give you one example. Finland in the early 1990s, banking sector collapses, IMF knocks on the door, unemployment goes up to 18 percent, interest rates at worst at 20 percent. Linked to that, rampant inflation. And now we've been in this for three years. Unemployment at 7 percent. Interest rates haven't even smelt over 2 percent, and we're doing quite well. So the difference is huge in comparison to what we had about 20 years ago.

You also asked about Nokia. Yeah, I mean, Nokia has been a big part of the Finnish success from the early 1990s. And is still by far the biggest mobile set seller in the world. It sells over 30 percent of all handsets in the world. We have a tendency to have a fetish of Smartphones but remember that most handsets in the world are still pretty much normal handsets that are sold with various types of applications.

Nokia was on the brink in many ways probably. It brought in a CEO from

the outside, Stephen Elop from Microsoft, who is a Canadian. And they've turned around. We'll see how they do. I mean, again, Nokia is Finnish and I'm very proud of it and the rest of it but Nokia is still probably 80 percent owned by foreign investors. So in that sense it was global. Yeah, closing up some factories, certainly Salla was a big hit but this is part of the restructuring.

I don't believe -- I'm not a mercantilist. I think it's quite old fashion to think in export-import terms. Yeah, it's important but, you know, exports good, imports bad. I think the value chains of companies around the world are so mixed nowadays that it's probably the wrong way to calculate things.

Doug had a question on six-pack and the notion of peer pressure. I think you're absolutely right. I won't go as far as tanks but the peer pressure is there. But remember that we're also setting up a system of sanctions nowadays. Now, I'll give you one example. Hungary right now is struggling to meet the 3 percent budget deficit criteria for next year. And this could have and will have, according to the Commission, huge implications on cohesion funds. About half a million could possibly be withdrawn from the Hungarians. Now, this is not only peer pressure but it's real pressure because the cohesion funds are, of course, a big part of the GDP of Hungary as such. But peer pressure works wonders.

We had a tremendously secret paper in the European Council -- I don't understand why it was secret -- a couple of weeks back where there were comparisons between the member states on how they were doing on debt ratios, employment, youth unemployment, so on and so forth. And, of course, all we do is "where am I on the list?" Oh, look at that country is not doing very well, is it? And peer pressure works wonders. And we need to use that.

My argument is that the more political the European Commission

becomes, the more tough the debate is going to get. That's, for instance, why Olli Rehn happens to be Finnish but as the commissioner for Economic and Monetary Affairs. He is, of course, under attack from many capitals now because he's saying that, listen, your budget is not in line with what we require on the European level. So peer pressure is a big part of this and I welcome it both in the Fiscal Compact and six-pack.

Greece is not doing these fundamental structural reforms because it thinks it's fun to do it. It's doing it because of peer pressure and because it's forced to due to pressure from the IMF, the European Central Bank, and the European Commission in order for them to get the aid packages that they are getting right now.

Then Jeff asked about the security. Who is the Super Mario of security? I think that's quite a good way of putting it but given that I'm in Washington I can use the legendary Kissinger quote. I know he's in New York but nevertheless. You remember the classic, you know, "European foreign policy is great. Who should I call?" I think the question in many ways is wrong because European foreign policy was never created to be a one sort of voicemail or one books, one voice thing. It's a little bit like the German Constitution post-World War II. You weren't supposed to centralize power into the hands of the chancellor. We have the president of the European Council, president of the European Commission, president of the European Central Bank, president of the European Parliament, president of the Euro Group, et cetera, plus 27 Sarkozys and Merkels and so on and so forth.

Would you ever expect these guys to give exactly the same line on foreign policy? Probably not. The best anecdote I heard on it was President Obama speaking to Hillary Clinton saying that, you know, Kissinger was wrong with his question. There is a phone number I can call in Europe. He said, "Oh, really?" He said, "Hillary, who did you call?" She said, "Yeah, I called Herman Van Rompuy who is the president of

the European Council. Interesting. Well, what did Herman say? "Well, our team got the time difference wrong so I got an answering machine," said Obama.

And then Clinton said, "Well, okay. But what did the answering machine say?" He said, "Well, the answering machine said you have called the phone number of Europe, Herman Van Rompuy. I'm the president of the European Council. If you want a German view, press 1. If you want a British view, press 2. And if you want a French view, press 3."

You know, I think on the big stuff we're on the same line. Iran for instance. We're on the same line. Syria, we're on the same line. There was some hovering and hobbling about with Libya. Egypt, the same line. So people come into line. And I think at the end of the day, European foreign policy will mold itself but it will never been like we, the Europeans, versus the rest of the world. The type of foreign policy that you sometimes see in more traditional nation states, not least the United States.

True Finns. Brian was the final question. For those of you who don't know, True Finns was a party which had three seats in our parliament of 200 members of parliament. In the previous selections and gained up, now has, I think, 38 or 39 seats. It's a revolution in Finnish politics. In Finland, we've always had three big parties -- the Centre right; the Centre right liberal, really, that's us, the Centre Party, which is centre conservative I would argue; and then the social democrats.

Traditionally the three -- usually two in government and one in opposition. Now the True Finns came in as a new force. Many reasons for it. It's one of these anti-European movements, if you will. And part of the platform that they came in on apart from the fact that they have a very charismatic leader who is actually a very good guy. I talked to him a lot and say if in politics you have friends, I mean, he's a good guy to sort of hang out, if you will. Well, we don't hang out but in any case --

They came up on an anti-European platform, did quite well, but are not doing very well in the polls right now, in the opinion polls. So I think the tide is turning on the anti-European side as well. In the presidential elections which we just had, in the first round we had eight candidates. Sixty-five percent of the vote went to basically pro-European candidates. So I think we've turned the tide in general.

And I'll finish off with this. I think the whole idea of a divide in Europe between the left and the right is a little bit passé. Nowadays you have a division between localists and globalists. Localists are anti-European, anti-immigration, anti-euro, and anti-globalization, whereas, globalists are usually pro-European, pro-euro, pro-immigration, and pro-globalization. And you have these globalists and localists basically in all parties. The True Finns are mostly localists I must admit.

MS. HILL: Thanks. This gentleman here and then the lady in the orange scarf.

MR. SCARLIS: Basil Scarlis. I used to deal with economic policy at the State Department and my question concerns economics. If Southern Europe continues with its budget cutbacks, austerity policies, and structural reforms, is there not a danger that all of Europe will fall into a recession if Northern Europe, the solid economies of Northern Europe cut back on their budgets? How would you respond to this? It's not exactly the Krugman view.

MS. HILL: Thanks. And the lady here in the orange scarf, and then we'll take this gentleman over here. Thanks.

MS. CHOI: My name is Sonjon Choi, Lehman Partners.

Minister, I'm interested in your views on two issues: (a) with the rating agencies; (b) with trade issues. And as you point out, there are four countries at the moment. However, Netherlands has been slightly one -- had a problem with one, I

guess, deals with (inaudible). And Finland has a fantastic reputation. However, Finland accounts for the last of the GDP's accounting export. And when I look at the latest export numbers, in 55 percent of trade with Finland, intra-EU trade and 8 percent to the U.S. And as the EU is going through difficult times while it's impacting in Finland, what is your (inaudible) increase in trade with the U.S. at the moment is 8 percent? Thank you.

MS. HILL: Thank you. This gentleman over here. Thanks.

MR. GUZMAN: Hello. I'm Wilhelm Guzman. I sit on the board of the World Bank for the German Treasury. I have one, let's say, comment that is when you were wondering to be opposed of American journalism as regards to euro things, you can become very much down that you're right on the side of the chairman of the Federal Reserve System who, as you can see, on C-SPAN recently in his latest testimony to the Budget Committee on the Hill said that those countries in trouble in the eurozone have no other way than to do austerity measures to gain the credibility and the market back. So just that comment. I think it was not widely well reported in the European papers.

The second thing is I'm one of those old crocodiles who had the pleasure together with Hans Gunner to work on the Master Treaty. We had, at that time, a very market liberal model embedded in the Master Treaty. A couple of years later all member states were in huge deficits. So the Bundesbank came forward with the demand for the Stability and Growth Pact which is now always the one which is cited since market did not penalize with higher interest those who had high deficits. Now, as markets have learned their lesson during the Greek crisis, isn't it then a good way to simply abolish the Stability and Growth Pact? Thank you.

MS. HILL: Hmm. That's a provocative question for you. Where would you like to start? And I'll come back for some more questions in a moment.

MR. STUBB: Sure. I'll start with Basil's question on the south-north

austerity versus growth. I think in Europe we're looking for a -- I'm not saying extended but a few year period of slow growth. I think it's quite clear. Finland is estimated to grow about 0.5-0.7 percent this year. There might be some newer figures coming up. This is by the way related to trade but I'll get back to that shortly.

We are in Finland right now in the midst of budgetary negotiations, and we're looking at the budgets of 2013, 2014, and 2015. And we're looking to cut our budget, in other words, austerity measures between 3.5 to 5 billion. It sounds like peanuts to you, but remember the Finnish state budget is 55 billion euros. So we're talking 7 to 10 percent. That's heavy-duty austerity. Yeah, someone might be of the opinion of why do you even cut your budget that much right now? Because you're one of the few countries that's AAA rated and on top of that, you're one of the few countries that actually fulfilled the original euro criteria together with superpowers such as Luxembourg and Estonia. We're very proud of this. We're the only one, I think, Euro country to fulfill the euro criteria as such.

But we just believe that fiscal control and fiscal consolidation is the best way to go about it. We did our hysterical stimulation of the economies. And we are right now looking at a structural deficit of about 10 billion euros and that's way too much. And of course, if we continue in this way we'll start pushing towards a 60 percent line and we don't want that. And again, we come back to the question of peer pressure. This is also market peer pressure. We have to work every day to retain our AAA status. If we don't retain that it's going to be very difficult for us to, for instance, stay in the market and also pay our debt. So in that sense it's very important to go for austerity.

I don't -- you have to go with austerity first. The reason is that you have to regain and rebuild trust. We cannot go into this vicious spiral of debt. Now, you might come out and say, well, Japan has 200 percent of its GDP on debt. The U.S. just broke

the 100 percent barrier and Greece is only 150. The haircuts will come close to 120 percent. But I don't think that's a way in which you can sustain public finances long term, and that's why I think you need austerity. Growth will come. You know, growth will come in time but growth is not the key issue.

And one thing, again, I'm not speaking here as an economist but one thing I get so frustrated with is when we look at -- we only focus on growth. I don't know if I can say this the right way but coming back to the notion of a lifestyle superpower, I think GDP per capita is an extremely important measure. Why don't we look at that a little bit more and then after that we start looking at growth? And if you look at GDP per capita in Europe or the U.S. you realize that people are actually doing, you know, relatively speaking well, whereas the countries that are growing it's great that they're growing but they have a hell of a lot of catching up to do.

I'll give you an example. China GDP per capita without buying power, \$4,000. Finland GDP per capita, \$44,000. Now, yeah, there are a few more Chinese than Finns, but nevertheless, it will take a little while to grow.

Can I just tell one anecdote in between?

MS. HILL: Go ahead.

MR. STUBB: Foreign minister of Luxembourg, Jean Asselborn, fantastic guy. He was standing next to the Chinese foreign minister. This is true. Tapped him on the shoulder and said, "Isn't it wonderful to stand here and represent about a quarter of the population of the world together? (Laughter) I was reminded of the GDP per capital thing. So austerity first.

Then there was a question on the credit rating agencies and Finnish trade in many ways. I, of course, don't think that the credit rating agencies are the Bible or so on and so forth, but it's a wonderful way to keep the peer pressure up. And they do a

fairly objective analysis, I guess, I assume. They've become a mark against which to measure. I don't like people who start complaining and criticizing the credit rating institutions. I mean, don't shoot the messenger. That's my thinking on it. If you're public finances are not in great shape and a credit rating institution downgrades your ratings, then you have to live with it. You have to cope with it and you have to figure out how to get out of it. So it's just one form of market pressure.

Your point about trade I think was very good. Finland is a completely trade dependent country. Forty percent of our GDP comes from trade so when the world goes into recession we go into deep recession. Example, our figures in 2009 after Lehman Brothers in 2008, we went from 3 percent growth to -6 percent within one year. That's a huge, huge downfall. And of course, now when trade figures are starting to look a little bit better we're doing okay. We now actually have one of the biggest trade deficits that we've had due to high energy prices and so on and so forth. So we need to work on it.

The division of our trade is approximately actually 70 percent to Europe. That's the EU and, of course, Russia, which is our third biggest trading partner. Asia, 15 percent, and the U.S., 8 percent. How do we get the U.S. bit going again? I come back to not my idea but the idea of a free trade agreement between the U.S. and the EU. I think that would probably help. The less barriers we have the better. And, of course, the trade figures are going to hike when I go with my startups to New York and to Silicon Valley.

Wilhelm commented on the austerity measures. I think we're very German in our thinking on that. About abolishing the Growth and Stability Pact, probably not but as long as we get the Stability and Security Pact engraved into the treaties through the six-pack or Fiscal Compact, the basic idea is then it works out quite fine.

Just a final point. I shouldn't say this in the presence of a German but if you look at the way in which the European Central Bank has been dealing with the crisis in the past year, I don't think we could have wished for anything better. But the thing is we can't really ask the European Central Bank to do anything. But Super Mario No. 2 is doing an extremely good job.

MS. HILL: Thank you. I'll take three more questions. Mike Haltzel over here and then the gentleman in front of him. Thank you. And if you could introduce yourselves as we ask the questions.

MR. HALTZEL: Sure. I'm Mike Haltzel from the Center for Transatlantic Relations at SEIS.

It would be good if Paul Krugman were here since he's been cited several times but he's not. So let me just refer to something that I think he wrote in a column even this morning. I mean, he does it all the time. And that is to say it's fine to talk about austerity first and then we'll get to growth, but there are two examples in Europe that don't seem to comport with that and I'm talking, of course, about Spain, which had its finances in order and whose economy was brought down by more or less real estate speculation. We can talk about what kind of controls should have been, could have been, would have been, but that certainly wasn't that Spain was wildly profligate on the state side.

And then we get to Ireland, which has been kind of the model pupil since the collapse. They've done everything right, and as Krugman said, twice the EU declared victory in Ireland and twice it's had to revise. I guess it doesn't revise; it just doesn't talk anymore about it. But they're not doing very well.

So, I mean, I guess my question is are these just the examples that prove the rule? But, I mean, two out of whatever the number of, you know, whatever the

denominator is, it seems to me it's a fairly large percentage. So what do you say to those two examples?

MS. HILL: Thanks. And the gentleman right in front of you. Thanks.

MR. GROSS: I'm Bob Gross with the Office of Overseas Schools.

Much has been said about the strength of the Finnish educational system. And I was just wondering to what extent do you attribute a lot of the strength of your economy to that educational system in Finland?

MS. HILL: Thanks. And there was a question down here, Clara.

MS. O'DONNELL: Thank you. Clara O'Donnell, visiting fellow at Brookings, originally from the Center for European Reform.

I had another question on the issue of European security and that is what are your thoughts on the likely implications of the current military spending cuts being introduced in so many European countries, both on European security and the ability of Europeans to contribute to conflicts in different parts of the world?

MR. STUBB: Thanks. Great. I think my flight is at 6 o'clock so I'm okay.

MS. HILL: We don't want you to miss it.

MR. STUBB: Reagan Airport. That's all right.

First, Mike, the eternal Krugman question, what was posed by this eternal Krugman question. I guess there are exceptions to the rule but I don't know. It depends on how you define austerity. For me, austerity is about sound management of public finances. To me, austerity is about tight fiscal rules. It's about fiscal consolidation. To me austerity is also about the six-pack and about the Fiscal Compact. Now, then inside the 27 EU economies and the 17 euro economies, you of course have special and different types of cases.

Ireland needed rescue packages from the short-term mechanism for

completely different reasons than Portugal needed those packages. Spain hasn't had to dig in too deep yet and yes, it had fairly good fiscal control at the time. Italy was the worst-case scenario. And my argument is what you need first is to rebuild trust and to pump a whole bunch of public money into purely or poorly, sorry, run public systems, bureaucracies, et cetera would simply not create trust and confidence in the markets. And if you don't have trust and confidence in the markets, we'll have a similar type of a rollercoaster of the markets that we had last year.

Now, what we've seen in the past few months is I would argue relative calm. And that relative calm has come from a basic message from European governments. We're not going to overspend; we're cutting. Then as I said, growth will follow. We can go into the existential debate probably for a long time but this is the way we are thinking or this is the way I'm thinking on it rightly or wrongly.

Actually, the Irish economy is not a very big chunk of the European economy. The Greek economy is the best example. It's 2 percent of the whole eurozone economy and it, of course, ran the risk of having a heavy-duty spillover into other economies and we've been able to avert that by setting up tough rules and different kinds of rescue packages.

And remember, with austerity, I mean, the short-term rescue fund the ESSF -- EFSF combined with the long-term rescue package ESM or EMS. I always get them wrong because they're Finnish abbreviations as well. They are sort of not stimulus packages as such, growth packages, but they are there to sort of protect the economies and have been working fairly well.

Bob asked about the Finnish education system and whether it has had an influence on the Finnish economy. Probably yes. It's the OECD that provides these tests. They've been doing them for the better part, I think of 10 years. And for the past

six to eight years Finland has come on top basically in all categories -- math, science, languages. Now I saw that Taiwan came on top but for me, I don't know, we have one China policy. (Laughter) I don't understand why Taiwan was competing in all of this but nevertheless, it's a very good and solid basic education. And I'm sure it has provided something to the economy because, I mean, a lot of people, of course, say that it's all about education and I do agree.

Our secondary education, the university system is good as well but, of course, it can't compete with the likes of the U.S. or the U.K. The good thing with the Finnish system is that it's very equal. Another good thing is that it's quite language-based which I welcome. Obviously, if you only speak Finnish it's not exactly easy to communicate with the rest of the world. So you need to learn languages.

It's also very sort of problem solving-oriented. I'm more of a humanist-type of a guy. Liberal arts school and the rest of it. So I found it a little bit perhaps too rigid. But the system works and it probably has been one of the secrets to Finnish economic growth. I still say that opening up after the Cold War was the big thing. That's what really got us booming. But one thing that we did in the 1990s was to put a lot of money into research and development. That's, for instance, one of the reasons that Nokia and all of its different startups around it mushroomed, if you will.

Then there was a final question on military spending cuts -- will they have an effect? Probably yes, but what you're starting to see inside the European Union is now various forms of defense cooperation. Rationalization, if you will. You have different types of agreements between, for instance, the U.K. and France. You have the reemergence of the Weimar union with Poland taking a strong lead which probably has changed its European policy most fundamentally in the past few years and defense being one of them. So you're starting to see more and more defense cooperation among EU

countries because of the defense cuts. We are doing defense cuts again. You're going to laugh at this but 200 million out of 2 billion is quite a lot. A little bit less than 2 billion is quite a lot. We're actually closing down 5 out of approximately 30 barracks. It's a big deal, but at the same time we're doing much closer cooperation with, of course, our European partners. But more specifically, with our Nordic partners.

And not to forget, with the United States because I think we're the second ones to be granted missiles. So, you know, we try to find various forms of cooperating. Will this mean that European defense gets weaker? No, I don't think so.

MS. HILL: Okay. We'll take three last sort of questions. I'll take this gentleman over here and then the lady right over here. Again, if you could introduce yourselves. Thank you.

MR. FRANGIEH: Hi, Tony Frangieh, Embassy of Lebanon.

You mentioned the credit agencies. As you refer to them they are acting like religious authorities so you cannot argue with them. If you look back, I mean, Lehman you mentioned the start of the crisis with Lehman Brothers -- Lehman Brothers, AIG and many companies that were rated AAA and they went bankrupt the second day. I hope the analogy -- I'm not making an analogy with this but how, I mean, how do you think we can really assure a certain transparency and objectivity with this credit agency when there is a lot of conflict of interest with the credit agencies with the companies and the multinationals? Thank you.

MS. HILL: Thanks for the question. There was a lady over here and then the gentleman at the back. Thank you.

MS. DAWSON: Thank you. Stella Dawson at Reuters.

From your remarks, do I understand that you would be in favor of combining the European Stability Fund and the FSF? The Finance Ministry has been

less clear on that matter and that would be very interesting to know.

Secondly, now as you say the crisis is at a five or six. There has been some concern that some countries might be taking their foot off the pedal. Do you share those concerns that maybe Spain and Portugal, particularly in light of them slipping into or toward recession would be less likely to continue with the necessary reforms? To what degree do you share those concerns?

And then if I could just lastly ask you about the question of picking up the phone, that is somewhat up in the air right now given that the Euro Group presidency is up and your prime minister has been mentioned as a possible candidate. Is she running?

MR. STUBB: He.

MS. DAWSON: Sorry, he. Olli Rehn also has a prominent position. Does that make it more difficult? And if neither Finn is in the running, who would you like to see have the job?

MR. STUBB: You're trying to get news out of me.

MS. HILL: The gentleman right at the very back. Thanks.

SPEAKER: My name is (inaudible). I am a correspondent of (inaudible) News Agency from Serbia. My question is on Western Balkans. What do you think is the future of Western Balkan states and when we can expect that Serbia and other Western Balkan states will enter EU? Thank you.

MR. STUBB: Thanks. I think the two last --

MS. HILL: Three very straightforward questions.

MR. STUBB: I was going to say the two last questions will either get me in trouble or give me salvation. I don't know which.

Tony first. You asked about the credit rating agencies and that they got it all wrong on Lehman and others with AAA. Yeah, to a certain extent. I think they've

tightened their rules and regulations quite a lot. Of course, you know, I'm not a, you know, 100 percent fan of the credit rating institutions. All I'm saying is that they provide for quite fresh market pressure on European governments. And in that sense I welcome what they do. They are independent. There might be some vested interest. The vested interests come probably from a lot of other financial sharks around the world more so than from the credit rating institutions. But they're part and parcel of it. I belong to the category of people who like both -- I guess Keynes and Adam Smith -- likes both government and the markets and we need to find sort of a comfortable marriage between these two and the credit rating institutions provide for the market side of things.

Then Stella from Reuters, I think you might have been -- how would I put it? Misinterpreting me if you were to read that I want to combine the EFSF and the ESM. No, I don't. I'm very much on the same lines with the finance minister on this. Basically, for those of you who are not inaugurated into the subject, we are right now in the process of discussing how to hike up the firewall and we've had an interim mechanism, the EFSF which had certain fire power and then we are building a permanent mechanism. Is it ESM or EMS? ESM, thank you. It's ESM in Finnish, so there you go. One for the books.

And now the debate is that we have three options. One, don't do anything, no increases of the sums. Two, combine the EFSF and the ESM, and then three, just forget the EFSF and go for the ESM. And we are in the process of these discussions and the discussions actually take place today in Brussels. But I don't think that any decisions are imminent. It's a question that will be probably solved in a few weeks time. And there's the IMF meeting on Thursday which might have some side effects and implications on all of this.

Your second question was about are some countries taking the foot off the pedal in these austerity measures and you mentioned Spain and Portugal. As things

happen I was in Madrid on Tuesday and Wednesday last week and we had the Portuguese Prime Minister, including two of his state secretaries with whom I had a lunch in Helsinki on Thursday. So we've looked very closely at what's going on. My answer to you is no, they're not taking their foot off the pedal. The Spanish case is a special case. Again, for those of you who haven't looked at the figures lately, basically for 2013, Spain has promised to have a budget deficit which is no more than 3 percent of its GDP. For this year they were supposed to have it at 4.4 percent. That was the deal. But because previous figures hadn't been exact according to the Spanish government, they have said that as a matter of fact we can't keep to the 4.4; we have to hike it up to 5.8 percent (inaudible). I think that's the figure. And I think if they provide the proof and if the 3 percent rule for 2013 is kept, then we are fine. So I don't think, you know, the Spanish are taking very tough measures on this and I'm very confident the Spanish government is doing the right thing.

Then your final question on the Euro Group chairman, pure speculation. I have no idea who it's going to be. We have no candidates. I don't want to speculate on the issue at this particular stage.

The final question was from Serbia on the future of the Western Balkans. I think we have three key enlargements strategically. One is the easy ones like Iceland, for instance. The second one is Turkey, an enlargement that I'm very strongly in favor of. And then the third, and also strategically extremely important is the Western Balkans. I am very glad that Serbia achieved candidate status after efforts which went at times beyond the call of duty from both the Kosovo side and the Serbian side. I can, of course, not give you a date of enlargement for Serbia but the more European perspectives you can give to all Western Balkan countries the better off we are. And I think Europe would be much stronger off with Serbia as a member state.

I think there are two swing states that we have on enlargement right now. One is the Ukraine, which was a swing state for a long time but now is a bit more iffy, and the other one is, of course, Serbia. And Serbia is much more imminent. I think enlargement is actually the best policy that the European Union has ever done and I hope it continues and I hope that in the midst of this crisis we don't forget how important it is.

MS. HILL: Well, thank you very much, Alex. We want to make sure that you get to New York so that you can boost Finnish trade with the United States and we look forward to watching your progress in the business pages. I'm sure it's going to be all over the business pages.

MR. STUBB: Can I test one thing for you guys?

MS. HILL: Or the style pages.

MR. STUBB: Can I test one thing? I intend to ring the bell on Wednesday. Is it appropriate for me to say -- okay, I've always -- sorry.

MS. HILL: Don't ask me. You better ask somebody else in the audience.

MR. STUBB: I've always wanted to occupy Wall Street and I'm doing it today. Okay? Am I going to get slaughtered or something?

MS. HILL: I don't know. What does everybody think? Avoid that one?

MR. STUBB: Especially occupy it with these 30 startups, I guess.

MS. HILL: You can put that on your Twitter and see what kind of response you get. Or on Facebook and see whether people like that idea or not.

MR. STUBB: I'll probably get hacked.

MS. HILL: We've got one of the younger generation that thinks it was a good idea.

MR. STUBB: Very good. Very good.

MS. HILL: Anyway, good luck with your trip. Thank you to everybody else for joining us.

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