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VISIONS OF EUROPE IN AN ELECTION YEAR

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PANEL 1: EUROPEAN VISIONS OF THE CRISIS

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PROCEEDINGS

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 in 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 Mitterand'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 sovereignist, 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)