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THE SOCIAL IMPACT OF THE EUROZONE CRISIS IN SOUTHERN
EUROPE: THE EU RESPONSE AND THE CHALLENGES AHEAD

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Introduction and Moderator:

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P R O C E E D I N G S

MS. O'DONNELL: Good morning, everyone. My name is Clara O'Donnell. I'm a non-resident Fellow at the Center on the U.S. and Europe at Brookings and a Senior Fellow at the Centre for European Reform in London. And on behalf of the Center on the U.S. and Europe, it is my pleasure to welcome you to Brookings for a discussion with First Vice-President of the European Commission, Gianni Pittella, on the social impact -- oh, my God. I'm sorry. That's actually what it says in my notes -- of the European Parliament, Gianni Pittella, on the social impacts of the euro zone crisis.

I would like to extend a special welcome to Antoine Repo and Gianni Covair from the European Parliament Liaison Office with the U.S. Congress, our partner for today's event, and with whom CUSE has had the pleasure of organizing several events this year.

Over three years into the eurozone crisis, the cost of the economic turmoil on European societies are becoming increasingly apparent. Twenty-six million Europeans are jobless. Youth and employment in Greece and Spain, on some accounts, is around 60 percent. Suicide rates in Greece have gone up by over 35 percent in two years. Governments have fallen. Support for populist political parties is growing. Catalans are calling for independence. And recent EU figures show that trust in EU institutions has plummeted.

Between 2007 and 2012, the number of Germans who distrusted the EU has increased from 36 to 59 percent, while the proportion of Spaniards that distrust the EU has shot up from 23 to 72 percent.

With Europe stability and prosperity at stake, we are delighted to

have with us -- sorry to have the opportunity to host Vice-President Pittella to provide his perspectives on the challenges ahead and how the EU and the European Parliament in particular can help address them.

Gianni Pittella has been First Vice-President of the European Parliament since 2009. He is serving his third term as member of the European Parliament with the Democratic Party. He was twice elected unanimously President of the Italian Delegation within Parliament's Party of European Socialists and he is the author of numerous books including *A Brief History of the Future of the United States and Europe*, which he co-authored with Elido Fazi and in which they argue that Europe should turn the current crisis into an opportunity and transform the international economic system.

In terms of how we will proceed, the Vice-President will provide opening remarks and we will then open up the debate for comments and questions from the floor. Vice-President Pittella will make his opening address in English and in order to provide us with an opportunity to practice our Italian, he will respond to our questions through an interpreter.

Vice-President, le ingraziano per essere con noi. We look forward to your thoughts.

VICE-PRESIDENT PITTELLA: Grazie te e complimenti per i tuo Italiano. Non penso che mio Inglese sara buono il tuo Italiano e mena scuzo con tutti presenti. I want to thank you for inviting me today. The Brookings Institution is a world-leading think tank and I am very happy to be here with you today.

The social crisis in Southern Europe is a topic which deeply troubles me and also you. I have a long experience as a politician and I think I

know a little bit about Southern Europe. I have been a representative of Southern Italy in Italian and European Parliament since the mid-90s.

To better describe the situation in Southern Europe, let me start with some data taken from the latest IMF World Economic Outlook. Italy, France, Portugal, Greece and Cyprus are all in recession. They have current account deficit. The poverty rate and income inequality are also increasing. The unemployment rate is very high and is expected to worsen in 2013. Economic recovery is unlikely to start in 2014.

In my opinion, we run the risk that this recession will be the worst in Europe's contemporary history. Beyond this data, the reality is even worse. In my constituency in Southern Italy, I have never seen such a desperate situation. This social crisis will bring about structural change.

Economic change. Young people are the most affected by this crisis. Southern European governments are also reducing the expenditure in education and research. There is the risk that a new lost generation will grow up. This means that we are losing our potential for growth.

Political effects. I am not just talking about political change and alternation. What is at stake today is something much more important. The social crisis is breeding a democratic crisis. The meaning of this democratic crisis is ambiguous.

On the one hand, representative democracies are challenged and renewed by a demand for direct participation in the political process. On the other, this crisis fosters populist moments which undermine democracy. Think about the Greek neo-Nazi moment -- Golden Dawn. According to some poles, it

may win 20 percent of voters. Twenty percent for a neo-Nazi moment.

To be honest, I am not surprised to see people protesting all around South Europe. I understand why they are afraid. They are worried about our capacity to face this challenge. They are worried about our capacity to give the right answers. They want a clear vision for the future. So, how do we confront this complicated situation?

The first answer is clear to me. The European Parliament needs resolutions has always been clear. Austerity alone cannot be the answer. Austerity risks condemning Europe to a long period of depression. To reduce sovereign debt, we need growth. Under current trends, growth is too weak to remove imbalances and restore full employment in Southern Europe.

The European Parliament called on the European Council to start a real growth program. In 2012, there were some signs of a recovery -- weak signs. Under political pressure from the European Parliament, more capital has been granted to the European Investment Bank and project bonds have been implemented and devoted to major initiatives. The European Parliament is supporting the introduction of Eurobonds. I stress this proposal. I support very much this proposal.

In order to ease tension in the bond markets, Eurobonds should also be devoted to supporting growth by financing long term projects. Thanks to the European Parliament, the introduction of Eurobonds is now more feasible than in the past. With approval of the two-pack regulations, the European Commission will establish an expert group to reflect on the setting up of a redemption fund and (inaudible) bills.

The European redemption fund will help euro zone countries in financing their debt backed by joint liability. In exchange, governments will commit themselves to reduce, in 20 years, the debt of the threshold of 60 percent of GDP.

On the one hand, there will be a pulling of Euro debt and, on the other, governments will reduce their debt. Negotiations at the next multiannual financial framework may also be an important opportunity to shape a more ambitious Europe. They will be the real test of the member states will to fight the crisis and tackle it together.

The current proposal presented by the Council is too weak. It is about 12 percent lower than the budget first presented by the European Commission. I am sure that the European Parliament will use its veto powers to strength the EU budget. The European Union needs an effective federal budget like in the U.S.

The European Central Bank is also underscoring the need for a growth initiative. The two programs launched in 2011 and 2012 have eased tension in the monetary markets, but now we need to be sure that the banks will inject more liquidity into the real economy. It is not too late, but we need EU member states to commit to an ambitious plan for growth and jobs.

Austerity in Italy is not sustainable any more. My country has been a leading nation in terms of primary surplus. Except for Norway, no other country in Europe is such a high primary surplus. We have done our best on fiscal policy, but this is not enough. We need to change our economic policy. Austerity alone results in lower GDP growth, lower incomes. This leads to higher

government debt. We should follow the American example.

First, develop a plan for growth and only once economic growth has gathered momentum, you can tighten the belt. In Europe, we have done the opposite. We have started with fiscal consolidation. This recalls the situation in the U.S. in the beginning of the Great Depression when the government carried out fiscal consolidation too early.

Southern Europe is also suffering from a credit crunch. Interest rates are still too high and the banks are reluctant to lend. Establishing the bond markets has undermined the banking system and it is now crucial to sever the link between banks and sovereigns.

To address these shortcomings, the European Union, pushed by the Parliament, has put forward a political vision -- the banking union. As you know, the banking union is composed of three pillars. One, the deposit guarantee scheme. Second, the Recovery and Resolution Directive, which we are currently discussing in the Parliament. The Commission is expected to work out a new, more ambitious proposal on this issue by the beginning of next summer.

Third, the single supervisory mechanism, which gives the European Central Bank the duty of supervising European banks -- all the European banks. I am confident that the Bundestag will approve the text we have agreed on in February and the European Parliament will vote it in September.

There is also the need to simplify the banking structure of European banks, which is too complex. The (inaudible) report and its idea of a

refinancing between the deposit bank and the trading entities is an important step in simplifying bank structure and overcoming the too big to fail syndrome.

We are waiting for a proposal from the European Commission on this issue. I believe that the banking union and a new growth initiative will be crucial to bring relief to Southern European societies. I also believe that to overcome this crisis, we need strong transatlantic partnership for growth and financial regulation. The transatlantic trade and investment partnership will foster growth on both sides of the Atlantic and the European Parliament is supporting the launch of the negotiations.

The transatlantic partnership may play a crucial role in reshaping the world's economy. We cannot miss this opportunity. For this reason, both the U.S. and EU have to keep an open mind in the upcoming round of negotiations. There is room to gain for both the EU and U.S. without compromising our cultural diversity.

I know that there are some concerns on issues such as GMAO or beef imports, but I am sure that we will be able to focus on what unites us. A new plan for growth, a strong bank union and the transatlantic partnership will make Europe stronger, but this will not be enough.

We should not focus only on macroeconomic issues. In 2007, the U.S. debt was higher than the debt of Spain, Portugal and France. Today, the U.S. has more debt than the euro zone, but the euro zone is under attack. The social crisis in Southern Europe cannot be simply explained in economic terms. It has more to do with the institutional weaknesses of the European Union. This is a confidence crisis.

Markets do not believe that a common currency can exist without a common government and they are right. They are right. That's why we need to open discussion on the creation of a true political union -- and in my book that you mentioned, I wrote this concept and I hope to open the road to create the political union -- the United States of Europe.

The next European election will be crucial to shape a political union. We need to open a debate among European political parties and citizens on the future of the European Union. For the first time in the history of Europe, it is likely that the two largest European parties -- the European Socialist Party and the European People's Party -- will compete for the leadership of the European Commission by presenting their own candidate to the post of president.

European political parties will present their platform for the future shape of Europe and the voters will choose. Political competition among parties with different platforms will foster Europe-wide debate and democratic contestation. This will be the starting point for the creation of a political European Union. Therefore, the next European Parliament elections may be, de facto, constituent elections.

In conclusion, my message is clear. To overcome the most severe crisis since the Second World War, Europe needs to go beyond austerity. But a change in economic policy alone will not be enough. The crisis points out the need for a political union and I am confident that the next European Parliament will, de facto, exercise constituent powers.

Thank you very much.

MS. O'DONNELL: Many thanks, Vice-President. Before opening

up to the floor, I wanted to pick up on two issues. The first one is on this point that you stressed and, that many economists have been stressing, that for the eurozone to be sustainable in the long term, there will be a need for closer economic and fiscal integration among eurozone countries.

Now although this is being put forward, we notice that there is significant opposition amongst the public opinion in several EU member states to such closer fiscal cooperation. There has been significant opposition to EU bailout in Germany, Finland, France, the United Kingdom. On recent EU figures, in autumn of 2012, in Germany, only 26 percent of people supported the idea of Eurobonds. In light of these realities, how can European politicians move forward? How can they convince the electorate to take the step forward towards closer economic integration and political integration? And if we do not, where do you see Europe's future five years from now?

VICE-PRESIDENT PITTELLA: Thank you. I am well aware that -- especially in the northern EU countries -- there is this tendency to want to go at it alone forgetting one of the underlying principles of the European Union which is the principle of solidarity. And I am personally convinced that if they do abandon this principle of solidarities, then they would actually find themselves in more dire straits.

There's a very nice saying that goes Germany lost all the wars, but has won all the peace. And by this I mean to say that Germany has been definitely one of the countries that most has gained from the European construction and the European unification idea.

Even in just simple economic terms for the growth of the German

industries and companies, European market accounts for 60 percent of German exports. And so bringing the south of Europe back on its feet, it's something that ultimately will benefit all the countries of the northern part of the European Union. So we have to bring the countries of Southern Europe back on their feet. And to do this there are two things that must be done.

First of all, you have to stop austerity as is now. We have to sort of loosen it or dilute it more over time. And the second thing that needs to be done is to build a good government for the single currency, because you cannot have a currency if you do not have a state that governs it.

And I really hope that following the German elections in September, we will be able to find a more positive political climate that will allow us to sign a clear compromise with Mrs. Merkel.

And this sort of compromise that we should be undersigning together should be composed of three main elements. First of all, we have the fact that everybody must respect certain budget rigor is not even in discussion. That's pretty obvious. But, you need more flexibility so that we would be more able to reach those budget goals that we all agreed.

Secondly, you have to foster growth and jobs. We need more breathing room in Europe to overcome this social crisis.

And thirdly, we should really open the way to discuss the creation of a United States of Europe and this might begin by choosing together the president of the European Commission -- directly chosen by the citizens.

MS. O'DONNELL: Thank you. Another question before turning it over and that is on the United Kingdom. You mention in your book on *A Brief*

History of the Future of the United States of Europe, you discuss the possibility of the United Kingdom leaving the EU and you argue that not only should the U.K. remain, but it should even join the euro.

I was wondering if you could offer your thoughts on what you see as the main costs that the U.K. would incur if it did indeed leave the EU and what shortcomings would it be -- what costs would the EU itself incur if the U.K. were to leave?

VICE-PRESIDENT PITTELLA: Well, first of all, one thing needs to be made very clear to my British friends. Being in Europe is not like going to a restaurant where you ask for the menu and I can decide to have a starter, you might pick a main course and someone else will have a fruit salad instead, okay? The EU is a common destiny choice and when you're in a common destiny choice, you take the good with the bad. You're in it for better or for worse. You cannot just join for the things that you like and interest you and just sort of say well I just won't be part of that because I don't like that bit. You can't do that.

And so having made that perfectly clear, I would also like to stress that I would really like the U.K. to stay in the EU. In fact, I would like them to increase their presence and weight in the EU, especially in those areas of policy where they're currently opting out and their voice isn't heard. And let me give them a warning as well, because the city of London, whose financial transactions bear a significant weight on the country's GDP, operate in euros and this euro transaction has been incredibly beneficial to the U.K. So they risk losing out that as well.

MS. O'DONNELL: Grazie. Indeed. We will now turn it to the

floor. We will group several interventions together and I would be grateful if you could wait for the microphone and introduce yourselves. Yes, gentleman, over here.

SPEAKER: I found the analysis that you made quite convincing and also the follow-up -- what you suggested. I was not convinced, however, by your outlook at how better growth and growing together could be achieved. It is no question that austerity alone will not produce growth. This has been said now for several years, there's no surprise, it's good that the percentage of the Parliament believes that also. So there will be no growth without measures that enterprises will take -- individuals will take.

The fact that you did not mention solidarity, which has been playing such an important part in this debt crisis, was a little bit surprising to me. I mean the Union has been functioning well. The members of the Union have provided financial support to manage the debt crisis.

The facts -- the measures that you listed there -- banking union, joint bonds and all other kinds of things -- they are not going to produce growth. They are instruments to measure -- to manage the debt problem.

When you say that we need to create growth, let's remind ourselves governments -- EU institutions cannot do that. It has to come from entrepreneurs who invest -- provided by funds from the banking sector. I don't really see how you could hope that bureaucratic measures could produce growth in Europe when for several years now growth has been lacking in key countries all over Europe and the unemployment figures are certainly not only a result of the austerity measures, but it's also of the lack of growth previous to the

measures.

And last but not least, when you say that we need a political union -- that we need a government that goes with this currency, I think nobody could disagree with that. But this discussion has been going on for 40, 50 years -- in detail, intensively. Why would you think that now, in this crisis situation, governments will be willing to resume this discussion when to get over the next year, over the next two years is much, much more important than create a future Europe?

MS. O'DONNELL: And so if you could introduce yourself, please?

SPEAKER: (Inaudible) is my name.

MS. O'DONNELL: Thank you. Yes. We'll take some other points. Yes, the gentleman in the red shirt. Thank you.

SPEAKER: Well, I'm coming from a very small European country, Croatia, which is going to join the EU on the first of July. So I would like to congratulate to the presenter. But I would also like to express my view on the crisis. Economic, financial and debt crisis in Europe are becoming cultural crisis. For example, in my country -- in my language, there is no term for austerity. So there are two types of European countries -- austerity countries that are mostly, unfortunately or fortunately, Protestant ones and hedonistic countries. These are Mediterranean or southern country or Balkan countries and it is going to be very difficult to find consensus on economic policy. And I agree that (inaudible) on useless discussion on political union in the times of crisis. Thank you.

MS. O'DONNELL: We'll start with these two.

VICE-PRESIDENT PITTELLA: (Speaking Italian)

MS. O'DONNELL: (Speaking Italian) Yes, sir.

MR. SHIN: Richard Shin with Economist Incorporated. Yesterday at Brookings, the chief economist at the World Bank, Dr. Basu, I think, said that the world needs more macroeconomic coordination among industrialized nations. And, two, that the liquidity that's been provided up to this point has been more financial, but that should be targeted toward more labor intensive industries or labor intensive firms.

So your recommendations seem to be targeted to those -- or correspond well with those policy recommendations having a political union that's going to -- an economic union and as well as advancing more growth oriented types of policies. So my question here is that, one, given the different incentive each country has, how could we reach a consensus as previous questions had asked? And, two, the type of political union that you're discussing -- the United States of Europe -- is that more like the United States of American model where states have some amount of autonomy, but most of the power is concentrated in the Federal Government? Or, you know, for example, what would you do with the military? You know, is the military going to be consolidated or is it going to remain with the individual countries? So could you provide a little bit more detail on your vision?

VICE-PRESIDENT PITTELLA: It's not true that I haven't mentioned solidarity. When I answered the first question, what I said was that solidarity was the underpinning principle of the European Union.

And we have to use the principle of solidarity, which underpins the Union, as a building block to overcome the crisis.

And I think that over the past few years we've lost a bit sight of what Europe should mean in a way. And as Europe has become more a Europe of technocrats, a Europe of markets and marketeers, a Europe of big financial operations, losing sight of what it was supposed to be and it's become less a Europe of solidarity, a Europe of mutual recognition, a Europe where you could be together and you live together even though we really are a sum of very, very different cultures and big -- a wide range of diversities.

Well, I don't agree when you say that growth only comes through the private sector initiatives. Yes, the private sector is really, really important. But it cannot go at it alone. I think at this type of crisis we also need an institutional and public support. In this kind of crisis, you need to increase the public monies that are spent in investment and the -- so we need a European investment plan of a thousand, billion Euros to spend on research, to spend on training, to spend on education, on energy and infrastructural networks, on telematic networks, on a universal Erasmus for all young people between the ages of 16 and 35, on the SMEs because the SMEs are vital but they cannot be left alone to pick up the pieces and try to rebuild everything.

And I see this being achieved in two ways -- using two tools if you like. One is that the stability pack should not comprise investment expenditures. And the second thing is the use of eurobonds, which are securities that can be made available throughout Europe and to the tune of three thousand billion a year -- 2,000 of which should be employed to reduce the country's debt and 1,000 billion of which should be used to promote growth -- because if we don't do something like this, then Europe risks being marginalized in this global economy.

And I haven't come up with this idea of the eurobonds on my own. I'm not an economist. So, this report was published by two important economists -- very well respected economists, Alberto Quadrio Curzio and Romano Prodi.

But I agree with you when you remark that we've wasted a lot of time in Europe. We've been discussing these things for decades and why do I think that now perhaps the politicians have changed their minds? Well, I think that the reason why we've accumulated all this sort of backlog was that we started thinking things the wrong way around.

We started with the roof, which was the common currency, and then we thought well, once we have a roof, we'll get the pillars. And once we get the pillars, we'll set in the foundations -- the foundations being the political union, a common economic and fiscal policy. And the reason why I think that things have come to a head now and perhaps the political class and politicians might be more willing to change their mindset and contemplate a political union is that we are all realizing that the euro, as such, cannot continue without a common economic policy, fiscal policy and this leads to a political communality. And so, I think that there is the hope that we might achieve a common economic policy, fiscal policy and ultimately a political union.

Well, to our Croatian friend, first of all let me say good luck and well done for joining in July and for having members of the European Parliament. And I would say that it's not such a problem really of putting together and having them work together the sort of more Calvinist austere spirit of the Northern European countries with the more hedonistic approach of the Southern European countries.

Yes there might be different ways of interpreting what it means to respect a budget, but I think in the end it's not irreconcilable differences. In fact, I believe that these cultural differences and these different mindsets are a richness that we have -- not so much a problem. And when I -- you have to come to find the commonalities upon which you build a compromise. So when I say we would like to find a compromise with Chancellor Merkel, I mean that yes, we have to -- both sides have to step away perhaps from their more dogmatic, idealistic almost, draconian way of seeing things -- finding a more common ground. And in this way, I'm sure we can find pragmatic meeting points on which we can build something because if we do not have the means to solve this terrible social crisis in the south of Europe, the whole thing is going to come apart.

To answer the question, what do I mean and how do see this United States of Europe, well, I consider myself a pragmatist and somebody who likes to do things step by step. So should start by having the candidatures for the post of president of the European Commission. The European Socialist Group is going to present their candidate. Personally, I think it might be the current European Parliament's president, Mr. Martin Schulz, who is a very well-known figure in the socialist European parties and I think that the European People's Party might come up with an equally illustrious and well-known candidate. And so probably will the liberals and the Greens and so forth. But the important thing is that each candidate should clearly present his or her political platform so that the citizens, when they go and vote at the European elections on May 25th, 2014, will be able to say I'm voting for this party because this is their candidate and this is what they want for Europe. That would be the first step.

The second step, on the other hand, would be for the newly-elected then European Parliament at the 2014 elections, to play a real constituent role, to create a new political Europe. I would like to see two legislative houses in the European Union -- the European Parliament, which would be directly elected -- which is directly elected by the citizens and therefore would represent the voice of the European citizens, and the European Council, where the voice of the individual member states can be heard. And I would like to see a true, single European Foreign Minister. I would like to see instituted the figure of a true, single European Treasury Minister as well as I would like to see the European Central Bank be like the Federal Reserve and be able to become the lender of last resort. And I would like the European budget to be set up like the U.S. budget so with a part that pertains to the single states and an oversight that belongs to the federal authority. And I would really like for our defense and security policy to become truly common and, yes, a single European army. This is my personal vision of a United States of Europe.

MS. O'DONNELL: Thank you. Next round of questions. Yes. Here. The gentleman here. Thank you.

MR. VERHOF: I'm Nicola Verhof from the Embassy of Italy, but I'm speaking on a personal capacity, of course. I wanted to dovetail on one of the previous questions concerning the divide between North and South Europe. I think one of the most urgent things in Europe rises is to set the narrative straight on the root causes of the crisis and on the reasons of the present situation.

On the root causes, the conventional wisdom -- goals, more or less -- the crisis has been caused by the profligacy of some government. This is

not true. Plainly it's not the case. Maybe it was partially true for Greece, but there was no such thing as profligacy in the other countries. It was not the case - - definitely not the case in Spain and Ireland. It was not the case in Italy, which as President Pittella said run a huge primary surplus for 10 years or so. And it was not even the case in Portugal.

So the crisis has been mainly created in the banking sector. Of course, we cannot dwell on that now, but it's not -- definitely not a crisis caused by the profligacy of southern government. This as far as the root causes are concerned.

As far as the present situation is concerned, the usual conventional wisdom says the individual member states should regain the confidence of the markets. Also in this case, it's partially true. But it's not the whole truth. There is, of course, the need to redress some budget imbalances, but one of the reasons why the markets ask such high interest rates, for example, in several member states, is the fact that they consider the deficit countries as being indebted in a foreign currency because they don't have the printing press, they don't have an economic government and so on and so forth. That's one of the reasons why. So there is a national reason, but there is also European reason.

It has been very difficult to fight this narrative that leads inevitably to austerity because if the problem was profligacy for government, then the solution is austerity. As President Pittella correctly said, we should probably change the framework also the narrative. But this has proven to be very, very difficult.

Now my question is probably what we really badly need is an authentic European political debate and what can the European Parliament, which is par-excellence -- the forum where this political debate can take place -- what can European Parliament do and what can the European political parties do to encourage an open, frank and constructive collective debate on those issues?

MS. O'DONNELL: Thank you. Yes, Brian.

MR. BEARY: Brian Beary, Washington Correspondent for Europolitics. I have a very specific question on the upcoming negotiations for the Free Trade Agreement with the EU and U.S. What is your view about the scope for what those negotiations should cover? The French government has said clearly they do not want the audio visual sector covered because it's part of the Europe's cultural exception. Do you agree with that position?

And what do you think, as an Italian member of Parliament, are going to be the sensitive issues -- the issues that Italians care most about in these negotiations?

MS. O'DONNELL: Thank you. And we'll take one last question. Sir, here.

SPEAKER: Thank you. Alex Brutier with ASCGS at Johns Hopkins. Mr. Pittella, it's not hard to agree with most of what you say in terms of some of the things that need to be done long term and also the facts that, of course, sort of synchronize austerity is making the situation -- the economic situation -- in most of Europe worse. But one point that you have not addressed at all in your presentation is the need for some of these countries -- specifically the countries in the periphery -- to address some of their structural weaknesses

that have accumulated over the past 10 years. Something that, of course, cannot happen overnight, but you haven't mentioned at all.

Do you think that these economies would find a path back to growth and it would be sufficient to basically boost public expenditure in a sort of Keynesian way? Or do you actually see that some of these countries -- and specifically Italy -- has a backlog of reforms that have not been implemented in the past 10 years that have made the country less competitive within Europe, but definitely less competitive at a global level? Thank you.

MS. O'DONNELL: Thank you.

VICE-PRESIDENT PITTELLA: Well, of course, I agree completely with Mr. (inaudible) assessment of the situation and the picture of the message. So I will just limit myself to answering his question. So what can the European Parliament do -- and I would add also the European Commission actually -- to start this great debate on the future of Europe and especially to prepare the elections at the European Parliament in 2014?

Well, Commissioner Reding has already put it out there. She has asked the political parties to come up with a candidate -- a candidate with a clear political manifesto -- for the next commission and president. And I think that this is a very important starting point. We have to have the citizens be able to identify candidates who say okay, this is my position. This is what I think Europe should look like in the future and therefore, when the citizens go vote, they will go and vote for that candidate because it proposes that future. And in this way we can focus attention back on the actual political idea and the idea of that particular Europe.

If we don't do that, the risk is that the focus of the discussions, as usual, will come back to the single member states and will focus on domestic ills and woes and this will be taken over by the more demagogical factions who will say well, everything that's wrong with our country is the fault of Europe and we will see a rise in more anti-European movements, xenophobic movements and the risk is that the next European Parliament legislature will have an increase in seats -- both left and right -- taken over by these sorts of extreme movements.

Coming to the question of the upcoming negotiations on a U.S./EU free trade agreement, I completely subscribe to it. I think it is hugely important. This is a hugely important opportunity that we must not miss out on and it will bring advantages both in political terms and in economic terms. I mean to give you just a small example, from my country alone, it at least stands to gain from this treaty about four billion over 10 years in terms of GDP increase at a rate that varies between .5 and one percent per annum. But besides the economic advantages, there are also huge political advantages to be gained because -- and this is very important for us Europeans -- Europe would be once again a central interlocutor for the U.S. on the global stage.

And the European Parliament, at the next plenary in Strasberg is going to vote on the negotiation mandate to start talks on this treaty. And so I cannot really say what the scope or limits on the scope will be as agreed by this mandate voted by the Parliament. Personally, I don't have any prejudice on any of the sectors that should be or not encompassed. I know that we will have to find some position of compromise on one or the other and I know that there are some areas of more concern -- mainly food, agri-business, GMOs and the

cultural differences.

So to answer the last question that we had in that bunch, which if I understood correctly, had to do with the fact that some European countries have not -- have some structural weaknesses and have not done the reforms that they should have done. It's not entirely true to say that the countries of Southern Europe have not undertaken reforms. Even Italy has undertaken some reforms. Okay, not wholly, but we have started. And other countries that are benefitting from the rescue packages are obligated to carry out reform, so you can't say that the saints are all in the north and the sinners are all in the south because this is a completely false envision of things. And it's entirely untrue.

It's true that more must be done in the sense of reforms and -- but it's equally true that structural reforms alone will not solve the problems -- will not solve the economy crisis. It will not solve the competitiveness crisis and it will not solve the cohesion crisis. So just thinking that reforms alone can be a panacea for all these issues is dangerous in my view.

And so should we discuss what to do to harmonize a bit more the rules of the labor market? Sure, let's talk about it. But increased flexibility is a good thing, but it mustn't lead to too much increase in precariousness, because flexibility mustn't mean precariousness. And I think also that some sectors in the economy should be liberalized to the advantage of consumers and citizens. Sure. But we have to put in a framework that is a healthy Keynesian model. So investing public monies where we should in a healthy and supervised way -- and in an anti-cyclical way we should use public money.

And I will take one more question, because even though I would

love to stay with you for months and discuss things, I have another engagement and then I have a plane to catch. So perhaps I could come back in four or five months and could resume this discussion if you agree.

MS. O'DONNELL: Thank you very much. And we will indeed have a very quick last question. I'm sorry, sir. The lady behind you has been trying to catch my eye from the beginning. So if I may -- lady, thank you very much. And then we'll bring the conversation to a close.

SPEAKER: (inaudible) mentioned -- you mentioned economic common policy and political union are very important for continued development for EU. If fiscal union were built in the future, it means member country of the euro zone couldn't use monetary policy and fiscal policy to adjust economic situation. If fiscal union -- when (inaudible) situation, when member country face a (inaudible) shock is hard to deal with.

Another question is about the political union -- how to improve the efficiency of policy decision? Thank you.

MS. O'DONNELL: Sorry, could you just repeat -- just the key -- the central question?

SPEAKER: There were two questions.

SPEAKER: Can I ask two questions?

MS. O'DONNELL: Well, no, no, because unfortunately we only have time for one. Could we just get your preferred question?

SPEAKER: Only one question. Okay. As for fiscal union, if the fiscal union were built in the future, is member country of the euro zone could use monetary policy and the fiscal policy to adjust economic situation? When the

member country face (inaudible) shock, it's hard to deal with.

MS. O'DONNELL: Okay. I think I have it. I think that --

SPEAKER: It's related economic -- but it's related -- region policy, I think, is not only economic. Okay. Okay. Thank you.

VICE-PRESIDENT PITTELLA: Well, I hope I've understood your question correctly. So my answer is to the question such as I have understood it. Already single member states cannot devise their own monetary policies if they belong to the euro zone, okay. And so the idea of having a fiscal union as well is that the same would be true for fiscal policy -- that there would be a central European entity that oversees what the fiscal policies should be.

Currently, when a member state gets hit particularly hard by a shock, the rescue comes in the form of a rescue fund that has been set up. And sometimes this is used in conjunction with a bailout package furnished by the IMF and the European Central Bank.

So the goal that we should all work towards would be to create a European Central Bank that works a lot more like the Fed that could be then lender of last resort and would also be capable of preventing these crises of sovereign debt.

Well, thank you very much for your very active participation which I found most interesting and I'm going to bring back a lot of ideas from it. I really think that these days in Washington have been very fruitful and I shall go back to Italy and Europe with a lot of conclusions but three main ones that I'd like to share with you.

First of all that we need a transatlantic common policy to sustain

growth. And I've seen that even in the U.S. they have been asking Europe to stop this blind and deaf austerity policy because it doesn't work.

The second conclusion that I am taking back with me is that we need a strict regulation for the financial markets. And then we need a strict implementation of such a strict regulation especially given that this was the problem that gave rise to the crisis and the problems that we're facing today.

And the third consideration is that we should work in an intelligent and determined fashion to come up with a true transatlantic free trade area agreement that would boost the trade integration between the two sides of the pond.

And I thank again this most illustrious think tank for having me and I really hope that we will have new opportunities to widen our dialogue.

MS. O'DONNELL: Thank you very much. Vice-President Pittella has outlined an ambitious set of political and economic reforms to overcome the euro zone crisis and we will be watching with great interest whether the increasing recognitions amongst European politicians that the focus on austerity might have been excessive will create the political space for the European Parliament to move forward with his agenda at the 2014 elections. And in the meantime, all that is left to me is to thank you very much for your questions and ask you to join me in thanking Vice-President Pittella. Thank you very much. We would indeed love to host you again. Grazie mille.

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