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P R O C E E D I N G S

MR. DERVIŞ: It's really wonderful to have all of you here, and I think we'll have a very lively and interesting discussion. Thanks to a truly fantastic panel. I'm so grateful that the panel has agreed to join us. And the timing is pretty good, but a little more than a week after the European parliamentary elections, in the middle of this debate that has erupted on the presidency of the commission, and many other topics to cover.

We have Isabelle Kumar who has the flagship program, "The Global Conversation," for *EuroNews*. Isabelle came all the way from London yesterday -- I'm sorry, from Lyon and Paris, I'm sorry I made a mistake. And Isabelle, for those of you who watched her, but maybe not everybody had a chance to, moderated the first European presidential debate, although if I say that I know Peter and others may say what just came out saying, presidential debate. But anyway, let's call it presidential debate in shorthand and, of course, we'll discuss why that is. And I watched it and I was really impressed by the moderation, so we invited her and she was gracious to accept.

Reza Moghadam, many of you know he's the department director for Europe at the IMF. He was before that the director for the strategy and policy department. I don't think I exaggerate in any way in saying that he is one of the top economists in the world, top people at the IMF, and there are few people I think who have as deep a knowledge about the European economy and the challenges ahead for Europe than Reza. I had the pleasure and sometimes the tough time to negotiate with him when he was chief of mission for the IMF and I was on the Turkish government side, but that was quite some time ago.

There's my co-editor, Jacques Mistral. We have our book out there for those of you who want to get it later on. It's out in front of the door. Jacques is a French economist, a nonresident senior fellow at Brookings. He's very modest, so I kept arguing

with him what I could put in terms of description on the handouts. He was senior advisor to the reformist French Prime Minister, Michel Rocard. He was chief economist at the AXA Group, so he has both private sector and public sector experience, and he's one of the key organizers of the annual Cercle des Economistes meeting, which meets in Aix every year and brings together economists from around the world.

Then we have two very dear friends, the Ambassador of Ireland and the Ambassador of the United Kingdom. Anne Anderson -- I didn't check on every single position she's had, but she seems to have gotten all the important positions in her life. Among them, of course, Ambassador to France, but, of course, to Brussels, to the EU, so she's extremely knowledgeable about EU affairs, and to the U.N., too, so global affairs and now to Washington. And she reminded me that she also had negotiated much more recently with Reza Moghadam on the Irish program, but that was when Ireland was already doing pretty well.

And Sir Peter Westmacott, previously Ambassador in France, in Turkey where we became friends, now in Washington. Again, I don't think I can exaggerate one of the top figures of British and European diplomacy and really also a dear friend. Thanks for being here, Peter, and I tend to hire some of his staff. When we lose people, I draw on the British Embassy staff. So thanks a lot for being here.

I think the degree to which the debate has erupted over who should lead the commission as president is somewhat surprising to a lot of people. I mean we knew that it was going to be a debate. There would be some horse trading, some negotiations, but I think it has become very serious. So I think this will be one of the topics we will have to address, not just in itself. I don't think the debate is all about the personality of Jean-Claude Juncker who has, of course, a lot of experience for sure, but who some say is a little bit representing the past of Europe, not necessarily the future. But there is a

whole current of thought and of belief now that you cannot have an EU election like we had it, we cannot have Isabelle moderating these people and, of course, I'll ask her what she thinks about it, in the first ever really historical, beyond borders political debate. I mean I don't think there ever has been a debate like that. And then somebody wins and then you say well, that's very nice. It was kind of entertaining, but now let's get down to serious business and choose the candidate and leaders of the countries. It's going to be difficult. I don't know what will happen in the end, but I think there's a strong enough view that this shouldn't be the case and that the election should be taken seriously. And one sign of that is that all the center parties, the kind of mainstream parties, not the populists of the extreme right or extreme left, but the liberals, the center right, of course, which won, the center left, the greens have all rallied behind Juncker. So it's not just that it's the center right that's supporting him, it's the whole moderate spectrum, maybe not Matt Browne, but I don't know. We'll find out. From the Center of American Progress, he's another one of the leading people debating this in Europe.

So on the other hand there is the view that -- and that was expressed today by Gideon Rachman in the *Financial Times*. I'll just read it out to you very briefly. "It is above all in nations with their shared ties of language, history, and political culture that democracy can live and breathe. At a European level you cannot replicate the forms of democracy, elections, political parties, and so on" sorry, "you can replicate the forms of democracy, but what you cannot create is the underlying demos, the people that are needed to bind democracy together." And then he rubs it in even further, "that is why you end up with the absurd situation in which voters are said to have chosen a leader they have never heard of." So you see there are really two very, very different positions and I think this is one of the really key topics ahead of us for the European institutions.

Now, I think behind that there is also the whole issue of the future of the

eurozone. And, of course, as an economist and as a director of the Global Economics and Development program, we're very interested in that. There is the view among most economists -- I think most economists that I know I have interacted with believe -- and a lot of the U.S. economists actually believe -- that you cannot have a monetary union without having a much further degree of fiscal policy coordination -- banking union, banking supervision -- and, therefore, not necessarily political federalism, but something that comes quite close to a pretty high degree of political federalism if you want to have a monetary union.

Now, of course, not all of Europe is in the monetary union. But if that is true, can you achieve that coordination at the technical economic policy level without having a corresponding democratic space? And I think a lot of the debate revolves around that. Not everybody agrees that you need that degree of policy coordination. And I hope Reza will give his opinion particularly on how much policy coordination is needed. But I would say a large majority of economists do believe that and then that has some consequences, some political consequences, which are hard to face, but which don't go away. And I think that perhaps is the deeper dimension of the debate we're experiencing around the head of the commission.

So with that, let me turn to Anne Anderson first. Anne, what lessons do you take from the elections? How do you look at the path forward, the European institutions? Anything you want to share with us as a start, we'll then have an interactive discussion. But if you had to focus on two or three main points, what would they be?

AMBASSADOR ANDERSON: Okay, Kemal, thank you for a very challenging introduction. Certainly it's been a very sobering election outcome. There's no question about that; maybe to make a few points about the outcome. Firstly, I think participation rates were disappointing in line with previous participation in European

elections. But still when you have 43 percent voting, 57 percent of people staying at home, that points to a certain disconnect and apathy, which is a cause for concern.

Secondly, I think we can't forget that in a way there were 28 separate messages here because we have 28 member states and as you always find in European elections, people are addressing their national governments at least as much as they're sending a message to Brussels.

But thirdly, and I think we have to recognize this insofar as there was a European-wide message, obviously what all the headlines have focused on is the 30 percent of the vote that went to the Euro-skeptic and populist parties and candidates and that's a jolt certainly. I think there always has to be concern when a climate is created in which extreme views are taking more of the space. So I think that certainly is food for very serious thought.

Another point I would make is in terms of how it's looked at from across the Atlantic here. I think there's no question but that Europe is still going to be very much a strong-functioning partner for the United States and worries about tea tipping derailed and so on I think are out of place. But I do think there's something important to be said about the message that came from this 30 percent because it's something we have to face together in Europe and the United States because fundamentally I think this was a message about fear of globalization and that there is really no question but that -- you know, Europe is not the enemy. Europe is really not the target. Europe is a lightning rod for a lot of this discontent. People feel buffeted by globalization and they feel that they're at the mercy of forces that they can't control. And, obviously, the United States is not immune to that either. You see the way those concerns are playing out among sectors of the population here. So I think it's something that's important trans-atlantically that we take account of.

I think in terms of what it's going to mean in Europe, it's clear that the leaders have already said it can't be business as usual. We're going to see some policy adjustments. This has been a vote really about the economy and about growth and jobs, about austerity fatigue, and the European leaders are going to have to take that into account. And, of course, the challenge is how do you keep the necessary fiscal disciplines and at the same time at least soften the edges of austerity. I think there are going to be issues about the way we do business, what we do and how we do it in Europe, more relevance, less red tape. And I think that question that's been around for so long about how do we communicate Europe to our citizens, that message comes into even sharper focus.

In terms of what happens in the institutions, let's see how things play out in the European parliament. This 30 percent of the populist/euro-skeptic vote, if I can shorthand it that way, is actually a very fractured vote, fractured between right and left. And you see the difficulties the right are already having in trying to create alliances between themselves. The 70 percent of the centrist parties would certainly be incentivized to work even more closely together. So let's wait and see just what impact this 30 percent has.

In terms of the -- and I'll finish with this -- the question that you raised about the president of the commission. I'm not going to get into individuals and personalities. The arguments as you laid them out are there on both sides. But I do think that this result is going to make the European leaders look ultimately even more carefully at the qualities that they're going to require in whoever takes over this key role. Who's going to be able to implement the kind of policies that are going to be there? Who's going to be able to articulate a vision that has resonance for people in Europe? Who's the skilled communicator, which we clearly need? So I think in the ultimate decision

we're going to see people looking at those questions again and seeing who best ticks those boxes. So I leave it to that.

MR. DERVIŞ: I really hope you're right on the last one. It's so important.

Isabelle, you moderated that debate. And, of course, as you reminded me in Lyon in the heart of Europe, Continental Europe, on the debate how did you live it? I mean what impact did it have on your perception and how did you follow the kind of campaign in Europe? Was it an important campaign, or was it just a campaign restricted to a very small minority of European citizens?

MS. KUMAR: Well, I think as Anne said, there's 28 different campaigns going on, so it's quite difficult to follow all those campaigns. But I think the one that grabbed most people's attentions or the two, were the campaign in France and the campaign in Britain, where you have UKIP and Front National where everybody was expecting to make such big gains and they did.

In terms of the debate, the debate was terribly exciting and tense, and I think those are two words I think have never been used together to describe a European election because for the first time you had these candidates in front of you representing Europe. And they had to make their case for Europe, but they also had to make themselves known. And our starting point when we had this debate wasn't let's try and kind of eke out what different policies they've got because in many respects these guys are very similar. It was more not denoted how they are, let's actually just try and present them to our viewers so people can actually identify Hernof, Jean-Claude, Jean-Chris, who Martin Schultz is. Scott Keller, I don't think anybody had even heard of Scott Keller who's one of the leaders of the Green Party, and Geeva Hoshtad. So that's what was very exciting about this and it also brought home some truths that really Europeans don't know who they are and they aren't that interesting. Again, it comes back to what Anne

was saying, 43.1 percent of the electorate voted. So as a journalist, I found it very exciting.

I think generally people are feeling quite apathetic about Europe. And so, therefore, even though we have this great -- well, not great, but this interesting backdrop of the rise of euro-skepticism, we have the economy in so much trouble, people actually couldn't be bothered to vote. So the debates were great. Did they fire up interest? The jury's out on that one. So I think the Eurovision song contest was probably followed more closely than the European elections.

MR. DERVIŞ: Thank you, but just as a matter of statistics, the participation in the U.S. congressional election, both the presidential year and the off year, averages to about the same as the European parliamentary election. And the off year when there's not a presidential election, actually the participation in the U.S. Congress is less. So when we say that 43 percent is not very impressive, we wish it was more, but it's still a pretty good --

MS. KUMAR: But this time it was billed it was going to be different. It's okay, but then do you have to judge yourself by well, I wouldn't say the lowest common denominator, but if you're setting the target high, surely you want to kind of beat your past result by more than .1 percent, especially when you have these kinds of candidates standing there who are meant to kind of fire interest in Europe?

MR. DERVIŞ: I agree. I'd be very careful before I debate you, Isabelle.

AMBASSADOR ANDERSON: But also the rates in national elections in Europe are much higher than in the domestic election here.

MR. DERVIŞ: That is true. It's a more politicized society to some degree.

Jacques, and then I'll come back to all of you later, particularly on the

economic side, but bringing the topic a little more also onto the economic side. Europe after all has gone through a very serious -- not all countries have gone through a very serious crisis, although even Germany in 2009 had a negative 5 percent or something like that growth rate. But is there now an economic recovery? How is the economics perceived and how can you link the economic arguments to the debate?

MR. MISTRAL: Thank you, Kemal. In effect the eurozone went through a debt crisis for two years. The critical question that has made for too long a euro breakdown, a plausible possibility, was if I may say as simple as that. Are the eurozone member countries willing to stick together at all price? At all price? That's a politically terrifying question and it took two years of intense political debates to offer a credible and positive answer. The European Council in June 2012 confirmed the unanimous addition to the monetary union and designed policy and institutional changes to make it properly function in the future. ECB president, Mario Draghi, as you know later translated this political decision into intelligible words. "We will do whatever it takes."

The eurozone has now exited the financial danger zone and is moving towards a stronger integration. The result will not be perfect, but my guess is that it will work.

On the other side, the crisis has grave consequences and unemployment has skyrocketed in the south and social conditions have deteriorated. And the European elections unsurprisingly are proof of many frustrations, but frustrations against what, against excessive immigration? Possibly. Against Hollande in France? Certainly. Against austerity in Greece? Definitely. Addition to the European ideal has been debated between a prosperous north and a depressed south. But interestingly enough, two-thirds of the populous everywhere want to keep the euro, two-thirds in Greece, in Spain, in France, in Germany among others.

Now, what is a political answer to these political feelings? First, the newly elected European parliament is no expression of a euro-skeptic union. On the contrary. Euro critics will have a louder voice in Brussels, but they are divided and let me be blunt, but clear. They will prove much less influential once they are the key party in Washington.

Much more important in my view is a vibrant and expectant European democratic exercise we are witnessing about the choice of the president of the commission. The pro-European parties have unanimously agreed on the name of the parliament's candidate, Mr. Juncker. This approach had been explicitly sold to the voters. Not respecting it now would appear close to electoral fraud in Mr. Schultz' words. My guess is that at the end, this will prove what a shame in European politics.

In short what has been sent to Brussels a wide pro-European majority and this parliament will exercise traction towards a more integrated eurozone that is definitely needed. The pro-European parties from the center right, from the center left, the Greens and the liberals, represent the diversity of European constituencies and they should work across the aisle like in Washington in the past and not build as it has been sometimes suggested, not build an explicit transnational brunt coalition like in Germany. This strategy would reinforce the perception of a cartel, which runs the EU to the detriment of many Europeans. And that would precisely fuel the euro-skeptic narrative of a dispute between the elites and the people.

Finally, policy debates in Brussels must now be based on pragmatic responses to the challenges facing the union and the member states, mostly employment and protection. The major goal is to combine fiscal convergence that is good in a way and to design a successful growth-oriented policy mix. Challenges are daunting, but the latest news from Brussels is clear. The eurozone is moving forward.

MR. DERVIŞ: Thank you, Jacques, but that was a very optimistic and forceful message. I do want to share with you that even I was sometimes worried about a Greek exit. I didn't believe it would happen mainly for political reasons. But while I would say a large majority of professional opinion in Washington was convinced that Greece would exit the euro, Jacques steadfastly defended the view that it would not. So I just want to put that on record.

Reza, you're responsible for a lot of this stuff --

MR. MOGHADAM: Not guilty!

MR. DERVIŞ: -- as director of the IMF Europe Department. Can you tell us just a few words on the economy, in particular how do you link this populist -- I mean, yes, it's not a majority, but 30 percent is a large vote. How much of it is economic distress, unemployment? And also deflation now, the European inflation target is 2 percent or just below. It's now running at less than half. All hell would break loose if inflation was 3.5 percent, right? I mean think about it. Everybody would be -- now it's below 1 percent, almost getting close to zero and nothing seems to be happening.

MR. MOGHADAM: Thanks, Kemal, and thanks for the kind introductions. I think before I come to the inflation story, I think let me just endorse what you implicitly and Jacques explicitly mentioned; that turnaround in sentiments, market sentiments in particular, over the last two years is really remarkable. And I would add one other dimension, again to add perspective. If you look at the European project as an economic integration, an economic performance project over the last 50 years, there is considerable success. I think it's a major success story, particularly this year is the tenth anniversary of the new member states joining the European Union. It's the 25th anniversary of the fall of the Berlin Wall. And if you take that perspective of integrating particularly Eastern Europe or raising living standards in core Europe over the past 50

years, I think the European story is a major global success.

But having said that let me now come to my normal job. I think the challenge, what you mentioned, the relationship between economic distress and what you see in opinion polls and what is translated into election results is very striking usually. And at the heart of it at the moment is the challenge of jobs and growth, what Anne mentioned earlier. I think that is at the heart of the problems faced by Europe and the unacceptable high levels of unemployment.

And the question is I think moving forward how to address that because from a political social perspective, I think it is again remarkable over the last three years, four years, of economic stress that we have seen -- although there was a lot of hardship, we have not seen the sort of social strife that we see, for instance, in emerging market crises or we have seen earlier episodes of crises in the world. But the sustainability of that requires job creation. It requires reducing unemployment.

And I think what Jacques mentioned earlier, European economies, many of them, have very high debt and as you mentioned, inflation is incredibly low. When inflation is low, it's difficult to bring debt down. When debt is high, growth suffers.

And so I think the number one challenge, this issue of growth and inflation are related, is short-term support through economic policies to increase growth in the short run. There's also a long-run problem. I'll come back to that. But I think we have been advocating that there is need for supportive macro policies. Given the high level of debt, fiscal policy at least has to do no harm. And from this year onward, the stance of fiscal policy in Europe is neutral. So a big burden is on monetary policy and I think our view has been there is room for conventional and unconventional monetary policy easing in Europe, and it is indeed necessary to create the room for reforms that increase potential growth later. We need short-term growth to come back to provide that

space. So we think there is that need. It is encouraging that the ECB is talking about action this week, and one hopes that --

MR. DERVIŞ: They're meeting on Thursday, right?

MR. MOGHADAM: They're meeting this Thursday. They are talking that they will act, and certainly in light of the recent growth and inflation numbers, it is necessary to act.

But there's also a long-term issue. We calculate that right now potential output, what the European economies are capable of growing on average in the eurozone, is only half a percent. Half a percent is hardly adequate to stabilize, let alone reduce, unemployment. That rate of growth needs to be brought up and that requires -- and this is where the election results are a complication. One fears that they may stand in the way of needed reform, particularly labor and product market reform. But on the other hand, it is necessary for the growth to come back to undertake those reforms.

I would also say there are two other areas where it is necessary at a European level to move. In the U.S., as many of you know, the reliance on bank credit is much lower than it is in Europe. In Europe the capital markets are not as much developed. Corporates rarely go to the capital markets. They have to rely on the banking system. The banking systems are weak. They're being assessed in order to strengthen them, but they're weak. Credit is still falling. So developing capital markets in Europe I think is an urgent task to increase that availability of credit and potential growth in the long run.

And the other point I want to say is an issue we are currently discussing with our European colleagues in the context of our annual consultation, is that the current fiscal framework in Europe, the governance of it, is worth looking at. The current fiscal framework is based on a framework that is based on targets for deficits, targets for

structural deficits. But when you have different levels of debt across Europe, some very high debt, some lower debt, the same kind of targets do not make sense across. And as I told you at the beginning, given that debt is at the heart of the debt overhang, not just the public sector, but also private sector, you need to have mechanisms that look at debt and how to bring them down rather than simply on the fiscal bottom line. Thank you.

MR. DERVIŞ: Stocks rather than flows, or stocks complimenting flows, I guess.

Peter, your take on the latest events and let me ask you a more pointed question. I remember David Cameron's very important speech. I think it was in January a year -- a euro speech, which he originally wanted to give I think in the Netherlands, but then ended up giving in London. It was a speech that was awaited and he gave a strong view on his perspective in Europe. And one thing that I was almost surprised by in that speech was the emphasis he put as a British Prime Minister on the need for the eurozone to coordinate and to integrate further in order to manage the euro. That was, of course, when the euro crisis was still in full swing. As opposed, for example, to the Swedish Prime Minister, Finance Minister, who a few weeks later said the opposite, saying that in fact if the eurozone integrated further that could be the end of the European Union. That was not at all the British Prime Minister's view on the eurozone.

At the same time, it's quite clear that the U.K. will not join the eurozone in the foreseeable future and that the British Prime Minister as well as the British political leadership as a whole, everybody, is quite fiercely opposed to further federalization or political integration in Europe. So when you take these two things -- on the one hand yes, the eurozone has to integrate more and we've heard both I think Reza and Jacques putting forward arguments in that direction, with the statement that, of course, the U.K. will never be part of that, what does it mean for the future of Europe and for the future of

Europe where the U.K. is part of it and for many other reasons I think so many good reasons for why it should be part of it. But on that particular point, how are these two statements compatible?

AMBASSADOR WESTMACOTT: Thank you, Kemal, for nice, easy questions, and thanks for giving us the chance to join your panel. I won't cover all the stuff that Anne said, which I entirely agree about the consequences of the elections and what it means about the state of Europe. I'll just perhaps underline a couple of points.

First of all I think the rise of euro-skeptic parties in a number of countries, not the least mine, but also in France and Greece and a number of others, is a very significant development. There is one sense in which this is a traditional kind of protest vote. My Foreign Secretary, William Hague, called it a kind of free vote where you can give the government of the day a good kicking, and you would normally expect that at a time when the economy is difficult and you're struggling to recover from a recession and so on. But it also conveys a broader message and as David Cameron, my Prime Minister, said just before the last informal European Council, we can't just shrug off these results and carry on as if nothing had happened. We've got to focus on what this means. We need a new approach, which recognizes that Europe is defective in addressing the needs of people, of electors, and it's got to focus a bit more on jobs and growth and making the European Union work better.

And it wasn't only David Cameron who reached that conclusion. I mean the President of France, for example, said that "Europe's become unreadable, distant, incomprehensible, even for member states. This can't go on." And he made a point, which David Cameron has made on a number of occasions, about what we call in the jargon subsidiarity; that is to say allowing member states to do what they should be doing and allow Europe to do what Europe should be doing, which is better done at that level

rather than at nation state level. And President Hollande also said “We need Europe to be simple and clear, to be effective where it’s expected to be and withdraw from areas where it is not necessary.” And I think that is an indication or so of the sort of reactions that there was amongst political leaders. The Italian Prime Minister, Sir Renzi, says the answer is “better Europe, not more Europe” as a reaction to these elections.

So I think it’s a bit of a wakeup call for a number of European governments, and it is an indication that Europe needs to prepare itself better for the future -- to be more responsive, more democratically accountable, more flexible, more focus on competitiveness, doing the job better if you like rather than just sticking with what many people would regard now as a somewhat out-of-date federalist-integrationist agenda. That I think is the attitude, certainly the attitude of my government towards the appointments that need to be made in the coming months for the future leaders of the European Union’s institutions. We need people who are focused on the future, who can rise to those challenges, who can make Europe work better, respond to the messages from public opinion rather than if you like stuck in the past and business as usual.

Your second question, how do we reconcile these two different messages which come from the U.K.? Well, of course, they are entirely consistent as always in messages coming from my government. I think there are two points the Prime Minister was making. First of all, we have as much interest in the eurozone succeeding as any member of the eurozone or the Council Union. We may not be a member of it. We have decided that we do not wish to be a member of the currency union along with another 10 or 11 member states. But half of the United Kingdom’s foreign trade is with other members of the eurozone or with the members of the eurozone. About 60 percent is without the members of the European Union. We need it to succeed. It gives us no satisfaction at all except when we’re dealing with people who tell us we’ve got everything

wrong to have a growth rate this year of 3.1 percent according to the IMF, whereas the European average is down at 1.2 or 1.3 and unemployment rates are a great deal higher in many members of the eurozone. We have every interest in the eurozone solving its problems and getting on with it. And we recognize that if you are going to deal with the problems that come with having a currency union, but without having a fiscal or monetary union, that the eurozone needs to be strengthened and we will give our support to that in whatever way that needs to be done.

So that's where the Prime Minister was coming from. It doesn't mean to say that we are going to join tomorrow as you rightly said. The United Kingdom is not likely to join the eurozone tomorrow. We have to continue dealing with our own economic difficulties like everybody has to. We dropped very deep. We went into a deep hole. Our annual deficit, public finances, went up to almost 12 percent in the aftermath of the financial meltdown in 2008. We've managed to halve that since then and at the same time having restored our level of growth from a time only about 18 months ago when we feared we might have had a triple-dip recession, though the numbers got adjusted afterwards, to having what is now as I mentioned the highest growth rate in the G-7.

So we're feeling that it's going in the right direction. The deficit is down, unemployment a record low. More people at work than ever before and with growth rates which are much better than the average, but it is still fragile and we want to move ahead with that. We attach enormous importance to the European Union continuing to reform itself, completing the single market, becoming more competitive so it is a more attractive place for foreign direct investment so that our enterprises are better able to compete in the world's economy. All that relates to the needs of all 28 of us, not just to the eurozone. The eurozone, we want it to succeed. We'll support it in any way that we can and we need to, and if that means changing the rules of the game and strengthening the

eurozone, that's fine by us. But equally, not least because we have part of it, we want the Europe of 28 to succeed, too.

MR. DERVIŞ: Excellent. Well, I must say very impressive statement of the U.K. position and thank you, Peter. That was very, very articulate. I think that in many ways many of us who hope for a strong European Union also have to partner with the U.S. I mean that kind vision, if it works, would be great.

Just two more things and then we'll open it to the floor. One is if anybody wants to say something about the U.S.-EU relationship in a broader context, what it -- I mean, of course, there's TTIP and you mentioned it, but will it be harder with this parliament? To what degree will it be harder? Maybe, Anne, you want to say something about that or anybody else.

And then the other thing I wanted to ask is Matteo Renzi -- I mean if there was one person that came out hugely successful from these elections, it's the Italian Prime Minister. I mean his party I think is now going to have the second largest group in the European parliament. Nobody has had that kind of percentage victory for decades. And the center right position, the difference in percentage points, 25 percentage point difference. And he gives a message in jeans and shirt that, Peter, you quoted part of it by saying better Europe, not necessarily more. He also clearly says "less austerity, but more reform." So any comments because it is an extraordinary I think victory. I mean how long-lasting it will be we'll see, but I don't think one can comment on the last few weeks without noting this really very impressive performance of a young center left politician. And I'm sure that Jacques, I don't know what you think, but Manuel Valls would love to be in his place.

MR. MISTRAL: Well, we see the benefits of having a Prime Minister like Matteo Renzi with a vision, with decisiveness, and that brings votes on Election Day. In

France probably the political situation during the last few years of President Hollande was on the opposite track. Is he able to reverse the movement through Valls only? I don't think so because the progress is made in order to allow the president to remain the boss.

What can happen is when and if Valls is able to find some personal room and sketch a political character like Matteo Renzi, that's not unfeasible. In that case he becomes indispensable to the president and he gets much more power by threatening to resign because this would mean the end of his presidency. So we are in this position. We don't know because Valls has only two months and already one electoral defeat. So we will see.

MR. DERVIŞ: Thank you. Isabelle, I mean you're watching all these politics, how do you sense the Renzi phenomenon, the almost 41 percent of the vote, which is huge?

MS. KUMAR: Well, I suppose in some respects if you look at Italian politics, I think Beppe Grillo is slightly old hat and I think he lost a lot of people, support, because he's been derided in the press and what he says doesn't really stand up and is not particularly constructive. So Italians are really searching for somebody to support and in came Matteo Renzi. He's obviously a very astute politician and he did very well in Florence, but he hasn't got a great deal of experience. And we'll have to see how he builds up all these policies that he's stating he will and whether he'll be capable of doing it.

And then the other thing is the Italian electorate is fickle, so you'll have to see what and who they'll throw their support behind next.

MR. DERVIŞ: Yeah. Reza, less austerity, more reform? What has he done? What do you think he can do? He gave a 1,000 euro tax rebate to lower income families as a first step.

MR. MOGHADAM: I think the fact remains that Italy has major challenges going forward. The debt is extremely high. A quarter of the eurozone debt is in Italy. The financing of that on a weekly basis is a major challenge, so maintaining market access would be extremely important. Because of his high debt, he has to run a sizeable primary surplus and one which they have been successful in recent years, but not as high as they had planned to do. And the reform agenda -- the potential growth in Italy is extremely low, so the reform agenda to increase that potential growth has to encompass both labor market reforms, which are extremely difficult to deliver given the constituency of the Prime Minister, and services reform, which in Italy lags other countries, for instance, Spain. So he needs the support and he needs the political backing to be able to deliver a very, very challenging agenda, so we are only at the beginning of the road in that.

MR. DERVIŞ: Peter?

AMBASSADOR WESTMACOTT: Just a brief comment on that, less austerity, more reform. I think it depends on what you mean by austerity. In our case we didn't have a choice but to apply austerity to our public finances because as I was saying, the debt has got to a very, very high level. And if we hadn't taken visible action to reassure the markets, our borrowing costs would have gone through the roof. We're not part of the eurozone. We don't have the dollar as a reserve currency. So the markets were going to watch very carefully what we had to do. So we felt that we had to do that.

But at the same time, what we did was try to balance that policy of getting public finances under control and bringing down public debt with an expansive policy in terms of more pro-business policies, encouraging foreign investment, and encouraging the private sector to get going. Since the present British government came to power in 2010, we have created more than 2 million jobs in the private sector and we

have shared 600,000 in the public sector. So we've tried to move the growth towards the private sector and take away the requirement on the public sector, on the government and taxpayer, to put too much money into the stimulus packages.

So I think when you talk about less austerity, I think you need to look at the economy as a whole and see where there are areas where you need to do austerity and where there are other areas where you can balance austerity in the public sector; where there may be a more expansive policy encouraging the private sector to take up the slack. We haven't yet got enough credit from the banks yet. We would like to see more of a role of the financial sector in promoting growth than we've got at the moment, but I think it's going in the right direction.

And the second thing I would just add is that as we look at reform, yes, I've said just now why I think the European Union does need to do much more in terms of reform. Matteo Renzi has espoused what he thinks. That is how we're going to become more competitive. That's how we're going to deal with some of the structural imbalances. And I put in a little plug for our friend, TTIP, at the same time; that is to say more free trade between the European Union and the United States of America, half the world's GDP between us, that is going to help make a difference and to consolidate the recovery and it's pretty well a win-win. That is where we can get additional growth, more jobs, and more trade in both directions across the Atlantic and set global standards the others will have to follow.

MR. DERVIŞ: Anne? On both points, if you will.

AMBASSADOR ANDERSON: Yes, a number of points. I mean on austerity and growth, I don't think anyone is better placed to talk about austerity perhaps than we in Ireland because during the tough years for us in our program, we took about 80 percent out of our GDP through a combination of cutbacks in public expenditure and

additional taxes. And we see the benefits; the economy really is winning through and we haven't got time to take you through all the commercials for how well Ireland is doing, but there's no question that we're coming through in good shape. But we saw it in our election results that the austerity fatigue is clearly there. And despite all the positive indicators -- employment creation, growth creation, all of that -- people sent a very clear message to the government that we need to soften the edges of this austerity, and I think you saw that message more widely across Europe.

Now, you asked about the Italian Prime Minister and, again, I won't get into the details of every country. I think Isabelle probably was implicit. She said he was very lucky in his main opponent, perhaps the Italian Prime Minister. But just, you know, and Peter so rightly quoted all of these elegant statements from all of these leaders and they all go in the same direction. We've got to be more intelligent, and I tried to shorthand it by more relevance, less red tape, et cetera, et cetera. The real problem is that it's so easy to say these things; it's so tough to do it because we have been saying this in Europe for so long. When I came as ambassador to -- as permanent representative in Brussels in 2001, what was in the air, the excitement of the lack in declaration and everything that followed that, the Constitutional Convention. It was exactly the same challenge we were trying to address if you reread those scripts. We've got to connect better. We've got to be more relevant. We've got to reach the citizens. We wrote the script essentially back then, and we're still trying to actually find ways to do it that can bring all the member states along that can resonate with their public.

So there's no difficulty. We can all stand up and give the speeches ideally about the way Europe needs to go forward, balancing this and balancing that, and so on. But actually the challenge for us to do it at this time is what's so huge.

On TTIP I would -- let me reecho Peter's plug on that. There may be

some short-term complications, as there are here in the United States obviously because of the mid-term elections. And on TTIP we may see some little blips in Europe as well, but essentially it's the response to that big question of how we try to channel a globalization and the U.S. and Europe have huge responsibilities there because a win-win TTIP that's fair and balanced and seen to be so is us kind of riding the tiger of globalization and that's what's needed. And I think an intelligent, fair, and balanced TTIP is part of the answer rather than the problem.

MR. DERVIŞ: Thank you very much, Anne. I think we'll go now to a little bit of a question-answer mode. It will not be one question with an immediate answer, but a few points and then we'll try to make it as interactive as possible. Ivan, I'll start with you. And could you please identify yourself so that everybody knows very briefly.

QUESTIONER: Ivan Vejvoda, senior vice president at the German Marshall Fund. Kemal and Brookings, thank you for organizing this excellent panel.

Two questions: One is one of the great successes of the European Union has been the enlargement heralded over these past years. As was mentioned, we're celebrating 10 years of the big bang. And the question is what do these elections mean for the future of enlargement because we have as one says in Washington the unfinished business, especially in the Balkans, not to mention Turkey, a core part of geographical Europe that is not yet integrated? Will we see eurocracy with a conveyor belt of the enlargement process because we're not expecting any new members until 2020? And will we on the other hand be hearing the member states saying no to enlargement because that's what the public wants to hear?

Not unrelated to that is the second question, Ukraine. Has Ukraine been a wakeup call like the elections have been? Geopolitics for many us we knew that it was never out. For some they thought it was pushed to the side. Will this lead to a more

concerted European foreign and security policy? Thank you.

MR. DERVIŞ: Thank you. Doug and then Miriam.

QUESTIONER: Thanks. And thank you, Kemal, for this great conference. Doug Rediker from the Peterson Institute for International Economics. I wanted to get into more of a technical aspect if I could on the economics of this, which is the major initiative for Europe, certainly within the eurozone this year, is banking union. And just a fairly straightforward, but complicated question I think, which is the motivation for banking union in part explicitly was to address the so-called doom loop of the relationship between sovereigns and the banks that held their debt and this potential risk. We don't hear much about that anymore and, in fact, I believe that banks now within the eurozone own as much if not more sovereign debt than they did at the beginning of the crisis.

So the question is a straightforward one, which is under CRD-4, "Sovereigns are treated as riskless assets," and under the ECB's new supervisory mechanism under the most recent note they have now said that that is not the case, that sovereigns should be treated as risk-weighted assets. So a question, when you're addressing within the context of banking union this relationship between sovereigns and banks, are sovereigns riskless or not?

MR. DERVIŞ: Thanks, Doug. Miriam? We'll take two more and then we'll turn for answers.

QUESTIONER: Thank you, Kemal. Miriam Schapiro from Brookings. I wanted to come back to the leadership --

MR. DERVIŞ: And former U.S. Deputy Trade Representative. People should know.

QUESTIONER: That's right, earlier this year. I wanted to come back to

the leadership question that we started with because I think it's critical for dealing with a whole host of challenges that both U.S. and Europe and a lot of our other partners are facing. I mean going into the election it was anticipated that the far right and the far left would make gains, so I don't think the result was wholly unexpected. At the same time the concern that I saw was not that we didn't know who was going to emerge as the likely candidate for the presidency, but that there was no consensus on how that person, he or she, would be chosen.

And so member states have said we can read the Lisbon Treaty. It's our decision to make. Members of parliament have said no, it's the will of the people as expressed in the election. So to use Isabelle's term, let's be constructive. What's the constructive way forward and how soon do you think this question can be resolved so that we don't have a situation of a lame duck commission? We don't have a president of the council or a foreign minister -- you know, Cathy Ashton's successor -- to take terribly long? Thank you.

MR. DERVIŞ: Thank you very much. I just want to add for information that according to the new agreement or treaty -- I'm always a little bit not quite clear of the dates, but yesterday I read a piece that says that the president of the commission, which was not the case before, actually had to also agree to the appointment of every commissioner. So in the past it was the council appointing the president and the commissioners. Now the council appoints the president and, of course, has a lot of influence when he gets nominated, but the president has the additional power of actually having to sign off on the commissioners. Now what that means in practice, we'll see. Yes, the last question for this round and then we'll have a next round.

QUESTIONER: Shannon Grover with *EuroNews* in Washington. A short one on enlargement. What impact will a successful Scottish referendum have on Europe

going forward?

MR. DERVIŞ: What do you mean by successful?

QUESTIONER: Successful, well, in the eyes of the independence movement.

MR. DERVIŞ: Okay. By the way, when Anne was talking about getting things done, it reminded me of Jean-Claude Juncker's rather well-known phrase: "We all know what to do, but we don't know how to get elected to do it." Well, now he seems to have gotten elected, but it was one of those famous sentences that went around last year.

So maybe the first on the whole enlargement issue and, of course, I have to be eternally grateful to my friend from Serbia, Ivan, that he mentions Turkey. But I don't think enlargement is imminent at this point. It's the last thing that people want to hear about at this point I think. But there is the whole issue of neighborhood -- Ukraine, Balkans. I don't think we have time to get into the Turkish question, although Peter is one of the world's specialists of that. But how will all this affect the whole enlargement debate, and is it just kind of dead or is there some hope? Who would like to deal with that? Isabelle?

MS. KUMAR: Well, I'll deal with a tiny fraction of it. Well, some of the accession is already underway and I think that machine really is already in motion. So if I'm correct, I think it's Serbia and Montenegro who are in the wings to join. But it's the other states who are waiting who've signed these kind of pre-agreements who are the ones I think are going to have to wait a long time. When I've spoken to people in the European institutions, they've just said well, no, at the moment there is enlargement fatigue and you can't really expect another wave following Serbia and Montenegro joining. There will be a while before that happens again, mostly I think because of peak

concern over the economy, the freedom of movement. A lot of the arguments that Britain has thrown up following Romania and Bulgaria joining and coming to Europe, capping a certain amount of internal immigration. So I think those issues will have to be resolved to some degree and there to be a slightly more open debate before that enlargement process will continue as it has done in the past. So that's my take on it.

MR. DERVIŞ: Thank you. Peter, any views including on the Ukraine? I mean to what extent does the Ukraine crisis call for and to what extent has it increased the kind of pressure to have a more cohesive European foreign policy and security policy?

AMBASSADOR WESTMACOTT: I think the enlargement agenda is still there. There are some candidates as you say, Isabelle, in the pipeline. There are others waiting a bit longer with Turkey who's been a little bit leap-frogged, unfortunately, by others who have perhaps moved a bit more rapidly in that direction. We take the view that enlargement has actually been one of the great foreign policy- and even democracy-building successes of the European Union. Look how it has consolidated the gains for freedom of speech and open-market economics and democracy in countries which were once part of the Warsaw Pact.

So we still think that it's the right direction of travel. It will perhaps take a bit of a pause at the moment. I think we all knew there was going to be a bit of a pause after the last very large wave of enlargement. Some of the concerns which people have expressed about immigration, about free movement of labor, population, I think have been I won't say discounted, but were perhaps exaggerated. We have all heard over many, many years that there are great fears that if you bring in a relatively poor member state, that the economies of the more prosperous ones are going to be flooded with people seeking better paying jobs. It's usually been an exaggerated fear. Sometimes

there's been a bit of that in the beginning, but then as membership tends to lead salary levels under economies to rise to meet something resembling a European average if you like, all boats rise and then people have been quite often happy to go back to their own economies. And I think some of those fears have been exaggerated. That's something that Tony Blair, who's a great European if you like in British politics, has been saying in a speech earlier today, that let's not get over concerned about that.

So I think moving ahead with enlargement is something which we would certainly favor, of course, provided the relative member state candidates meet the criteria for membership. We're not going to be able to break the rules or anything else, and nobody is suggesting that.

Does the Ukraine crisis change that? We have to deal with the whole issue of Ukraine's ability to choose its own future, what direction it wants to take. There's been endless talk about whether Ukraine should or shouldn't be allowed to apply for NATO membership and what happens with the European Union and the Association Agreement documents. I think Ukraine is a case a bit apart and needs to be dealt with particular sensitivity.

Are we going to see more CFSP and so on? Well, I think that depends really on the nature of the crisis that we have to address. I'd like to think that the European Union in partnership with the United States has made a pretty decent job when you consider what we were dealing with and the pace at which we were having to deal with it of handling the Ukraine crisis. I like to think, perhaps I'm being a little naïve, that the worst may be behind us, but nothing can be taken for granted. But I think the response of the United States and the European Union collectively, the success of the European Council to the Ukraine crisis, has shown that the European Union can do its job and can make a stand on very important issues and produce a pretty much united

view even when there are different levels of economic integration and dependence on oil and gas from Russia and all the other complex issues which were part of it.

But I think it's been a reminder that we do need to have an effective common foreign security policy. Cathy Ashton and her team have been deeply involved in that. They are deeply involved in dealing with the Iran issue, trying to ensure that we have a negotiated end to the question of whether or not the Iranians are going to have nuclear military weapons, which we do not wish and that is a key part of CFSP. I think it will be moving forward in that direction as and when international crises require it. The European Union on its own has not, but then nor has anybody else, been able to make much of an impact, alas, on things like Syria and the difficulties there. And there are other countries in that part of the world, in the Middle East and beyond, which clearly need a great deal of support from European member states. But I think that will remain a high priority for our heads of government. I'm not sure that it will mean a sudden and dramatic acceleration in this part of EU activity. I suspect what's going to happen in the coming months is that we deal with these institutional issues. We deal with the search for the top jobs, who's going to get what slot, and so on. We continue to try to consolidate the fragile economic recovery, which we're all now beginning to witness, and dealing with the applications in the pipeline that are already there from candidate countries rather than rushing off seeking additional challenges except where there is no choice but to try to respond to a new crisis.

MR. DERVIŞ: Maybe just one point that to me was surprising is maybe not that well known and many quick reaction to that, but there seem to be quite strong kind of interaction links, some degree of support, between Vladimir Putin's Moscow and some of the extreme euro-skeptic parties. The head of the Bulgarian Ataka party launched its campaign from Moscow with some very devastating statements about

Romas and very racist statements. Marine Le Pen and others --

MS. KUMAR: Nigel Farage.

MR. DERVIŞ: Nigel Farage, too, expressed admiration for Putin and so on. So there is something somewhat new that didn't -- well, of course, in the old days when the Soviet Union was supporting the Communist parties in Europe, there was something similar. But do you see any kind of Russian-backed extremism?

AMBASSADOR ANDERSON: I think that's highly improbable because it just -- I could not think of it having any extensive appeal within the European Union. You always have, and particularly in the course of an election campaign, you have some highly erratic, unpredictable, regrettable aspects, but I really don't think that there is the space within the European Union for that to take off in any significant or meaningful way.

MR. DERVIŞ: Reza, in terms of Doug Rediker's question and anything else you may want to address, but particularly this issue that monetary policy almost by nature requires a market for a deep, risk-free, asset. So what --

MR. MOGHADAM: Let me answer that question, if I may. I'll come back to Eastern Europe and the enlargement also. It is interesting in terms of progress in Europe. The term "banking union" did not exist three years ago. We used it in the first time in our euro consultation in 2012, and it's amazing how far things have moved on that front.

And in terms of banking union, we have always talked about three strands of it: A single supervisor, a single resolution, and some form of risk-sharing common backstop. And I think on the first of those, there's clearly been progress, I think faster than people have expected. ECB is going to be a single supervisor and the process for that is well underway.

I think on single resolution, there's been progress, but perhaps not as

much and not as deep as some like us have been advocating, but there is some progress. Probably where there is least progress is in terms of backstop and risk sharing and that is where they what is in the interest of the union and what is politically acceptable nationally becomes in conflict. And one of those strands is precisely what you mention is the link between sovereign and the banks.

Now, that link is very troublesome during times of stress and, of course, those times of stress have passed. So the urgency viewed, despite the declaration in June 2012 of breaking that link, there has been some progress, but not sufficient progress. If there is a recurrence of stress, I think that is a problem.

In terms of what you mentioned whether sovereign paper is risk free or not, if you ask any sovereign, of course, they will tell you it is risk free. But a supervisor like the ECB that looks at balance sheets of banks, when they stress that balance sheet, it is perfectly legitimate for them to make assumptions about what if that paper is under stress and not valued as risk free. So it is understandable that the ECB would use that.

Let me come back in terms of Eastern Europe. I think when the dust settles, everyone will realize that enlargement has been in the interest of both the new member states and the existing members. Take the case of Poland and Ukraine. You mentioned Ukraine. They started at the same level of income post the fall of the Berlin Wall, and we know where Poland is and we know where Ukraine is now. They are vastly apart. The difference has been, of course, the European process of integration has generated democratic reform, but also major economic reform. And it has also been in the benefit of the core of Europe. The German supply chain runs through Poland and the German competitiveness is enhanced by what Poland has to offer.

Now, is it going to be more difficult moving forward? Some of the countries which are potential member states have a long way to go in terms of reforms,

so just by that nature it will be more difficult. But let us not forget in the middle of the crisis, the eurozone expanded. They brought Latvia into the eurozone. It is under consideration of Lithuania now coming into the zone, which looks like it would be successful. So I very much hope that the momentum for integration, whether it's within the eurozone itself or the greater European Union, will continue.

MR. DERVIŞ: Thank you. Jacques, do you see some kind of mutualized European debt, euro bond, in the next five years or not?

MR. MISTRAL: Well, I very well understand that Germany did not want to hear anything about euro bonds. They were not willing to do the same with a full set of sovereign countries. So for me, I always said to my French counterparts, a suggestion to make that as a discussion point with Germany.

Now, Germany in my view has got a large part, not in totality, but a large part of what it could expect in order to improve the fiscal governance of the eurozone. It's not perfect and in particular I support what Reza said previously about the differentiation of fiscal targets between different countries. But it has got a lot of things. And at one moment of time in the future the question will be raised again and at that moment of time, the question of the euro bonds will be raised again, and at that moment it will be more difficult for Germany to say we definitely don't want even in a better fiscal framework to be integrated in this euro bond market that would help also what Reza suggested the creation of a unified and liquid capital market in Europe.

I am not negative on that, only for one reason because traveling frequently to Berlin, I know that the Germans who were at the beginning extremely reluctant to say the whole complexity of the eurozone crisis have done their own work in an incredible manner, much better than the French. And just on that point, I remember that the first operational proposal we got on the euro bond scheme came from Germany,

the Council of Economic Advisors, no less. So I think that sometimes in the visible future, this could come back to us at the table.

MR. DERVIŞ: Anne, you wanted to say something?

AMBASSADOR ANDERSON: Yes, because I just made a quick answer to your question there in parenthesis, but I did want to say just a word about enlargement, not that I disagree with any of the words of the colleagues. But I just think we shouldn't be allowing ourselves to be kind of gripped in the fearfulness of vision or lack of vision of what after all are a very small minority. I mean the most glorious day in Europe practically was 2004 when we enlarged and brought in the ten new member states. And for once we were rising above the small print that we're always stuck in in Brussels. And we had this vision of a Europe whole and free and we celebrated it across Europe. And for our young people I think who aren't necessarily trapped in the same fears of some of the older people about immigration and job loss and so on, for them it's a rationale and a vision for Europe that makes sense.

So yes to the caution and the carefulness and all of that, but if Europe essentially has to be communicated as a vision, as something to believe in, don't let us ever forget that this goes to the heart of what Europe is about and what we can believe in.

MR. DERVIŞ: Thank you very much, Anne, for this very eloquent statement. On the macroeconomics let me just state some numbers. I'm not quite sure of the UK ones, but it's kind of interesting that the U.S. has an unemployment rate a little bit above 6 percent and a current account deficit in the balance of payments of about \$350 billion for the last 12 months. The eurozone has an unemployment rate close on average, but of course, there are these huge differences of close to 13 percent, but a surplus that has now reached \$320 billion. So it's a little bit strange to have such a huge

unemployment with such a huge current account surplus. You would think that there's some space here for expansion. China -- who knows what the unemployment rate is, but the current account surplus has shrunk quite a bit below \$200 billion. The UK the current account deficit I think is now about \$110 billion, which is very large, and the unemployment rate if I'm not mistaken is around 6.5. And Japan has a current account that is more or less in balance now unless I'm wrong -- Reza, roughly? -- and an unemployment rate of about 6. So it's kind of interesting to keep that in mind, but I find the eurozone number particularly interesting and this surplus is growing, not shrinking. Anyway, that's just an aside.

Now, what I would suggest is that we keep Miriam's question for the end, for the last round, because it's a question of what constructively can be done to resolve the kind of institutional issue and then you can add whatever else. But maybe before we do that, we take one or two more questions. There was this young gentleman here that had asked and then we just have time for three. Well, we'll see how quick they are.

QUESTIONER: Hi. Brett Fortnam from *Inside U.S. Trade*. In light of the recent EU parliamentary elections, there's been a growing concern about how TTIP is going to proceed. And Ms. Anderson, you mentioned that there are going to be some short-term complications. I was wondering if you could expound upon that a little bit.

And there's also talk about a turnaround in market sentiments and I would like to know if those would have any lasting effects on the direction of the negotiations?

MR. DERVIŞ: Okay. Yes? As quickly and concise as possible. Thank you.

QUESTIONER: A question for Mr. Mistral and Mr. Moghadam. It's in regard to legitimacy and the question of debt. "Debt is a false choice," and I'm quoting

Lord Turner. The question is the quality of the debt. (French) I apologize. (French) is not conclusive on the correlation between debt and growth. If we wish to cite Ken Rogoff and Carmen Reinhart's paper, unfortunately the data just doesn't add up. It goes to the question of Lord Turner's argument which was we have to look at the quality of the debt. What is the debt used for? What are the maturity implications?

In 2002 to 2005 France and Germany both break the stability bat, but Germany finances -- and I'll be brief -- Germany uses the money, if you will the debt, to finance the shortest reforms. France used the money to consume. So the question, if you don't mind Mr. Moghadam, is how do we reconcile the obligation to provide and support those economies? We have two frameworks: 1790 in America, Alexander Hamilton reported to the Congress and yes, in London 1953 the German external debt, 50 percent written off. And Mr. Mistral, to just finish on that point, the question of legitimacy: 1992 (French) the debate with Francois Mitterrand. And we won by a very, very tight margin and then in 2005, which is where I'm going to finish, in 2005 it was a resounding no to the question of the constitution. What did we have? We said no. We were not listened to, and hence, Madame Le Pen.

MR. DERVIŞ: Okay. Last question over there. Yes? But you have to be very quick, okay?

QUESTIONER: Andre Troper from Peterson Institute. People have talked very positively about Eastern Europe, but there's a bit of a paradox here because the participation rates in Eastern Europe were among the worst and Slovakia was just in the teens. So it would be interesting to get perspectives on what's happening here. Are they disenchanted with just European institutions?

MR. DERVIŞ: And then the gentleman at the very end. Very brief, please, thank you very much. And please identify yourself.

QUESTIONER: Hello. My name's Michael Burnside. I have a bit of a strange question. It involves a definition, the definition of the word "job." So in this country historically my grandfather and his father's time period, a job was six days out of seven and ten hours a day. In my father's and my time it's obviously five days and 8 hours a day. As an American it's been interesting watching Europe. I think France for a while had a 35-hour work week and I think Sweden just recently has asked part of its civil service to do a six-hour day. In stability in politics, it's important for young people to have work. Is there any hope of redefining this word "job" that we throw around so easily?

MR. DERVIŞ: Thank you, a very interesting question actually, but limited time. So what we'll do now is we'll have a last round. Please do address some of the last questions. We can't take any more questions, unfortunately, but also give your view or answer to Miriam's question, briefly, of course. And Anne, you're free to leave whenever you have to catch your plane. Maybe what we'll do is we'll start with you so that you have the chance of leaving if you have to.

AMBASSADOR ANDERSON: Okay and thank you.

MR. DERVIŞ: And then Isabelle, Jacques, Reza, and Peter.

AMBASSADOR ANDERSON: All right. I won't try to, for reasons of time and because others have greater expertise on some of these, I won't try to answer all the questions.

TTIP because I think there was something addressed to me on that. I really wanted to send a positive, forward-looking message on TTIP and I said in passing that there may be some blips if you like. What I meant by that was it's going to take time for things to settle down in the European parliament with this 30 percent of the euro-skeptics, et cetera. We may see some debate and discussion from them about the wisdom of TTIP because a lot of these people are concerned about globalization and so

on. There will need to be reassurance, discussion, and so on. But I didn't mean to suggest anything that would slow the momentum of TTIP in any significant way because I think it truly has to move forward.

Our young people, you know, they need to be doing something worthwhile that's going to give them a living wage. I think that's how they see it. Disappointing, of course, to see those very low turnout rates in countries like Slovakia, in particular, and how to enthuse and engage them is a huge question.

On Miriam's question, it's obviously in retrospect I would think it unfortunate that we have this ambiguity in the Lisbon Treaty because it allows both sides as you say to claim it's my way and my way and give their own interpretations in the face of this ambiguity. I really hope and believe that it will be resolved in a mature way. The president of the European Council, President Van Rompuy, he has been tasked to take it forward, to make soundings. He hasn't been given a deadline, but I think it's generally understood people want him to proceed in an expeditious way because I think everybody understands to have this open-ended discussion, it's just going to drag us down if it goes on too long. So, yes, it needs to be addressed seriously and a bit of time needs to be allowed for that, but I don't think anyone is thinking of this dragging on for months and months. As to how they address it constructively, I mean don't forget, of course, we shouldn't forget there are three jobs in this package, three big jobs, jobs as members of the commission as well. But the normal thing that mature people do is I hope as I said in the beginning that in the light of the election results, they relook at the qualities that are required, look at the individuals, look at the three jobs, and see what is a mature way forward that's good for Europe. That's how I hope it will play out. My Prime Minister has chosen his and leaving all of that aside, but I think and I've seen this happen in Europe that yes, people articulate their views and it's thought out, but in the end of the day I think

there will be a maturity and a coming together in the interests of Europe going forward.

MR. DERVIŞ: Thank you. You said something very important and I just want to stress it one more time; that a lot of what we're debating is way beyond Europe I think. It's really how to manage globalization and international cooperation and global public goods, whether it's trade or climate. President Obama has taken a major initiative on power plant standards this week. I was with Nick Stern just last week. All the evidence is that the climate change threat if anything is even more serious than people thought. It may not be an immediate threat for tomorrow, but for the next 10, 20 years, something very serious has to be done. But all this needs some kind of global cooperation and action. I think that's what you stressed. In a sense Europe is a kind of experiment in post-World War II transnational cooperation and if it fails, it will have tremendously negative impact everywhere else. So I just want to add that we're debating Europe today, but we're debating also on how to manage the 21st century interdependencies and I think that that's very, very important and Anne stressed it very forcefully in the beginning. And I don't think the answers are at all easy because who said it, O'Neill? "All politics is local." Tip O'Neill. And it's true, all politics is tremendously local and yet there are many problems that have to be addressed globally. So, Isabelle, what are your last words of wisdom and encouragement?

MS. KUMAR: Wisdom I'm not sure, but I shall -- just in terms of TTIP, something that wasn't mentioned is the fact that in Europe there is real kind of skepticism towards TTIP. And I think that, as you were mentioning, might well be played out in the parliament because the Greens aren't for TTIP. They're not really backing it at the moment and they're asking for more open discussion about it. They don't like the fact that it's being held in closed doors. Martin Schultz has also spoken about his skepticism towards the TTIP negotiations. Although I think it probably will go ahead, there is

concern in Europe that Europe will be a loser in that. So I think that needs to be presented to Europeans more clearly because at the moment they think it's going to be a win-win for the U.S. and probably just a win for Europe.

In terms of Eastern Europe and its poor participation rate, in fact, in Slovakia the participation rate was 13 percent, which was the lowest in the election. And I think one of the reasons for that is if you look at a lot of the countries in Eastern Europe, maybe they're not feeling the benefits of the EU yet. Romania still has the -- is one of the poorest -- I think it's the poorest member of the EU, so that is going to have to change before they probably feel fully fledged members of the EU. And Romania and Bulgaria have had a lot of backlash as well. They've not been made to feel particularly welcome by Britain and UKIP, for example. So there are these factors I think that there's probably a certain amount of disenchantment with the EU at that level.

In terms of the candidate, that is exciting. Well, I suppose we all know that Angela Merkel's the one who's in the driving seat here and she's found herself between a rock and a hard place because whichever decision she makes it seems is not going to really have necessarily a positive outcome. If she backs Juncker, which does seem what she's doing, but she does seem to be she had a vote fast recently, but if she does back Juncker, well that's going cause problems obviously with David Cameron who's trying to form a blocking minority who might be able to rally enough people to block that. If that does push through and it gives Juncker who said David Cameron was blackmailing Europe over the fact that it might force a British exit from Europe. Angela Merkel certainly won't want to be the chancellor who was in power when Britain left Europe and was one of the driving forces forcing a disintegration of Europe. So whatever happens, it's going to be very difficult. Daniel Cohn-Bendit, who's very influential in the European parliament, he was one of the leaders of the Greens, said that if Jean-Claude

Juncker doesn't become the president of the European Commission, the council better beware because the parliament will become a nuclear explosive site for them, that they can't expect any cooperation from the parliament. So there will be a clash of the institutions despite the fact that Herman Van Rompuy, who's the president of the Council, says he'll try and avoid that. I think it's probably inevitability.

So the constructive part? Possibly a super candidate, I don't know. We talked about the possibility of Christine Lagarde. My colleagues here don't think it's necessarily -- it wouldn't happen. But I think she might be one of the super candidates who could override all these discussions.

MR. DERVIŞ: And Pascal Lamy?

MS. KUMAR: Pascal Lamy maybe doesn't have that same super candidate status, but he could be a very good commission president.

MR. DERVIŞ: All right. So you are getting into new speculations here. Jacques, a last word of wisdom?

MR. MISTRAL: First about legitimacy and Marine Le Pen, I would say two things. First of all, democracy you have one vote more and you have 51 persons; that makes the decision, and it's perfect legitimacy and it has been confirmed since then. And regarding Marine Le Pen, I would emphasize the size of the success. The Front National this time has 4.8 million voters and Marine Le Pen two years ago had 6.4. So it's not an explosion of the extreme right vote.

MR. DERVIŞ: You mean at the presidential here?

MR. MISTRAL: Yeah, yeah. So every voter who was willing to vote Front National this time.

TTIP when faced with difficult situation, I came back from my stay in this city enjoying six years by using American. So the question is TTIP is a difficult logistical

process. I would say it will not be more difficult with the new parliament.

Jobs or redefining working hours, well, personally I'm quite comfortable. I worked for the Prime Minister who was fondly in favor of measures reducing the working time. It was a better way than what has been done with the 35 hours, but this is in my political genes. And I suppose we came out that this could be part of new far-reaching social contracting in Europe.

MR. DERVIŞ: Reza?

MR. MOGHADAM: Let me answer the debt question and also touch on the jobs question. On the debt there are two separate issues. There's sustainability where it really depends on ability of the country to finance its debt and the markets to accept that debt and that could be different levels. Japan has very high debt, but it can finance it. Other countries get into trouble with much lower debt. So sustainability is one issue.

The impact on growth is another issue. If you look at a correlation of investment and debt, you see that high debt leads to lower investment, hence lower growth. If you look at a correlation of consumption and debt, when debt is high consumers don't spend so spending is low, growth is lower. So it is I think very clear cut and we have done a lot of work on this across countries; when debt is high, it reduces investment, which is a major problem right in Europe. Investment levels way, way below pre-crisis and, therefore, it weighs on growth. So in that sense, addressing the debt issue is important for growth, but that's a separate issue from

MR. DERVIŞ: Reza, just to clarify, the old theory was saying when the debt was high, interest rates would be high and that would depress investment. Now investment seems to be depressed despite, except in crisis countries, record low interest rates.

MR. MOGHADAM: But when your balance sheet is encumbered, if you have a very high debt, then even at low interest rates, you may be concerned that you will not be able to save a profitable enterprise and, therefore, you will not be investing as a consumer -- particularly when you look at the demographics in Europe, you have be concerned about your pension, your ability to consume later, and therefore, withhold consumption in the short term. So I think there's a very clear relationship between growth and debt if you break it down in different dimensions.

Also on the jobs, I think what the question asked is very important. I think the issue is not a standard job that people define. The world is changing. One may work for 15 hours or one may work for 30 hours and one may work for much longer. The issue is flexibility to do that and the regulations that govern that. And the problem in Europe is that that flexibility, both in terms of cost and regulation when it comes to contracts, are too rigid. And so you need to have that more flexible and, of course, it's difficult to do that when that protection and the cost of labor has been very high. Liberalizing that, of course, is difficult, but you need that in order to create jobs. But what you also need at the same time, and Europe is good at that, is social protection -- so protecting the worker, not the position, in a particular place.

MR. DERVIŞ: Reza, as director of the IMF Europe Department, I will not ask you about your views on the super candidate.

MR. MOGHADAM: Thank you.

MR. DERVIŞ: Peter?

AMBASSADOR WESTMACOTT: Thank you, Kemal. A couple of points of these questions. On the labor and the jobs and what is a job as opposed to top jobs -- I'll come to that in a moment. Obviously, what Europe needs is to have a properly flexible definition of labor market, which allows for a whole lot of changes in the way people live

their lives. Even in my organization, the British Foreign Office, we see submissions signed off by two people who are joint heads of department. They do three days a week or two and a half, each as this job. I have people who take 80 percent of the pay and do four days rather than five days of work during the week. We are moving in the direction of trying to adapt in a flexible way to what different individuals want to do and how much of their life they wish to spend earning a job. And we're doing this partly because I think it's right to be flexible, but it's also a key to diversity. If we're not going to be flexible in terms of our employment practices, we're not going to be able to attract all the talent that we want when people have got other requirements in their lives. So I think it's fundamental. It's about regulation and it's about labor markets, but it's also about a culture of being more adaptable in terms of those of us who are the employers.

Second point I would make -- and you're probably going to make me answer the Scotland question because I'm not sure who else is qualified to do it. I'm not sure that I am either, but that's another matter. How are going to advance on the selection of these key positions? Yes, we want to do this with maturity, with haste, with dignity. We want to get some answers on a consensual basis. That's for sure. Let's not forget what the Treaty says. The Treaty says that it is for the council, for the heads of government between themselves if necessary voting by qualified majority to nominate a candidate who is then voted upon by the European parliament. It's not for the European parliament to tell the council who it wants. It is the other way around. They're out there. They're amongst the candidates who have been presented. But I didn't see the name of either Mr. Juncker or Mr. Schulz or anybody else on any of the ballot papers that were voted upon by electors in any countries other than their own countries where they were candidates for membership of the European parliament. So I think we need to be clear what the rules are, what the Treaty says, and then the heads of government will need to

work out amongst themselves. That's why a rather sensible decision seems to be asking Herman Van Rompuy to go where he talked to the candidates, see what the options are, and come back with some proposals for the heads of government to look at collectively. And hopefully we will then end up with some answers, but you're absolutely right. Others have said that it's not just one job of the president of the commission. We've also got a president of the council. We've also got the high-rep and the vice president of the commission, the job held by Cathy Ashton, and we've got all the other key jobs members of the commission. And, hopefully, within the coming months, we will all be able to find ourselves in a position where everybody's content with the outcomes. I will refrain from commenting on the names that we mentioned other than to say that there are undoubtedly some outstandingly good French candidates whose name could be in the ring. But there are plenty of other candidates as well, and I'll not go further than that.

And then what about Scotland independence, what would that mean? Well, there will be a referendum in the United Kingdom -- actually not in the United Kingdom, in Scotland only -- on the 18th of September, which is not very far away, when people who live in Scotland -- not Scots abroad, not English, not Welsh, not Northern Irish, members of the United Kingdom, but those people who live in Scotland above the age of 16 -- will be invited to vote on whether or not Scotland will become independent and separate itself from the United Kingdom, an arrangement which has been intact for the last 300 years. This is a pretty big deal actually for my country, and a lot of us are concerned about what the implications might be. My government has facilitated the holding of the referendum as a result of the election of a Scottish Nationalist majority in the local elections last time around in Scotland in 2011, but the British government is not actually neutral on the issue. The British government and not only the parties in government, but also the principle opposition parties, actually take the view that we would

like the United Kingdom to stay together and that's why you will hear Scottish, but also English and Welsh and other members of parliament, political figures, business figures, in the UK expressing an opinion as to whether they do or do not want Scotland to become independent.

If it did become independent, if there is a majority in favor of independence on the 18th of September, then that is what will happen and we will all have to scurry around and make a whole lot of changes to an awful lot of things in the ways in which the United Kingdom conducts its business.

One of many questions that arises and there are lots, they're about currency, about foreign investment, about defense, about NATO commitments, all sorts of different things that are out there, about pension rights, about the share of the sovereign debt of the United Kingdom which would arise for an independent Scotland. But there is also the question of European Union membership. I think Mr. Salmond, who is the first minister of Scotland, has said that he expects there to be a seamless transition to Scottish membership in the European Union. That is not what leaders of the European Union have said. Other political leaders in the European Union have said that if Scotland leaves the United Kingdom and wants to join the European Union, it will have to take its place in the queue. It will have to apply like every other candidate country, and it will require the unanimous consent of every single one of the 28 members of the EU. I'd be surprised if all that got done and the entire accession process completed seamlessly in 18 months, but we will see. And it is clear that there are some member states which are quite nervous about the idea of a member state fragmenting and then bits of a member state reapplying for membership of the European Union. But it is one of a number of quite complex questions that would arise in the event that there is a vote in favor of independence in September.

MR. DERVIŞ: Thank you very much, Peter, and let me just add in a few words and then we'll close. I think some of what we've debated as Anne started off with really has to do with the way you cooperate in a global economy in a global world. The cooperation between nation states is, of course, still the main way one cooperates and the nation state is not about to go away even within Europe as we see. And I think it also still is a source of a lot democratic legitimacy because of the feeling of belonging, of identity, of the democratic mechanism within a nation state. But I do believe and I think we had examples of that today and we'll have other examples that many issues do require a degree of cooperation between nation states and a degree of kind of global citizenship or regional citizenship in Africa, for example. Africa could do much, much better if there was much more integration in Africa. So there is that issue and I think we're struggling with it. Today the debate was struggling with it. In my own experience -- let me just share one thing -- how a person gets a particular job that is super national and, of course, the commission is much more political as Jacques said, organization than the IMF or the World Bank is, for example. But to some degree there are some comparisons, they're bureaucracies that try to solve economic problems, that try to manage international or global cooperation and so on. And there has to be a certain amount of legitimacy in these bureaucracies, which very often then have to be kind of personalized because in politics and in global civics and in media, things get very personalized with the person, he or she, who is heading these organizations. So I think to view the appointments as purely technocratic, whether it's the commission or heading the IMF, the World Bank, the ITO, is no longer appropriate for today's world. There have been figures such as Jacques De Larosiere who was a technician and was not a political leader as head of the commission, but at the same time had a direct message to citizens and was accepted as such by citizens. And there are other examples one can give from

other international institutions. Many, many years ago, you would not -- I don't want to go into current examples because it's kind of controversial, but despite the problems of the Vietnam War and so when McNamara was head of the World Bank, he was addressing global citizenship so to speak as head of the World Bank. And there have been leaders of the IMF that have done similarly. So I think that element is important and to somehow view global cooperation as purely, purely a matter of national diplomacies cooperating and working together I think underestimates the degree of need there is for a global or regional demos in a way. But, of course, we are very far from having achieved it yet.

Thank you so much for coming, all of you. And thank particularly, of course, the panel, the wonderful panel we've had. I hope you've enjoyed this. I hope Brookings is fulfilling its mission of bringing such discussions together, and please give a round of applause to our panelists.

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