THE BROOKINGS INSTITUTION

SAVING EUROPE (AGAIN) - THE EUROPEAN FINANCIAL CRISIS CONTINUES

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Introduction:

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Featured Speaker:

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Panelists:

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P R O C E E D I N G S

MS. HILL: Ladies and gentlemen, it is seemingly exactly 2:30. So, we thought we'd do a very un-European thing, and start directly on time.

Welcome, everyone, to Brookings. I'm glad that everyone has found their way through the freezing cold outside.

I'm Fiona Hill, the Director of the Center on the United States and Europe, here at the Brookings Institution.

And I'm really delighted that you're able to join us for this event, which marks the launch by Brookings Press of a new edition of one of the seminal books of this year for us, *Saving Europe*. It's one of the definitive studies on the eurozone crisis and the efforts at the highest levels of E.U. to tackle it, and, also, it covers all of the ongoing economic and political fallout from the crisis, which, of course, is the reason why all of you are here today.

The author of the study, Carlo Bastasin, is one of Italy's most distinguished economists and top financial journalists. And he's also been a visiting scholar with us here at Brookings, and, also, with the Peterson Institute across the road. And he's still a Nonresident Fellow here at the Center on the United States and Europe.

And, as you saw on the way into the auditorium, we're selling copies of Carlo's book. These are advance copies, and Carlo will sign copies for anyone -- and would like them signed after the event.

Brookings has been very heavily involved on a number of fronts about analysis of the economic crisis and the eurozone crisis, across many parts of the Institution. So, it's not just the Center on the U.S. and Europe, but it's also our program on Global Development, our Economic Studies program, and many other parts of the Institution. And this panel will reflect that research, as well as the research of our colleagues from the Peterson Institute across the way, and many of the other think tanks here at Brookings.

And in a moment, I'm going to hand over to my colleague, Doug Elliott, from Economic Studies, who will moderate the proceedings for us and introduce the members of the panel.

But I would just like to say before we start that the next few moments of this year are actually going to be very critical for the future of the eurozone and for the future of the European Union. And that's not just on the economic front. I mean, all the news in the papers today about Europe falling deep into recession after what seemed to be a very brief period of recovery -- or perhaps just a lull in the crisis -- but also on the political front.

I mean, most of you are well aware that we have some key elections coming up in Europe. And, of course, we've also got some of the other crises on the European front, not least the terrible incidence in Paris of today, with the attack on one of the most famous French satirical newspapers. It's a very difficult period that we're in in Europe on many different dimensions.

But we have the Greek elections at the end of this month, and then we have elections in the United Kingdom in early May. And both of these look set to bring to prominence populist parties with anti-E.U. agendas. So, this could, in many respects, if these elections lead to the outcomes that people are speculating, could lead in, some respects, to the respective exits of these two countries from some of the European Union institutions.

We all know that Greece has been flirting with some time with the question of exit from eurozone. And, of course, if the elections in the U.K. take a certain turn, there could also be the question of a referendum about the U.K.'s continuation within the European Union. Both of those outcomes would, of course, devastate the whole European project of integration, and would also undermine, to some degree, many of the longstanding premises of transatlantic economic, political, and security relations.

So, overall, we have very high stakes over the next few months. And Brookings has a whole series of other events, beginning with this event on the books -- Saving Europe -- let's hope we can -- on these topics: the eurozone crisis, the developments in Europe overall. And many of the members of this panel, you will be seeing featured in these events coming up -- and some of our other colleagues.

And just as one preview I'd like to mention to those of you who are here -- in the next couple of weeks, our colleague, David Wessel, who's sitting down in the front, who runs the Hutchins Center on Fiscal and Monetary Policy, will be having two other events.

On January 14, he's hosting a discussion with David Lipton, the number two at the IMF, along with Barry Eichengreen, who's an economic historian at University of California -- Berkeley, and Christopher Brummer, professor at Georgetown Law School, on the future of the eurozone and the challenges of European monetary union.

And then David will also be having, on January 16, a conversation with Lucrezia Reichlin, who's the former Director-General of Research at the European Central Bank and, also, a professor of economics at the London Business School.

So, we'll be having more on these topics, as will our other colleagues. Kemal Derviş and others will also be hosting events in the next few weeks and months. So, we hope that you will attend these, as well.

But in the meantime, we're delighted that you're here for the release of the new edition of Carlo Bastasin's book.

And without any further ado, I will turn over to Doug. Thank you again, everyone, for joining us.

MR. ELLIOTT: Okay. Thank you, Fiona. You're not actually here to listen to me, so I will keep this relatively brief.

First, let me second Fiona's comments about Carlo. Carlo really is one of the leading thinkers in this area, and is very well-connected with key decision makers across Europe, having interviewed them for years and gotten to know them in other ways.

And this book is a great book. I do recommend -- if you have not already purchased your copy, you should do so. I think Carlo has done a superb job of giving a lot of behind-the-scenes detail of how this whole crisis has proceeded in the key European institutions.

I won't say more about Carlo, because you have written bios for him and for the other participants here today.

The way we're going to do this event is that after I sit down, Carlo will talk a little bit about these issues and about his book. We will then assemble a little panel up here, along with Carlo as a continuing participant, and we will have Kemal Derviş and Nicolas Veron who will talk -- give some of the reactions they have. I might add some comments of my own.

We'll hear what Carlo has to say about that, and I might ask a few more questions. When I'm done, we'll give you all a chance to participate.

You have the bios for Kemal and for Nicolas in front of you. Let me just say most of you probably already know who each of them are.

Kemal has been an important fixture in Europe and in the world for some time now, starting with when he was the Minister for the Economy in Turkey, and was integral to saving them from a major economic crisis. What was that, early '90s -- roughly that? Early 2000s -- all right. So, I'm off by a decade. I'm getting old. It all kind of blends together at a certain point. And -- thank you for that correction. And he also ran the United Nations's development program.

Now he, I'm pleased to say, is our Vice President here at Brookings, in charge of our Global Economy and Development Program.

Nicolas is at the Peterson Institute -- as we always say, across the street -- and, also, at Bruegel, which he helped found -- which is a major think tank in Brussels. He's had a career in both the public and private sector, and I think he does a superb job of bridging many communication gaps between private and public, between Europe and the U.S.

And I would say, in addition to his general knowledge of Europe, he's done a great deal of work on the financial sector in Europe, including helping to push along, at an early stage, the concept of banking union.

So, we have a great group of people here. I will get out of your way. I'll let Carlo talk, and then we'll come back for the discussion.

Thank you.

MR. BASTASIN: Thanks, Doug. Thanks, everybody, for coming. As Doug kindly said, this is the second edition of the book. But if the crisis goes on as it promises to go, we might get familiar, I guess. This will become a regular appointment, which is the bright side, probably, of this crisis.

I need to thank a few people before saying a few words on how I see the European situation at the moment. First of all, Fiona -- apart from your exceedingly generous introduction, the kind of professional and human environment that you and Andy have created around the Center was essential for doing this job.

And I feel very honored to have Kemal, Doug, and Nicolas today as interlocutors for this debut of the book, and very much look forward to hearing what they have to say.

Last but not least, I have to thank Brookings Press -- and Valentina Kalk particularly -- and the colleagues at Brookings Press who actually believed in the book before the author himself. My serious concern was how to put an end to an endless story. And the fact is -- in fact, as the first edition already was, even this second edition is built around facts, events, people, anecdotes, some pieces of analysis. And you see every day new pieces of evidence showing that this is a development, a flow of events.

Today, we have, first of all, dramatic news -- and let me offer condolences to the French for what is going on in Paris that strike all of us -- but may have an impact on our perception of an open society.

And so in the interaction between countries, which is the essence of European coexistence at this moment -- but this very day, we have news about divergent paths of unemployment in the European countries. Somewhere, unemployment hits record lows; and in other countries, it hits record levels on the opposite.

And for the first time today, after 55 years, we'll see the continent fall into deflation.

So, how can you put an end to -- make a point in this continuous flow? Well, my attempt was to find an analytical bedrock which would allow us to watch behind us, behind the shoulder, and understand more of what has gone awry or gone right, and to head past understanding what is happening down the paths.

And that's what I would like to offer to you today, and I would synthesize this concept in a slightly provocative definition, according to which Europe is undergoing its first war of interdependence. I am not using the words light-heartedly. Frankly speaking, I think we shouldn't abuse this category; especially speaking of financial crisis, where antagonists, if not enemies, are not in front of us. They're normally beside us, between us.

Still, there are some reasons why I want to break the wall, and bring these words to the fore. The first is the size of the economic crisis; the loss of production that's measured in terms of loss relative to the trend is in the ballpark of a war. It actually amounts to a higher economic cost than all the American wars fought up to 9/11 -- Iraq and Afghanistan included.

But the real reason why I am not shying away from the word conflict, war is that I really believe that the root cause behind it -- or at the origin of the crisis and behind the disappointing management of the crisis -- is a bellicose concept.

But let me get straight to the point. This crisis is generally acknowledged as a crisis of the European idea. Countries are viewed as too different, and civic cultures as too diverse -- and consequently, policy preferences by the people -- probably irreconcilable.

But my point is that diversity is not a problem. Diversity is (inaudible) in the theory of economic integration and in political (inaudible) may be a value-added, not a problem.

But what I see at the original crisis is something different. It's actually something that is a common feature to all the governments that have contributed to managed crisis. And those governments have acted as if their states were or had to become self-sufficient, to live within their own means, to stand on its own feet.

And this antagonism between self-sufficiency on one side and interdependence on the other is more profound than meets the eye, actually. The very idea of self-sufficiency goes back to the dramatic historical experience of each European state. Being self-sufficient or known dependent from foreign economies was a necessity

-- probably was even vital in the past 250 years, when European states fought approximately 150 wars and 600 major battles on the European soil.

And how can it be that such a cultural legacy still forged the governing culture in Europe in an environment which has a degree of interdependence which is in parallel (inaudible)? Well, if you think where Europe comes from -- the first antinomy, the first antagonism -- as Chancellor Helmut Kohl once expressed, “Europe is a matter of peace and war.”

And in a way, self-sufficiency and interdependence -- when they conflict, they repurpose this antagonism between peaceful, positive integration and conflictual self-sufficiency.

I want to give you a couple of examples of how self-sufficiency was dominating the way the crisis was conceived and managed. And the first goes back to the beginning of the crisis, actually -- autumn 2008, when the financial crisis erupted, and the decision was that each state had to take care of its own banking system, as if they were nationally independent. Actually, they were global banks. In each national state, there were global banks entirely interdependent. But the decision was, everybody has to protect its own banks, although it was clashing with a clear perception of interdependence.

And this predates the time when mistrust erupts in Greece, and we assist to the Greek nation of -- George Papandreou admitting that the President, governments had cooked the books.

But when the sobering crisis erupts, new forms of self-sufficiency come to the fore, under the policy prescription that each state had to achieve a balanced fiscal budget and balance of payment in equilibrium. Once you have internal and external equilibrium in those two balances, you don’t need to import any capital from your neighboring countries. You're financially sterilized. You're, in a way, a modern way of a closed state; closed state is a political (inaudible) that goes back to the political philosophy of the end of the 18th century.

German philosopher Johann Gottlieb Fichte spoke of a "Handel geschlossene staat", a state closed to the trade, with pacifist intention. If you are self-sufficient, you don't need to invade other countries.

Fact is that this condition of self-sufficiency runs against any rational foreign economically integrated area where capital must be free to flow in the search of the best resource allocation, where capital is most productive. It's not important where the capital comes from, where it goes to; if you're an integrated area, you need to let barriers down.

So, the point is, what happens when self-sufficiency conflicts with interdependency? And I wish to be clear. I think that being self-reliant, being self-sufficient, in my view, is not -- absolutely not -- a negative. A lot of sympathy, particularly for the German insistence on some degree of self-sufficiency -- and we all know that Germany's insistence, at both the individual and collective level -- on the fact that everybody has to live within his own means -- stems from the attempt to avoid, to repeat the past, which was made of excesses -- crimes, poverty, debt, inflation. And this has created a strong ethic, at both individual and collective level, of living within -- even below -- their own means.

But when this exercise extends to a whole area living below their own means, it backfires, in terms of bad interdependence. And you have inflation. You have a somewhat paradoxical exercise of collective self-sufficiency.

And this is essentially the problem of defining a positive interdependence relative to the need of some degree of self-sufficiency. When this is difficult to make --

when it is difficult to define the two concepts together, then you normally have a series of problems in the management of the coexistence.

And, in fact, this is what has happened. Self-sufficiency has become a dominant category, disregarding the need for independence, and it has transformed into a form of self-crisis management, which actually -- remember the categories we use in military diplomacy in strategic tension conditions. And I'll list you a few examples.

When you propose as a solution for a country in crisis deflation or outright recessions, cutting its GDP by 20, 30 percent, it is inevitably reminiscent of when defeated countries were taking away a part of the territory.

And if you think that the first loans were made at punitive terms, as if they were war reparations, even though they helped the banks of the creator countries, then you see again a symmetry in the relation between creditor and debtor countries.

This has transformed into a rhetoric where creditors have forged the narrative of the crisis, exactly as it happens when history is written by the victors. And countries have -- governments have often resorted to warlike secret diplomacy through unaccountable bodies, sheltered by the public scrutiny.

And we know that democracy's sometimes been on second rank. Elections have been postponed, referenda have been repeated, and, in a way, economic inferiority has coincided with political minority.

But even countries that were in need have communicated to those governments in need, have communicated to those citizens, saying that the needed reforms -- the reforms that they needed to embrace have been imposed by a malevolent occupying force. Well, this is a logic of past centuries. It's a logic that does not feature as most important facts the economic and political interdependence.

And to want self-sufficiency, the principle of each state being isolated in fighting this crisis, has prevailed. Then even the institutional sect in Europe has changed; the (inaudible) in particular has taken distance from a practice of democracy and solidarity, and politics has been put on the back burner, and has turned into an intergovernmental Euro Union, structured erratically, according to judicial and technical principal correctors, rather than solid (inaudible) democratic features.

And this is particularly embarrassing for our two countries. For Germany and Italy, the fact that conflictual terms of relation to other states prevail is particularly embarrassing, because those two countries have inscribed in their fundamental laws the refusal of war, and delegated -- as many other countries have done -- to Europe the support for peaceful cooperation.

Let me try to understand why interdependence has been so clearly neglected. And my suggestion is that probably we are -- we used to be concerned with interdependence, as far as real economy indicators are of interest.

For instance, factor mobility. We have seen relative little mobility of labor, when it has happened more out of desperation than out of integration. Foreign direct investments have declined, instead of increasing during the past six, seven years.

Fiscal spillovers are actually less significant than we expected, and trade -- bilateral and multilateral trade within the euro area has been less significant than we thought -- and probably has been overshadowed by the increase of global trade, rather than euro area inter-trade.

But why else are we -- so probably interdependence seemed not so important. But why are we fixated on real economy interdependence? Because behind this interdependence, we try to find a movement in wages and capital gains, which are the reference of political category in European public discourse -- left-wing and right wing -- distinguish them thus according to the privilege that one devotes to wage increases or to capital gains preservations.

Now what we missed, being, again -- once again -- as in the case of war, this is an ancient legacy still present in the current European public discourse -- also in the case of the real economy, it's a national legacy still overshadowing the modernity of the facts that we have to grasp and to disentangle.

What we missed was financial interdependence. I could provide dozen of examples of how important financial interdependence has become with the adoption of the euro. I'll give you just one.

If you sum the net financial external position of the three largest creditors -- Germany, Belgium, and the Netherlands -- and you make the difference with the three largest debtors, which are Greece, Spain, and Portugal, you see that the distance has increased by a factor of four in the last ten years. And it's now equivalent to 40 percent of the euro-added GDP. There is no single region in the global economy that is so interdependent, where debtors and creditors are so closely linked.

We are not used to consider financial interdependence as a political factor, but for the fact that financial interdependence has some peculiar and new features.

One, for instance, is that it's enormous as a size, as we have seen. The second is that it's extremely rapid. It's much faster than any parliamentary decision. And it is an incredibly political impact, because it impacts the state financing through the level of taxes, the level of public expenditures. It goes right to the core of the states' internal degree of coexistence.

So, that's why probably -- and I'm ending this presentation -- that's why probably we are so interested whether the ECB or some other institution will be able to find a financial remedy.

But what we cannot overlook, talking about quantitative easing, or euro bounce, or whatever we are thinking at this moment as a financial solution to the crisis, is that it is profoundly political. It's not technical. And it's a real discovery of the principle of interdependence, as opposed to self-sufficiency, with the meaning -- the political meaning -- of sharing sovereignty, and the human meaning of being independent.

Thank you.

MR. ELLIOTT: (off-mic) fair enough. All right. That sounds like I'm on now.

So, Kemal, first, could you tell me a little bit what your reactions are to what Carlo has said and to the book?

MR. DERVIŞ: Well, I really appreciated his presentation. I think time is short, so he had to touch on many things without really opening it up. But let me try to be a little bit telegraphic -- hopefully, I will succeed.

MR. ELLIOTT: Okay.

MR. DERVIŞ: The things may not seem totally connected, but I think they are. I hope they are.

And then we'll -- the first point I want to make is that the subject is globally important. When you travel in Asia, sometimes you meet some Asian friends who will say, you know, at the end of the day, Europe and the eurozone is a kind of small geographical appendix of Eurasia. And, well, they don't seem to be handling themselves very well, but so what?

Well, it's not quite that. I mean, Europe is no longer the center of the world, but it is still -- if you take the whole of Europe -- about 30 percent of world GDP and a lot of production ideas, technology in motion, and ideology. And ideology in Europe has always been very dangerous and infectious, so we have to -- second point I'd like to -- so we are in a global topic. It's not just about this small part of the world that we're talking about.

And, by the way, I don't think the U.S. growth rate can continue at this pace if the European crisis further deepens. I think that there's too much interdependence between the two economies.

Second, I do believe that, to a great degree, the crisis is policy and politics-inflicted, just as I am one who believes that the Great Depression was largely policy-inflicted. And I won't have -- you know, it was not -- it could have been avoided, but there were political variables that had come into play.

And here, the -- I mean, two central ideas is that, as we saw also in the U.S. crisis, and as I also believe that many have learned -- others still don't think so -- but capitalist markets don't work on their own. They're essential for a dynamic economy, for growth, but they need good governance and good government function to give their result.

And when the two things don't match -- and Carlo touched on how they don't match, particularly in the financial area -- when you don't a governance that matches what's actually going on in the market, you run into deep problems.

Now there are two things that I won't have time in this very brief moment to elaborate on, but I think they're two essential features of the reality and the challenge we face.

There is need for closer economic union. The kind of interdependence Carlo mentioned in the economic governance requires a much stronger political integration of the eurozone, in terms of at least economic policy mechanisms -- not necessarily defense or not necessarily other things when we compare to United States, for example. It doesn't necessarily have to replicate the United States, but it does have to have mechanisms of financial and monetary governance which allow a sovereign common currency, you know, which has robbed these countries of their central banks.

I mean, one thing I think one always needs to reflect on is, how come the U.K., three or four years ago, you know, could borrow at such wonderful rates, when, in fact, the fiscal mess and many other aspects of it were just as bad as many parts of the eurozone? Now U.K. has done reforms, and has done better over time. You can debate that, but, certainly, if it hadn't been for the existence of the Bank of England behind the currency of the U.K., you would have a very different situation.

And, you know, as you have taken away that instrument from the individual European sovereign nations, it doesn't work anymore. You have to build something else in exchange. So, that's what -- I can't go into detail.

The second is, deep social reforms are necessary, definitely. We cannot blame all on the macroeconomics. From labor markets, to product markets, to retirement, to many, many other parts of the European setup, there are deep reforms that are needed. Again, these do not need to mimic the United States. You don't have to import the kind of American system into the eurozone for it to work. There are other things one can think about. A new social contract is needed. Aging is a major problem.

Clearly, in such an aging society -- which, at the same time, has tremendous resistance against immigration, like most societies do when the volume of immigration becomes largely -- then, clearly, a lengthening of the working age is absolutely essential. But how you structure it, how you finance it, how you build it, how you ally it to a lifelong education system -- these are the kinds of structure reforms Europe has to go through, which will take time.

And one of the big problems now, one of the big -- even if everybody agrees on these two things -- I'm making a caricature -- Germans are saying, well, we'll be happy to relax if we're sure that all these reforms go through in France and in Italy. But, you know, these reforms will go through over three, four, five years in the political cycle. They cannot be a, you know, signature that everything will go as they please.

I remember once negotiating with the IMF, and the IMF wanted me to sign a letter of intent, giving them the results of the negotiations we had on the real wage with the unions. Well, I said, sorry; in a democratic country, I cannot. You know, the unions negotiate with the employers, and something comes up. You cannot sign -- I will try to be -- you know, convince people to be reasonable, but I can't sign such a paper.

So, there is this contradiction that, I think, in Germany, there is actually willingness to be more reasonable, but they want a counterpart. And the counterpart is undeliverable, except in a much closer union, where the legitimacy of the political decision comes from that political union, and not from German or Northern imposition -- or Brussels imposition.

So, I think that is where we're stuck. I think Europe has excellent skills, excellent enterprises, excellent in many areas of technology -- great successes -- maybe not as great as Silicon Valley or the U.S., but, still, very high up there -- in many cases, better. The famous European train designs and things like that -- but the politics isn't there.

And, I mean, I'm very always upset when, as an economist, I have to kind of admit that the politics are so, so important. But you need the politics, you know. In the politics -- and here, I'm going to be a little bit -- not controversial, but -- you have a U.K. problem in Europe. You have a serious U.K. problem. I lived it when I was part of the European Convention, to try to draft the European Constitution. As far as I could see in that Convention, the job of the U.K. delegation was to make sure that whatever come out wouldn't amount to anything. I mean, I'm exaggerating a little bit, but not much.

So, on the other hand, I do believe that the U.K. is part of the European family, is needed for all kinds of other reasons -- particularly for the global balance, for relations with the U.S. and many other things -- and many good ideas come from the U.K. So, therefore, one needs to find the political design that keeps the U.K. in a wide Europe, but allows the eurozone to move ahead much more rapidly in a quasi-federal economic direction.

You have to have a narrative. I mean, all these technicalities, you know, in terms of votes, in terms of election debates, are hopeless. One needs to have a much more simplified narrative. And I think the separation within a large Europe -- between the U.K., who doesn't want the integration, and the rest of Europe, where the majority actually wants it -- I think is essential to coming up with the right narrative.

And final point -- I'm thinking of writing an article tomorrow or this weekend on this -- Sweden versus France. There is not, in the political setup in Europe, a situation where the moderate center left and the moderate center right compete as they should. But neither is strong enough, in many countries, to have a majority anymore. Some extreme party -- and, often, an extreme right party, like Marine Le Pen in France, the Front National -- is getting almost as much as the center right and the center left, and is, on top of it, borrowing from Vladimir Putin, who generously supports them financially, which is kind of interesting -- extreme right Moscow finance.

Sweden -- in France, the center right and the center left are at total loggerheads. There seems to be very little space for agreement. And, as far as I can see -- Nicolas maybe has some -- I'm sure has some views on this -- and others -- you know, the Front National is profiting from them.

In Sweden, something very interesting happened. There was a big rise of the extreme anti-immigration populace, right? And the center right and the center left decided, okay, we're going to do a pact. We're going to support each other, even in minority governments. The center right is now going to support the social democrats. There won't be any elections. The social democrats will run a minority government, supported by the center right. And if, in the next elections, the center right is in the same position, has more votes than social democrats, then the social democrats have promised to support the center right.

So, you have a kind of moderate European coalition coming together against the extreme. Is it the solution? I personally think so. I think the solution is getting serious enough that one has to rethink the political alignments. There is a counterargument, which I admit is also a strong one -- then that leaves the extremists as the only opposition, criticizing everything and maybe leading to more votes. So, I don't think it's, you know, such an easy position. But I do think it's worth thinking very carefully about.

Thank you.

MR. ELLIOTT: Thank you, Kemal.

Nicolas?

MR. VERON: Well, thank you very much. I guess I should start into the spirit of transparency that is now shared by all think tanks in Washington, to say that Carlo is a -- I consider Carlo a very close friend. So, don't consider me neutral here. He was generous enough to have me for a few days in Tuscany this summer, so I should -- you should all be aware of that.

Now having disclosed that, I think this is really a unique book. And let me just give, as an illustration, a more neutral observer, (inaudible), when he was the European Commissioner for economic and financial matters, mentions that -- was asked -- there was a Bloomberg survey at the beginning of 2013 of the number of luminaries in

Europe, what was their best book of the book? And he was the man in charge of this in the European Commission. And the book he mentioned was the first edition of Carlo's book. So, that tells you something about why his book or how his book is so important.

And Carlo is also, as I think has already been mentioned, unique in the way he combines being a journalist and an economist -- or I don't know whether I should say an economist and a journalist. But more importantly, a very original thinker -- and leading in the community of think tanks. You know, you know how to -- that it makes a difference between people who just repeat ideas if found in other places, and people who have original thinking of their own, which, obviously, are generally a minority.

And I've been impressed, always, by Carlo's political intuition. I think he exemplified this in his presentation today.

The book makes trenchant observations. I'm not going to summarize it, of course. Just let me, for once, make a remark as a Frenchman; that was mentioned. By the way, I echo Fiona's reference to the tragedy in my home country today, and I will only say that, in addition to a number of innocent people being killed, some of them were great artists which have contributed a lot. And so that compounds the sadness.

Having said that -- so, I think one of the observations that Carlo makes on France is something that is typically something that is a taboo in European thinking, in Germany, and in Paris, and Brussels, which is the end of France as a political center of gravity in Europe -- and, basically, the (inaudible).

And I think making it as explicit and as analytically-supported as he did in the book is testimony to Carlo's unique analytical stamina.

Now a discussant should discuss, so let me do that.

It's a pessimistic book -- as a subtitle, as *Anatomy of a Dream* -- but you really have a sense at some point that this is *Autopsy of a Dream*. And, indeed, the last chapter refers to a dreamless night, which is not the most sunny way of describing the current situation.

So, if Europe is defined as a European dream -- not the Chinese dream, not the French dream, not the American dream, but the European dream -- a title in the last chapter, *A Dreamless Night*, certainly means something.

And I think what Carlo's point here is, if -- and he will correct me if I understand it wrong -- is that, basically, politics remains stubbornly national. Ideology or ideation remains stubbornly national. The E.U. has failed to create a European level of politics, whether you call it (inaudible) or whatever the name is. The emblem of this is Sarkozy's words, which I think Carlo has perfectly contributed in making famous -- (inaudible) -- I won't translate -- Carlo translated in his beautiful, elegant way -- he translated it, "To everyone, his or her own (inaudible)," which I think is the right one.

And in this sense -- because only truly European actor is actually the ECB -- and it's a truly European actor precisely because as a central bank, an independent central bank, it's nonpolitical. So, all the rest is intergovernmental, and that's where we start.

And so implication -- even though I don't think you make it explicit in the book -- is that tasks and responsibilities will pile up over the ECB, onto Mr. Draghi's shoulders -- and his colleagues -- up to the point it becomes unsustainable. Basically, the ECB cannot support its burden of exclusive responsibility for all things European, and that may lead to a future collapse. This is not made explicit, I think, in the book, but strongly implied.

So, for the sake of discussion, I will try to be slightly more optimistic -- not spending much time -- just mention three things that make me optimistic.

The first is anecdotal. One of the exhibits that Carlo uses to say, well, everything is intergovernmental in Europe is the fact that both the ESM -- so European stability mechanism -- and the single-resolution fund for addressing future bank projects -- so, basically, the two mutualized pots of money that have been created for an indefinite period in such crisis -- there was also an (inaudible) but I forget that acronym -- so in the crisis, they've been created by intergovernmental treaty, not as part of the community framework. And that's taken as proof that governments will never release that sort of fiscal or financial sovereignty.

I would suggest an alternative explanation. And I think, actually, Carlo does mention some of the vagaries of the negotiations that led to the outcome, certainly in the case of the ESM, which is just a U.K. question. And I thank Kemal for having mentioned that, because I think it's a very central question now in Europe, and you cannot really look at the E.U. without the U.K., but also look at the eurozone without the U.K., because we shouldn't forget that the institutions of the eurozone -- and institutions certainly matter, including the ECB or E.U. institutions, not eurozone institutions, governed by an E.U. treaty.

And I would argue that the only reason -- or the real reason, rather -- that those two funds, ESM and SRF, are set up -- or actually governed by an intergovernmental treaty -- it's a community legislation that sets up the SRF -- is because of the U.K. question, which is not to say the problem is resolved, but to suggest that it's not just the fact that E.U. institutions are incapable of handling money.

The second point is more controversial. It's the election of Jean-Claude Juncker as President of the European Commission. And I'm not going to enter into a long argument, but I think if you look at how it happened in the course of the month of June 2014, I won't say this was a mechanism of democratic legitimacy or accountability, but I will say that the reason Juncker was chosen when basically all member states, including Germany, France, all the way down -- and the U.K., of course -- didn't want him to be appointed -- the reason he was in the end was because of the democratic aspirations that was located in E.U. institutions, by public opinion, including in Germany, that explains the final choice.

The third example, of course, is banking union. Banking union is the most convincing example of institutional buildup at the E.U. level that has resulted from the crisis (inaudible) Carlo mentions that in the book, but I don't think it can be dismissed. It's much more than (inaudible) it's a very radical move.

So, let me conclude. I believe what makes this crisis unique -- the European crisis -- and also very difficult to understand -- I may add, particularly difficult to understand for Americans -- is that institutions in Europe are endogenous. In the U.S. and also in the U.K., there has been this extraordinary institutional continuity, right? In both countries -- in the U.K., more than three centuries; in the U.S., more than two centuries -- that's much longer than human memory. So, basically, institutions are exogenous. They're taken as a given. They're taken as stable. There are some adaptations. They're always marginal and incremental.

So, E.U. is different. And so institutions are not an independent variable; they're a dependent variable. The ideology, even, may be dependent, not independent. It could be -- it's a bit earlier to tell -- that the E.U. will -- the European crisis will lead to new ideologies and new elements of political culture.

But, certainly, institutions are dependent. That's undeniable. And I think that makes the European crisis just, in order of magnitude, more complex, because institutions are at stake and in play, than a normal crisis, so to say, where only policies are in play. And this complexity makes the crisis protracted. It makes the crisis very long to resolve. It makes it also fascinating to analyze, and I think this is why a book like

Carlo's -- which, again, I think is really unique among all that has been published so far on this subject -- is really indispensible.

Thank you very much.

MR. ELLIOTT: Okay. Thank you, Nicolas.

I'll just add three comments of my own, and then I'll give a chance for Carlo to speak.

One is, I was interested that Kemal started quite early on talking about Asian views about this. I've had the opportunity to speak multiple times about the euro crisis in Europe, the U.S., and in China. And I've found it fascinating.

In Europe, I was seen as somewhat pessimistic, though not nearly as pessimistic as many Americans seemed (inaudible). In the U.S., I seemed somewhat too optimistic, because I have generally believed that Europe would muddle through -- though there are downside risks -- there were and are.

In China, I was seen as a raving lunatic optimist, because they could not figure out how Europe works in the good years, much less the bad ones.

So, so much of this depends on your perspective as to how countries and economies work. I think that's important to keep in mind, because the view from here may be quite different from other places.

Kemal also, I thought, very intelligently talked about the role of markets in all of this. And I would certainly agree with his premise that markets can't operate effectively on their own. There has to be a very substantial, larger social context and legal and political context.

I would throw in an additional point. I believe that part of the problem we've had with the euro crisis that's not often pointed to is, I think an aspect of it was just part of the larger bubble mentality. That is, I think there was a euro bubble. I think throughout the world, all of us were playing down the levels of risk that existed. And the risks that existed within Europe because of the difficulties of running a monetary union were largely ignored by the financial markets until they overreacted in the other direction, which is how markets tend to work.

And then Nicolas had mentioned that he thought that, by implication, anyway, the book was perhaps a little bit pessimistic -- I think, by implication, too pessimistic. I'd have to say, that is my reading, as well, but I think this is a brilliant book on Carlo's part. I think you'll come away somewhat depressed -- probably more depressed than you should be.

So, Carlo, with that as an introduction --

MR. BASTASIN: The first reaction is, I should enlarge the house in Tuscan. You've definitely earned more than the invitation. Well, thanks, everybody, for insightful remarks.

What has struck me working and researching the book is, when you talk to the protagonists of this story, you see how humanly difficult it is to keep things under control. There are anecdotes, situation -- well, what comes to my mind is, for instance, a critical summit that happened at the end of 2011 in Cannes. It was (inaudible). It was something that goes back to the tradition of theater, where each protagonist who was exposed to emotional stress -- famously, the German Chancellor broke into tears, and after rather innocuous remarks by the American President. And she got together after a few minutes, and then replied, "It's not my fault that the Constitution which I am defending was written by you."

And it -- I mean, the personal side and the historical dimension collides. And in some cases, what we see as a strategy is a combination of circumstances. For instance, when Mario Draghi said he would have saved the euro, whatever it takes --

well, the reasons why he said that sentence on July 26, 2012 goes back more to temperamental reaction than strategy of monetary policy. It was a peculiar situation when he could not stomach anymore remarks about the death of the euro pronounced in the City of London, where most of the people were dismissing out of hand that the common currency had a future.

And he reacted promptly to that situation as a normal human being probably would do, defending what his affection to -- and something similar happened, going back to the position of the U.K. and France -- when a very important piece of new legislation was signed -- the Fiscal Compact, as we call it -- takes new and more severe rules about fiscal policy. And the way it became an intergovernmental treaty has to do with the reaction of David Cameron, to his requests of defending the fiscal prerogatives of the City of London, which were unacceptable, particularly for Sarkozy, at the time.

And the two countries -- well, obviously, the U.K. decided, well, we will not underwrite this new common treaty. And Sarkozy was all too happy to see the institutional development of this important piece of legislation moved toward the intergovernmental side instead than remaining in the E.U. legislative framework -- because while his Gaullist tradition sees a role for national states more than for common institutions -- but at the end, what is the result? What is the outcome for the U.K. and France that they give way to intergovernmental solution in the European context, instead of common E.U. institution? And in intergovernmental institution, they favor the stronger government, which is Germany.

So, in order to contain German -- let's say -- predominance on the work on the European legislation, they encourage intergovernmental solution, which inevitably favor their German interlocutory. And in this sense, it is difficult to see -- to put the blame on one single head of government, to say Merkel was too selfish or whatever you want to say, or the others were unreliable.

The whole game was a complex mixture of personal and national culture that struggled to adapt to a cooperative game. I still maintain that this goes back to the history of national culture -- that we need to look forwards, something that Europe has never been good at. But in order to do that, we need to be optimist, and I'm not the person.

MR. ELLIOTT: All right. I have multiple questions, but I'm going to confine myself to one, so that we have a chance for the audience to participate.

So, Carlo, what's going to happen?

MR. BASTASIN: Read the book.

Well, as I said, what was neglected was the democratic substance of Europe coexistence in the past six years, and we have a chance to bring them back -- bring these instances back into the public discourse this year. We obviously are very interested observing what happens in Greece, and later in Spain, and Portugal, and the U.K.

Let me give you what I understand of what is happening in Greece. First of all, I'm very concerned. Well, you would expect I'm very concerned. I don't think that what happens in Greece is under control, is irrelevant, that institutions are now stronger than they were three years ago, four years ago.

If Greece takes a very hard stance, and takes away credibility to the OMT or to the quantitative easing -- instruments of the ECB -- then contagion can begin to spread in the euro area, which will require swift action by the new institutions. But having said that -- so saying the situation is not to be underestimated.

But having said that, I'm really convinced that even the Greek (inaudible) leader, the German (inaudible) leaders, and the other parties that are coming to the fore that have no traditional pro-European line, are very aware that the majority of the citizens want Europe to flourish, want to remain in the euro, and compromise is already on the table, I think.

So, in this case, it's a compromise that considers political categories. It was overdue to consider them into a solution of the crisis. So, in my pessimism, I am an optimist.

MR. ELLIOTT: Okay, all right. So, if I can translate that from the Carlo, it sounds like you're saying there are serious issues here, but you actually are reasonably hopeful that Europe will once more muddle through and deal with them.

MR. BASTASIN: "Muddle through" has --

MR. ELLIOTT: You can use a different term if you wish.

MR. BASTASIN: Well, I'm really convinced that the problem is a matter -- is a problem of commitment -- that we have not ruled out eventuality of a breakup of Europe and of the euro, and that we need a political commitment. We still need this political commitment. This political commitment cannot be provided by the ECB alone. It needs to come from heads of government.

This is a situation when you would expect this commitment to come -- when people are voting. And after the vote, you cannot easily put aside the requests of democracies. You need to have those requests on the table, and see whether they are compatible with the others. It's the first year when political interdependence becomes the subject of the negotiation.

MR. ELLIOTT: Okay, thank you.

Kemal, you wanted to add something?

MR. DERVIŞ: I think what Carlo said is very important, and I just think that will require a degree of political cooperation among the pro-European forces that has not existed before.

The Swedish example, if you like, in shorthand should multiply. And I think if that happens -- other questions one can disagree on. But if that happens, then I think the political solutions will be much more feasible.

MR. ELLIOTT: Okay. So, I'm going to give you all the opportunity to ask some questions, as well. Just a few ground rules. First, when you're called upon, please wait for the microphone. Then tell us who you are, and what your affiliation is. And remember that a question is a question, and that I'm using a singular here. So, please try to confine it to one actual question.

So, yeah, woman here in the second row.

SPEAKER: Yeah. My name's (inaudible), and thanks for your presentation.

Now when we talk about saving Europe, we've got to see the problem. And we are talking about financial crisis. We have to see the problem. And a lot of time, U.S. or anywhere, they always think the problem is politics. And, yes, politics -- but the problem is, financial sectors control the politics. You know, people don't have their choice of freedom -- who to choose -- who are the candidates. And then in history, it's always the forced statement, forced history. So, we have to rewrite our history.

My question would be, really, what are the problems in Europe now, as compared to, like, U.S.? How do you resolve the problem? Like a financial institution in the U.S., the foreclosure (inaudible). So, what's the problem politically? But the point I'm trying to say is, interpreted in the layman language, (inaudible) normal, general public -- the problem they face, and how do you resolve the problem so we can save the society?

MR. ELLIOTT: Okay, thank you. I know Nicolas wanted to respond to it. Do you want to say anything, Carlo, or -- okay, Nicolas.

MR. VERON: Well, hi. Anyway, I think you're right to mention the issue of interdependence between political communities and financial communities. Let's put that into a category of interdependence, as Carlo would, and as a very important driver of the European crisis and a big problem for Europe.

I would note, however, that it takes different forms in Europe from the U.S. And the reason for that is exactly what Carlo has exposed in his initial remarks, which is weight of self-sufficiency as a driver of how governments think in Europe.

So, there is a sort of political capture or regulatory capture in Europe, as we see in the U.S., but there is something even more powerful that doesn't really have an equivalent in the U.S. -- which is what one may call banking nationalism, as an equivalent to economic nationalism, which is that governments feel it's their patriotic imperative to push the interests of their banking national champions against the other banking champions from other countries in Europe.

So, basically, the competition among banks in the financial market is seen by governments as a proxy for the rivalries among nations, and driven by the thinking about self-sufficiency, which, in economic terms, would be translated as the availability of financial repression as a tool for governments in pan-European financial market.

And I think this banking nationalism -- the commitment of government to their banking champions and to keeping the tools of financial repression -- has been a major driver of the crisis and a major problem, both into buildup of risk and then into inability to resolve it. But I think Carlo's book actually gives extraordinary insights on this, and with anecdotes such as, for example, the role of the saving banks in Germany on a number of policy debates. And so it's another encouragement to really read this book, because it does answer your question.

MR. ELLIOTT: Did you want to add anything, Carlo?

All right -- the gentleman up here.

MR. DROZDIAK: Hi -- Bill Drozdiak. I'm a Nonresident Senior Fellow here at Brookings and advisor with McLarty Associates.

There seems to be no prospect of growth in Europe for the next several years. And while there was support for the TTIP negotiation, thinking this would provide some supportive growth, there's now been a downturn in public opinion, particularly in Germany, against the trade negotiations.

Related to that, you see high unemployment of young people in Italy, France, Spain. How can you turn around public opinion when you have these two powerful forces working against the whole concept of Europe?

MR. ELLIOTT: Carlo?

MR. BASTASIN: I wouldn't rule out entirely the possibility that Europe can come back to (inaudible). I think what is happening on (inaudible) very important, because what is happening on the side of the price of oil will encourage growth in Europe, as well, if prices remain at this level, at least.

And as for youth unemployment, you're right to focus on that indicator. We shouldn't be misled by the headlines saying that 50 percent of young people are unemployed in Spain or Italy. I can give you the right figures. It's 43.4 percent of the population of the age -- of young age -- between 18 and 24 years, but only 12.2 percent of those waiting to work; the other are students. The other 30 percent that we count in the 50 percent, they are students.

So, there is -- we are not in (inaudible) situation. We are not yet in a situation where a full generation has lost -- is hopeless and lost context with the job market. We're still trying to recover these young people. But I share entirely your point that it is the most important social indicator that we (inaudible). And you're right that there is a link between pro-European consensus and unemployment that you can see.

The last thing I would add with that -- you can find some strong correlation between the level of long-term real interest rates and growths in Europe, relative -- vis-à-vis the U.S. And a commodity of monetary policy has managed to bring short-term interest rates down, at a level comparable to the American one, but not long-term. And those long-term rates are differentiated country by country.

I expect quantitative easing to have an effect on inflation expectation, and, hence, on long-term real interest rates. Even though the macroeconomic direct impact of quantitative easing is not to be taken for granted, but the impact on long-term real interest rates is important. And in time, it will reverberate on gross.

MR. ELLIOTT: Okay (inaudible).

SPEAKER: Thank you (inaudible).

So, Europe is certainly not a very perfectly integrated institution, right -- entity -- certainly not from the fiscal side. But I always thought that on the monetary side, it was fairly well-integrated.

However, now we hear -- talking about quantitative easing, we hear that the ECB is considering perhaps the possibility of conducting this quantitative easing program on a segregated basis, whereby each national central bank would buy only their own country's bonds, and the rest would reside only with that central bank, not with the ECB as a whole.

So, this seems to go in the opposite direction of integration, right, given the opposing direction on the status quo. So, how do you think about it, and does this, in some sense, go against what Draghi said about -- whatever it takes pledge? So, what's a good way of thinking about this?

MR. DERVIŞ: This is certainly one of the options on the table. It's been tabled by (inaudible) Bank, as you know, and it makes some sense, if seen from the concern that (inaudible) Bank has about the fiscal redistribution implied by (inaudible). But it doesn't work.

This is very clear to everybody. It wouldn't work. It would increase financial fragmentation. So, you need some other technical solution to implement quantitative easing. And as far as I hear, there are at least three other options.

So, the one you mentioned is one of four. I don't see how it can be chosen with the other -- I'm confident they will pick one of the others, including one that was advanced through Brookings's website recently, which is -- what happens in quantitative easing is banks purchasing sovereign bonds that are already existing in the portfolios of banks.

Those bonds are already there, and it would be easy for the ECB to announce that it is available to purchase those bonds in a fixed proportion corresponding to the capital key of the ECB, if the banks themselves package them in one security, an asset-backed security composed by sovereign (inaudible) fixed proportion, as requested by the ECB.

At that time, you would have a very strong signaling effect -- the factor creating a new safe and liquid asset for the euro area which has not existed -- which is something that global industries are looking for when they want to invest in the euro area.

If this will happen, it's a simple technical solution to the euro crisis, but it will have enormous impact on the solution to the crisis. I understand there are objections to these technical solutions, but it's on the table, so we need to see.

Part of what we need to see is see whether the Greek problem is creating predicaments toward smooth technical design like quantitative easing. It's maybe too early to say.

MR. ELLIOTT: Yeah, I'd add one other thing, which is that, in Europe, monetary policy primarily operates effectively through the banks, because the banks are by far the major credit providers. Therefore, you have interactions with bank regulatory policies. And we already know that some countries such as Germany have made it hard for banks to move deposits from Germany to, for example, Italy -- even the same banking group that has both Italian and German operations.

And so there are government policies, basically, which are furthering that fragmentation. And my hope would be that, over time, those are reduced.

There's a woman back here -- in the third row. Yeah, that -- exactly.

MS. DELO: Hi. My name is Barbara Delo, and I'm new to this. But I wanted to -- in that short time, I've had some very troubling feelings that lead to my question.

The first is, I live in a suburb of New York City, and I personally had experienced the resentment of my German heritage many times. And I was talking to my brother about this, and he said to me, "You have to remember that for us, in America, World War II ended in the 1940s, but for Europe, it ended with the dissolution of the Soviet Union."

And my third thing was a visit to Germany, where I got -- really saw the frustration among many about the outside economic pressure, and the continuation of collective shame assigned to them.

My question is, what degree will these cultural issues, do you think, hamper -- or, first of all, create the rise of the center right -- or even, you know, as you mentioned, perhaps get in the way of the continuation of the E.U.?

MR. ELLIOTT: Carlo?

MR. BASTASIN: It's an incredibly important question, and thank you for asking. It's very difficult to answer, obviously.

As I tried to explain in the presentation, I'm firmly convinced that cultural heritage is still working in the background, and that we are still influenced by an attitude to think nationally. And this crisis unfortunately has reinforced this attitude, which is not helpful for cooperation, especially in the Italian situation, where interdependence is incredibly pronounced.

I'll give another example, although I digress a little bit, but in the core of your question -- in the 30 largest German industries listed at Frankfurt Stock Exchange, a share held by German (inaudible) or investors is around 33 percent. So, all the rhetoric about this perfect industrial system producing profits, keeping wages low at home, to export profits to the rest of the world, doesn't make sense, from a national point of view.

If we consider politics as a national thing, and politics is centered about the distribution of income -- well, there is something that does not fit the picture.

This kind of interdependence is a way to say -- the same happens in Italy. In Italy, the share is slightly higher of domestic investors in the largest companies. But the situation in Europe -- so if we were lucid, observing the reality, the economic reality, we would be much more cautious in defending national borders in an economy which is tightly integrated.

And then we would lose the justification for this transposition of national pride into national economic pride. It would look things in a different way, I think.

But the thing that happens to you in New York or -- we sometimes need prejudices. It's a simplest and cruelest way to have an orientation. Even national states are a form of orientation. We still need some firmer grasp in a difficult age where everything's global. We don't see where it begins and where it ends. So, it's a matter of

-- it's a learning process. It's a very painful learning process. And this is (inaudible).

MR. ELLIOTT: If I can take another angle on the same thing -- I mean, certainly a concern that probably almost all of us have had about the euro crisis has been the way that it's brought up ugly national stereotypes. But there's a positive aspect or positive view of this process, which is to say -- look at Greece.

I mean, most of Europe has terrible views of the Greeks and Greece -- and yet, Europe -- and, most pointedly, the strongest countries in Europe, like Germany -- have provided a great deal of financial assistance. The reason they have is because they believe that holding the eurozone together and holding Europe together has real value to them. So, a key question here is always going to be, do the people in each of these countries -- which is where the leaders are still elected within the borders of those countries -- do they believe that the tradeoff is a positive one for them -- that for all the problems they see brought across their borders from the rest of Europe or the rest of the eurozone, do they get more from it?

And so far, certainly the elites in Europe that still largely control these things do believe that, in each of these countries. And the general public, for the most part, still does in most of these countries, as well, too. It's a little harder to be sure of that.

Anyway, more questions -- sorry --

MR. VERON: Just a remark about Germany specifically -- I think Carlo eloquently explained why the intergovernmental mechanism of decision-making in crisis context gives over-proportional weight to the strongest government -- and in the European case, that's Germany.

In this context, the fact -- the legacy of the Second World War and of European dark moments of history actually has a silver lining, which is that Germany having this burden from history acts with an extraordinary degree of self-restraint, given the power it has in the current institutional configuration. And I think, in a way, we're very fortunate that the biggest country in Europe is Germany, with its sense of self-restraint from history, and not another one.

MR. ELLIOTT: Okay, that's interesting.

Yeah?

SPEAKER: Thank you. Thank you, Carlo, and thank you to all of you. Alex (inaudible).

I want to -- this is a question both for Carlo and, I think, for Nicolas, as well -- because you mentioned this interdependence, and you mentioned the intergovernmental approach that has been taken, clearly as a weakness -- and I agree with that -- but you also point out that the balance of power that is a part of the major underpinning of the European Union, which was basically a balance of power between France and Germany, is out of whack at the moment.

And, clearly, the question there is, has France, do you think -- do you both think -- come in recent months to the realization that something has gone amiss? And if that's the case, will that modify its approach towards the European Union and towards further eurozone integration, especially given the fact that, for 30 years, it was France that had this Gaullist intergovernmental approach, and it was Germany who tried to have a more integrationist approach to the European Union?

And at the moment, we see the Germans becoming somewhat more French, and the French not knowing anymore what they are. And I wonder what your views are on that, and whether a shift in dynamic can actually be positive in the medium term if something gets unlocked here between Paris and Berlin in particular?

Thank you.

MR. ELLIOTT: Easy question for you, Carlo.

MR. BASTASIN: Another one. Nicolas, help me. You are more entitled to this (inaudible).

MR. VERON: You're more neutral.

MR. BASTASIN: You're right.

Well, during this crisis, strength is not given only by strength, but also by weakness. And in a way, Germany needs France, as we know. What kind of interlocutor will Angela Merkel have in the next month probably does not depend entirely on the bilateral relation between Berlin and Paris.

I'm pretty convinced that France can find a new type of pivotal role in terms of political diplomacy, but the game is now much more complicated than it was 10 years ago.

The degree of relevance, existential significance of what happens in Europe for each of the 18 or 19 countries, can determine the survival of each single government. It's not deciding the future of Europe anymore. It's not -- what governments have experienced in every single country -- that their own existence depends on how Europe fares.

So, I expect France to get back to an important role, but I don't expect the bilateral axis -- German, France -- to be as important as it was anymore.

MR. ELLIOTT: Nicolas?

MR. VERON: Yeah, I already commented on this in my initial remarks, and echoing what Carlo writes in the book -- which is the end of France as a sort of political (inaudible) or center of gravity for European discussions. I will only -- and Carlo just put it in a very compelling way, I think.

I would argue that, indeed, Europe has changed from the halcyon days of, you know, (inaudible) and all that -- not mentioning the (inaudible) which was perhaps a slightly different story, but let's not get lost in that history.

Basically, enlargement and deepening. Enlargement -- France is no longer a central; Germany is more central. Deepening -- as Carlo just said, the number of countries, including in the southern periphery, can just no longer afford to act as if France could be a proxy for their national interests, because things have become just too important and too vital. So, basically, the French-German couple is not going to come back.

There is a lot of denial of this in both Paris and Berlin, because the French-German couple had become a very useful fiction, especially in the days of Sarkozy and Merkel, for both governments -- Germany, to appear less powerful than it really was; France, to appear more powerful than it really was. But this fiction is now known by everybody as being a fiction. It will not come back (inaudible).

I'll come back to what Carlo was saying, right? I mean, the summit of December 2011, both the U.K. and France actually undermining themselves by pushing the intergovernmental approach that empowers Germany disproportionately.

I think it's a difficult question you ask. If you look at the story of banking, and how -- and I've tried to analyze that in a bit of detail, and, frankly, I don't think the definitive history of those few weeks in late spring or early summer of 2012 has been written yet. So, maybe that's for another splendid Brookings book.

MR. ELLIOTT: Let that be your book.

MR. VERON: Well, I'm too lazy.

But if you look at that sequence of events, which was very interesting, it actually goes a bit the way you describe. I mean, you had the dramatic shift in the French position, which happened to coincide with the transition between Sarkozy and

Hollande, and suddenly France started pushing for federal option for banking policy that it understood was more supportive of its interests than the pure intergovernmental one it had before.

So, you can see elements of this. Whether it will become a consistent posture of the French government the way it has been, say, historically for Italy -- that federalism is good for us, because we're more powerful in the federal framework than in an intergovernmental one, I think a bit early to tell.

MR. ELLIOTT: I'm afraid I'm going to have to cut it there. I know there are many questions, but we promised to finish by 4:00 -- at least roughly.

And so let's thank Carlo, Kemal, and Nicolas for a great discussion.

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