

THE BROOKINGS INSTITUTION

SOVEREIGNTY'S REVENGE:  
POPULISM AND THE FUTURE OF EUROPEAN INTEGRATION

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**Welcome and Introduction:**

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**Panel 1. Europe's Integration in a Populist Age:**

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Senior Fellow and Director, Center on the United States and Europe  
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KEMAL DERVIŞ  
Vice President and Director, Global Economy and Development  
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JAVIER SOLANA  
Distinguished Fellow, The Brookings Institution

JUSTIN VAÏSSE  
Director, Policy Planning, French Ministry of Foreign Affairs

**Panel 2. Governing Europe: The Collision of People, Power, and Money:**

JEREMY SHAPIRO, Moderator  
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## P R O C E E D I N G S

MS. HILL: Ladies and gentlemen, can you hear? I wanted to actually, before we get started, I see some people looks like to sit in the front. We have this reserved for, I presume, distinguished members of the diplomatic corps who obviously are not on diplomatic time, or maybe they are on diplomatic time, that's the point. But I don't want people to feel that they can't come and sit closer if they want to. Although that might make us nervous of course, but please, anyway, feel free to come forward and sit in the front row if you'd like to, if you'd like to do so. So I'm Fiona Hill, the Director of the Center on the United States and Europe. And I want to welcome you here on behalf of the Brookings Institute. So now all of our colleagues from all of the different programs who work on Europe -- this is our once a year round up of things European. And actually this year, it's a little bit difficult to figure out where to start. For all of you sitting in the audience here as stalwart Europeanists, I think we were all kind of now looking back fondly on the days when Europe seems to be a boring kind of backwater of wonderful museums and places to visit. And now it's really in the thick of everything, including many of the major upheavals. So I'm sure many of you saw the headlines in the papers this morning, about the great tragedies that keep on happening in the Mediterranean. And of course there's not a moment goes past without thinking about the crisis in Ukraine, and I don't know actually for a change, we're not going to have that front and center on this event here.

So we thought that actually what we would try to do is to try to tackle in these two panels this morning, some of the other big issues that are burning in Europe, with an all-star cast from Brookings, both past and present. Everybody who's going to be featured in these two panels has a connection to our programs. And before I begin with the introductions, I also wanted to make a few plugs for some other events here at Brookings. As an attempt to make some order out of all the chaos that is the world, we

have a new blog, which many of you might have seen the little card out there. And Jeremy Shapiro who's somewhere lurking in the audience over here is our blog-meister. I don't -- that's probably what you don't call that anymore, sounds like something from Saturday Night Live -- I'm showing my age. But anyway, whatever it's called these days, the great guru of the blog and hopefully many of you will have already seen that.

We also have outside, for younger members of the audience, there are a few, good -- a fellowship announcement. Last year some of you might remember that our annual conference was devoted to the memory of our dear colleague Clara Marina O'Donnell, a young and very promising rising star in the field of European studies who very suddenly passed away at the age of 30. And we together, with the sense of the European reform in London which was her home-base as well as Brookings, King's College and Cambridge University, which are all the institutions that Clara attended, have set up a fellowship in her name for a younger scholar who can be from the United States or Europe to spend essentially six months at the Center of European Reform in London, and then a week here at Brookings doing all kinds of things that Clara did as a younger scholar.

The deadline for the applications for this is coming up on May 15, and we'd just like to urge all of you to pick up a leaflet about this if you know someone who would be interested in attending and applying or if you yourself would like to apply we would be delighted to receive some more applications and all the information is here on the fellowship form.

Also a day or so from now, there will be another conference that may be of interest, given the topic of today's discussion, on Friday, our colleagues who work on humanitarian issues will have an event looking at the humanitarian consequences of the conflict in Libya. That will be next door in the Saul Zilka room at 10 o'clock, and that's obviously one of the topics that will come up no doubt over the course of our deliberations today, but they are going to look at this in detail. I mean really, as I move

into the introduction here, Europe is in an unprecedented position over the last 70 years. We now have the largest refugee flows, looking to move into Europe since World War II, and then on the anniversary of 70 years as of the end of the war.

We have a major security crisis in terms of a territorial conflict and a hot war in Ukraine, something that we wouldn't have anticipated with the end of the Cold War, and we have a whole host of economic and other challenges that are putting to question the whole issue of European integration, the enterprise all of us have been engaged in, one way or another in the last several decades. And to kick us off with some thoughts on all of this and how this effects national politics as you see the title of the conference is about populism and how that effects future integration. We've had so many upheavals in terms of national elections, last week we had and hosted here at Brookings, the German finance minister and the Greek finance minister, both many of you were probably here for these events, with competing views about how the politics should play out of economic reform.

We've asked Javier Solana, our distinguished scholar and former head of NATO as well as the high representative foreign policy for European Union to share perspectives on how all of this is playing out. Kemal Dervis, the head of our global economic and development program here at Brookings. He was the host along with David Wessel of the Hutchins Center and both finance minister (inaudible) and finance minister (inaudible). And Justin Vaisse who many of you will remember as our long-time colleague here at Brookings, but who is now the head of policy planning for the French foreign ministry -- to offer his perspective also from the national point of view. France is playing a key role on many of the issues that we will be discussing today.

I wanted to start off with Javier, offering some reflections on how all of this looks from your perspective. You've had top positions in two of the key institutions in Europe, both in the economic political and securities perspective, it has shaped the Europe that we look at as well as the Trans-Atlantic Alliance since World War II and

especially instrumental since the end of the Cold War.

We have all of these challenges. They've covered so many different aspects. What are you thinking as you look forward? And how do you reflect on certain of the tumultuous events of the last year?

MR. SOLANA: Okay, thank you, thank you very much. Thank you very much for the invitation and thank you very much to Brookings, it's a pleasure to be back here in Washington. Well the first thing I would like to say that I may disappoint you -- because I do think that the situation in Europe today is not as dramatic as people would like to say it. I think that since 2014, the moment in which a new commission took over, I think that the situation from the handling of the complication of the European Union is getting better. And I -- when I look back 50 years, engaged with European affairs, I do think that this commission and this group of people which all live in the European Union are taking the lead in a manner that was not possible to be done in ten to five years before the commission of president (inaudible). So I think that I am not as pessimistic as you read in the newspapers of Europe. From the economic point of view, I do know the crisis was very tough, continues to be without having the end, and in several countries it was really very painful. And that, no doubt has created a sentiment among the population for fairness, et cetera, et cetera, and the potential of a rift between the north and the south, in particularly with Germany. I think that is diminishing. I think the behavior of Germany today is much more moderate at the beginning and I do think that this is a taking a much more softer attitude.

I think that President Junker, the commission, and together with probably the most important personality today in the institution of the European Union which is (inaudible), the director of the Central Bank, I think they have changed and adapted to slightly new policies which are giving some results in several countries. You see countries that were in a very dramatic situation growing, this maybe is one of them. I know it fairly well that country. And it's coming out of the crisis at this lower speed, but

coming out that is a sentiment that I think is reported among the people.

Now if you, if I dwell a little bit on Spain it's because it was one of the countries in which appeared suddenly, two political forces out of the mainstream. Those made headlines in the New York Times, and headlines in many (inaudible), which I have to convey to you the sentiment today, that in a year when that party appeared, that party that appeared with a program, et cetera, to the party of today is quite different. The way in which the realities have moderated their position et cetera, and I think that this is going on not only in Spain but in other countries also. I think we see that in Greece, also I think, and we are seeing that in other countries in the southern part of Europe.

So the economics continues to be tough, and employment is high and therefore this affection with those who have created the crisis, quotation marks is dead. But this is beginning to get a little bit more channels in not an anti-European situation. In my own country, for instance now, the anti-European situation of this affection with Europe is diminishing, and people begin to realize that there is no solution without the European Union, that these problems of the European countries have to be resolved through the European Union. So that as far as economies are concerned, but it's true, that if the economy doesn't change the growth, the growth doesn't move any faster, this engagement of people will continue to be, and therefore growth is actually fundamental to recuperate a more affection with the European.

On politics, I think again that the two main issues that we have not done in the last five years, which is the digital agenda and energy union. I think they are moving and moving in the right direction in a period of time which is short. It's a year and think we are obtaining some good resource of that as respect.

Now that in the single mark, the finalization of the architecture of the Eurozone, it's moving, it's moving slowly, but it's moving in the right direction with a great support and minority of the members of the Eurozone. So I think from that point of view, I don't want to be naïve, I've never been naïve. But I would like to send a message which

is not a dramatic pessimism as many people do claim.

Now on security, now this probably the situation which I've been more involved and we are not moving at the speed that I would like to see moving. But let me say two things. One, on the relationship between the European Union on security and NATO, I think the European Union will need today to move on into European, and to security union. And that means that that would have relationship with NATO because it would not be forever a situation where members of (inaudible) would be part of it. I think it will be coalitions of countries within the European Union and that will save money by doing coalitions in the defense field and that will change a little bit of the relationship of the European Union in NATO. If I added to that the situation in Turkey which effects NATO very much and effects the situation to how NATO can act in the collectively, I think that the relationship between European Union and NATO will not derail, but I think it will have to be rethought in the foreseeable future.

Now, I think that the amount of money that we are spending on defense, it will have to be increased, but it will have to be increased by more integration. I think that the union of defense will be necessary in Europe in the same direction that the monetary union, or the energy union -- we'll have a defense union and I think that is of the makings. We have been working very hard with many countries, several countries, Germany in principal is very much in that direction.

So I think that it's a possibility of moving, and which it will be very important for the (inaudible) because it a much deeper cooperation from that point of view. The United States would not be either alone or for NATO in (inaudible) and will have to be taken in parts of the Middle East, the Mediterranean et cetera, and for that it is needed to move on in the security feelings in the (inaudible) in Europe.

Now the last thing I would like to say before finishing is the question of the Mediterranean.

MS. HILL: Yes the Mediterranean. Can everybody hear okay, is it very

faint?

MR. SOLANA: Should I start again or -- (laughter)

MS. HILL: Just the question of the Mediterranean, yeah.

MR. SOLANA: The Mediterranean.

MS. HILL: Is that better?

MR. SOLANA: The Mediterranean is a tragedy for the European Union, it is a big problem for the European Union, but it is very difficult to be sure but you know it very well. Migration is a very complicated issue. You have the desert in Mexico, we have the Mediterranean, and the problem is that the fluxes of migrants, it had been well controlled when we had fluxes from countries that were more or less stable, Morocco for instance. In Morocco we have organized a very well the importers and et cetera or migrants, but it is very difficult to do it with countries in which you don't have (inaudible). And the most dramatic today is without any doubt Libya. Libya is a country which is really (inaudible) today. And not only the Libyan people want to leave, but all the people in central Africa want to go through Libya to (inaudible).

Now what is going to be, the issues are going to be taken probably today. Today as you know is a summit of the European Union; the prime ministers of the heads of state are meeting today. And there will be the decision which is going to be in the direction of doing in the Mediterranean something that worked very well in which you remember in Somalia. In Somalia we had a big problem of migration, piracy and et cetera was resolved more or less, well already what we solved fairly well, not completely but fairly well, with fleets of countries putting in military vessels et cetera in the region, and trying to prevent the piracy of the sea, and doing more than what has been done today. I think that that will be approved today, I hope very much so and therefore surveillance of the Mediterranean will take place and rescue operation will take place so that people that are in the Mediterranean do not die in the Mediterranean and will be able to arrive either to the country where they left or the country where they want to arrive.

I think this is going to be a very important decision, and I think there is a broad consensus of that. People do say that this is the most important problem for migration and this is not true. The most important contingent of migration in Europe does not come from the Mediterranean. It comes from Bulgaria and from Greece, by a factor of ten. So it's not a major problem, but it's a very dramatic problem because the number of people is dramatic.

Now let me finish by saying that to me, the most important date for the European Union is 2017. In 2017 there will be two very important elections, elections in Germany and elections in France. It's very likely that in 2017 we will not have the repetition of Chancellor Merkel. And it is very likely that we will not have the repetition of President Hollande. And that will be a very important change in the European Union. Who will be the leaders and what will be the relationship between France and Germany? Merkel and Hollande have gotten a very good personal relationship and institutional relationship. France has accepted that it is not a number one power. I think that is Germany. And Merkel is accepting that without having the relationship with France it would be very difficult for Germany to enter the main of foreign policy. So therefore my concern is that 2017 is what is going to happen with electoral in France and with electoral in Germany to substitute the leaders of today to include Germany.

Now the third thing that is going to happen in 2017 is this referendum, potential referendum (inaudible). Let's see what happens on May the 7th in the next weeks in the results of the election but you (inaudible) 2017, which will complicate, together with the change in Germany and France. So I think things are moving, are moving seriously, are moving with determination, (inaudible), but still we have the horizon, another date which may complicate a little bit the evolution of the European Union. Thank you.

MS. HILL: Thank you very much Javier. Before I turn to Kemal, I just want to actually pick up on just this last point that you made. Because when you talked

about Spain, your home country, you initially said that two political forces had emerged in the last several years and you mentioned Podemos. I was actually expecting you to also mention the rise of a Catalan independence movement, because that also is the backdrop to elections coming up this year in Spain. The ongoing debates about whether there should be a referendum or some kind of vote in Catalonia as well, and that's also part of the whole debate inside of the United Kingdom. And I'm sure many of you have been following some of the articles and analysis of the upcoming elections on May 7th in the U.K., which is not just a question about whether Cameron gets reelected and whether there's going to be a referendum on the E.U. in 2017 as you mentioned, but if it's not the Conservative Party, if it's actually a coalition between the Labor Party and the Scottish Nationalist Party, which would put the issue of the Scottish referendum right back on the agenda again, only you know a year or so after it was already supposedly taken off. So at the same time that we're dealing with integration and questions about the future of integration at the E.U. level and how that is working and what the challenges are and whether we're overcoming them, at the national level in many states, in Spain and the United Kingdom is two of the oldest kingdoms, set up around the same time with the Union of the Crowns and then on with parliaments, actually also having questions about their own internal governance which are linked together. So I'm just kind of wondering you know, if you have a few observations on that, and then I'd like to pick up with Kemal.

MR. SOLANA: I agree with you that what has happened in the United Kingdom state, the times of Tony Blair and the times of (inaudible), it was (inaudible), very important bridges. And instead of the region being grateful to the (inaudible) they have created their own political party which are now winning. Remember that the government of Tony Blair was 80 percent of the government was from Scotland. And today, the leader of the labor party in Scotland probably would not get elected on May 7th. So they changed that (inaudible) dramatically from the -- this is a process that has not much to do with the economic crisis.

MS. HILL: Right.

MR. SOLANA: You have things which come from the past and the same things that (inaudible) federal and suddenly in the parties that were presented, that constituency, regional constituency, really grew in the manner that is not related to the crisis that we have (inaudible), not populism. And this is true. And we're probably going to see in the U.K., some kind of agreement if Labor, not government, not coalition government, (inaudible). And in Spain probably will not be necessary (inaudible) the government.

MS. HILL: Well we're certainly going to see some very interesting elections unfolding in many places.

MR. SOLANA: Yes we will.

MS. HILL: Even as we look ahead in this year. Kemal, all of this is playing out against the backdrop of the ongoing efforts to tackle the Eurozone crisis. You've been very much in the thick of all these things, not just, as I said, in terms of presiding over so many meetings here at Brookings, with David Wessel of the colleagues in the last week, but also because you yourself in some of your past lives have tackled many of these crises when you were in charge of tapping economic crisis in Turkey. You actually had a small observation on the panel with (inaudible) I remember about saying you weren't part of European Union but actually as an individual you were about as much of a European as anybody else I know, given all of your actions on this.

MR. DERSVIS: Not as much as Javier.

MS. HILL: Apart from the other gentleman sitting in between me, but you know, you're in a very unusual position as kind of a national of a stamp as being a long time aspirant for the European Union but someone who has been incredibly active in terms of European economic issues and all of the work that you've done on a scholarly basis as well as your institutional work. So you have so many times, got really to the core of some of these issues that we've been battling with. And I'm wondering how, if

you pick up from where Javier left us with the idea that we shouldn't be quite so pessimistic because the newspaper headlines would direct us. But seeing how you do see this interface with politics. You have a special perspective on Greece as and E.U. neighbor but also some of this work actively on the Greek connection. You had a lot of questions last week about Grexit and what the prospects for this would be. And I'm wondering how you do see things evolving.

MR. DERVIS: Well thank you very much Fiona. And I thank you Javier for opening with such a wonderful overview. But since Fiona referred to the fact that I'm Turkish, I can't help just one little story. I was a member of the European convention by the way, Constitutional Convention, as a Turkish parliamentarian, which is kind of interesting. But you know when Turkey signed the association agreement with the then European community, Prime Minister of Turkey, Companion of Attatur, soldier, when he signed the agreement he said, "I'm signing with the thought that the European Peace Project is the most intelligent project that humanity has ever undertaken". I guess part of the fact that he was a soldier and saw death and suffering all his life was part of that motivation for him to say that. And you know I think one has to keep remembering that Europe is above all, a peace project, for itself and for the world. But these are -- I have to go on to economics.

On economics, I want to make a distinction between the European problem per se, the Eurozone problem let's say and the advanced country economic issues. Because they are to some degree linked. There is the issue whether the advanced countries as a whole are in the phase of lower growth, lower productivity growth. The figures show it including for the United States, not to speak of Japan. So is there an overall advanced country problem of which the Eurozone is part and has bigger problems because of those certain reasons? And there's a big debate on that. And I'm not going to go into details. I don't have time. But there's no doubt that the statistics show a decrease in productivity throughout the advanced countries -- very few

exceptions. And some economics including Larry Summers talk about secular stagnation in the U.S. and things of that sort.

Then there are the techno optimists who say that fantastic new technologies are going to pull us out of all that. I'm going to leave it at that because this is another type of debate, but I want to remind you that there is a slowdown overall in the advanced countries.

In the emerging markets, also there has been a slowdown, but the difference still remains large, when you think of the fact that 1.2 billion Indians, much larger than the population of the Eurozone, probably this year are going to grow at eight percent, in the same world economy. Now on the other hand, Brazil is growing negatively. It has hardly any growth at all. So there is a lot of diversity. But there is this issue.

Now coming to the Eurozone, two things of course are -- well, three things are helping. And one thing, I don't think is helping at all. There have been structural reforms which were needed, although I want to warn against this knee jerk reaction that as long as somebody says structural reforms, it has to be good. (laughter) You know, there's no such thing. It depends on what you're doing. I can think of structural reforms that can be disastrous. In the overall discussion, you mention structural reforms and then it stops there. So I'm not saying that every structural reform is good. But there have been positive structural reforms, actually, particularly in Spain. Spain gets praised for having moved more courageously in many ways than others spurred by the crisis, than many other countries. So that's a positive factor.

The second, the oil price. Europe is definitely a big beneficiary of the falling oil price. And we don't -- nobody has ever managed to predict the oil price correctly in the medium term, but one doesn't see an immediate large rise on the horizon. And then of course, the third thing that Europe is doing well is the exchange rate now. I mean, the Euro has, I think in terms, depending on the day you take, it has devalued on a

trade weighted basis by more than ten percent, vis a vis the dollar, more than 14 percent, and that makes a big difference, on the marginal growth. It is something that helps Europe. On the other hand, I still maintain my opinion; the overall macroeconomic stance of Europe with the exception of the cautious but supportive central bank policy, the fiscal stance has been wrong, mistaken, badly designed, bad economics. So that I think, I totally maintain that the European depression in the south need not have been so catastrophic was it not for I think, excessive austerity on the fiscal problem. And now, note that we face a very strange problem. Europe -- I'm sorry -- Eurozone, countries that use the Euro, are heading for something close to a 400 billion dollar current account surplus. This is much larger, twice the size of China, mostly because of Germany, but also because the south has eliminated all the deficits. In the old days, the German surplus was compensated by the Mediterranean, let's say deficit, and the Euros and the Germany could argue, well, you have to look at us as the Eurozone, the fact that we have a 300 billion dollar surplus doesn't matter. What matters is the surplus or the deficit of the Eurozone. Now you have a serious Eurozone surplus, which actually is beginning to subtract growth from the United States recovery. So there is actually a tension between Eurozone policies and U.S. recovery. Not a huge one, because the U.S. is a very large economy, but on the margin, it counts. Many American corporations are beginning to worry about the exchange rate. Now if this exchange rate imbalance has developed without the Fed raising policy rates, just my potential talking about it, think about what will happen, may happen, when the Fed actually raises interest rates, okay? So I think the whole international global coordination issue is still a big problem. And why should a Eurozone that has a 400 billion dollar current account surplus have super austerity policies? Why should Germany not invest much more heavily in its own infrastructure and which would help its own people, when it can borrow at negative real rates for ten years. Any infrastructure including human digitally, you know the transition to digital economy type investment, that has a decent return, not a huge return -- three percent,

four percent real return. I mean any half way decent investment project should have a three percent return. You can borrow at minus half and invest in three. And I made that point to Minister Schauble but I couldn't convince him, nobody --

MS. HILL: He didn't listen?

MR. DERVIS: Well he said, we don't want an increase in the nominal level of debt.

MS. HILL: That's right, yeah.

MR. DERVIS: But the nominal level of debt is not a functional concept. Of course, small countries that have small nominal level, what matters is the GDP to debt ratio, or the present value of future debt payments which is even better. In that sense, if you have an investment that you can finance at zero cost and you bring a positive return, you are helping your own country. Not only the Euro, you are helping growth in Europe, reducing unemployment and so on. So I still believe that the macro policy is complete -- I mean not -- is the balance. I'm not saying they should spend, all of a sudden, have huge deficits, but a correction in the degree of austerity and fiscal stance, particularly in countries that don't have a problem in this issue, is highly desirable, both for themselves and Europe and for the U.S. and for the world economy. So we do have that problem. Now, I do want to underline it.

Now looking to the future, there are two views, and it's really hard to say one is right, the other one is wrong. I tend towards one, but you know, I can acknowledge very good economists have a second. The first view, well no -- the first view I'm going to define as the view that you could pretty much continue as is. The big financial crisis has been solved. The south has been kind of forced, semi-forced, into eliminating its current account and its fiscal deficits. Spain has not yet eliminated fiscal deficits, but the current account deficits, and Europe can kind of continue with a semi-banking union, you know an activist ECB, not much fiscal coordination and some rules, the Europe of rules, and that's what Schauble emphasized. We have to follow the rules.

And he acknowledged himself, which is to his honor, that the first to break the rules have been Germany and France, right after they were established in treaty. And some people say this can work. And the Eurozone can do well without further integration. Again, maybe we'll discuss it more in discussion time. I don't think it can work in the sense of generating solid growth and good macroeconomic policy. Moreover, rules are always -- if it's feasible to break them politically; people tend to break them when it is to their advantage. So rules are never something that you can be totally sure of. And the sanctions that these commissions can impose have been increased a little bit, but you know. By the way one of the rules is that you shouldn't run an eight and a half percent current account surplus, okay? But, the commission is now taking an analysis of the German surplus, but what can it do? Very little.

So the second view, is that the Eurozone to be really functional and to grow at two and a half, three percent, in a sustainable way -- I mean Europe doesn't need five percent or eight percent growth, and won't get it anyway. But two and half, three percent, with the digital revolution, with a new social contract where retirement follows some different flexible rules and so on, is I think entirely feasible and good for everybody. And I'm going to come to the last point, good for the internal social piece of Europe. Because we have to remember one thing, according to most statistics, we don't have the latest statistics, okay -- but including in Germany, about 20 percent of the people are worse off today than they were ten years ago. And if you exclude Germany and the northern countries, the ratio reaches about 35 percent. That's very significant. To have social peace, moderate politics and optimism throughout the Eurozone -- it's not growth it's also income distribution and income distribution everywhere now is worsening with the crisis and since the crisis, very significantly. It's not as bad in the U.S. to start with, but it is worsening.

So I believe that more integration in the Eurozone, a small Eurozone budget that could be something like three, four, five percent of Eurozone GDP, that could

be financed for example as the countries do internally, by allocating some of the VAT receipts to directed to the European budget. Doubling or tripling of the Erasmus program to have a real strong -- young people educated in a European environment, and some social solidarity. In the U.S. one third of the unemployment benefits are paid federally, and two thirds in the states. Something like is I think, should be totally feasible -- and of course the strengthening of the ESM and emergency financing and of course the achievement of the banking union. I think these are minimal things that need to happen if we want to have a prospering and growing Eurozone. I really personally -- again there is counter arguments, people don't think you need it, I personally think it's needed. If it's needed it will also require a form in the Euro-wide institutions because you can't have a Eurozone like that without more integrated, without having a Eurozone version dimension chamber of the European parliament -- for legitimacy reasons. So you will have to have institutional co-centric circles, at least two circles, those in the Eurozone and those not. But anyway, I don't think you can get more integration in the Eurozone.

The Germans, by the way, Schauble said that. German constitutional court is not arguing against integration. Not at all. It is arguing, according to the German constitution, that things that are decided have to be democratic. That's the argument of the German constitutional court. They cannot be technocrats or governments doing it on their own. So either they have to go through national parliaments, or, and the German constitutional court is quite okay with that, they have to go through the European parliament. But you know can't ask something where the U.K. representatives who may or may not be, or definitely are not in the Eurozone, have the same voting rights as the French and the Italians and the Spaniards on issues that relate to the Eurozone. So this problem has to be in the end solved and cannot be put, in my view, under the carpet.

And final point has to do with immigration and it's a more political point but I think it's a very important point and it's linked to economic prosperity. Because the terrorism may get worse, the split this generates in societies can become very bad and

has become worse. And there is a serious issue, I am a totally secular person, but Europe has to come to terms with hopefully what should be a European version of Islam. There are too many Muslims in Europe, and there will be more because of the demographics, because of where most of the migrants come from and all that. Already there are tens of millions, so there has to be a model of the European society and culture. And I'm not in favor of open migration or too much liberal migration because it creates too many social problems and one has to be realistic. The rift between parts of European society and Muslim citizens of Europe has to be healed and of course both sides have to work on that including on the Muslim side, there has to be the renewal that allows an attitude to religion that is fully compatible with European values in the democracy, the rights of women particularly. But I think in achieving that European civil society and political leadership has to help and these two things have to happen, otherwise these sad events can continue. This is again, not a problem that can be put under the carpet.

MS. HILL: Thanks very much for that Kemal; I mean a very important last point. I want to pick up before we turn to Justin, just on a couple of things that you said, see if you could elaborate a little more. I remember well, and many in the audience will, you're putting the issue of the surplus to Schauble and the response. I mean there are different ingrained attitudes towards debt and these issues in different countries, and of course these plans in national politics and as you said, one of the keys to all of this is really democracy and the way that it works at the national level as well as the European level in the European parliament. I mean how do you think we can actually come to terms with these different cultural, I mean in many respects, historical not just political attitudes? I mean Germany obviously has a long and bitter history with the collapse of the economy after World War I, the Weimar republic, great deal of concerns about the complete upheaval in the economy and growing distrust of banks. And it's not just Germany that went through a period like this, other European countries. I mean the U.K. before the Thatcher revolution in the 1980s, had very low levels of debt as well. The U.K.

decisions would have had the same kind of approach based on their war time memories and issues of rationing. So I mean can we have a more perhaps calm debate about this, as much prospect about this about how one handles the politics of this and obviously the concerns at the national level about how you would deal with an issue like the surplus? And then in that regard it fits into the last point that you made, because some of these divisions of economic issues have actually been also expressed in terms of values, politics and religion. We've had, not so much perhaps from the Greeks, but increasingly so, but certainly from the Cypriots, a kind of a view that they were harshly treated when it came to the collapse of their banking system because they were not Protestants, which of course, in a Eurozone. It was a kind of point that some of them made in a meeting that we had here that, there's also that kind that there used to be a very big perception that there was a north-south divide based on Protestantism and Catholicism that ran across France and Germany as well. There used to be this perception that only Protestant countries could move forward with economic growth, back in the 1970s. So how do we come to terms with some of these overlays that people put onto a lot of these debates?

MR. DERVIS: Maybe the second part of your question, I'll let more Javier and Justin answer, although I do want to add that I think in Europe there are now something like 25 million Muslims. It's no longer an insignificant number.

MS. HILL: Right.

MR. DERVIS: They're the most rapidly growing part of the population, both from internal birthrate and some, but still additional migration. And of course Europe, and Japan is even worse, has a serious demographic problem, so immigration has to come from somewhere and of course the natural place is the place that's close. It's very hard to bring immigrants from Malaysia. I mean it's not the same as those in the Mediterranean (inaudible).

But anyway, on the economic side and this was the argument with Schauble, but we didn't push it too far, again there were time reasons, but one has to

make a clear distinction between indebtedness and debt. If you have a house that is worth a million dollars, and you have a mortgage on it of 200 thousand dollars, an equity of 800, you're fine in most cases. You have 200 thousand dollar debt, but the house is worth a million dollars. If you have a house that is worth 500 thousand, half of that, and you have a debt of 200 thousand, you're in a much worse situation, let alone if you have a house that's worth 200 thousand. So the levels of debt are quite frankly irrelevant, what matters is, in any corporate financial analysis that does the same, is your balance sheet -- your assets and your liabilities. So if you take a state in Europe, France even, which is more difficult, and you are able to invest by borrowing at zero percent, or negative such as the case in Germany, and by that you create an asset. That investment will actually improve your public finances in any corporate analysis; this will be an improvement in long term profitability. So it is quite irrational when you have a chance to invest productively, not to do it when your cost of investing is negative. The only thing that can justify an attitude like that is kind of a maybe a tea party attitude that whatever the government does is hopeless and will generate negative investments. And you have that hopeless a government, then fine, but any decent government, I think Germany's government is pretty decent -- it can generate positive return investments, so that's the first point.

The second point is that there's a tremendous need for investment, but in investment I include education equality, digital transformation and all of that. Not just, the old style of investment of building a factory or something. So this is why I think the fiscal stance is so irrational. And finally as I said, the Eurozone's fiscal stance is now creating a problem for the world economy, because you know somebody's surplus is somebody's deficit. So there's a win-win situation. Now why do people not understand that? Well I mean some people are just looking at nominal numbers, you know and you have to campaign on these arguments. If you don't, I mean in a democracy leadership counts. If you don't give your citizens messages that are correct, I mean they may not all be

economists and hopefully they aren't. (laughter) And the other thing is however, and Schauble said it, again to his honor and he is a very honest man, Germany is gaining from the current situation to some degree, particularly German business. By having this imbalance German interest rates are lower than they would otherwise be, German corporations can borrow at rates that are quite advantageous and buy Spanish companies for example. On the other hand the average German saver, you know the kind of lower income people who put their money in their postal savings accounts, lose. Why do they lose? Because a big part of that surplus -- they don't get any return on their savings, and Germany as a whole, one fourth of its savings gets parked at the ECB target balance accounts which pays zero interest. So I think I'll stop there.

MS. HILL: Well I think that's quite clear, at least even for those of us who are not economists in the audience, but make sure you're not too clear because you might put yourself out of business as you go along. But I think the message from this is obviously that we can overcome some of these stereotypes and perhaps these you know these kinds of ingrained aversions to thinking differently if we keep sticking to the facts and laying it out very clearly. Javier, you said you wanted to actually say something on this and then I want to bring in Justin.

MR. SOLANA: The only thing I want to add to Kemal, I would tell him that you haven't mentioned at all the change in the policy of the central bank. If we were being financed in the times of the previous banker at very high levels, very high, to think that you were financing at a similar rate today.

MR. DERVIS: Two year.

MR. SOLANA: Well it's today with --

MR. DERVIS: Germany put --

MR. SOLANA: When Mario Draghi has taken the decision has been taken. So let's see how -- this isn't taken in a very -- a few months ago let's say. So I still remember my country's finances at a high, very very high vis a vis Germany. Now we

are about the same level, but the same level has taken place as three months ago, four months ago. It's a big moment in which we see how we adapt. We still cannot say --

MR. DERVIS: But Javier and Justin and Fiona, I believe that the macroeconomic policy mix that gives all the jobs to the central bank is not a good one and not a sustainable one.

MR. SOLANA: But this is the same thing that was done here.

MR. DERVIS: Yes, well no, the fiscal stand -- no, no, the U.S. had bigger, much bigger deficits for a long time, for a very long time.

MR. SOLANA: Yes, but the quantitative easing that has been taken in the European --

MR. DERVIS: Because Congress, too late --

MR. SOLANA: But it was the right policy I think at this point.

MR. DERVIS: But it was done with a large fiscal deficit at the same time, okay? Zero interest rates in my view, for one or two years, that is okay. But as a permanent policy or semi-permanent policy, are very dangerous.

MR. SOLANA: In view of that, everybody is --

MR. DERVIS: Now you have the stock market in Europe, I think having broken all records, and in my view that is not because Europe is doing so well in the export and production prospect and all that, but because companies can borrow at zero or negative.

MR. SOLANA: This was a problem.

MR. DERVIS: And what are many corporations doing with their huge profits, including in the U.S.? They're buying back their own equity instead of investing. When there's not enough -- you see, you have the old saying in economics or in other things too -- you can bring a horse to the water, okay? But if the horse isn't thirsty, it won't drink. So the zero -- if there is no demand for products, and if there's no widespread purchasing power, including the purchasing power of workers and of not so

rich people and of households, then all the very low interest achieve is channeling more money to the super rich, allowing corporations to --

MR. SOLANA: I don't want to engage with you on the economics here.

MR. HILL: Well this is quite good here.

MR. SOLANA: Because I'm not an economist and you are. What I disagree with you is on one point, that it was (inaudible) and the present is very short. The change in policy is very short. Still we don't know exactly what is going to happen. And I agree with you that austerity was a mistake, and we all agree that. And not only a mistake economically but a tremendous mistake politically, because some of the disengagement that we have with the values of European Union is related to that tremendous obscurity. But now I think the dragging has taken -- this is mutually important -- that it is very important that the German bank has contributed to that, has accepted and has voted and in Frankfurt in the right manner. And it was very difficult to get that. You remember the debates that we had.

MR. DERVIS: What's more important --

MR. SOLANA: Yeah.

MR. DERVIS: Is that the German banks now lend this money to real investors, who want to create real jobs for the medium term economy. And there's no guarantee that that will happen.

MR. SOLANA: There's not a guarantee ever.

MR. DERVIS: Well that's why you need fiscal policy to support it.

MR. SOLANA: That is why we have to go into the direction of creating a more unity in the Eurozone, if that is what is beginning. The only disagreement I have with you is that I am more optimistic because I think the tendency at this point in time is better than the tendency five years ago.

MR. DERVIS: I agree, but --

MS. HILL: Well let's try to bring Justin in here.

MR. SOLANA: Okay.

MS. HILL: Because France is actually again, another country that's found itself in a lot of unusual positions and we're very delighted that our colleague from Brookings has gone to such an illustrious and important position in the French Foreign Ministry, the policy planning.

MR. VAISSE: Thank you.

MS. HILL: You're not in charge of domestic policy, yet, but you know, maybe we'll see, Justin, in other guises, in the future. But France has definitely been in the spotlight for all of these kinds of issues that we've also laid out on the table, on the question of jobs and unemployment, growth. The economy has really played in a quite dramatic way in French politics, with the rise of Marine Le Pen, the National Front, particularly at the local level. As Javier alluded, there are the elections in France in 2017 and a lot of these issues will obviously have evolved by then, but will no doubt reverberate, and all the questions will be about what happens next. But France has also been very much in the center of the issues that Kemal raised at the end of his overview about how to integrate internally, a very disparate population. France has always had that great Mission Civilisatrice, the idea of La France where many could come in and comfort citizens. But of late, it's become much more difficult to mediate some of the internal social issues. France has suffered some great tragedies in terms of domestic terrorism. France has also been at the forefront of the crisis in the Mediterranean, with its relations with the North African (inaudible) in the same way that Italy has. But France has also been dealing with large waves of immigration, with the crises in North Africa and Sub-Saharan Africa, France has been very active on so many fronts. And I'm wondering, Justin, how this all appears from your perspective. You have a very full plate. We'll going to pick up with some of these issues actually in the next session as well.

MR. VAISSE: Yeah, I was going to say, I probably will let Jonathan address this issue from the European perspective of the integration of Muslims. I'll be

also interested in hearing what Carlo Bastasin has to say, especially because what Kemal was saying about negative interest rates, seen from a non-economist point of view, it seems like the economics that we are sort of going in uncharted waters in terms of what economic policy should be in a world in which interest rates are at like -0.5 percent. So you mentioned a few of them, I'm not sure that European firms, or all of them are already benefitting from that. States however are borrowing sometimes at a negative interest rate. And so what does it do for example to the master treaty benchmarks? The 60 percent debt for example, if you have no risk of snowball effect of your debt because your interest rates are negative, then it sort of changes the equation, right? So in terms of policy making and the macroeconomic effects of this, it's quite different. So I will second what you were saying and perhaps going even further and also wondering if economists are really in comfortable territory. I would also like to second what Javier was saying about Europe not doing as bad as it seems, right now we've been pretty much in the news for, for the bad news, for the migrants in the Mediterranean, for the problems of the Eurozone and et cetera. But it shouldn't hide the fact that Europe, because of what it does, because of what it is also because of foreign aid, because of technological innovation that we are now talking a lot about Europe. We should be talking about more because of what it is doing for climate, for example and spending about a third of our time preparing the Paris conference at the end of the year. It is still a massive force for good in the world and that shouldn't sort of disappear from the overall picture.

I'll pick up on a point which is that question of migrants in the Mediterranean. The situation that Europe finds itself in is a very difficult one and I was reminded, because after all my first trade was being a historian of the U.S., of the 1980 crisis of the big boatlift from Cuba to here and the cross rail politic deal that Carter made with Castro to end the arrival, the massive arrival of tens of thousands going into the hundreds of thousands of Cubans onto the Florida coasts. Sort of have the same

problem, of it's estimated that now there's anything between six hundred thousand and one million migrants awaiting departure from the Libyan shore. When you think of the magnitude of that challenge, it sort of defies imagination and sort of puts in perspective the horrendous tragedies of the boats capsizing in the Mediterranean. So it's both a horrible tragedy and a policy problem that is very intractable in the very short term. But my point was to say that Europe has been acting. The thing is we're sort of in the process of, since 2006, since the creation of the (inaudible) agency, since the Schengen new procedures, et cetera, of getting a more united and efficient, effective migration policy. But it's not there yet and when confronted to that massive arrival of migrants the results are not good. So there are two routes that the migrants are taking and its estimated that we went about from 110 thousand illegal migrants, it's an estimation because they're illegal so you cannot really count them but that was the estimation in 2013 -- to 280 thousand last year, and probably this year it will be more than 280 thousand -- it might go into the 300 thousand or 400 thousand. The challenge is really massive.

There are two routes; one is the central Mediterranean, what we see Malta, Italy and the other route is what you say, Javier, basically Turkey, Greece, and the Balkans. The problem is that it is going better in Western Africa, because Western Africa is growing now and we have agreements with the governments in the region, et cetera, but it's getting worse on Eastern Africa. Eastern Africa, and I would say the Persian Gulf. Saudi Arabia has been closing its borders pretty tightly. The Yemen tragedy would certainly put more migrants on the road going through Sudan to Libya and awaiting passage to Europe. So in front of this you've seen that there was meeting on Monday and of course this is an extraordinary meeting today around the number of ideas which are multidimensional. There are many dimensions to the issue, so you may remember there was this operation last year where Mare Nostrum was the mentioned name of the Mediterranean, of course, and it was an Italian operation which saved about 150

thousand migrants.

The problem is that it was a very good operation, but on the other hand it created a vacuum in which many migrants plunge. And many traffickers of migrants plunge because they knew that the because of the help that the Italian navy was providing, they could just go there with boats and basically abandon the migrants that the Italian navy would take care of them and that they would be taken to shore. So it was the unintended consequence of doing the right thing, which was to save them at sea. And Mare Nostrum was discontinued at the end of the year and there was another operation, Triton, that was led by the E.U. which was basically interdicting passage but also much more discreetly than Mare Nostrum was doing saving them, but of course that is not too much publicized. And I shouldn't publicize it but that's what's happening at sea, even if we still have this terrible thing.

So a number of things, the unification of procedures among European countries, the increase in resources for (inaudible) for the operation, comprehensive strategy with the countries of origin, dialogue, aid, information to migrants also. Also the destruction of boats in Libya and of trafficking networks that thrive on the migrants -- the relocation of migrants, better intelligence et cetera, it's a sort of all of the above strategy that Europe is following to try to ward that off. And of course we can only hope that today's summit, extraordinary summit, will sort of put them into work very fast.

The more global picture is one of big challenges for Europe; Javier alluded to that in the east and in the south. In the east with the Russia Ukraine issue, in the south with Libya with (inaudible) and Syria and Iraq, and also with terrorism. Right now the biggest military intervention that France is not in Central African Republic or in Mali or Iraq, it's on French soil. It's ten thousand soldiers that have been mobilized to patrol the streets, the (inaudible) plan and here there's also risk of discrepancy or gap because the countries do not face the same threats and its one of the old problems of Europe when you're in the Baltic states you don't face the same threats from the east,

then when you're in Portugal and when you're in France you don't face the same threats from terrorism than when you're in Dublin or in Budapest. So that's one of the challenges.

We are in the process of revising the European security strategy and sort of feeding (inaudible) with insides and the picture is very startlingly different from 2003 when Javier, you led the first European security strategy which is really a model. Because it was very short, it was very pithy, it was very effective. In 2008 it was revised, but it was not a very good revision, so we are trying to find the spirit of 2003 but in 2003 things were good. Europe had the future for itself, the world looked like it could adopt European norms, there was effective multilateralism, et cetera. And in 2015 it's sort of the opposite. We are risking -- the risk is to import security rather than export security; we've been obliged to adopt Vladimir Putin's norms of behavior. We inhabit a world in which the norms are the ones that he gives. There is a lot of disorder and chaos in the east and in the south. And so the overall strategy situation has degraded a great deal.

Now perhaps let me say a few words about the populist movements because that was in the title of our panel, and I think it's a good follow up on what Kemal and Javier said. I think that what we've seen in the recent years is a rise of these populist movements. It's really hard to define. My definition is basically the movements that are based on the rhetoric of the small guy versus, the little guy versus the elite, obviously the big guys -- whether the elite is defined economically as the financial world et cetera, or the elite of bureaucracy of Brussels or Washington D.C. or the sort of cultural and cosmopolitan elite. And so these populist movements are really about purging the political system and empowering what they see as the regular citizen and it's good sort of common sense and sort of gathering people in the field who have been robbed or despised, or displaced by immigrants in their jobs and place in society. And so that explains that you have both right wing versions of these populist movements from the extreme ones, Golden Dawn in Greece, Jobbik in Hungary, to a more milder version

like the Front National in France, the FPO in Australia, the Lega Nord in Italy, the (inaudible) in Belgium. In the U.K., the sort of national populists are right on the true things arrived came in second last Sunday at the elections in Finland, and so all these sort of more right wing movements. But you also have left wing populist movements from the Front Gauche in France, or the Die Linke in Germany, (inaudible) of course, Podemos, you mentioned them, with a number of common themes and of course one of them is Europe and European construction. All of these movements have one thing in common is that they want to recover the national sovereignty of their country against the encroachments of Europe. And one added thing is the vision of the economic liberalization that Europe is promoting. TTIP for example, the Trans-Atlantic Trade and investment partnership is the free trade deal in preparation, is a common target for all these movements -- whether extreme right or left. Another common point is that pretty much all of them are very anti-American and pro-Russian.

There's a lot of admiration for Putin whether on the right or on the left, and to some extent we should perhaps put this European populism in perspective, both in history and in geography. In history for example in France the communist party was at 20 or 30 percent for a number of decades. In the fifties, sixties, and seventies it was very high and it was anti-system, anti-republican against, the fourth and then the fifth republic and until they came to power in 1981 and were sort of integrated and absorbed by Mitterand.

If you look not back in time, but in geography you find shades of populism in many different places -- in the election of Narendra Modi in India, in (inaudible) campaign against corruption. Not only the flies but also the tigers and of course that is meant to connect with the general population, Ahmadinejad's election back in 2005 was also an example of that, the tea party movement as really strands of populism, et cetera. Perhaps we also need a Meta explanation, a general explanation for these ones tied to globalization and the feeling that the people have been robbed or have

been deprived of their destiny. And so that explains that in many cases populism carries very negative connotations. And many times it should, but at the same time they can be the expression of very legitimate grievances. I mean, Podemos, for example, you can pretty much understand their stance. And I remember I was struck by this piece by what after all is typical elite of Wolfgang Munchau from the FT, the columnist, he wrote this column I think in November of last year and he was saying, if you're in the majority of Europeans and you think that basically E.U. economic policy should go towards public sector investments and debt restructuring, then Podemos and (inaudible) are your logical choices, and I don't think Wolfgang Munchau is a hard left observer. But the only political offer for this type of economic policy is provided by them. So we should be careful not to use that populist label as something to disqualify what after all often is only a stage in the political transformation of societies. And not all of them are like Jobbik or Golden Dawn in Greece -- a harshly anti-semitic and xenophobic, many of them also reflect something about the people. And the boulder between that legitimacy of people's voice and populism is sometimes hard to make.

I'll finish on a point. So I was saying, populism rises when people feel they are deprived from their destiny and they are floated by some remote out of control government like Washington, D.C. here or Brussels in Europe. But Brussels is even more targeted because it's even more remote from the people than Washington. It's even more complex. And it is a creation of the European elites. There's no doubt about that. To a degree that Washington, D.C. is not, the 2005 experience, the referenda and the fact that it went on of course, didn't help, and also, Brussels as we know is blamed by irresponsible national politicians. There's a vicious circle on the one hand, the national level is less powerful than it used to be. National politicians can do less than before and so they blame Brussels. But the E.U. level has not proven its worth and seen as less controllable, so all of the elites are targeted. It's not just European elites and European bureaucrats, E.U. bureaucrats, it's also national elites because they are seen as

powerless and the Marine Le Pen and the (inaudible) and the (inaudible) of this world are targeting this. Now just to conclude on the future, apart from (inaudible) it doesn't seem that any of the current populist movements that I mentioned are likely to win power alone, and so these movements face a choice of either joining coalition governments like the (inaudible) are doing in Finland since Sunday's election, or moderating their demands, but of course, moderating the demands means entering and joining the fray and losing the appeal that they have in front of the people, or they can execute power to stay and shout from the outside, but with very very little prospects to come into power. So I'll finish on this. I'm both a bit -- quite concerned on many evolutions. At the same time I think that by and large these movements will end up being absorbed by European democracies.

MS. HILL: Let me ask you just a follow-on question to that, because you are in the position of having to formulate coherent foreign policy and against the backdrop of all of this at the national level and the E.U. level. How has all of this complicated the efforts of the national government of France, figuring out how it's going to deal on its own independent level with many of the challenges it faces, but also to then play a multilateral role, because France has been, you know, that we talked all about France and Germany, the relationship. We always see France and Germany working together on the crisis in Ukraine. But France has taken a lot of independent actions as well, basically being at the forefront of them in Francophile in Africa, for obvious historic but also very important security reasons. And you've also got these particular sets of challenges that we'll talk a bit more about at the national level internally, all the questions that Kemal raised are very much alive and at the forefront of the debate in France. As someone who does this day in, day out, what has been the greatest challenge for you, but also, are there some elements here that you've actually found to be more positive -- something that's actually benefitted France in the larger context?

MR. VAISSE: No, well, I'll be very brief. It's true that there have been

sort of two front challenges. One was to do these structural reforms in the good sense of the term and without losing the support of the population and that's what has been done and many different things on the regional reorganization to lower the cost of public administration, on investment, on taxes, and there remains many things to be done. And vis a vis Germany of course, we're sort of paying the degraded economic situation of the last few years. But it doesn't mean that it deprives France of the agency abroad, and the possibility to act abroad. I'll just mention a few things. I mentioned the COP21, the Paris Climate conference, which absorbs a lot of time, not only at the (inaudible), at the Minister of Foreign Affairs, but also at the Presidency. It will be a major episode for dealing with it. But there are also other initiatives, not only in Africa, but I'm thinking for example of limiting the (inaudible) rights at the U.N. You know, it's the seventieth anniversary of the U.N. and so France has put forward this initiative and this proposition. And so there are the facts that we've been entering problems and specifically on the Eurozone that Germany has taken the lead on a number of issues, doesn't mean that for the rest of the many issues of the world, we've been incapacitated.

MS. HILL: Thanks Justin. You wanted to say something Javier?

MR. SOLANA: I'd like to continue a little bit of what you have said. Now if we look at what happened with the political parties, maybe with the exception for the moment of Le Pen of France, and I think you have explained pretty well where these people come from. Le Pen is getting votes from people who had no representation because the Communist Party disappeared, the situation changed, et cetera, but there's no people that -- they were there, they have been in the system all the time. But now take Italy. Take Italy and look at (inaudible) -- was the second party at a given moment. Today, nobody thinks that (inaudible) is going to do anything. And it's a very short period of time, and within two elections. Now Podemos, they were supposed to be the number one party, and then nobody thinks that they're going to be but the number three at the most. And what happens also is that they realize when they have to make a program,

that most of the programs when they put forth at the national level, it cannot be done, because you are part of the European Union. And the question comes, if you want to do these policies, A, you have to get out of the European Union, B, you can adapt to the fact that you are a member of the European Union, that you live in a single market, et cetera, et cetera. And when that question comes, people say, I prefer to continue living in the single market than trying to get out of the single market and trying to do -- to put forward this program that I thought on my desk, out of the world.

Third thing I would like to say -- we have not done in the European Union the pedagogy of the world that has changed. Now if you look today to the European Union, in the G7 we have Germany, France, Italy, U.K. In ten years, some of them will be out. In 20 years, the others will be out, and it will be a moment not very far from today, it will be none of the members of today of the European Union, the G7 will be a G87, (inaudible), most importantly. So you can imagine that the leaders of these countries, they have to trust me to have people that either will get united or will disappear in sense. And that reflection has not been done pedagogically properly. But it's beginning to make some (inaudible) in the mainstream, and that is why I think I am a little bit more optimistic, because I think that the realization of what for a European country, for a European citizen is not to take care of that, not to explain this and not to adapt to the new reality. And that reality needs more integration. So re-nationalization versus integration, at the end of the day, integration is going to win, and maybe in order to do that, we have to liberate, maybe through some of the countries that today are a part of the European Union. I don't know whether U.K. is going to. But we can go back to a debate that Kemal has put on the table, which is a different circle. And that's a type of different circus; it's a very intelligent approach. It is also in the minds of many many people. We can put it on the table today, but it's something that has been thought and it's not a difficult struggle.

And this gives me a little bit to do the difficulty that we had with migration.

I mean, France had been cuts head migrations for three generations, four generations, probably. Now the problem that you have is a country which has three generations of Muslims, people from Morocco, Nigeria, or whatever, and not integrated. The first generation was happy. The second generation was happy, but less happy. The third generation, illiterate and they are very unhappy. Now let me put an example of Spain. Spain had 38 million people. In five years, six years, has increased the migrant population by ten percent for migrants. I can tell you, you haven't seen in the newspapers any conflict in Spain. People are integrated. People are -- these are first generation. Now what will happen when we come to the next generation? But it's very different what you have, the program that you have. You might just have the same problem with the Turks that you have with Moroccan (inaudible) so it's very difficult to have or to give a rule or an idea that controls the different problems that we have.

Now the last thing I would like -- not the last, the one before last think I want to say is on foreign policy. It's a common place in the United States that Europe cannot have foreign policy. Let me tell you two things. The two most important problems that the world has today, one is Tehran probably. Tehran was started by the European Union. The Americans got on the boat later on. And we have been together, sanction and everything. Nobody can say that Europe has not been in the right boat on this. The second problem is Russia. I've been here not long ago, here, living 12 months or 13 months, saying, well, you stupid Europeans, you will never be able to put a sanction on Russia. We never had the courage to do that. Not only has it been done, it has been maintained, and very likely will be maintained through December 2015, which is when the Minsk due, we will see what happens. So we are really in the very same boat. So we have in the main problems, we have the same solutions, Americans and Europeans. You don't want to recognize it and maybe some of us, we don't want to recognize it, that we are in the same boat, but we are in the same boat with the same policies.

So I think we have many debates which are necessary and that the only

thing that they do is to create an official problem, when the real problems are being solved and solved in a very cooperative manner. Now you can tell me, what would happen in 2015? Will we be able to maintain the sanction to Russia? I don't know, but up to now, it has been maintained. It has been maintained with pressure from Greece, pressure from Hungary, pressure from many other countries that didn't want, and really it is recognition by the European Union member states that the interdependence means that you do something that has consequences on you because we are in a very interdependent world. And the fact -- the things you do, and the things you don't do, have consequences and options. And that is a very difficult thing, to change our mentality, that this happened here. It's the very thinking that we all have to do together because the world is very very different. And the fact that China is today, PPP, one country economically, this is a fantastic thing that we never -- we didn't expect in the European Union. No one.

So that brings us to the question of security. And this is the debate that we have to have, it's on the fence. And how much we spend, and how do we spend it? And I think that at the point of today, many of the countries that will appear in the world in our neighborhood, the United States would no more like to play. It would like lead from behind or even not lead at all, not leading from behind.

Now if that is the case, the Europeans have to make some changes in their security and defense, and that which we are working in. And I just published a very long paper and chair a very good talk forth, and I think that is a very important thing. Because the integration of the -- to create a unit of defense in the European Union -- a union means like a voluntary union, like Schengen, like the Energy Union, et cetera, which is to integrate, that will be a fundamental change, because the budget will be collected, the troops will be integrated, the general will be integrated. And we will need something that for you is very dangerous or you think is very dangerous. We will need to have a European headquarters for oppression, which we don't have. And we don't have

it because N.A.T.O. feels very uncomfortable with that such a thing. But it's inexorable that we are going in that direction -- inexorable. So this is the type of thing we have to discuss, how we can do that for the good of everybody, for the good of N.A.T.O., for the good of the European Union. Otherwise, we will not be able to (inaudible). So this is the type of thing that I would like to discuss more than the past. The past is past, and I think we are in a new period, at least until 2017. It's two years, it's not much. But we're definitely not done in this period, in the good cooperation between France, Germany and the rest. It will be very difficult. It really is a big unknown until after 2017, electorally wise in France and Germany.

MS. HILL: Thank you very much Javier. I want to go to the audience now. We've got about 25 minutes before we move to get some coffee and into the next session. But I'd just like people to bear in mind what Javier has just said here, because as we look forward to the next couple of years, it's not just electoral changes in Europe. It's the Presidential campaign that's opening up here in the United States. And all of his here in the audience are very committed to these dialogs about these critical issues in a Transatlantic level, trade, security, economics -- the whole set of issues that we've laid on the table today. We're very grateful here at Brookings, as many other think tanks are for a close relationship with the European Union delegation here in D.C. It helps to promote these dialogs. All of our fellow think tanks and colleagues at SEIS and elsewhere, even D.C. are looking at all of these issues. And I just hope that together all of us can continue amidst the fray of what is going to be a lot of background noise on politics, the discussion and raising the flag on these critical issues, so that we're not set back by our electoral campaigns in a way that we don't address these critical challenges. Because as you said, time is not on our side. Things are moving. We have two very critical years. And we're going to have to really focus on these. So I hope that there will be more of these discussions with you and Justin, Kemal and all of our other colleagues. We'll pick some more of this up in the next session. But in the meantime we have some questions. I'll

take three at a time, and if people could identify themselves and then, if you have a specific question for someone please say, or if it's just to the panel, please go ahead.

And the gentleman here at the front, thank you.

MR. SMITH: Bruce Smith, a retired Brookings scholar. I want to thank the colleagues for a wonderful seminar, excellent discussion. I'd like to address a question to Javier and also to Justin about European security unions. I remember sitting at a discussion at Brookings last year on European foreign policy. For two hours, the term N.A.T.O. did not even arise. It strikes me that this -- Americans have always been very polite about all the European, Western European arrangements and so forth, but why are you reinventing the wheel? You have a security arrangement. It's called N.A.T.O. You're a part of it. You insist on this nonsense of a European Union when you don't have airlift, you don't have communications. The Libyan problem was a problem of Europe concocting this policy. We're not being in at the take-off, but we are in at the crash landing. Why don't we focus on N.A.T.O. as the security arrangement for Europe and not insist on this -- it's time to stop being polite and just saying that we think this -- at least I think it, maybe my colleagues wouldn't agree -- this European security arrangement of its own, apart from N.A.T.O. makes no sense.

MS. HILL: A nice direct question. Here to the gentleman, and then at the back.

SPEAKER: I am Matias Grivisky, a researcher from the University of Buenos Aires. I'd like to ask Javier Solana, I agree with you the importance of the European Union security union. Which other projects, institutional innovations can we expect from the E.U., either for the internal dynamics of the block, and also for external relations with other countries and blocks? Thank you.

MS. HILL: Thank you very much, and the gentleman on the aisle here, yeah. Yes.

SPEAKER: Yes, I'm Mr. Darby from Brookings and (inaudible) in

Uruguay. I would like to ask a question to Javier, one to Kemal and one to Justin.

MS. HILL: Ha-ha, go ahead.

SPEAKER: Very short, Fiona. You spoke about elections in France and Germany. I would like you to play a little bit the oracle and give us your thoughts on how do you think that's going to play out and how it, what it's going to imply for the dynamics of the European Union. Kemal, you brought the concept of Europe having to come to terms with its Muslim population and having a European sort of model of Islam, and I would like you to elaborate on what's your vision on the European model of Islam. And Justin, you were talking about grievances, legitimate grievances in populism across the advanced world. In Latin America, usually populism flourishes when we have commodity booms, so it's in boom times, not in grievance times, that populism flourishes. Would you have some thoughts on that apparent contradiction? Thank you.

MS. HILL: Thank you very much Ernesto. Javier.

MR. SOLANO: Well thank you very much and first on N.A.T.O. I think I mentioned the word N.A.T.O. in my first intervention and my second intervention. I think I know N.A.T.O. fairly well. Maybe not as well as you do, but fairly well. I did a (inaudible) of N.A.T.O.; I did the first (inaudible) between N.A.T.O. and Russia. I believe a very enthusiastic (inaudible) of N.A.T.O., we have to do the first military operation of N.A.T.O., (inaudible) and I happen to be the secretary general. Let me tell you that I've been in doing several operations in Africa for instance, very important ones, where the United States did not want to pay with N.A.T.O., and we had to do it. And we went to (1:33:53.1) and we solved the problems very very dramatic in (inaudible), with a peacemaker without N.A.T.O., and the first thing. So there are moments in which the United States may not be interested in doing certain things. And for that, the European Union will have to do that. Now, we have mechanisms to do it with N.A.T.O., but the (inaudible) agreements are a very good arrangement. When the European Union can do operations, with cooperation with N.A.T.O., we can get N.A.T.O., and even the deputies concur, he's the

commander of that operation led by the European (inaudible).

Now, third thing, as I said, if the European Union has to operate better with their resources, the integration of the military is fundamental. So we'll have units that will not be national, that will bi-national, tri-national, fi-national, all 17 countries together. So how do you get that into N.A.T.O., when you don't have nation states? You have a collection of nation states that share helicopters, (inaudible), soldiers, everything. How do you place that into N.A.T.O.? That has to change the manner in which you cooperate with N.A.T.O. with your strategy. That is what is not saying goodbye to N.A.T.O., on the contrary. It's to say, let me (inaudible) more effective in N.A.T.O. by instead of doing nation by nation. If, let me tell you, I cannot give you a figure, because I do not want to make a mistake on the figure, but I have it, but I don't have it tested yet. To get the two percent in Greece -- in Greece, in the budgets of every country of N.A.T.O., in order to (inaudible) it needs, is from the point of view of European Union, a nonsense, because we can't obtain the same with half of the money, if we do it together and then we put this into N.A.T.O., and that is a reality. And you don't want to waste money in defense. You don't, and we don't either. But we want to have defense, and we want to have coordination with our defense. So the things that we are doing are very sensible. We may not arrive to that, it may be because some of the countries of the European Union, in the eastern part, (inaudible), they may have the sentiment that with the United States are better with Europe. But that will be a breaking of the trust of the European Union by some member states and others will have to do it. Remember that the Lisbon Treaty, which is a treaty that is today -- today -- allows all ready to have the cooperation, integration -- what we call an integration of military, which is not compulsory, but countries, they want to do it voluntarily, they can do it, and it's beginning to be done. It's beginning to be done, and which I would like to do it a little more rapidly than what is feasible and with as many countries as possible.

Now the second question, if I understood you properly, is the relation

with other countries. Well, the European Union is without a (inaudible).

MS. HILL: Other innovations of institutional arrangement?

MR. DERVIS: Other projects, large projects.

MR. SOLANA: Let me be very very direct. We have to do, which is needed with enormous care, that you don't need to have a change in the treaties. The treaty that we have, as you remember, is the consequences in favor of the constitution in which Kemal was part of the convention, and I was very engaged on that and we failed. And then the Lisbon Treaty is, we have to use it to the utmost before we change anything, any column that has to go through referendums in countries. Now we know already what the referendum needs and changes we're supposed to do and change is very difficult so whatever we have to do, let's try to do it with that.

Now that will not place any difficulty on doing what we want to do in foreign policy policies. That will not be a problem. Thirdly, on the question addressed to me, is what is going to happen in 2017? There will be many elections. I mentioned the most important ones, but they will be in Spain in 2017 et cetera et cetera. And this period of time will be enough, which we are going to see is a fundamental change in the sense that the governments of the European Union will be coalitions. Today we have the majority in many countries, you have majority governments. Probably this is going to be over, and you will need to have coalitions to govern. And that is what we are seeing all ready, in Greece, we are seeing in several countries. I'm sure it's going to happen in Spain, and I don't know, France is a big question about that, because the constitution is very -- the way you live, depressed and all that. But I think we're going to see a lot of broad coalitions, which make things more difficult, but at the same time, easy in a way, because it would be more people represented. This idea of the leads versus the absence of the (inaudible), if both are integrated into the governments, it would be much more difficult to have that type of discussion.

Now last thing I would like to say. The thing that worries me the most in

the European Union, the most, is Hungary. Hungary is an example of what shouldn't take place in the European Union. And we don't have the mechanism -- we have the mechanism to prevent somebody from entering, but we don't have the mechanism to do something with a country that clearly is not complying with the rules of the game.

MR. DERVIS: But just one question.

MR. SOLANA: Yes.

MR. DERVIS: There was a way you excluded Austria --

MR. SOLANA: Yes.

MR. DERVIS: From meetings.

MR. SOLANA: Yes.

MR. DERVIS: Why can't the same happen with Hungary?

MR. SOLANA: Very good question, very good question. I don't have the answer. (laughter) And I'm not -- I did -- I support to get (inaudible) out. I am not enough with the --

MR. DERVIS: But you said there are no mechanisms.

MR. SOLANA: No, but, the mechanism is (inaudible). But really, Hungary is not (inaudible) --

MR. VAISSE: I think the answer is the mechanism is pretty harsh, it's pretty violent, and so politically -- there's sufficient support for Hungary to not use that -- it's a bazooka if you like. And there's nothing to send signals that would be less violent than this.

MR. SOLANA: Okay, now let me tell you, Hungary, the party in power, is member of the PP, the European PP, where France is there, Italy is there, Germany, Merkel is there, and they maintained relation with that country. I mean it's nonsense.

MR. VAISSE: And your guider was really out of the range and so --

MR. DERVIS: Well this one is out of the range.

MR. VAISSE: I agree.

MS. HILL: So if you thought about an institutional arrangement there Javier, and if as Justin said, this is too much of a big bazooka to use the exclusionary tactic, what could in terms of institutional innovations, what could we do? Maybe you also have a thought about Hungary, because it really is a major challenge. Well would you have an idea?

MR. SOLANA: Well I would, if I were in charge, yes, I would --

MS. HILL: So what would you do?

MR. SOLANA: I would get it out of the cultural. I would condemn him by not calling to travel in the meetings, expelling from international political party. Why --

MS. HILL: So as Kemal says, there are --

MR. SOLANA: I think there are --

MS. HILL: There are penalties, yeah.

MR. SOLANA: Not, they are not regulations, I mean, you don't behave with, as I said, you cannot be member of the European Union.

MS. HILL: Right.

MR. SOLANA: But once you are in, you don't have a mechanism to say, well, out. It has to be mechanism (inaudible). And that is much more difficult, we have to (inaudible) --

MS. HILL: Right. Justin. Yes.

MR. VAISSE: Very quick on N.A.T.O., I think the best way to strengthen N.A.T.O. is to actually anchorage European defense. You know, there's this paradox that Euro, that N.A.T.O. has provided a shield to Europe and thereby has sort of crippled any efforts of Europeans by creating the bad incentive of relying on the U.S., and so the more you want transatlantic unity, the more Europeans have to do things on their own, or to be able as Javier was saying, to do things on their own so as to be more able, spend more, have more capacities to add to N.A.T.O., whereas if you rely on N.A.T.O., then it will sort of wither on the vane.

And very briefly, on the grievances, I think the difference with Latin America is the trajectory. In Latin America, what I see from afar is that you create expectations with growth and then the people want redistribution of that growth. And so that's when the movement and the protests arise. Whereas in Europe, people had a certain level of social protection, jobs, unemployment et cetera, and they're suddenly deprived of them, and so they are asking what is going wrong, and shouldn't we approach the elites and change the system?

MS. HILL: Yeah. Kemal, do you have another?

MR. DERVIS: Well, I actually have a very short story that's on this point, but it's a true story, so maybe it won't take too much time, but I think it's a wonderful story. France has a fantastic Consul General in Istanbul, a lady called Madame Muriel Domenach. She loves jazz and she has a wonderful palace as France does in many places, including in Rome (laughter), for a consulate. So she invites, she wants to organize a jazz concert at the consulate, okay? And she wants to invite everybody, a very large group of people from the community in Istanbul, ranging from very secular artists to religious establishment to government party, opposition party, mayor, gay and lesbian community -- you know, everybody. Then the invitations go out, but that day, somebody in her staff realizes that it's for a day during the months of Ramadan, which is the fasting month, and you know, the holy month of Ramadan for Muslims. So he says, Madame, we can't have this jazz concert at the hour, by the way, which is wrong in terms of breaking the fast, in the middle of Ramadan. She says, oh, well, we'll reiterate the invitation, but we change the time, so that the breaking of the fast will coincide with our dinner, and then will come the jazz concert. Then as she gets phone calls from the religious side of the invitee's -- you know, this is very nice of you Madame Consul, but we have to pray, you know, during the break of fast. So she's a little bit kind of wondering what to do. She consults with her authorities, not with you. (laughter) And the answer is, but there is no such thing as praying on the secular territory of the French state,

whether it's a Muslim prayer or a Catholic prayer or Jewish prayer, there is no prayer in the French consulate. You cannot authorize this. So there's a small church, a Greek church. And you know in Istanbul, actually, you can pray in whatever church you want, from the multi-theistic religions, or in the street for that matter. So he goes to the priest and says look, your church is right next to the consulate. Can my guests who want to pray at the right time, when the Muezzin calls for prayer, come and pray in front of your church? He says no problem at all; they're most welcome, okay? And she also has, among the guests, 25 French citizens, mostly of Turkish origin, but French citizens, who have been sent to Turkey to be trained as Imams in the mosque in France, okay? So anyway, she's very nervous, how all this is going to turn out. But it turns out wonderful. Everybody is happy. The religious people come. The secular people come and don't pray. The religious people, at the time of the prayer, go to the church to pray. Everything goes well. And she's super happy. The whole crowd is extremely happy. And then, to top the story, one of the student Imam's, Turkish origin, he's Turkish at home, comes to her and says, Madame Domenach, I never felt as French as I feel today. (laughter)

MR. VAISSE: Thanks. That's a beautiful story.

MS. HILL: So the solution is --

MR. DERVIS: So --

MS. HILL: Jazz, more jazz? (laughter)

MR. SOLANA: Just private contribution, eh?

MR. DERVIS: So to be less story-like, but I think from the mental line, is an intelligent form of secularism is absolutely essential, which means the state has to be equidistant to all religions and beliefs including non-beliefs, and at the same time, there has to be a deep not only tolerance but affection, for the cultures and traditions of the various people who make -- who will have to make up tomorrow's Europe. And Madame Domenach gave a fantastic example of this.

MR. SOLANA: She discovered enlightenment.

MR. DERVIS: That's right.

MR. SOLANA: Rediscovered enlightenment.

MS. HILL: We need to move to the next session, but there were two people who had had their hands up and look a little disappointed and I want to actually see if they would still like to ask their question. We had a visiting Fellow from France, Philippe (inaudible) here, and there was a gentleman over -- did you put your hand down? Oh, you're in the back now. So I just ask that for the two of you to ask your questions, and Philippe here. And then we'll see you in the back there.

MR. HERSHEY: Thank you very much. It was a wonderful story. There's almost no good question worth asking now. I'm Lauren Hershey. I'm a semi-retired attorney. I have been a guest scholar here in telecommunications policy way back in 1986, 1987. My question is about generational change and about participation in the electoral process both nationally and for the European Parliament. Please comment.

MS. HILL: And Philippe? We'll bring you the mike.

SPEAKER: Sorry, I want to go back briefly to foreign policy, which is a little bit off the topic. But there are two countries which have hardly been mentioned, but a little bit in pacing by the speakers, but which are very often mentioned here in debates. One is Russia. One is China. I'm just wondering, looking at Javier and also the two other speakers we have, who I'm sure have things to say about this, how they feel about Russia and China, but perhaps China would be perhaps more interesting, trying to divide the both sides of the Atlantic by engaging with Europe and how Europe should react to this?

MS. HILL: Thank you very much, and we'll just start with Justin and Kemal and Javier and then we'll move to the next panel.

MR. VAISSE: No, I think we have very little time so I'll be extremely brief. On Russia, I'll just reiterate what Javier was saying in European unity. I think the first person who was startled and surprised and taken aback by European Unity was

Putin, because I think he was expecting what happened in the aftermath of the Georgian war, which was talk about sanctions and European reaction and then nothing. And so I think he was expecting Europe to act, to behave in pretty much the same way, and that he would have almost no cost for both Crimea and then eastern Ukraine. And so here I think there is in spite of all the difficulties, divisions that Javier mentioned, I think that there's been a great deal of affinity. On China, it's slightly different. And China is to a large extent tougher, a tougher issue for European unity because we all know that it's one of the places where European states are competing for economic advantage and our dealing and I'll be speaking very frankly, are largely dealing on a national basis with Beijing, and Beijing knows extremely well how to play nationally back on these countries and anchorage the unity. And it plays to the disadvantage of your main countries. Up until now they've not -- they know it, but they've not acted on it, and so I'd hope at some point we can apply the same unity that we're seeing on many different issues and which is generally underestimated on China as well.

MS. HILL: Can I just add something to this, because Justin and I were both at a meeting in Europe a week ago, where this very issue of China, and unity and communication came up, on the issue of the spats that developed with a number of European countries on the United States on the new Investment and Infrastructure Development Bank, the AIIB. And what was actually quite striking I think to all of us who took part in this, was the fact that we haven't meshed up our dialogs on these issues. So a lot of it was just the result of miscommunication. It turned out for example in the case of many of the national governments in Europe, when they were talking to the United States about their intentions; they were just talking to Treasury. It wasn't on the agendas of the leaders in terms of the Prime Ministers or Presidents for talking to people in the White House. So the intentions were not communicated in many ways. So I think that gets back to everything that we've been saying here about the importance of dialog, the importance of clear communications and actually having these debates in a meaningful

way, not just behind closed doors, so that we all know what our positions are on this. You didn't say anything maybe, about a generational change, but I wonder if you see something kind of affecting some of these issues as well?

MR. SOLANA: Very important, no doubt. The European Union was started at the end of the Second World War and a generation which is now in office or will be in office in the next years, they have the concepts of the construction of the European Union, which is less dramatic. For my father, it was very dramatic. For me, it was a little bit less dramatic. For my son, it will be less dramatic. And therefore, the magnetic pole will be much more rational than sentimental when (inaudible).

MS. HILL: Well thank you very much to Javier, Kemal and Justin for this. We're going to pick up all of these themes in the next panel as well. I'd urge you to grab some coffee and to hopefully not run away. And of course the bathrooms are just outside of the door, if anybody needs a quick break. But we're going to start pretty soon, right away with our next panel to pick up where we've left off. And thank you to our three very distinguished speakers. Thank you. (applause)

MR. SHAPIRO: We'll just get started. Thanks for sticking it out for the second panel, where you can hear how things really work. I think we're going to try to pick up on some of the themes of the first panel and get a little bit more specific, just a tiny bit more specific about how some of the specific problems that Europe faces and how the European system of governance is trying to cope with them in both succeeding and failing. My name is Jeremy Shapiro. I'm a Fellow here at the Center on the U.S. and Europe, and we have a very, I think, distinguished and able panel to be able to pick up on these, and where we assembled a collection of Brookings alumni, hangers on, and permanent staff to talk about these issues.

On my left is Jonathan Lawrence, who has been a visiting Fellow here twice and is now a Professor of political science at Boston College and is still a Non-Resident Fellow, which is a sort of Latin term that we use to mean hanger on. To my

right is another non-resident fellow and also former Italian visiting fellow, Carlo Bastasin, who is an expert on Euro zone, has just recently, in January I believe, published a book on the Euro zone crisis, called, "Saving Europe" which is available for you in the bookstore if you want. Then on my far right is Constanze Stelzenmuller who is reasonably new since November I believe, Robert Bosch Senior Fellow for Germany here at the Center on the U.S. and Europe.

And so I think what we want to do with this panel, is talk a little bit more about how the European Union and the states of Europe are trying to deal with three specific and apparently unrelated problems, but I think we'll see that there are at least common themes between them. The first issue which Jonathan is an expert in, is the question of immigration and integration, how to deal with the flows of foreigners and others that are coming across European borders and how to integrate them into European society, which as we know is a sort of central issue in European domestic politics. The second issue is the Euro zone crisis, the subject of Carlo's book, and how the European Union is dealing with completing or fixing its monetary union. And the third issue is the sort of hard security issues, particularly the Russia issue and how the European Union is dealing with the resurgence of a newly aggressive Russia.

And the way we're going to try to bring these together is to maybe start a little bit with something that Javier Solana said in the first panel, which is that there is no solution to any of the big problems in Europe today without the European Union. And I would subscribe to that view but it's interesting at the same time, as you're sort of working these problems on a daily basis and you're trying to understand Brussels bureaucracy. Sometimes you feel as if there's no solution to these problems with the European Union. And I think that's the sort of fundamental paradox that we're dealing with here. Europe has a very unique hybrid system of government. It's, I think, and this came out in the first panel -- it's neither fully national, nor fully super-national. And this creates difficulties I think for every policy area and creates frustrations which are similar.

And so I think what I want to ask to start off, each of the panelists, is how is this hybrid system coping with your particular policy area? How is European governance either promoting or inhibiting the solutions that you'd like to see for your policy area, and does it need to change? Or does it need to change in order to be able to deal with these very serious problems? And I should point out that Jonathan is very much in demand and has to leave a little early for another speaking engagement, so in part for that reason, and also because he's the best looking, we'll start with him.  
(laughter)

MR. LAURENCE: Thank you Jeremy. Let me stop you right there.  
(laughter) And let me try to earn my status as a Brookings barnacle while I'm at it.  
(laughter) So all right, in the areas of immigration and integration, and state Islam relations, I think that we can agree that the challenges are fully supra-national, that the people involved, the subjects, are functionally trans-national, and two of the most obvious and pressing were alluded to in the first panel, which is one, the challenge of violent extremism, specifically foreign fighters, and the other being illegal migration by sea. And you would think therefore that there would be both more legal room and more consensus for there to be more Europe. And on the one hand, we are seeing I think more cooperation and a bit more burden sharing on these issues. Today, in Slovenia, Justin was too modest to mention it, but there's a French led conference together with Serbians and Kosovans and Slovenians precisely on this question of combatting radicalization, and there's an example of both European cooperation and neighborhood policy that works. Something interesting could come out of that.

There is also today, which Justin did mention, an extraordinary conference to tackle the Mediterranean migration crisis. Now it remains to be seen whether either of these summits will actually lead to more pooling of sovereignty, but I believe that the burdens that are associated are directly related to the success of populous forces in southern Europe, because populous thrive in conditions of

resentment, and in conditions where there's the perception of unequal burden sharing. And just to treat the southern countries, if I might, as a kind of block right now, countries like Italy, Spain, Greece, Bulgaria -- they are manning the moat around fortress Europe on their own. And I think there's a dangerous sentiment, because they were made into the soft underbelly of Europe by the Schengen Accords and of course this was -- there were benefits to be had as well, but there's a dangerous sentiment that just like with the Euro, that the western and northern countries tend to be reaping the benefits without sharing some of the costs that the southern countries are bearing. So here's an area that's actually ripe for Europeanization. Italians have been asking for a long time for an extraordinary summit on migration. They've been asking for money for a long time. The human drama has become -- you can't say it's become unbearable. It has been unbearable. Thirty-five thousand asylum applications already this year, 11,000 rescues at sea already this year, 1600 deaths at sea already this year, and until now, the Mare Nostrum program, which was a national program in response to one of the tragedies at Lampedusa, it was an entirely Italian program. And there were 110 million Euros assigned. This was replaced by Triton and Poseidon and who knows what other Greek gods will join. (laughter) Despite the power of the Greek gods, they were given one third of the resources that the Italians alone had dedicated to policing the Mediterranean.

There are also new competencies however, that the E.U. may take on. So today's summit in Brussels will issue another ten point plan. But what will it actually contain in terms of substance? Well, maybe some more money. Maybe a new competence for the (inaudible) missions, which will be expanded to actually capturing and destroying the vessels that they encounter, the trafficking vessels. And most importantly, I think there's a pilot program already underway to start redistributing the refugees who are arriving. So 5000 refugees will already, in a sort of trial, be distributed amongst European countries, so that the rule requiring refugees to apply for asylum in the first E.U. country that they land in is -- the consequences of that rule are spread more

evenly. But it may just be the chance of having an Italian high commissioner, having a Greek commissioner for migration affairs, that right now, this may be a window of opportunity to do more at the E.U. level.

As for specifically counterterrorism and intercepting foreign fighters, they're -- Jeremy, you know this field very well, but there's a challenge to achieve ever more perfect intelligence and sharing. This goes beyond the E.U. borders. But there's a difficulty in finding continental or E.U. wide solutions because there are still different national approaches just to the basic questions of what do you do with a foreign fighter on his way to Syria? What do you do with a foreign fighter on his way back from Syria? Every country -- not every country, but there are at least six or seven different models within Europe, just on that question of whether or not to punish, whether or not to suspend passports, et cetera.

But in my mind, the most pressing policy arena is relating to the integration of Islam. And that remains entirely the domain of the nation state. The E.U. simply has limited say in these issues. And because there's been a tendency to classify the most controversial religious issues as domestic or public order problems, that is how the most sensitive issues are treated by E.U. authorities. So whether it's about what the meaning of a crucifix is in an Italian classroom, for Muslim students. Whether or not you can prevent the wearing of the head scarf in public buildings, whether or not you can prevent the wearing of a burqa or an hijab in streets. These are issues that the E.U. has said, you know what nation states, that's completely up to you. These are member state domain. We conscientiously apply subsidiarity. And so, and yet, the January (inaudible) in Paris are a perfect example of something that is at once a supremely private Franco French event. On the other hand, it resonates across every single European country with a large Muslim minority; because there's this sense that, well, that could have happened here. And then when you have the copycat incident in Denmark, also attacking journalists and Jews, the sentiment is reinforced. Now of course, that's the point of

terrorism, is just spread this sort of illogical psychological fear, but it worked. And the attacks on the Jewish museum in Brussels, the attacks on Charlie Hebdo -- these were borderless attacks. There were links to Syria. There are links to the spread of online vitriol which obviously knows no national borders. There's the facility of internally crossing within the Schengen borders. These are all quintessential E.U. policy challenges, right? Where did the French terrorist go from Brussels? Well, he got on a bus and went unchecked across the border into France, only by chance was encountered on a bus in Marseilles. So I don't think that there's any likelihood of an E.U. wide solution because of the very specific national dynamics. And I'll finish up to just say that, we can't really say with much certainty of course, what the factors, the key contributing factors to violent radicalization are. There are a million different theories. But in terms of altering the tone and the content and the dynamic of state Muslim relations, these are challenges that can only be tackled nationally or locally. And if that means because there is an issue of sort of mastering the past, right? As the Germans put it, only the French can manage the Franco Algerian relationship. Only the French can apologize as they did for the first time for their massacre on Setif that took place during the closing days of the war. This also goes for the historically fraught German Turkish relationship, or the even more historically fraught Austro-Hungarian Ottoman relationship, which we see rearing its head again in the form of Vienna Ankara dispute over religious influence, which is absurd.

So accommodating or managing the state's relationship with Islamic organizations has no E.U. dimension, whether that's about mosques or Imam training or religious education or curbing hate speech or consulting with Islamic organizations. All of these are simply handled differently by each country, and there's no harmonization in view or perhaps even necessary. Now this is a mismatch with Islamic civil society in Europe. Because Islamic civil society in Europe is borderless, does have European strategy, European approach, European presence. The Algerians treat Europe more or less as a whole than with branches of course. The Moroccans, same thing. The Turks,

same thing, and that goes for whether you're talking about the Dianet or the Culanet. The same thing goes for the Muslim Brotherhood. They have a European Federation and then 29 member branches. So there's a slight mismatch there, and I'm not sure what the consequences of that are, and I think that's one topic for discussion.

And then finally, despite the sort of siloing of these issues within national competencies, there is a certain amount of policy diffusion that nonetheless takes place. And I hesitate to call it best practices or benchmarking, because the tendency of the things like banning head scarves, making halal slaughter illegal, banning burqas, banning god forbid -- if the Austrian model is copied across Europe, banning the foreign funding of religion, which if you think for a moment about any transnational religion, there's really zero logic. So I believe that some of the more short sighted policies tend to be the most contagious and so there's the challenge.

MR. SHAPIRO: The worst practices system of governance, fantastic. (laughter) Okay, we'll move next to Constanze. Maybe you can draw up a sort of parallel explanation for your policy area, and feel free to dispute that best looking comment if you want.

MS. STELZENMULLER: I was going to say at the beginning that the nice thing about being on panels at Brookings is that it forces people like Jeremy to refer to people like me as distinguished, but after you sort of cancelled that out with the best looking thing. (laughter) So you're going to have to try harder. But I'm here for three years, so we have time.

In trying to figure out how to address this defense and security issue from a point of view of European governance, it's an incredibly difficult conundrum. And maybe it's best to say where I stand personally on some of these issues, to give you an idea then of why I'm framing certain things in a certain way. I'm not a Euro super federalist, but by inclination never have been. I think we should have as much European governance and European integration as necessary to make governance effective. But

defining what is effective, particularly in the security and defense domain is changing all the time and globalization and deep integration is changing it in unforeseen and quite terrifying ways.

I'm also in terms of the use of the hard end of the security agenda, I'm a liberal hawk myself, which makes me a little unusual in my own national context. But I'm also somebody who defines security very broadly which is why I think that these migrations -- both migration and economics, are absolutely integral to considering the future of security and defense in these governance questions. To me, all this flows together now.

I think the best way of trying to conceptualize what's going on here is to pick up the reference to the European security strategy of 2003 and note how the landscape of European security and defense has changed since then. I don't know who was, who said, several panelists I think in the first panel said this was a pithy well written document that addressed the challenges of the time, but it's also quite startling and slightly scary, if you re-read it, to see how many things have changed since then, and how much worse in many ways, the strategic landscape surrounding Europe has become. And let me just reference some of those points quickly to make that -- to argue that point.

We have conflicts in the east of Europe, in the eastern periphery and in the south, which are not just virulent and very violent and producing outward flows of immigrants that are putting pressure on European domestic politics, they also look set to become something of a permanent fixture. And in fact there is a great likelihood that they will grow worse. We also have to ask ourselves to what degree western actions were causal in these, in creating these conflicts and these outflows. And we have to ask ourselves in what way are the experiences say of the past ten years, has demonstrated or in fact failed to demonstrate, our ability not just to understand those strategic surroundings, but to control outcomes, and to appropriately formulate policies to try and

control outcome. I'd say our record on this is not great. And that's an issue that we should truly concern us. There is something really large building up out there that we're going to have to grapple with, and what we have now is in no way fit for purpose to do that.

There is another element which is very important, and that is U.S. retrenchment and distraction elsewhere, which means, and I'm going to put this -- I'm going to be deliberately provocative here, including for you sir. There is an irony about your reference to N.A.T.O. in that it seems to me that the ideological debate within N.A.T.O. over whether we should go with N.A.T.O. or go with C.S.T.P. has been over for at least a decade, mainly because the Washington policy establishment decided that C.S.T.P. was just fine for low level mid-level engagements and challenges and that we, and that in that sense an institutional division of labor was not a bad idea. But what we are really seeing now is something, and is that with American retrenchment; with the departure of the American forces from Europe and as you know we're facing future but more budget cuts regardless of which American, which party is going to be in power after Obama leaves I think. You are going to see a geopolitical division of labor within the Transatlantic Alliance on security issues, but with widely overlapping and very urgent strategic and security interests. That is not something that we've figured out yet. But what it does mean is that the Europeans are going to have to take much more responsibility on their own doorstep, in the south and in the east, not just for the politics, but for the security and for the risk management. Again, it's something that we haven't even I think strategically conceptualized, much less arrayed our defenses to deal with. Then of course we're dealing the challenges in the south and on the east are different in nature because what we're seeing in the south is the disintegration of the, if you will, the nation states created after the end of World War II. And we are seeing a (inaudible) movements with territorial ambitions. That's something quite different than what we are seeing in the east, where I would argue we're seeing a former super power that is

covering up for, distracting for, or denying massive internal political dysfunctionality with external aggression. But that aggression is not just directed at the periphery states of Europe. It is directed at the E.U. itself and at the European project, vis the propaganda, the destabilization, the bullying of E.U. member states and N.A.T.O. member states, particularly in the east. And the attempts to split us on policy issues from energy to security to all sorts of other things. In other words, we have a power beyond our borders that is behaving very much like an enemy. And it's the first time that we've had to think of how to deal with an enemy in a generation, in 20 years.

Now I'm old enough to remember the cold war. I wasn't a cold warrior then. I was very much in favor of Aus Politik. But it seems to me that some of this, some of what we're seeing now, requires a completely different kind of response, and again, we need to figure this out.

Finally, there is what I've already mentioned, that the increasingly close linkages between domestic security policy and foreign policy and the domain of migration and economics. And of course, we're also looking at institutional frameworks. United Nations, N.A.T.O., E.U., O.S.C.E., to name only the four most important ones of the Eurasian space, which are in one or the other ways not quite fit for purpose, struggling to find an agenda that matches these challenges and risks, struggling to find appropriate processes of governance. All of this is disturbing.

And finally of course, if you're looking at the hard end of all this, our defense capabilities, our defense procurement and our defense markets. Defense procurement and defense markets, if there's one element of national industrial activity that is fiercely protected nationally, it's these markets of course. The result is that we have completely inefficient allocation of resources in defense at a time when we're losing the American backbone of capabilities within Europe and so there is a more or less complete mismatch between what we are able to do and what we are spending and what we are planning, at a time when we may have to actually use this stuff.

So where does that get us on the governance issues? I don't want to spend too much time on this, so very briefly. On the domestic security aspects, as Jonathan has already said, this is a matter for justice. Justice and Home Affairs has been, in the view of most European member states, very much a national issue, something that ought not to be Europeanized. I don't think that it can stay there. I think we have to Europeanize this in some way, and again, because of the relationship with foreign chapters. In the same way, I've already said that C.S.T.P. has been basically marginalized. That said, there is one area in which the E.U. has come back into its own in ways that were startling and that I think have revived not just the reputation but even, if you will, the legitimacy of the E.U., and that is in the way that Europe has come over together on the sanctions. That's been -- that has reduced a commonality of purpose and in fact a commonality of risk assessment that is quite unusual in terms of recent history. Now we all know that that commonality and that consensus is very much under threat right now because of the very different vulnerabilities of E.U. member states. But it is an aspect in which Europe has suddenly become an actor and which it is seen as an actor as far as I can see, including for our most important partner, the United States.

For N.A.T.O. similarly, I'd say the picture is mixed. I thought the Wales Summit conclusions were pretty damned impressive. You could see that the member states of N.A.T.O., well most of them of course are European, had understood the challenge that they were facing, are making promises that will be hard for them to keep, but they are on record as having promised them. And I think we are all now figuring out how to do that. But the real problem as far as I'm concerned, is much bigger than the two percent benchmark that's been referenced here several times and possibly addressed. In my view, our problems wouldn't even be -- wouldn't begin to be solved if we all paid five percent of our GDP for defense, for the simple reason that the biggest wedge in transatlantic security relations and the biggest wedge in N.A.T.O. is not political will, is not our choice to spend money on education rather than defense but technology costs.

And the fact that almost all military today is electronic. And that is what drives up the costs exponentially and it means there is a huge differential in capabilities between the Americans and to some degree the Brits and everybody else on the other side. And I have only one answer to this and it's radical and it is completely -- I'm in a total minority on this in Europe, and it's that we need massive Europeanization. I don't see how we can get out of this any other way. I know there are some sovereignty constraints. I know the industrial protection constraints. I know the labor policy constraints. But I think if we don't do this, we may be forced to do it by an external crisis. I'll stop there and I'm sure that will raise other questions.

MR. SHAPIRO: That's fine. I'm depressed enough. Carlo, I think the Euro zone crisis has become sort of the paradigmatic example actually of a place in which the institutional construction was not up to the policy demands. I'm wondering where you think that is now and whether you think that there's been enough change in that governance structure to address the problems that are still around.

MR. BASTASIN: I'm not supposed to cheer you up then?

MR. SHAPIRO: That is not your job. I have other people for that.

(laughter)

MR. BASTASIN: Well first of all thanks for inviting me. Thanks for bringing up an issue, the issue of the hybrid structure of economic governance in Europe, which is often neglected and actually reputed the most important and the only way to understand the recent economic history in Europe. It's actually honestly the Sanctus sanctorum of the old intricacies. When I try to teach economic governance to my students, I see even the most passionate pro-European wither under the blows of directives, norms, the dynamic efficiencies. In fact, dealing with the Euro zone, dissecting the governance of the Euro zone is pretty simple and very instructive.

The Euro area is a rather unique institutional set up. The sense that monetary policy is conducted, decided jointly at the European level, while economic

policy and specifically fiscal policy is still in the member states, remain at, to a large extent a catalyst. This asymmetry between monetary policy and fiscal policy has been the root cause of the source of instability, of major instability during the past years. Essentially having no exchange rate risk, capitals could flow rapidly from one country to the other and the repercussions were in a sense, were extremely visible in the variation of interest rates from one country to the other, what we call the differentials of interest rate spreads. And spreads opening in some countries going through this kind, some others going down the drain, kind of self-fulfilled the risk of the insolvency in those single countries. So the fact that the governance was asymmetrically constructed, shedding all the sovereignty monetary policy, but retaining national sovereignty and fiscal policy, was one of the main reasons why the crisis was expressed -- was so dramatic -- had such dramatic economic costs. One way to measure those costs is simple. It's let's look at the public debt which has been accumulated by the Euro area during the last years and it was 67 percent of the Euro area GDP. In 2007, it's now around 96, 97 percent. And it's not an absolute high level as compared to the U.S. or Japan. But it has an intrinsic dynamics inside the Euro zone where it affects the perspective growth of countries with high level of debt relative to countries with low level of debt and has consequence also in the convergence of the past. In fact, this huge economic cost that comes as the legacy of the crisis affects the three criterion through which we evaluate good economic policies, which is stability, efficiency and some degree of equity among different countries.

And it's in fact, it's very important to have a good understanding, a clear understanding of how these economic costs have developed, and how they have grown and what have caused them. And I refer to new data that I've been provided with by colleagues at the IMF who have decomposed this quantitative expression of the crisis, the increasing public debt during the last years. What they found out was that one third of the economic costs were due to government's aid to the bank. You know the crisis began with a financial crisis. Almost two thirds are due to the accumulation of interest

rates, the so-called snowball effects. And only four percent of the total debt increase is due to primary budget deficits not in line with a prescription the stability and growth PAT. Well if you think that all our energy has been devoted to keep under control the government deficits or the new regulation, the treaties, the changes in the PAT have been concentrated on keeping in the limits the indebtedment, the yearly indebtedment of each country, well we probably have tackled the wrong problem, since it leaves us a legacy which is easy to confront. In fact the description of the crisis as a fiscal problem has made it so that nearly all our institutional efforts have been misdirected. Forcing the logic of numbers I would say that if you consider one third of the economic legacy of the crisis is connected to the bank problems, two thirds almost to the interest rates, well, we in practice forcing the logic of those two numbers, we could say that almost ninety percent of the problems of the Euro area have been delegated not to politics, not to political decisions, but to the ECB. Through banking union, they have tackled the problems of the bank and through the UNT and quantitative easing; they are trying to tackle the problem of diversion interest rates in the Euro area. Well this is obviously something very convenient for policy makers who do not want to have their skin in the game but it connects very closely to the kind of reflection that we have heard this morning about the fear of taking responsibility at the political level.

Now what happens then? Which is the situation now? Well obviously, the system is now more stable, due to the intervention of the ECB, but only the sense that through the use of monetary policy instruments, it is capable of accompanying structural divergence in economies of the member states. They are still there. But when economies are structurally divergent, also policy preferences are divergent. If you have unemployment or inflation, well you will want to tackle unemployment or inflation. So policy preferences can diverge together with structural economic divergences. So in fact, the system is now financially more stable but politically is as unstable as earlier.

MR. SHAPIRO: Thanks. I think what we just heard, if I heard it correctly, was I think three very rich descriptions of what are arguably the most urgent policy areas in Europe right now. And there was a certain commonality across the presentations. I think all of them at one point used the word mismatch, in which they were all asserting that in their particular policy areas, there are opportunities that are being lost because of inappropriate government arrangements, and particularly because a lot of the problems have now require super-national European responses for a variety of reasons and the European governance system is unable, for a variety of reasons, to deliver European, fully European responses at least. And so I think that the reason why this is the case in all of these policy areas is not a huge mystery to any of us. It's as it always is -- politics. And particularly in this case, issues of sovereignty. There was a British Prime Minister who once said that he had two kinds of problems in his life, the economic ones are incomprehensible and the political ones are insoluble. So we've sort of moved I think from the incomprehensible ones and I guess I'd like to now start to address the insoluble. And I'd like to ask you each a little bit about the politics of your particular issue area, with particular attention to this question that came up in the first panel, of populism, because despite the fact that you all demonstrated it in your policy areas, there are very strong logical reasons to move toward Europeanization. It would be my contention that the politics are in the opposite direction in across most of Europe, that we're seeing what might be called, or arguably could be called the populist backlash against the degree of Europeanization that has already happened, because it expresses a frustration with -- these populist movements express a frustration with, I'm not sure, with the distance between the European elites and the problems, with the fact that these people -- that the countries of Europe, the peoples of Europe, don't feel themselves to be part of a single political community that has the legitimacy to make these types of very difficult national decisions. And so I'm wondering, in the first instance if you agree with that and in the second instance if it has resonance in your policy area and how it's

affecting your policy -- how will this renewal of populist politics is affecting your policy area? And again, we'll start with Jonathan, because I don't think he has much time.

MR. LAURENCE: Well unless this conference is sponsored by the European Commission, I don't see the inherent virtue of Europeanizing -- of recommending Europeanization.

MR. SHAPIRO: What if were sponsored by the European Commission?  
(laughter)

MR. LAURENCE: Well, there's a reason why these areas were not Europeanized. It was too controversial. It was too hard to ask for the pooling of sovereignty over something as sensitive as the national language, national identity, the status of national religion. I mean, it's not -- it's going to be ten times harder now that people see that there are real consequences and the more sovereignty you lose the less you have to say, et cetera. So again, I understand the logic of your question, but don't accept its premise.

As far as the pressures that populists are putting on domestic actors, I think that is extremely important. And what we can see as Europeanization if you like, sort of side by side. And so populists, unlike perhaps the mainstream political parties are increasingly Europeanized, right? Garrett Builders paid a visit to one of the Pegida leaders last week and we know that there's, the Le Pen's are traveling to Russia and et cetera.

MS. STELZENMULLER: About Europeanization.

MR. LAURENCE: But what the (inaudible) Nacional has done just by profiting from the chaos is really force the center right in particular to snap to attention. What the Autentiva for Deutschland has done, again, just by virtue of opinion polls, has you know, raised this real danger of defection from the city -- ooh. And so I think that perhaps the benefit of reaching the crisis point is that all of these discussions about what, you know what we really should do one day, that day has arrived. And so that the center

right parties in particular, I think are in a unique position to do something about this, perhaps if only because they're out of power in certain places and so have the credibility of the non-incumbent.

MR. SHAPIRO: But do you think that they're likely to be able to respond to that in the countries that you look at?

MR. LAURENCE: I do. I mean, I don't see why not. They have the instruments. European countries each have religion offices in their interior, ministries, or justice ministries. They each have budgets or ways of exempting organizations or organizing religious education or certain types of ritual (inaudible). All these instruments are there. It's a matter of negotiating and putting into practice what already exists for other communities. And on the security dimension, unfortunately that really is a case where bad things have to happen in order for the cooperation to increase. And even then, we know from our own experience, that that cooperation can be fleeting.

MR. SHAPIRO: So Constanze, how do you see this sort of populist pulse in your area?

MS. STELZENMULLER: Well jump in the topic has the advantage that migration issues are easily broken down to the local and regional level. Defense issues aren't, full stop, end of. But I also would warn that one shouldn't make a -- one shouldn't draw up a false dichotomy here between saying this is either national or European. On all issues of European integration, my feeling is that we should, as long as we make sure that the European nation state remains an effective and legitimate unit of accountability, that is functional, credible and has it based on a functioning social contract, then it is safe to Europeanize, because I think that effort should be -- the way -- who is this? Javier was saying earlier in the first panel that the, and correctly, that the European, the German constitutional court has said, you can integrate Europe more if you make sure that it's democratic. But the logical fallacy is to suggest that you will have to then democratize at the European level. What you can have is European integration and national

accountability and healthy democratic procedures. And again, that's not just a formal -- that's not just a formal framework of functioning representative institutions, that also means political pluralism, something for example that in Hungary currently we don't have, or a functioning social contract, something that is an issue in a number of European states, including to some degree in my own country, Germany.

So on defense, the politics of defense, it's something very interesting is happening currently in my own country. It used to be two or three years ago, mention an increase in the defense budgets and the whole left of center part of the political spectrum would be going to town on this for weeks on end. There would be people demonstrating. If you look at German surveys, ever since the dawning of MH17, the killing of (inaudible), and now the recent announcement of our finance minister Schauble saying yes we will have to increase the defense budget, was there a public outcry? No. And because I think the public has the sense that it's not just Ukraine that's under threat here, but Europe itself, that this is increasingly becoming a threat and a risk to Europe itself and in that sense, to Germany. So that in other words, what's happening externally is helping to shift the terms of the debate on defense spending. That still leaves us with incredibly difficult issues of how to Europeanize, how to institutionalize and how to get over the national industrial and labor market protection issues, which are massive, and where you can then get into completely different populist debate. Sorry, that's as good of an answer as I can give you. But --

MR. SHAPIRO: No, that's very -- thank you Jonathan. That's very good. I wonder though, just to pick up on something that you mentioned in the answer to your first question and to the first question. You pointed out that the sort of critical asset, vis a vis Russia, that Europe has as its unity and that probably for that reason, the Russians are specifically attacking that unity. And there is a lot of speculation I guess across Europe that the specific way -- one of the specific ways that they're trying to attack that unity is through populist parties, by essentially using populist parties to overturn the

domestic consensus that you just said was being built. And so I'm wondering, to the degree to which you think that strategy has some potential to be successful, or are you not worried about it?

MS. STELZENMULLER: No, no, I am very worried about that. But it seems to me that the success of that strategy is directly related to the existence of functioning social contracts, to the existence of real integration of immigrants and to, and genuine political pluralism and functioning representative democracy. I would say, if you'll forgive me a little bit of German nationalism here, that my own country does reasonably well on those counts. But of also we've also been lucky, in that it turns out that our biggest Muslim minority are secular Sunni's from Turkey who came to German to work and who weren't refugees and who don't have post-Colonial hang-ups. Unfortunately, the very large and very badly integrated Muslim communities in both the U.K. and France have massive post-Colonial hang-ups, and while unlike the Germans, they got passports, they got almost nothing else. And so there is, I think, that's a point where you can really stab, and where it's not just the Russians that are stabbing, it's the people who are trying to recruit foreign fighters, are doing the same thing. And that's not to say they can't recruit them in Germany. They can, and they have. But I think perhaps not to the same degree. So yes, that is why, in my view, the first line of defense here, against all of these challenges, is a functioning accountable, legitimate nation state. If you have that, then you can have, I think, a sensible conversation about what capabilities we need to Europeanize, because it's simply no longer sensible to provide them at the nation state level. And I think we are now at the point with all the developments that I described, where we need to do that for defense and security.

MR. SHAPIRO: So the European version of nation building at home?

MS. STELZENMULLER: Yes, absolutely.

MR. SHAPIRO: So Carlo, interestingly in some ways, the description that you gave of the way in which Europe has approached the Eurozone crisis issues by

essentially relying on the European Central Bank, is actually creating a sort of bete noire for populists. I'm wondering if you see a problem in that regard and if there are already attempts to deal with the fact that these solutions to this very urgent crisis have actually made European governance yet more remote from popular demands.

MR. BASTASIN: That's exactly what I wanted to say, was exactly that the lack of responsibility at the political level has created since the beginning, the causes of the crisis actually, and the reasons why it was difficult to manage the consequences in the last year. I'm sorry Jonathan went away. I actually wanted to take issue with the idea --

MR. SHAPIRO: It's easier when he's not here actually.

MR. BASTASIN: Yeah, that's exactly why I regret it.

MS. STELZENMULLER: We'll write him an email. (laughter)

MR. BASTASIN: And take issue with the idea that national identities are such hurdles that they are, they represent, an impossible hurdle toward integration. Language and cultures are so important. It's obviously very common to make the statements. But I, just if you reflect on populism, you understand that this cannot be the whole story. Essentially populism is not a recent story. We have seen it grow in at least the last 25 years. It's at least since the beginning of the 1990's, that the traditional left right divide has kind of lost, declined in importance and has been at least overlapped or contaminated by another cleavage between what is external and what is internal, between insiders and outsiders. In this respect, the European political response is relevant. There are many dimensions that have connoted the rise of populism in terms of insider outsider internal external. One is obviously the impact of globalization, notably the immigration, wage developments and inequality. Europe in this case was both the external and the pro-global force. So it easily became the target of the criticism. But what happened is that internally, the classical political national dimension has not been able to confront the new political challenge orientated by the cleavage internal external.

And so we have seen new parties, and the fragmentation of old political landscapes. And this fragmentation has given birth to new political equilibria inside many European countries. The point is, if you have two camps, left and right, well, basically, the center of the political spectrum constitutes the key political prize. You search for the median voter, and you tend to converge. But if you have such a fragmented structure in the political party system, then you need some other political offer, some political supply. And this hardly comes from the national dimension. When we have seen populist parties come into the fold, we often have observed grand coalitions take the place of former classical divisions and this has happened in countries that had no tradition. Greece for instance, we have seen technocratic government and then a grand coalition. But this was not enough to prevent what we consider a radical or Populist Party to grab the government and now challenge from inside. So evidently the national political dimension is not enough to give an answer to questions that concern in fact, the wider spectrum of interdependence among states. But well, I'll stop here.

MR. SHAPIRO: Okay, well in Brookings' own version of populism, we'll now move to the audience. (laughter) And we'll be happy to take your questions. Why don't we start over here on the left? We'll do as the last group did. We'll take three and then I'll answer any questions directed to Jonathan.

MR. NELSON: I'm Michael Nelson with CloudFlare and I also teach at Georgetown. These three case studies were incredibly useful. I wanted to bring up a third one that I spend most of my time on, which is technology policy, where we're seeing the real role of populism or what the Information Technology and Innovation Foundation calls techno-pop populism, where really complicated technology policy issues get boiled down to one simplistic bumper sticker that really can never be implemented. We see this on privacy, we see it on net neutrality, we see it on franken-foods. And what really happens is that you get a -- the parliament in particular, where you have a lot of populist parties adopting these slogans and coming in conflict with the council. Right now we're

waiting for action on privacy regulations, and net neutrality, and the two bodies just can't connect, because they're coming from very different places. The council wants something they can pragmatically implement. The parliament wants something that will get them elected in the next election. Do you have any comment on this and how it might play out in other areas as well?

MR. SHAPIRO: Okay, why don't we take a couple more -- Mamuka, over there?

SPEAKER: Mamuka (inaudible). I work and teach at CISE. My question is about the spread of influence coming from, in a sense, destroyed OSC and CFE treaty and other elements of the security architecture that covered not only European Union but other countries surrounding European Union. You mentioned about the first line of defense being the nation states. And we talked the entire day today. We are discussing how external factors are impacting internal developments at the E.U., so what is going to happen with the serenity and the nation state building in the countries of say, Eastern Europe, Ukraine, Georgia, other countries. How that will impact developments down the road? Thank you.

MR. SHAPIRO: Why don't we take a third question over here? The microphone is coming behind you.

MR. HERSHEY: Thank you very much, Lauren Hershey, semi-retired attorney, formerly a guest scholar here in telecommunications policy back in 1986, 1987. I asked a question in the previous panel about generational change. I'd like to get your observations on that. And rates of participation in the national elections, if you can comment generally as well as the European parliament, and to the inaugural Bosch Fellow -- you've got two years, what are your goals, how immodest can you make them, and how tough a self-critic will you be?

MR. SHAPIRO: Wow.

MS. STELZENMULLER: You mean of myself or my country? Yes but, okay.

MR. SHAPIRO: All right, Constanze, it seems like a couple of those questions were devoted to you, particularly that last one was the most personal I've ever seen at a Brookings event. (laughter)

MS. STELZENMULLER: And wouldn't you love to hear me answer that sincerely?

MR. SHAPIRO: Yeah, no, I regret not having asked it. (laughter) And but also, Mamuka's question about the spread of the OSC, because I think in some sense he's asking, if it's nation building at home you need to do, what does that mean for the enlargement project which has been so central to European identity for a long time.

MS. STELZENMULLER: Want me to start? Okay. And I'm going to start off with the best advice that Jeremy gave me. I think in my first week of coming here, he said, keep in mind, you represent only yourself. You are not a diplomat for your country. So you don't have to explain all the time or apologize all the time or try and change them, or change America. And I'm sticking with that, yeah? So frankly, my expectations of here for the three years are not to make a fool of myself, to contribute to the work of CUSE and to Brookings, and to get out of here with a new job. (laughter) So my goal is relatively modest. If I can contribute to anything that's going on here in Washington in the meantime, I'd be happy to do that. Now obviously I'm being somewhat facetious. I do, like everybody here on this panel, I'm a politics and policy addict and I get pissed off when I think my country or my continent, to which I am deeply attached, or the Americans to whom I am equally attached, are doing stupid stuff, yeah? So, and when I'm pissed off in this way, this tells me to write or to speak. So presumably, since I'm guessing a lot, we'll be seeing a lot of stupid stuff; you'll be seeing me speaking a lot. If I end up thinking that what I wrote was wrong or just also stupid, I think I will say so,

unless, of course, Jeremy forces me to do so, in which case I will just take the opposite position on a matter of principle. (laughter)

Now, to be very serious now, finally, and address your question, this is where me, the liberal hawk comes back in. I have fairly strong views on this and it's the following. I think as Europeans, and as Germans, we have a fundamental choice and this really is a real dichotomy. And it's either to say okay, we pull up the drawbridges of the European project and we have a happy Kantian universe inside, and outside it's the law of the jungle and tough. Because to protect what we have, that's probably -- we only have resources for that and the rest -- everybody else is just going to have to deal. And if I'm in a pessimistic mood which I am on many days, I can find a lot of symptoms of that already happening. I hate that. To me that would be the destruction of the Europe and the European project that I believe in, and that my parents' generation built, and having escaped from complete and massive destruction of Europe in the war. So to me, just, and if you will, because these memories are handed on in Europe from generation to generation, for me Europe is very much a peace project. So my take on this, is I think we will only live at peace and stably, if we manage to export peace and stability to our periphery. And there is an idealist argument for that, which is to say actually if we de-legitimize the European project, if we don't do that, we become untrue to our own aspirations, to our own Utopian ideal. And there is a realist version of the argument which is, look at our demographics. Our demographics suck and it's not just because European men aren't trying hard enough. I mean that is part of the reason, but basically we're in bad shape. So our work force in the next 20, 30 years, we're going to need, according to different calculations, between 20 and 40 million immigrants. Where are they going to come from? The periphery. Are they going to be educated and peaceful and behave like good Europeans if they come from peaceful stable environments? Yes. So do we have a strategic interest in exporting stability, prosperity and dare I say, democracy? Absolutely. So that's where I come down on that one. So I think the

eastern periphery matters to us, greatly. But the thing is, ultimately we're never going to be safe on the Eurasian continent unless Russia changes as well. And to me, that's the biggest challenge of them all. I have no idea. I see many, many ways in which we can fail at doing that. But the impact of a Russian state failure or disintegration will be catastrophic in Europe. So that -- the stabilizing the periphery of Europe, is only the beginning of something that's much larger and (inaudible).

MR. SHAPIRO: I think that that was fairly clear. Why don't -- Carlo, if you want to address anything in particular, maybe the question on techno-populism, which is an interesting question I have no idea the answer to so --

MR. BASTASIN: Absolutely. I'd hoped you were going to address it. You were going to. Well sorry, the question about age and data are very important for one, and if you consider again, the medium voter, and aging medium voter, is more concerned about the stability of the pension system than the future economic drives. This gives a completely different inclination to political programs by governing parties. And so it's a (inaudible) topic to be considered in European political landscape. As for peace in general, well, (inaudible) the crisis and I've concluded that we have not internalized yet a real peaceful cooperation among countries and we are still very much in the kind of line of thought that leads us to manage national countries as potentially threatened by external wars for instance, and that's basically the reason why we are so much concentrated on national self-sufficiency even in economic terms, the very fact that you do not have to be financially dependent from other countries, so you do not have to host any fiscal deficit or balance of payments deficit, is a sign that our mentality still concentrated on getting each country self-sufficient instead of accepting the inter-dependence.

As to Eastern Europe, well I'm less inclined to define the periphery as someplace that needs to be educated. This is kind of hard to swallow for many Europeans, but I consider the impact of periphery as widely underestimated and I'll give

you an example. I'm considering the case of Finland. Finland is one of the modal countries and modal economies. And still quite recently has found itself in a serious predicament. The deficit has overcome the threshold and the economy is going down. All the indicators are going south. So the government tried to roll a few consultants to ask them what they should have done to improve the conditions of the economy. The fact is that nothing could have been done, because the education system is a bust throughout Europe. Structural reforms have all been implemented. But still, Finnish firms moved to Poland, because simply the costs are lower. So it's not a problem of national politics, as I was trying to say. And I don't want to sound pro-federalist and to see federalists as a pie in the sky, wishful federalist and so on. But I've tried to describe this as a technical necessity, when you correctly address a problem of a hybrid system of governance. What I was saying is that it doesn't work like that. Sharing sovereignty, only one domain of economic policy, not in the others, is producing the big problems here. So you may not like it. You may not want, but if you feel the necessity of Europe, then Europe has to be built in a political way. And if I have one more minute, I want to say more clearly what I mean.

We are substantially in a rule based system. We are not in a system where political responsible take discretionary choices, in the Euro area in particular, based on convergence criteria and so on. And this is a bureaucratic mindset, which is a character of the bureaucratic mindset. The character is that you measure your reckoning with costs and benefits in the present. You're not allowed to consider future costs of future benefits, because it would imply taking a risk of forecasting, for which no bureaucracy has a mandate. It's for politicians to be what I call the inter-temporal bridge. And what is an inter-temporal bridge? It's essentially a promise. I will deliver tomorrow what I say today. Let's try to give a figurative expression. Hannah Arendt used to say, the court of politics is a promise. If you try to give a figurative expression to a promise, it's I say today something that comes back exactly identical in the future. That is

(inaudible) or is an image that you project on a mirror and that comes back identical. And what I mean is that the core of the promise is the identity. If we want politics, we need promises. But if we want promises, we need to rely on identity, on the concept of identity, which cannot be national. So we are back to the problem of developing a European identity.

MR. SHAPIRO: So --

MS. STELZENMULLER: Add something to that.

MR. SHAPIRO: Yeah, sure.

MS. STELZENMULLER: Carlo has just been extremely impressively German (laughter) in the depths of his thoughts and by quoting Hannah Arendt. Though I want to be German as well and add another deep thought, which is the following, but I think it does help us consider this, or get beyond the impasse that we think we are at. And that is that, the loss of sovereignty that populists bemoan, is not just created by an act of conscious political delegation to Europe. Sovereignty is lost through globalization. All the states in the world, including the big states, including the superpowers are becoming smaller, weaker, and more vulnerable through globalization. So the European argument and the European model in fact is regaining sovereignty through banding together. That is the point. And of course the American example is you did that in the -- by becoming a union. I mean you had a civil war in between which hopefully we can avoid, but I would hope not. I think not. But that is what politicians today need to explain to the European voter. That is what David Cameron needs to explain to the British voter, that this is not something -- this is not a problem created by Europe and that by leaving Europe you can solve the problem. It's a problem created by being interconnected with the world. And that's not something you can opt out of. And not even the North Koreans can opt out of that. The Russians are now constructing an anti-globalization, anti-modernization ethno-nationalist narrative that suggests to the Russian citizen that they

can opt out of all this and then their life will be better. And the tragedy is that, that is an obvious, an obvious quickly falsifiable theory.

MR. SHAPIRO: So we live in an interdependent world with a sovereigntist mindset I guess is --

MS. STELZENMULLER: No, where the temptation is to return to national sovereignty as a solution, or as a barrier to that and the reality is, it's exactly the wrong way to go.

MR. SHAPIRO: We'll take a question here, and then over there.

SPEAKER: Thank you very much, Alex (inaudible) here with ASCGS. I wanted to be, or to ask Carlo and Constanze as well, looking ahead the next two months, well, you know, there's a big hurdle, it's called Greece, and the question there is also a question of insiders and outsiders and the insiders basically being the rest of the Europeans looking at the Greek situation and trying to prevent their political systems from going down a sort of Greek path. And whether that sort of mindset can be overcome in the next two months, is my question. And related to that, is whether you two see the chance that all the things that you have just described can finally become part of the European discourse again. You know, some of the instruments that will be necessary in order to move towards a more complete union are clearly fiscal in nature, so we would be talking back about fiscal union or partial fiscal union, probably some Eurobonds or some form of Eurobonds and therefore restarting the rekindling of the discussion about further integration. Is there a chance of achieving that? Or are we as Europeans, shooting ourselves in the foot again and we will be stuck in a sort of no-man's land for years to come? Thank you.

SPEAKER: I'm just interested in if you could explain, is there an --

MR. SHAPIRO: Please identify yourself?

MR. WALLACE: Oh sorry, Steven Wallace from the Defense Department. I'm interested if you could explain if there's an institutional reason, or if it's a

political reason that the European Union and Europe in general was unable to prepare for what seemed to be very foreseeable consequences of the intervention in Libya, removing Gaddafi, or of the policy toward Ukraine and the association agreement. It seems like the Europeans were scrambling to catch up after the fact and didn't do anything at all really to adopt measures that would prepare to react to what were very foreseeable consequences of those actions.

MR. SHAPIRO: So why don't we start with Carlo this time, since we've -- Greece -- (inaudible)

MR. BASTASIN: First of all, we probably have to come clear with the definition of, is Syria a populist government? And I don't want to enter into the --

MR. SHAPIRO: It's hybrid.

MR. BASTASIN: Sorry?

MR. SHAPIRO: It's hybrid, yeah. It's hybrid.

MR. BASTASIN: Into political qualification. But if I can use some indicator to understand whether -- well, you can probably look at two indicators, the way sentiments of confidence of households have moved close to as Syria has come into power and the sentiments of (inaudible) in Greece. And in stable and rational situation, the key indicators move together, because what is good for the (inaudible) then turns out to be good with a delay for the households, or the opposite way around, consumption increases and firms benefit from better sentiment in the households. What you see in the very days when (inaudible) comes to power, is that the two indicators diverge dramatically. So households' confidence goes through the sky and the other goes down to the drain. So it's an indicator in my understanding, it's an indicator that there was a mechanism of overpromising, as we define sometimes populist. Somebody has done excessive promises that were not believed even inside the country but by investor or economic operators. So once you have defined the government has exceedingly generous in its promises, you obviously need to go through a process of sobering of the

political line and this can happen with time, through conflictual or non-confliction negotiations with your partners. My sense is that the pent up potential of disillusionment with the promises that have been made, is very high, and that the risk that someday the process of drawing deposits from the Greek banks, that still are there. Because in the last months we have seen them going down from 170 billion to 132 billion is the latest data that I could see. Well it could accelerate. In that case, we would have a great e-Grexident. Is it convenient for anybody? It is not. For nobody. Not for Greece, obviously, and not for the European institution. And the point is, whether Greece manages to reach June, if (inaudible) manages to reach June, then the balance of power changes. Because in July, they owe money to the ECB and I expect (inaudible) if he will still be there, to say to (inaudible), sorry, I'm not going to pay you back. Throw me out if you can. And as we have seen, we've delegated all the political responsibility to non-elected technocracy that will never be in the position to say, okay, I go confrontational. And in that case, Greece is in the strong position.

MR. SHAPIRO: Constanze, do you want to take the Libya question?

MS. STELZENMULLER: Yes, okay. My visceral response to that is come on. When does anybody ever prepare for the consequences of intervention (inaudible)? My second level of response is slightly less dismissive, because you have a very serious question, which is to say that you remember the famous Bob Kagan article saying Europeans are from Venus, Americans are from Mars? There was a really interesting idea in there, which is that you -- that denial of something that is about to happen to you, that if you were being completely rational, could see it coming down at you like a truck barreling down the highway, that denial is a coping strategy. It allows you to live in the instant without doing that kind of preparation. And I would add a refinement to that, I think, very important observation, that is true for a lot of politics and maybe not just in Europe. Ant that is that if your notions of coping or of preparations are actually very orderly and very demanding of what you would do in your own nation state, then

maybe the impulse to be in denial becomes even stronger because that would be just -- you know that you can't do that. You know that what's coming down the highway is so big, that you have no idea, or how the existing system that you have, the provisions that you have could deal with that. I think that's what we're looking at here. Is there any way that we could deal with that? Well, of course. I would like to see the Europeans doing a common European (inaudible). I would like to see European armed forces and happily within the framework of N.A.T.O., doing joint exercises, joint training and developing joint doctrine. I think if we dealt with the -- in other words, if we attempted to tackle the software of European security, we would have a much less hard time with the hardware. So this is something I'd like to see us doing. I think the having a revision of the European security strategy can only be a part of that. I think that the internal think tank of the U-Commission at Beppo has actually been, in past year, has been doing some really interesting exercises in terms in orchestrating strategic conversations that have produced some quite useful and impressive results but that now has to be institutionalized and formalized. This was all sort of at a think tank and (inaudible). And then, and I would remind you that Libya -- you know Europe was split down the middle. The Germans abstained at the time, an abstention that I criticized. But at the time I also said, do we -- I'm for the intervention here. I think this is a complicated responsibility to protect. I think we ought to be doing this. But my big caveat is, do we know what we're intervening in? Do we know that we have the ability to control outcomes? And will, and this is a criterion of R2P for the efficacy of the principle, do we know that things will be better after they have intervened? It seems to me that that question has been comprehensively answered and if the intelligence capabilities of the Brits, the Americans and the French, which supposedly are the best in the alliance, weren't able to predict this kind of stuff, then we are in worse shit than I thought. And I hope this isn't taped. It probably is. Damn. Well, sorry Fiona.

MR. SHAPIRO: I know. Thank you. Certainly denial is at the lute of a lot of the work that I do, and so I think it's a reasonable coping strategy. (laughter) With that, please join me in thanking the panelists, and thanking you for lasting through the conference. Thank you. (applause)

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