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EUROPE'S WINDOW OF OPPORTUNITY:  
SEIZING THE MOMENT TO STRENGTHEN THE EUROZONE

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**Introduction:**

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**Remarks:**

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## P R O C E E D I N G S

MR. WRIGHT: Good afternoon. Welcome, everybody. My name is Tom Wright. I'm director for the Center for the U.S. and Europe here at Brookings, and we're delighted to welcome everyone here to a keynote address and conversation on Europe's window of opportunity. This event is cohosted by CUSE and also by the Hutchins Center on Fiscal and Monetary Policy and the Economic Studies program here at Brookings.

We're gathered at a particularly important time, just about a week before the German elections coming several months after very important elections in France and Holland, and also, of course, in the midst of Brexit, and so the future of Europe, the future of the eurozone, of the euro, and of the European project as a whole is something that's very much on our minds here at Brookings and that we're working on and we'll continue to work on in the months that come.

Today, we are very pleased to welcome Commissioner Pierre Moscovici here to speak about Europe's window of opportunity: seizing the moment to strengthen the eurozone. The commissioner will speak for about 15 or 20 minutes on looking at the future of Europe, particularly to do with fiscal and monetary policy and some of the key choices coming ahead after the German election. After he is finished, we'll be joined by David Wessel, who is the director of the Hutchins Center here at Brookings, who will moderate a conversation, and then we'll leave about 15 minutes at the end for questions from the audience.

So I would now like to introduce Commissioner Moscovici. He is the commissioner for economic and financial affairs, taxation and customs at the European Commission. He previously served in the European Parliament, as a minister in the French government, as minister for European affairs and minister for the economy and finance, and as a member of the French National Assembly. He is a leading voice on these issues. We are very grateful for him to visit us here during his current visit to the United States.

And with that, I welcome him to the stage. Thank you very much.

(Applause)

MR. MOSCOVICI: Thank you, Tom. Thank you, David. Ladies and gentlemen, I'm very pleased to be here today with you. Thank you for inviting me.

Half a year has passed since I last visited Washington. I usually am here twice a week -- twice a year for the usual -- no, twice a week would be a bit too much for me, but I come here twice a year for the IMF meetings and I will come back in a few days from now for those to happen.

There have been many notable changes since then, as well in the U.S., but also in Europe, both on economic and political fronts. I would like to address some of the implications of these changes with you today.

First, economics. And since I'm talking about the eurozone, I would say that the euro area is today enjoying a strength in economic upswing. It's the fifth consecutive year of positive growth in Europe, but I would say that the first year where the recovery is perceived by people and seen as really solid. This recovery has been strengthening. It has been broadening across sectors and across our member states. Now today all of the member states of the eurozone and the EU are growing, growing together. For example, a country like Italy, which suffered from stagnation for almost a decade is now growing at the speed of something like 1.4 percent. GDP figures for the second quarter of 2017 confirm that the European economy is growing strongly. Our economic growth is set to be significantly stronger and we have forecast ourselves in spring. I think that figures around two percent for 2017 or maybe a bit above two percent are possible. The CB said 2.2 percent. We are going to deploy our own forecast in a few weeks from now.

And the other good news, other good news is that now this recovery is creating a lot of jobs and employment is at the lowest in eight years, and confidence is at its highest in a decade. A year ago the recovery seemed, that was the title of my forecast at the time, is still fragile and uncertain. We are now, I truly believe that, on much firmer ground. I've been sitting in the Eurogroup and tending to those IMF meetings for the last five years, first as finance minister and now as a commissioner. In the beginning of those five years, Europe and the eurozone were obviously a problem for the world. Now, today, I think that we are really a part of the solution and that we are on the right side of history.

Furthermore, political developments in Europe have also been very positive. A year ago, not so far ago, Europe was haunted by the fear of populism, and to be more precise, by populism extreme right. Some feared that the Austrian presidency would come from the extreme right. Some also feared that Mr. Wilders would become the prime minister of Netherlands. Some even feared that in my

home country, France, Marine Le Pen would be president. I never did that but I thought that she would be closer than she finally was to winning the election.

Today, I would say that European populism cannot be pronounced dead. That would be arrogant to say that, and I think that would be wrong, but it's clear that they have lost quite a lot of battles, and they suffered very severe defeats. It was the case in Austria. Close election. It was the case in Netherlands and most notably in France. And that was the first time for a very long time President Macron's platform was enthusiastically pro-European. Nobody could have imagined that having a really enthusiastic pro-European campaign would bring somebody to victory in the election in France.

We must not forget that in the first round, almost 50 percent of the votes went to parties who are say rather reluctant towards Europe, but still, in the second round, it was a kind of referendum, are you in favor of the euro? Are you against? And the result was 66 versus 34. Two-thirds of the French are really now deeply involved in the eurozone and European construction.

And so the Eurobarometers, the polls show that there is now a greater consensus and popularity of Europe than was the case for quite a long time. These elections gave, it's clear, a very strong signal of support for the EU and mostly for the euro, together with the upcoming election in Germany Sunday. Maybe we'll talk about that but I'm not worried at all about the outcome of this election because whatever happens you will have a very strongly pro-European government in Berlin. They have helped to deliver a renewed impetus for deepening our economic and monetary union. And I will focus on that since I'm quite convinced that the euro is the heart and the driving economic and political engine of Europe as a whole. If we assume, and I do, that the UK will leave the EU on the 30<sup>th</sup> of March 2019, close to now, then the eurozone will represent 85 percent of the GDP of Europe as a whole. So you see how important it is to deepen EMU.

Improving economic and political conditions open clearly a unique window of opportunity for us to strengthen the euro area. But there are still questions pending. Why do we need to do it? What is the case for strengthening the economic and monetary union?

First of all, President Juncker, the president of the European Commission, recalled a state of the union speech. We also have one. The parliament is the European Parliament. Last week, he believes and he recalled that the euro is destined to eventually become the currency of all EU

members. This is the letter of our treaties. Some people feel surprised that he said that but that's pure logic. In our treaties, the currency of the union is the euro, except Denmark, which has a formal opt out. Every EU country is supposed to join at one moment the eurozone. The euro area is the economic engine, as I said, of the EU and we believe that it must be opened to all member states to join when they are ready and if they wish to. Let's be clear; nobody is going to be forced to join the eurozone. I'm going to be next week after being in New York in Copenhagen and Stockholm. I can imagine the debates that we will have there. We won't tell the Swedes and the Danes you have to join. We won't tell the Poles you have to join, but we have to say, we want to say that the eurozone is an inclusive area and that the door is open for those who can because there are criteria and want to join. And then the euro will strengthen the functioning of the single market in all euro and EU member states as it was always intended to do.

Making the euro area more attractive means tackling its current shortcomings and there are some. For the euro to reach its full potential and to be adopted by all EU member states, one point that we must deal with is convergence, both within the euro area, between euro area members and other members of the EU. And I truly believe that our institutional setup must be more democratic than it is today.

First, a word about convergence. Convergence in the euro area is needed because at present what we see are persistent, and in the long run, not acceptable differences. To name but three, Italy's public debt is double than that of Germany. Germany's current surplus is twice the euro area average, while Germany's -- you might wonder why I'm always talking about Germany, but there are obvious reasons. Germany's unemployment rate is half the euro area average. Conclusion, the euro area suffers from major macroeconomic imbalances that we absolutely need to solve. We don't have the correct procedures to do that but politically, I think that is absolutely necessary.

Where do these divergences come from? There are several factors at play, but one in particular should be highlighted, which is the legacy of the crisis, which continues to weigh heavily but unevenly on our economies. It manifests itself through high public and private debt. This is still a major worry for our member states. High long-term and youth unemployment. Youth unemployment is somewhere nearby 20 percent in the EU and that is something that we also cannot stand for long. And

finally, the third handicap is a too low investment rate. Also, now, investment is clearly picking up. We still have an investment gap as well with our worldwide partner, and if we can bear to what was the case before the crisis of 2008.

The fragmentation of the financial sector and enduring weakness in the banking system are also part of this legacy. I would also mention the high level of NPLs, nonperforming loans, in the vast part of the euro area. These divergences are obviously problematic on several levels. First, they make it harder to coordinate economic and fiscal policies. You just have to think of how difficult it is to plot an overall course for fiscal policy in the euro area, one which also makes sense for each of the member states. We have rules for each member state. We don't have yet a rule for the euro area as a whole, and we need now to move to I would say a positive euro area fiscal stance. But, of course, to say that it means that you need to aggregate various moves, and if some think that you cannot have that, it creates a problem.

Second, they mean that a strengthening economic upturn will not benefit all members of the euro area equally, which means we won't have the same support for the euro area evenly. And there I'm going to say a word about Greece. That's a country for which I'm now optimistic. I think that after a long decade of crises, we will see the light at the end of the tunnel, and in summer 2018, we will be capable of concluding successfully the program for Greece and not opening a new one. You know, it's the third one in a row. I don't want to see any forced program for Greece. That must be over and Greece must be capable of coming back to the markets successfully with low rates. It must become again an attractive country for investors, get back to growth and jobs through reforms.

And third, these divergences have a political dimension which must be taken into account. That is that social economic disparities make it much more difficult to agree on the common interests of the euro area and shared vision of its future. They also undermine what was at the very beginning of the euro which is the promise of a shared prosperity. It was central to the political consensus that drove the creation of the euro. It's not yet met. We must deal with these differences by putting in place what I would call proactive tools for re-convergence within the euro area.

And there I come to the proposals made by President Juncker last week, which are relatively close to those of President Macron, and can also be heard in Berlin. That's why I say there is a

window of opportunity for true changes now.

First, the idea of fiscal capacity for the euro area. Let's call it a budget to make it simpler. This has been discussed for many years in Brussels and other European capitals. When I was finance minister, I produced a paper on that. It was in 2013, almost five years ago now. President Juncker clarified last week that the Commission intends to work on the establishment of a dedicated euro area budget line within the EU budget providing for a stabilization function. There can be other conceptions. Some could imagine that this budget would be out of the EU budget, that it would find its own resources, and that it would be dedicated for other means. So there will be a debate there. But there is one point which creates consensus, I think, is now that we are ready to consider the creation of a fiscal capacity for the eurozone.

Second, in the medium to long term it would be necessary to establish a genuine European safe asset. This safe asset would ultimately be a new instrument for issuing common debt. We are not talking today in Europe about euro bonds. This is just a red line for some partners, namely Germany, but the safe asset will be a way to manage future debt issuance.

Third, eventually in that gradual and sequencing production of new instruments of cohesion and governance, the time would come to reform budgetary serving this rule to make them simpler, more effective, and more democratic. That's my role in the Commission to manage that. And I see that they are more complicated paradoxically when all countries are outside the existing procedure, which I hope will be the case for next year provided France and Spain bring their deficits below three percent of GDP.

The paradox is that when you're out of the existing procedure, what counts is not the so-called nominal deficit, the figure of three percent; it's the so-called structural deficit linked to output gap calculation and this creates huge difficulties. It's a major complexity. So there might be a reflection on a more flexible, more intelligent, and more simple way of dealing with our roles. That doesn't mean that we get rid of this Stability and Growth Pact. I'm sometimes suspected of that because I try to introduce flexibility and (inaudible) in the management of the pact but, well, that's something we might consider.

Convergence between euro area member states and other member states should also be encouraged. The euro area budget line budget would be created -- will support and assist outside

member states in their efforts to join EMU. President Juncker proposed that there are kind of pre-accession support for countries who will join further the EMU.

In addition, and that's the second point, we must strengthen our institutional setup because there is a glaring lack of democracy in our existing structures, particularly in the Eurogroup. I also sat in the Eurogroup for the last five years, the same capacity as I mentioned before.

The current president of the Eurogroup, my friend, Jeroen Dijsselbloem has taken some important steps to increase transparency, and my argument is not a reflection on his very effective presidency. It is not a criticism of decisions that have been taken there. I've been in the room for five years, for example, on Greece. How could I be out of the necessary solidarity for the decisions which have been taken there?

No, the problem is different. The problem is a structural one. It's a problem on process. It's a problem on method. It's a problem on democracy itself. The Eurogroup initially was conceived as an informal body and that is what it remains. The problem is that the Eurogroup takes a major decision in relation to national budgets, reforms, or on programs. It happened with Greece and in the past with Ireland, with Cyprus, with Portugal, in a way with Spain. These decisions are first prepared by officials in almost complete opacity and also in close linkage with the IMF here, which has another governance and other criteria that makes it obviously very difficult. And then the decisions are taken by ministers behind closed doors in the room of the Eurogroup. It's just like here in the same room, but only 19 ministers plus the DG of the IMF when we talk about Greece, plus the chair of the European Stability Mechanism, plus Mario Draghi and myself representing the CB and the Commission. We have very limited discussions sometimes. We have no formal rules and we have no accountability at all if you consider that we should have won to Parliament or to media or to citizens.

And like in a normal formation of the EU Council of Ministers in Eurogroup, the European Commission, which I represent there, is not able to promote and to advance the general interest of the euro area as a whole even if we are the ones who make the assessment and the opinions about budgets or about programs.

It is true that some ministers face much greater scrutiny than others through the national parliaments. Wolfgang Schäuble, the German minister, faces a very strong scrutiny from the German



Bundestag, but it's not the case for the minister of finance of France. There is no real control of European affairs in my home country.

Who is accountable to those decisions to the European Parliament? Only the Commission, and we are not the ones taking the decisions in the Eurogroup and that creates obviously a problem that has to be addressed. I believe that the Economic and Ministry Union requires a quantum leap forward on the institutional front to fix other flaws in the governance of EMU. So how can we do it? It is no secret that I believe this institutional rebalancing should be achieved through the creation of a permanent minister of economy and finance. It's not a recent idea from me. I put that on the table in 2013. It's not a pro domo idea. It's not because I'm in charge of ECFIN now in the Commission because I thought the same when I was minister and a member of the Council. And it's an idea that received the backing of President Juncker last week that is also in President Macron's mind, and I imagine he will deliver a speech on that no longer than next week and that can be acceptable for Germany in some way.

In my mind, this European minister should first be institutionally robust by combining the roles of European commissioner for economic and financial affairs. That's my task. And at the same time be president of the Eurogroup. It should be both. It's something totally new but it already exists in the field of foreign affairs where Madame Mogherini chairs the Council for External Relation and at the same time is vice president of the Commission. And it works well. And nobody believes that she overrules the ministers of foreign affairs from France, Germany, U.K., et cetera. It does not damage the national sovereignty but it helps efficiency of the decision-making.

I think second that this minister should be democratically legitimate. This means that she or he would be accountable to the European Parliament. As I indicated earlier, a Eurogroup decision should be subject to proper oversight to Europe's elected representatives. That's very important if we want to have control and transparency.

And third, I think that this minister should be technically supported by what I would call a euro area treasury, which would be responsible for coordinating the economic policy of the euro area.

I know that some of these proposals sound very ambitious. We are not seeking to change the EMU landscape overnight, but we do want to seize this unique historical opportunity to drive the discussion forward. As I said, there is a window of opportunity. Like all windows, it opens at one

moment. It is now. It closes. I don't know the moment, and I think that we have no more than a year to make the decided steps to launch the process. We will use the coming months to deepen our reflection and to refine our thinking because, of course, these ideas need to have new insights before coming forward with a set of specific proposals.

There will be a package -- I would say a eurozone package, a eurozone reform package from the Commission in early December, and we are working actively to prepare that.

One final word. I think I'm just on time. We have no real choice between the status quo and strengthening the EMU. As early as the mid-'50s, Jean Monnet, who remains one of our mentors in Europe, said our countries have become too small for today's world, faced with the America and Russia of today and the China and India of tomorrow. We are more than tomorrow. Sixty years after. At the time, Europe accounted for 37 percent of global GDP and 13 percent of the world population. Today, these figures have fallen, respectively to 24 percent and seven percent. If we do not combine our forces, if we do not combine our resources better, we will fail to have this retreat. I dare not speak of decline, but I think that there is the threat ahead of us, so we really need to add the quantum leap forward I mentioned a few minutes ago.

The debate of the future of the euro area is, in any event, more open than ever before since the creation of this currency. And it is set to accelerate politically in the coming weeks and months. To say that very concretely, I think that it will start next week, and President Macron is expected to deliver a very precise, complete speech after the state of the union speech by President Juncker just after the German elections. And we know that it takes time to form a coalition. It might be complicated after those elections especially, but with the eurozone package from the Commission in December, I think that now we will have all elements to start this very important debate.

It is good. It is very welcome news, I believe. It is a window of opportunity, again, that we must seize. Ask single currencies, already a powerful symbol of European unity. If you look at Eurobarometer, the euro is always much more popular than Europe as a whole. We now need to ensure that it also becomes a real instrument of convergence, sustainable growth, and that it is also politically driven democratically led, and that's the challenge ahead of us.

Thank you very much.

(Applause)

MR. WESSEL: Thank you very much for that, Minister. I have to say that it's kind of refreshing to have a European come and express optimism. I think it's been a long time since we've had Europeans come here as optimistic as you, and I hope you'll forgive me if I probe a little to make sure that a little journalistic skepticism about some of your optimism.

Let me start a little bit with your assertion that the battle with populism has been largely won. Of course, you're right that Marine Le Pen lost the election in France, although it's been noted that turnout was rather poor. And there's a shot that the Alternative für Deutschland will be the opposition party in Germany after the elections. And I'm curious whether you think that the distrust of elites, the resistance to globalization, the sense of this disenfranchisement that drove populism there and indeed has drove it here in the United States has really abated. Have we solved those problems? Isn't there a risk that this is sort of the eye of the hurricane and we may discover that those people are still angry and still willing to come to the streets?

MR. MOSCOVICI: If I gave the impression that I am fully optimistic, that I see no problem at all, that we have won the war against populism, then my speech was not good. I would say that I'm cautiously optimistic. Reasonably optimistic. I'm more optimistic than I could have been in the previous years. One year ago again we were on the threat of a populist wave and today I feel released because, well, this didn't happen. But as I said, populism is still there. The anti-globalization feeling exists. The fear from the inequalities that it could create exists. I've been myself for 20 years and I'm being very industrial about France where the National Front, Marine Le Pen was 49 percent in the second round in the last election. I know these guys well. They were my voters. I'm a Social Democrat for a long time and now they tend to vote not pink or red but black today.

And so I'm certainly not the guy who's going to say that's over. But even if we didn't win the war, we have won several battles. And it happened first because the economic situation has improved and that is clearly attributed to Europe, especially to euro. Even those voters feel that euro is a protection from themselves, that it is an element of stability. And second, because for the first time in a long time there has been a counterattack from the poor Europeans. For long years recently they were very shy and sometimes shameful, as if they didn't dare think, okay, I'm a pro-European and I'm proud of

it. And Emmanuel Macron, I'm not especially a fan, he had that immense merit to say, okay, I'm pro-Europe and I'm going to get this country out of the mess through Europe. It was unimaginable a few years ago. It happened. He won and he is persisting in that and I think on that he is absolutely right.

So populism is still there but I think that we have a reasonable chance to win new battles if we are capable of delivering. We need to prove that we are capable through the progress I suggested in the eurozone, not only to create stability, not only to create protection, but also to create a stimulus for the Jacques Delors. He's another European mentor. He used to say Europe protects but does not dynamize. Now we must create new tools for economic policy and a stronger governance and also a more democratic one. These challenges are now ahead of us.

As I said, the window of opportunity exists. It is unique but it is short. One year from now, President Macron will just be a French president with all the difficulties it creates to run my country. Madame Merkel will be in the last mandate with the coalition which won't be maybe that simple. And so they have, I wouldn't say limited time, but we need to seize that moment immediately. If we don't, one year from now, if we don't have tools to address divergences, if we don't create tools to control or to organize globalization, then we could be in serious trouble. And I can't imagine new attacks against euro on a different perspective, by saying okay, what does it bring me? What does it bring you if there are persistent inequalities in Europe, too persistent inequalities?

MR. WESSEL: What role has Brexit played in your thinking about how to move towards more Europe? Has it been a plus? Is it a distraction from dealing with the very ambitious agenda you and the president have laid out?

MR. MOSCOVICI: We have two very strong allies for the European idea. One is Brexit and the other is Donald Trump.

Why Brexit? Because after the Brexit there was a risk that there would be a kind of contagion that other countries could say, okay, they exit. That is good for them. They are better off than in. Why not us? And the reaction was exactly the contrary. If you look at the Brexit negotiation, some would fear that the Europeans, the 27 would be divided and shy. They are firm and united. Whilst the British Government is trying to find its way, you see that their voice is now calling for a long transitional period for special arrangement on trade, defense, for staying in the customs union or the internal market.

Why? Because people in the U.K. discovered that they have much more to lose than we have. And so this recreated a feeling of unity inside Europe and this also showed that those countries who share the euro have to organize better. So I think that's about it.

Donald Trump, I don't have to insist too much. When you have a very strategic partner as the U.S., sometimes consider that Europe would be better weakened, then it's also a very strong incentive for you to be more united. I could develop that but I don't think this is the place.

MR. WESSEL: It's nice to know there's some favorable externalities to electing Donald Trump.

MR. MOSCOVICI: In Europe it has I must say.

MR. WESSEL: So I'm curious. Two things about -- you opened the door there. Two things. What is the most common misconception about Europe you hear when you travel around Washington and New York? What is the thing that you hear from people and you think how can they think that?

MR. MOSCOVICI: I wouldn't talk about misconception. One thing I regret for a very long time, it manifest for quite a long period. I'd been elected first a member of the European Parliament 23 years ago. I was a Minister of European Affairs 20 years ago, too long. Is that -- there is not enough interest for the EU, that there is not the perception that we are strategic partners. That we need to have a common fate and to define common policies. It's, I would say, not the lack of interest but insufficient interest here in this part of the world that we suffer from.

MR. WESSEL: And when you --

MR. MOSCOVICI: We don't deserve it.

MR. WESSEL: I think the Chinese crowded you out. I think that's what happened.

And when you look at the political landscape in the United States, when you look at Donald Trump, what does your gut tell you? What are you worried about? What question does that leave in the mind of someone who has been involved in project Europe for so long?

MR. MOSCOVICI: As a commissioner for economy and finance, I represent the EU in all the global fora -- G7, ministerial meeting for ministers of finance. I'm in G20 meetings. I go to the G20 meetings of the leaders with President Juncker. I am here in the IMF meetings.

MR. WESSEL: A lot of meetings.

MR. MOSCOVICI: A lot of meetings. I will be in the range of the General Assembly of the United Nations from Wednesday and there have a strong habit of work with my American counterparts. It was quite easy with Tim Geithner and with Jack Lew. Not because of political sympathy; this existed, but because they felt involved in the European affairs. The previous American administration was very present, for example, on the Greek case. Not directly, not through the IMF, but we could see that it was a major worry for them that there was a Greek crisis and they helped us. They put some political capital and energy in order to help us solve that.

Well, with this administration, it's still in the beginning. It's just nine months ago. But we have had some quite tough discussions already on three items, which are multilateralism. The attachment or the involvement of the United States in the multilateral framework. There I think that there is I would say a reasonably soft landing with the participation of President Trump as well in the G7 and G20, and finally, after a lot of efforts we could come to common conclusions.

The second discussion is about protectionism. We are not anti-protection. We are proposing, for example, to control for indirect investment in Europe. For strategy purposes, we are also favorable to go on with trade but in a controlled manner. We are not naïve. But on protectionism, it was very difficult to get from this administration a clear -- and it's still difficult -- a clear anti-protectionist stance and there was this debate on free trade and fair trade that could create ambiguities. We also went to a common conclusion but with this constructive ambiguity.

And of course, the third debate is still ongoing. It's about climate change, and in this season of hurricanes with the deaths that they are bringing, it is not reasonable to believe that climate change is bullshit and that we should not fight it. The withdrawal of the Paris Agreement is a mistake. We need to be on the right side of history. We, the Europeans, we are on the right side of history with the Paris Agreement, and I think that, well, we would like the United States to stay with us in the common fight against climate change and against global warming.

MR. WESSEL: Just to pick up a little bit, you said that the previous administration was very involved in helping Europe with the Greek crisis. I think sometimes appreciated, sometimes not by the Europeans. You don't see any of that same involvement from this administration? They're just not

present?

MR. MOSCOVICI: First, we don't have at the time --

MR. WESSEL: No crisis. Thank God. Yeah.

MR. MOSCOVICI: Us, the same crisis. But, I would say no. And I would say maybe because I'm the commissioner, because I'm a Social Democrat, and maybe because I'm French, that I appreciated the involvement of the Obama administration. I'm not so sure that some of my counterparts were exactly on the same side but personally, I think it was very useful, as it was useful for the previous administration sometimes to recall that if we need to resolve and to reduce, make for economic imbalances and that some external surpluses need to be reduced.

MR. WESSEL: Well, now that you mention it, so I notice when you talked about the harmonic convergence of the European and post-German election ideas about Europe, you didn't quite show me a path of how we get the Germans to reduce their current account surplus. Are you as optimistic about that as you are about the rest of --

MR. MOSCOVICI: Not at all. I think there is a narrow path but it takes political involvement from the German leadership itself. When we discuss that, and we don't have a procedure which is efficient enough to put a strong incentive on that, the answer is often, well, it's not our fault, products are excellent, we cannot prevent anybody from buying German cars or diesel, et cetera, et cetera. And it comes naturally. I don't believe that's true. I think that through more investment, especially, Germany could help reduce its own surpluses and these investments are badly needed in the country if you look at infrastructures. That's a debate we have. The Commission says that repeatedly but we need to have a common diagnosis on that. It is not yet on the table. I hope that after the German elections we will be capable of defining together what the good policy mix for the euro area can be and that those imbalances need to be reduced not brutally, not immediately, not dramatically, but progressively. I think really it's of common interest. And the interest of Germany, and I'm really I would say pro-German. For all my life I've been working the Franco-German friendship. I believe in the Franco-German engine. It is the interest of Germany that its partners in the EU behave better. It is not of the interest of Germany that finally there are growing divergences and the risk of a rejection of the eurozone

through that. So, I'm hopeful but not -- I don't have the solution for that.

MR. WESSEL: Do you think that --

MR. MOSCOVICI: The solution, the key is in Berlin.

MR. WESSEL: Right.

MR. MOSCOVICI: In Germany. Nobody can force somebody to use it.

MR. WESSEL: When you laid out the notion of more Europe with a European finance minister, European safe asset, European area treasury and stuff, is there really a possibility that the French and the Germans can agree on the substance of that? How do you resolve this? It seems to me very tough tension between wanting to have more European fiscal policy and the Germans' reluctance to actually have any kind of transfers to the rest of Europe and their suspicions about the governments and the rest of Europe.

MR. MOSCOVICI: I think there is a possibility and there is a capacity to be able to compromise. I also believe that President Juncker's speech last week could be a part of that compromise. President Juncker has a great strength in that he's kind of a, I would say, a bridge. He's a bridge between Germany and France. He has both cultures. He's a citizen from Luxembourg. He speaks both languages. He's also a Christian Democrat who knows well about Social Democrats. He's a guy who knows well about business but also about workers. And he tried to create the basis for that compromise.

Of course, there will be very strong differences. In France, we are French, fond of solidarity and sometimes transfer and try to build new tools for public action. It's also clear that the political culture in Germany is more dedicated to risk reduction, to stability, and respect of the rules. It's clear that we, the Commission, we are rather in favor of a united Europe than a two-speed Europe or a several speed Europe. Everybody is in his role, finally. But there is a capacity because when I look at what Madame Merkel said recently, and she might be the next German (inaudible) prognosis but (inaudible) might happen, it seems if you look at the polls, and I respect her very much, I admire her for what she did on the refugee crisis, I think that Madame Merkel said that she could live with the finance minister for (inaudible), that she could consider a budget of the eurozone, that she could imagine that there is a parliament of the eurozone, that she proposed not a treasury but a European Monetary Fund.



It's the same words, not the same conceptions. I think with hard work, we can find a compromise because for the first time, everybody agrees that we need to have a finance minister, a budget, a parliamentary control, and some tool to lead the economic policy.

But for that, you need to have everybody making its own work. You spoke about the German (inaudible). It badly needs to be addressed. On the other hand, France, my country, needs to be serious on reforms and serious on public finances because the more it is serious on reforms and public finances, the more credible it is. I think it will secure Germany and help to move to more solidarity. I'm not talking about transfers but you know transfers, it's a word that some don't like in Berlin, but it already exists. What are we doing if it's not transfers through a budget? Limited budget but there are transfers. We're not willing to establish a unit of transfers only. We need to mix or to combine risk reduction and risk sharing but we need to have both at the same time.

MR. WESSEL: So if I take the picture of more Europe that you've painted and President Juncker has painted, you described us as having a window that opens and a window that closes. It kind of reminds me about Rosh Hashanah Yom Kippur. What -- I hope you'll be honest here.

MR. MOSCOVICI: That was maybe my culture unconsciously.

MR. WESSEL: What probability would you put on that five years from now we will be celebrating the vision for Europe that you and President Juncker put out?

MR. MOSCOVICI: As I said, I'm cautiously optimistic.

MR. WESSEL: I'm trying to calibrate what cautiously optimistic means.

MR. MOSCOVICI: Yeah, yeah, yeah. Still, I'm worried. And I think status quo is not an option. And if we don't move decisively, then five years from now we will be under existential threat again. So we have no choice. That's why I believe that this will happen not because the actors are gentle people, not because they want it, but because it's their duty to act. On that I'm optimistic.

MR. WESSEL: You'll have to put our own number on that.

So we have some mics. I'm going to take like three questions and then we'll let the minister pick and choose.

There's a woman here with a pen. And then there's a woman over there, the other mic, the one with the scarf. The colorful scarf. And if you'd stand up, tell us who you are, and please be

courteous of the rest of the audience and ask a question, rather than give a speech.

MS. SOKOU: Thank you, Commissioner. Thank you.

I'm Katerina Sokou, a correspondent here for Kathimerini and a visiting fellow at Elliott School. How do you plan to manage the Greek program that is ongoing and will end within the next year hopefully as you described? And it happens to coincide with the year of all the changes that you -- all those important changes that you describe and that Europe needs, so that it doesn't hijack your effort for the reforms, given that we've already seen disagreements with the IMF on the bank regulation timing or what have you and the Greek debt is also an open question mark for when it's going to be agreed to be restructured finally. Thank you.

MR. WESSEL: Thank you.

The woman over here?

MS. MEYER: My name is Silka Meyer from the German Embassy. Officially, I just wanted to remind everybody that Germany has really increased its investments.

On a private level, as a member of the European Union of Federalists, I would like to ask you a bit more about where you would institutionally put this minister of finance, European Minister of Finance. Is it more of an enhancement or is it strengthening of the role of the commissioner for DG ECFIN or if it is a new kind of institution, where would it be put in the institutional framework? Thank you.

MR. WESSEL: And Randy here?

MR. HENNING: Thank you. I'm Randy Henning at American University.

Thank you for these remarks, and I wish you the best of luck in moving your institutional reform agenda forward. But I wanted to ask you about the European Monetary Fund proposal because I see a tension between creating the European Monetary Fund on the one hand and continued access on the part of member states to financing at the International Monetary Fund in the future. Right? So I don't think member states are going to want to forego borrowing from the International Monetary Fund, but creating a European Monetary Fund would then require cooperation between or some protocol between the European Monetary Fund and the IMF which is something that's been a source of contention in Europe over the course of the programs. Thank you.

MR. WESSEL: Thank you.

All right. So let's start with your prognosis for Greece and technicalities of making progress.

MR. MOSCOVICI: I'm afraid I don't get time to develop all the technicalities. But I would say as a message that on Greece I'm not reasonably or cautiously optimistic. I am optimistic. We will conclude this program before August. What means a conclusion? I want it to be a clean, a proper, a successful conclusion. That means to me that first Greece has to deliver on reforms. We will have what we call a third review inside a program. In my view it should be ended by the end of this year. It's mostly about implementation, but the Greek side needs to deliver on reforms. It has done so since July 15. And then simultaneously, we must prepare the conclusion, which means that Greece must be capable to really come back to markets with good interest rates that Greece must be able to come back to Greece, to growth, and we must help Greece through specific programs to sustain growth and also social fairness. It means that we will need to address that issue after the program as foreseen, as decided in the (inaudible). We already have some measures and there is no liquidity program for Greece right now. We need to build on a strategy together. We started having that discussion. I met Euclid Tsakalotos in my office a few weeks ago. We had a quite positive discussion the last Eurogroup and I think that today everybody is moving in the same direction.

About the IMF, the IMF is a very important strategic partner and a partner of confidence. I don't like to reflect about the exit of the IMF. I tell my Greek friends that's not reasonable to do that. That's not the right way to do that. I cannot say how committed the IMF will be but its presence here is useful. It will depend also on the quality of solutions that we manage to find and we'll see what happens after the end of the program, but for the time being, let's do what we have to do. Let's make it our duties.

MR. WESSEL: Why don't you go to Randy's question about can you have a European Monetary Fund and countries still have access to the IMF?

MR. MOSCOVICI: I don't want to betray the discussions inside the Eurogroup and ECFIN but a very important strategic partner of the ECFIN said we should reflect on semantics and substance. If you call that the European Monetary Fund you risk two kinds of confusions. The first one is about the IMF. The second is with the ECB, which leads the monetary policy. That discussion happened in the ECFIN. Again, it was very strategic partners. But it's not about semantics. There is no confusion,

no possible confusion. It was the European Monetary Fund or the treasury if you call it another way, will obviously emerge from any institution which already exists and which has its own resources which are not at all contradictory which is what we're doing with the International Monetary Fund. It's the transformation of the European Stability Mechanism into a European Monetary Fund or a treasury. So I don't fear that there is any contradiction without belonging to the IMF. We are shareholders of the IMF. We will remain shareholders of the IMF. We are committed to the IMF and we will remain, so no doubt about that. We will see how the debate will be because there are several debates which are not about resources and about the IMF but how intergovernmental is the body? Does it exclude the Commission from budget surveillance or not? Is it inside the (inaudible) method? These are real discussions and that's probably the difference between the European Monetary Fund and a treasury.

On Germany, first, you're right. The German Government has launched an investment effort. It could be even more. This is in the country's specific recommendations for Germany from the Commission and this is in the debate, but of course, I want to pay that tribute to Wolfgang Schäuble, the 15 billion effort last year as well from the state and from the lenders. I don't want to forget that. But, well, you should look at the current surpluses that are nine percent of GDP. It's not exactly the same scale.

As far as these institutions are concerned, my idea is that the finance minister for the eurozone would be the merger, the merging between the EU commissioner for ECFIN, my role today, and the presidents of the Eurogroup, and that we don't need to build new services, a new bureaucracy, to create a bureaucracy which would be competitive with us, with ECFIN. That we should build on that but with a new capacity. And that necessarily creates a kind of independence.

If I look at how Federica Mogherini works, she's inside the Commission but she has her own services. She leads the European diplomacy. Of course, she's under the leadership of the president, but the fact that she has a double hatting creates a specific function. I would think it would be reasonable to follow the same path. And again, in a way, I talked about semantics. Maybe the word finance minister is a draft, too, because this minister wouldn't be a super finance minister. He wouldn't, or she wouldn't, take the place of Wolfgang Schäuble or Bruno Le Maire, whatsoever, and Federica Mogherini is not the foreign affairs minister from the EU. It's the high representative type. Let's call it a minister to create an effect of shock, but obviously it's --

MR. WESSEL: Managing director or something, right?

MR. MOSCOVICI: No, because a commissioner is not a technocrat. He's a political appointee. You have a hearing to the European Parliament. There is a vote from the European Parliament. Almost all commissioners are politicians. Twenty-two of us have been ministers. Six of us have been prime ministers, four or five have been finance ministers. We are politicians and we are a political body.

MR. WESSEL: There's a gentleman there.

MR. MOSCOVICI: That doesn't mean politicized.

MR. WESSEL: I got it.

The woman behind him in the -- raise your hand so she can see.

SPEAKER: Thank you very much for a great presentation (inaudible) presentation. I'm teaching a course at the University of Maryland on the euro debt crisis.

I have two quick questions. First, you seemed cautiously optimistic, as you said, that during the next five years in response to your question, the Europeans would take the reform measures that you had outlined. We know from experience that the Europeans act only under crisis under pressure, right? Now, the headlines have disappeared from the front pages and things are quiet. They have not been solved but they are quiet. So what makes you so cautiously optimistic that they will act now?

The second question is this fiscal capacity, already the word is puzzling, rather than calling it budget, what makes you think that this will happen when you have the national parliaments, their most sacred right is to decide about revenues and expenditures, that it would be given up to a fiscal capacity at the European level? If it's not, then it's only cosmetics. If it's substance, how would you think this will happen?

MR. WESSEL: Okay, thank you.

MS. FERNANDEZ: Thank you. My name is Natividad Fernandez, Prince of Asturias Chair, Georgetown University, and I have a question concerning the EU budget, with the European budget that represents more or less one percent of GDP of European GDP. Do you think it is worth it to have a European Ministry of Finance? And just a little question, nothing to do with this, if this ministry,

permanent Ministry of Finance can be created without an amendment of the treaties? Thank you.

MR. WESSEL: Thank you.

Over here?

MR. DOYLE: I'm Peter Doyle.

There's a long tradition of senior European officials and representatives making speeches saying there's a window of opportunity now and then you get a list of things that they would have wanted regardless of the circumstances at hand. And since yours is the latest episode in this drama, can I ask you a sort of very specific question? Are there any elements of the euro or EU financial or economic architecture that you think should be reversed, either because they do not work or because they work but only at the margin, and while working they create such resentment, such bad feeling, that this actually brings the European project into question? Are there things that need to be put into reverse in order to move the euro project forward?

MR. WESSEL: Okay, thank you, Peter.

You can answer in any order you like. I think let me start with the first, the fiscal capacity questions. Why would the national parliaments go along with this? And if they don't, isn't it purely cosmetic?

MR. MOSCOVICI: Again, the debate must first happen between the national governments, starting with France and Germany. This idea is in the public debate for quite a while and I see growing consensus about that because everybody knows and feels that there is an investment gap and that we need to have some kind of common action there. But then seeing that there are a lot of questions on the table, first, what does it stand for? Stabilization, investment, or other functions. Second, what will be the resources? And then we must reflect about all resources for the European Union. Third, what will be the governance? Four, would it be a separate budget or would it be inside the EU budget as President Juncker said? So there are a lot of uncertainties, but I see that today there is a consensus on the concept of a fiscal capacity. And if there is consensus of the concept and if the work is done to show what it can be and that's what we're going to do through our communications or our package in December, then it opens the window of opportunity. But there's a lot of questions.

MR. WESSEL: Does it need an amendment to the treaty?

MR. MOSCOVICI: It depends on precisely what we are going to do and that's the same for the finance minister. I will answer that. This question is obviously linked to the other questions about the budget. Whether it is inside the budget or outside the budget, one thing is very clear, is that we need additional resources. And when President Juncker last week said that it would be a budget line inside the budget, it didn't mean that it was the same amount. We need to increase that. And we're not talking about the next budget for the EU but it needs to be radically different to anything that we've done until now. We need to build the budget for the future, not a budget for the past. And we need to dedicate more money to education, to innovation, to research, to form than we did in the past. And so I think the next budget will be revolutionary. And maybe it will also include that fiscal capacity but we need to have more resources.

MR. WESSEL: Okay. So there are two questions. Quickly, one is, why should we believe that Europe will act short of a crisis given history? And Peter's question about are there things that should be forgotten as well as things that should be advanced?

MR. MOSCOVICI: Well, I'm not so sure that the Europeans act only in a crisis. We are with you, the U.S., the strongest economy in the world. We are also very strong nations as such, and we have done that because we are capable of being competitive. We are capable of reforming ourselves. Let's not caricature what Europe is about. And if I look at the last 10 years during the crisis and after the crisis, because we are after the crisis, we are in the fifth year of recovery, we have done a lot to reduce our deficits.

In 2011, the average level of deficit was six percent in euro. Now it is 1.3 percent. We've made a lot of structural reforms, pensions, labor market, et cetera, and that explains why today our gross, I think, is quite solid. Now, of course, there are some risks, but we are really now in a much more solid situation.

I think that the Europeans are capable of being mature to realize that they need to transform their own structures, that they need also to build I would say 2.0 structural reforms. Those who based on professional vocational training, education, research, preparing the future innovation, because obviously, our main problem is an investment gap. We need again to invest in the future much more.

If I look at France, for example, again, I'm not commenting on internal policies, but I see

that the new president has a reform agenda, which is risky and that can make him unpopular. But he thinks that it's time to do that and we are getting out of the crisis of other EU member states. So let's not caricature what Europe is about. We are not a bunch of lazy guys who only wake up when there is a problem. If that was the case, we wouldn't be at 24 percent of the world GDP with seven percent of the population.

MR. WESSEL: And Peter Doyle's question about is there anything you would undo in the euro structure?

MR. MOSCOVICI: Well, probably you could say that things should have been done another way. Again, I would quote Jacques Delors when he said the euro protects a dozen dynamics. The euro was asymmetric. We should have completed from the start and what we've done creates institutions that can be at one moment or not problematic. But no, we cannot reverse and we must not reverse. But some changes must be done. One is in the general framework of the EU and the other in the euro to give two examples.

The first one is, I think, and Jean-Claude Juncker pointed that last week, we need to have less unanimity and more qualified majority voting. People in Europe often talk about tax harmonization and they talk about social Europe, but you cannot have strong tax harmonization or real social Europe if the veto of one can stop the will of the others. That's not possible. It is possible to move from unanimity to qualified majority voting. There is a clause of the treaty that prepares that. It needs a decision from the Council taken by unanimity but the president was right to say that because that's the (inaudible). If forever we decide by unanimity then we have several severe limitations. As tax commissioner, I can see that we are going to discuss. That's not our purpose today about the taxation of digital economy. It will be a strong fight, good dossier, but not easy with unanimity rule.

And the second thing is not about a reversal because I'm not talking about that. But as I said, I mentioned the rules. I mentioned the Stability and Growth Pact. I'm a strong defender of the Stability and Growth Pact. My task is to ensure it's implemented. And it works. As I recall, deficits move from six percent to 1.3 percent. But we introduced flexibility. I know that is discussed here or there. I think that in a few months from now we will get rid of the existing procedure for a while. Twenty-four member states were in the EDP in 2011. Now the two last ones are going to exit next year.



MR. WESSEL: Their deficits will get small enough.

MR. MOSCOVICI: They're under three percent. They will be under three percent, as well as in Spain and in France. I'm confident of that. And then what happens? What happens is that all countries are in the so-called preventive arm of the pact and suddenly they discover that it's more difficult and more complicated than when you are in the corrective arm of the pact. And I wouldn't say reverse, but I think that we need to simplify and to create a better equation between our roles and our institutions. So that's not a reversal but that's an exchange.

MR. WESSEL: With that, please join me in thanking the minister.

(Applause)

MR. WESSEL: And hoping that he can come back in five years and your cautious optimism will have been rewarded.

MR. MOSCOVICI: Before if you want.

MR. WESSEL: Before. I'll give you five years. Five years. Thank you very much.

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