



DEBATE

Thierry de Montbrial, President and Founder of the WPC

Bien, merci Mario. Je crois que nous avons à peu près un quart d'heure et je propose qu'on prenne quelques questions réponses qui peuvent être à votre choix en français, en anglais éventuellement en italien mais dans ce cas-là je demanderai à Mario Monti de traduire lui-même. Maintenant, la discussion est ouverte.

Meir Sheerit, Member of Parliament, former Minister of Internal Affairs, Israel

What percentage of the black economy is evaluated in Italy in terms of gross national product (GNP)? The average for the black economy in the world is about 14%, which provides a big opportunity to collect a lot of money from people who are active in it. What is the connection between the black economy and the Mafia in Italy, which I think has been very big in dealing with the black economy? Is this a good source for raising funds for the Italian economy?

Mario Monti, Prime Minister of Italy

Thank you for starting the discussion on the Italian economy on the most positive of aspects. I see that I have impressed you mostly with my initial remarks on something that I hope that France and others would consider from Italy's recent economic policy experiences.

It is generally understood that the black economy in Italy is a higher percentage than that and some people talk about 15% or 16%. I do not have a lot of faith in estimates of something that in principle should not be capable of being estimable, but there are indirect estimates from statisticians. It is very interesting, in a talk about European and global governance, that this is the question that comes up first. I welcome it and the person who asks the question tells me and all of us how much work Italy has to do to be on the right path and deserve the decency of normal citizenship in international debates.

The Mafia is a phenomenon which is also global, as we know, and very marked with an Italian origin. The harm that has been created by the Mafia, as we know, in the parts of the world that have experienced the phenomenon goes far beyond the economic aspects. I can only tell you from this point of view that Italian Governments over the years, and certainly our Government as well, have put in enormous efforts, with some remarkable successes in terms of identification and arrest and the fight against the Mafia.

When we started our experience of Government I thought that more could be done to fight tax evasion and organised crime at the same time, be that the Mafia or other denominations, and that was in the area of pushing the transparency of financial transactions well beyond international standards. We introduced systems of transparency for all the bank accounts of all the operators, the elimination of the use of bank notes above a very low threshold and a number of mechanisms which, as the Guardia di Finanza and the tax agency tell me, were never there before. There has been a lot of screaming in certain social quarters and political parties close to them and I have said repeatedly that we are at war against tax evasion and we therefore need to adopt the psychology of a war.

Italy acted in this way against terrorism a number of years ago. It did not make use of extraordinary laws, as other countries had to, first of and foremost of which being the US, and has mainly prevailed over that problem. In terms of tax evasion, we are seeing that in a year that has been characterised by a sharp recession in 2012 and has been unquestionably aggravated in the short term by our policy actions, tax receipts are increasing. The fight against tax evasion is therefore obviously paying off.

I hope that we will see the same zealous attitude to tax evasion in many other European countries as well as the other painful structural reforms that we have put in place in Italy.

**Karl Kaiser, Harvard University; former Director of the German Council on Foreign Relations**

Speaking as a North European, I fully share what Thierry said about you and we all congratulate you and wish you a lot of luck in the continuation of what you are doing. I have a question following your analysis of the, on the whole, positive trend that the European Union is taking with regard to all the reforms. In that context, how do you assess an additional problem that has now come up, namely the British desire to play a role of its own and signs of the European Union turning into a two-tier system? How do you assess that and how can we resolve that issue?

Mario Monti, Prime Minister of Italy

There is a minority of people in Europe and very few member states who may not say it openly but would not be unhappy should the UK take its natural course towards the Atlantic and perhaps one day reach the east coast of the United States of America. I would be profoundly happy, not only because there are aspects such as defence, which Sylvie Goulard mentioned at lunch, where the UK has a lot to say, but also because in the traditional aspects of integration the UK has also a lot to say.

I worked for years on the Single Market and competition and the UK is more faithful to the ideas of the Single Market and competition than we in the key continental countries of the euro zone, and I put France, Germany and Italy in that context. I think that it would be detrimental to continue the process of real European economic integration, which is also basis of Europe's political power, without having the genuine ingredient of countries that are not in the euro zone either because they do not want to be in it, such as the UK, or because they do not want it that much, such as Denmark and Sweden, or because, for the time being they cannot be in it, such as Poland and so on. All of these countries are more observant of an aspect of economic integration which, to me, is even more fundamental than the single currency. I know that that is anathema in France, but it is what I believe. Additionally, in our interest, so as not to gradually fall asleep in a sclerotic, non-competitive economy, I think that we need the contribution of those borderline European, geographically speaking.

That is why I really hoped a year ago when it came to the negotiation of the Fiscal Compact that the UK, which does not lack a commercial spirit, would want to extract a price from us all for them to go through the trouble of the ratification of a new treaty – the Fiscal Compact. I had urged Mr Cameron to ask for a price, but a price that would be seen by us as a progressive movement in terms of integration, such as forcing continental Europeans to take the services market more seriously – and I speak here in front of a highly distinguished Polish politician who knows the importance of free-market integration in Europe even beyond plumbers, who are obviously a very important category – and put conditions on the real opening up of the energy markets and the digital market and so on. However, all that David Cameron came up with in the European Council was a carve out for the City of London from the point of view of financial regulation and that would have been a retrogressive step in terms of integration. Therefore, we could not accept that and I even heard a Head of State or Government at 4am in the morning when Mr Cameron said no stating in French “enfin, on a mis fin à 40 ans d'hypocrisie”. That is how I therefore see the UK.

I think that the UK has to get to a point where they ask their citizens about Europe through a referendum, but I hope that the question they will ask will be about the integral and not the derivative. It should not be about whether people accept this or that small change in the treaty, as they will always say no, but whether they would be happier if the UK stayed in the European Union and the Single Market, with this acquis by the others, or whether they would be happier if it dropped out. In my view, it would be only at that point that we would see the Confederation of British Industry, the City of London and all the down-to-earth economic interests of the UK begin a very strong campaign for the Yes vote.

Angel Gurría, Secretary-General of the OECD

There seems to be a certain asymmetry. You were a very important player in creating a number of institutions: fiscal union; the banking union has now left port and will get there; the EFSF; the ESM; and the willingness to go into the secondary markets and stabilise yields. However, there seems to be an asymmetry. There is a very good capacity to punish those who do not do the right things but, on the other hand, a lack of capacity or a great deal of hesitancy to support and accompany and sometimes even protect those economies that are doing what they have to do, spending the political capital and gathering the political will and going to the people and their parliaments and putting degrees



through, and that does not seem to offer any protection against the onslaught from a market which, as you suggested, is not just about the country but is using the country as a proxy for speculation against the euro itself. I therefore see a non-continuation here. You created institutions and they are then put on the table but not used or triggered. The ultimate consequence that you are looking for, which is confidence and the return of trust, is therefore not achieved.

Mario Monti, Prime Minister of Italy

I think that you have a point and you have been a very forceful advocate of a more symmetrical Europe from this point of view over the years. I believe that the reason for this is that Europe, and the eurozone in particular, was borne over the notion, which is right in itself, of preventing negative contagion. It was believed, for reasons that were largely founded, at that time grossly missing other aspects, that contagion could basically only come through fiscal imbalances. The notion was – and you know this better than anyone else other than Mr Trichet – the crowding out. For example, were the Italian Treasury to run an excessive deficit, it would have to issue an excessive quantity of Italian Government bonds in a more and more integrated European Government bond market and that would have pushed up the interest rates that are paid by other Treasuries, including those of Germany and France, and not only that but it would be paid ultimately by companies. That would then have crowded out others. This then very wisely focused efforts on each country getting its own deficit under control, which was needed.

However, it of course completely omitted the recognition of the role that private debt, for example, could have in creating imbalances. We just have to look at what Spain and Ireland incurred, which did not really have a lot to do with public sector deficit. Therefore, the ideology of distinguishing one economic activity, namely indebtedness, by the category of the issuer and whether it is the private sector or the public sector, rather than the economic nature of the underlying operation – consumption versus investment – was necessary as a very first rough approximation to persuade the Germans and Dutch that even in the very unlikely and black event that the Italians or Spaniards would one day join the euro, the savings of the north would not have been attacked by southern hands. This was a very important first approximation – the Drei Komma Null theory of Mr Weigel. It is a pity of course that the two countries that built the euro zone on this – Germany and a more or less subservient France – were the first two countries to violate the credibility of the whole and they of course carry much greater responsibility than Greece, Portugal or Ireland. That is obvious to anyone, although it is seldom said.

The paradox of this simple crowding-out model is that – and the German Chancellor recognises this – the flowing of risk premium for uncertainties on the euro, mainly on the Italian bond rates, is now creating a crowding in of German public debt. German bonds have been enjoying extremely low rates, which have been negative rates recently, first and foremost unquestionably because of their quality and solidity but also because of the flight to quality generated by the uncertainties over the euro.

That was a long and intricate explanation of why there have been these asymmetries in Europe, whereas since the days of the Lisbon strategy it was felt that each country, after all, has an interest in becoming more competitive and that the European Union should just provide some broad outlines and then if a country does not act seriously to become more competitive, so be it. It would be in its own interests to try to do so. However, it was only subsequently realised that the integration of the European economy is such that everybody has an interest in their European competitors becoming more competitive and hence there are now these contractual arrangements and so on.

Finally, I think that you are completely right when you say that there is hesitation in the putting into practice of instruments that have been decided and this was also the case initially with the interventions on anti-spread. I understand from the ECB and the ESM that everything is in place in principle although no-one has tried it yet. I know that from time to time your institution suggests that Italy should be the first to try it. We do not see any need to do so at the moment.

Narendra Taneja, Founder President of the World Energy Policy Summit

I have seen a lot of passion both in our debates this morning and when you spoke earlier. It is the passion to build a United States of Europe, which is a fantastic idea and it seems as if you are moving in the right direction. There are of course a lot of questions surrounding it but I still wish the movement the best of luck.



My question is that when you look at the efforts to build a United States of Europe from a distance in Asia you get inspiration and at the same time you feel a bit jealous sometimes in that you can do it but we cannot. However, if you are approached by Arabs, for instance, to lend your experience to building a United States of Arabia tomorrow or, for that matter, a United States of Asia – earlier in the day we had a discussion on the G2, which was a reference to China and the United States, but if there was a United States of Asia, that would mean that the G2 would be India and China and the debate would take a completely different turn – and build a similar institution or block in the Arab world or Asia, what would your response be like?

Mario Monti, Prime Minister of Italy

I would be enthusiastic about providing a very sober, moderate non-enthusiastic, fact-based assessment and assistance based on the European experience. By the way, as regards that part of the world, if not the Arab world, I always remember what Shimon Peres said at a conference a few years ago. For some reason, someone asked him who he considered to be the greatest French person of modern history and he said that it was not Napoleon for this and that reason and not de Gaulle for this and that reason, but Jean Monnet. He explained how much that notion of integration could be fundamental for the Middle East in going to Oslo, as we will do next Monday, to receive the Nobel Peace Prize.

I have these discussions from time to time in Asia and was recently in the Gulf states and there are certainly elements of our experience that lend themselves to other parts of the world. In the spirit of moderation and lack of enthusiasm, I would simply underline that at least in my case – and perhaps my co-author, Sylvie Goulard, would be bolder, and she is bolder by nature – I am not sure that I am seeking to achieve a United States of Europe. For me, Europe is a flow and not a state – and I hope that it is a 'flow' with an 'o' and not 'flaw' with an 'a' – and we will reach a limit. It is therefore Europe as an asymptotic construction and a movement towards that. By the way, unlike some federalists, I believe that the more we proclaim that we are here to build a United States of Europe the less we will achieve the result, I am afraid.

The respect and interest of others for our formula of integration vastly exceeds the little amount of self-consciousness that we have of it. After all, what I would have said in my prepared remarks is that global governance is trying hard to put in place principles that were invented by Monnet and others and then put into practice in Europe for 60 years to achieve what has been the most successful globalisation in the world, albeit at the scale of just one continent. It is very simple in its essence, which is to combine market integration – that is, the destruction of barriers and obstacles – with policy integration and the coordination of public policies. That is what the G8, the G20 and many other bodies are trying to do, so far with less success than Europe. However, I think that the response of the world to the 2008 financial crisis has tried to take us in that direction. That is why, as a European, I have difficulty in feeling really depressed, even in difficult moments. We might not know – but others do – that we have the right formula.