



## MARIO MONTI

Chairman of the High Level Group on Own Resources, European Commission,  
former Prime Minister of Italy

Virginie ROBERT, Foreign desk editor, *Les Echos*

I would like to turn to you, Mr Monti, and to talk about Europe. Regarding the latest crisis Europe is facing, it seems that some European states are at odds and that the march towards a more integrated union is fading away. It seems, with the refugee crisis and the terrorist attacks, that the Stability Pact will be hindered once again. Is it good to have that kind of flexibility regarding, at least, the Stability Pact, or are the Europeans incurable sinners?

**Mario MONTI, Chairman of the High Level Group on Own Resources, European Commission, former Prime Minister of Italy**

I believe Europeans are thought by many to be sinners through an excess of virtue, particularly by the Americans and others. Let me briefly touch first on the Stability Pact, and then, if you allow me, I would like to resume the discussion on the global economic order, or disorder. The Stability Pact is there because it was important to reassure European public opinion that, even though there was going to be a single currency, price stability would be very solid. Jean-Claude Trichet ensured, once the currency was there, that was indeed the case.

I am in favor of some flexibility, but some limited flexibility within the Stability Pact. The latter is not an instrument for moral support; for all the drama that terrorist attacks do imply and for all the responses that require a truly united European Union, it is a bit improper to say that a country is allowed to use more money for internal and external security. That of course is an imperative, but the real imperative would be, in the end, to achieve that through integrated European defense, intelligence, etc.. If in the meantime that is to be pursued through flexibility in the Stability Pact, it means that individual member states are allowed or encouraged to finance those greater expenditures in deficit, because that is the authorisation given by the Stability Pact.

However, whoever said that war finance necessarily requires that? Maybe one could consider whether this is the moment to behave as the grandchildren of Ronald Reagan in some European countries and try to reduce taxes across boards, or maybe to increase the need of public goods, so that for security, defense etc. we should slow down the decline in taxes and enhance the citizen, i.e. taxpayer, security through taxpayer money.

However, I am convinced that through the imaginative and painstaking work of the European Union we may seize this opportunity to revise and revamp the Stability and Growth Pact by introducing improvements that have, nonetheless, to do with economics, and not with the state of the world globally. For example, I think this is the moment to give a proper role to, and to encourage, investments in the Stability and Growth Pact, including public investments, rather than denaturing it to cover non-economic needs that have to be tackled as such by the EU.

The discussion was on the decline of multilateral institutions, and this begs the question about where globalisation is going. My personal view is that globalisation is going on in terms of technological and business aspects, but it has indeed ceased to advance, and indeed started to regress, concerning the policy and institutional aspects. We see that at the global level; just think about the WTO and what has been said by my colleagues on the panel. However, we have seen clear symptoms of integration fatigue well before the economic crisis also at the European level. Therefore, it is not just a side-effect of the crisis that people want to integrate less. Just think about the syndrome of the Polish plumbers in France and the Netherlands in 2005; the economies were booming, but there was a willingness to close. Just think, even before that, about the reluctance of the corporate community leadership in Europe to have too much of a bold takeover directive that could open up the market for corporate control in Europe.

Will the march of integration resume when growth is back? I am not sure at all. While we are proud of our democracies, there is a gradual degeneration of our national political systems into populism and, let us be frank, into turning the



concept of political leadership into political followership. We do not have political leaders now, and I am not talking about China, which is not normally considered to be a democratic country. It will be a real “pity” if the democratic countries leave the exclusivity of being willing and able to take care of the long-term to the one country in the world which is not conventionally considered to be democratic.

What do we specialise in? Our political leaders specialise in becoming leaders again by winning elections or by doing well in short-term polls, but this transforms them into very skilled followers, not leaders. This introduces short-termism into political decision-making as regards the time horizon of decisions, as most of our current political leaders do not care about what happens in five or ten years. I have recently been in China; there they have two points in time toward which they construct plans: 2021, the 100<sup>th</sup> anniversary of the foundation of the Chinese Communist Party, and 2049, which they would probably consider the medium term, and which is the 100<sup>th</sup> anniversary of the successful Revolution in China.

We have short-termism not only as the time horizon of decision making but also as the timeframe of the debate. As a matter of fact, in our political systems, in order to win the case in debates and, eventually, to win elections, you have to present arguments that can be made and explained in ten seconds. The nationalists, the populists, the protectionists can make these arguments – “the country is not growing enough, there is too much youth unemployment, so let us close borders to foreign goods”. Instead, in order to explain the virtues of integration, which is just the opposite of that, it takes much more time. If you are very good, you still need one or two minutes, just enough to be already out.

That is why integration, being the opposite of populism in terms of its inevitable complexity, will lose out. I would not be surprised if Europe, which can perform very well during certain emergencies and has been able to dispel the concerns about Grexit (as it probably do also in the Brexit case), succumbed not vis-à-vis the disintegration of one single country (which wants or may be forced to leave), but instead from within itself. Public opinion, if led (or followed) by leaders who are turned into populist followers, is not ready to proceed with integration.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

We would hope that you would be one of our great optimists, but actually you are not. I am a little sad today.

**Mario MONTI, Chairman of the High Level Group on Own Resources, European Commission, former Prime Minister of Italy**

It may represent progress if one understands the reason of certain negative phenomena, but maybe my analysis is wrong.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Then again, if Europe crumbles from the inside, as you say, mainly from populism, where does that lead us? What kind of world are we facing?

**Mario MONTI, Chairman of the High Level Group on Own Resources, European Commission, former Prime Minister of Italy**

I mentioned Europe because I am the only European panelist besides its leader, and we are followers. But, with all due respect, maybe the US even beats Europe in terms of domestic populism. However, their own political and institutional integration is a bit older than ours, so it is not put under discussion every day.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Would you like to reach to Mr Monti’s statement regarding this disintegration from within in Europe and populism rising everywhere, including in the US? We will see the outcome of the race next year, in terms of whether something good or not emerges.



**John LIPSKY, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS); former First Deputy Managing Director, IMF**

I am certainly not the subtle observer of European trends that Mr Monti is, but I hope that those like himself who have confidence in the initial vision of integrating Europe will carry the day. It strikes me that the counterfactual, namely that Europe would prosper more as a set of more separate and less integrated economies, is simply not credible, and one would hope that, even in a world of sound bites, that reason will win out in the end.

Nonetheless, his remarks were broader and concerned the US as well, and I cannot help but say that I find the current status of US political discussion puzzling in the same way, in that it seems, at least for the moment, that arguments that seem very hard to defend are ascendant in the polls. However, at the very least I am confident that that will not carry the day, and I hope that I am right, but I would also say that the US has hardly provided a leadership role in the area that I discussed, namely, the reform of the international systems and a defence of the multilateral institutions. I have been personally disappointed by that, and hope that at least it is a temporary phenomenon that will ultimately be reversed and that the US will take a leadership role once again in helping to fortify the multilateral institutional system.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Just to come back to you for a moment, when the Juncker Commission was elected and President Juncker took over, his message was much more political, and he said he wanted a political commission. His first words was on the need for investment, and they were borne out pretty well until the crisis we are now going through with the refugees and terrorism. It seemed that there was hope at the beginning of that commission, that there was an eagerness to look forward and more in the mid-term than what we used to see. Do you think he can again find that voice despite the actual events and try to pull out a vision for a longer term?

**Mario MONTI, Chairman of the High Level Group on Own Resources, European Commission, former Prime Minister of Italy**

President Juncker and the Juncker Commission have behaved very well so far, not so much because they have been more political, but because, in my view, they have had the right vision, they have articulated it well, and they are on the right route to actually implementing what they say. Should we have, and be content with, a much more political Europe? The average head of government in European countries will tell you, especially when he or she is under enforcement from some European rules or the Stability Pact, that we need a much more political Europe.

I agree that Europe should not just be subjected to rules and automatic mechanisms, because that represents a bad substitute for political decision making. What kind of politics do we need to seem more vigorous at the EU level? We have a European Parliament which has a political vision of Europe. We have a European Commission that, as I just said, is now behaving well from a "political" point of view. However, the real place for politics in Europe is the European Council, the meeting table of the 28 heads of government. Those meetings are a collection of highly respectable, and sometimes even respected, national leaders who participate in decision making about Europe. What do they have in mind? Very often, they simply have in mind their next election, and even if this event is far away, let's say in two or three years, that does not equally give space for wise decisions. They will think about how the decision to which they contribute in Brussels that night will impact on next week's poll and, therefore, on their domestic political situation.

Thus, in my view, the political crisis in Europe resides at the level of national capitals. I agree with political leaders who say they want a more political Europe, provided that there must be a strong dose of self-examination and coherence.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

That is very well put. Coming back to governance and the financial institutions, I have been struck by the growing importance in the world of the Federal Reserve; since the crisis it seems to have become the institution that decides what is happening or not. Given the fact that QE, the quantitative easing programme, will now probably fade away, what are we to expect? There are a lot of fears about what will happen to emerging countries, and I know that you are all economists. Can you tell us about what influence you think the Fed has on worldwide policies, not only in the US,



because it really goes beyond that, and what do you expect of this transition to a tightening of its policy, which it will have to make soon?

**ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister**

We have to look not only at the US but also at the world market. There was a tremendous shift of money to developing countries in 2000, as I mentioned before, and everybody is investing in these countries, whether in resources or real estate. The Lehman crisis acted as a kind of turning point in terms of reversing the process, and we are still seeing this underway, so we have to be very careful. Regarding the actions of the Fed, it is very influential, but at the same time we have to remember that everybody knows the Fed will eventually increase interest rates, so the market is already absorbing the expectation of interest rate increases. Although timing is very important, we should not overreact to the Fed's reaction.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

Markets are absorbing it, but it can be very brutal nonetheless; a lot of capital flows can just fly away from emerging countries. Mr SaKong, do you have any thoughts about this topic?

**IL Sakong, Chairman of the Institute for Global Economics, former Finance Minister of Korea**

The emerging world is more concerned with the Fed's imminent interest rate hike because it comes at the time when the Chinese economic slowdown is inevitable. China is the largest importer of resources, energy and commodities, so those commodity-exporting countries are going to be hit by a double blow – through the trade channel and financial channel with capital outflows. So a closer global economic and financial cooperation is critical and the G20 should take leadership in this regard. The G20 has an agreed mechanism called the MAP (Mutual Assessment Process) to be utilized for this. Although terrorist attacks and security matters are distracting global attention, I just hope the G20 should do more to properly deal with the expected global economic and financial volatility.