Unedited Event Transcript

The Future of the European Union: The Way Forward to More Growth and Stability

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Adam Posen: Good afternoon everyone. If I could ask you to take your seats. We realize during Spring Meetings Week people will wonder in and out, but I hope you realize starting Spring Meetings Week a major economy minister's time is very much under threat.

It is my personal pleasure to welcome back an old friend -- not old, but longtime friend. I am the one that's getting older. Pier Carlo Padoan, who is, of course, the Minister of Economy Finance for Italy. He was appointed to be the Minister of Economy Finance in the government led by Matteo Renzi now, more than two years ago in, February 2014.

Thank God this was after the worst of the international economic crises, but it has been a time of great change and challenge in Italy, as well. And we are grateful to have Pier Carlo's leadership in this role. Many of us knew him in his previous capacity as Deputy Secretary General of the OECD from 2007 to 2014. And he managed to double half that for most of the time also as the Chief Economist of the OECD.

Well, since I can barely keep with this job, I don't know how Fred did his. I shudder at the thought of doing two, but you did both of them, and successfully. From 2001 to 2005, he generated many of his friends here in Washington as the Italian Executive Director at the International Monetary Fund when he chaired a number of board committees. And prior to that he had served as an economic advisor, concentrating in international economic policies to the Italian Prime Ministers Massimo D’Alema and Giuliano Amato.

Minister Padoan is here primarily today because he has released a new report, or I should say—it's more than an essay, so I’m not sure what the formal title should be—a very thoughtful piece on the future of Europe and the way forward. That piece, for all of our friends watching online, will be available on the website, along with the video and transcript of the remarks today. And we encourage people to download it and read it at their leisure. But since Pier Carlo Padoan knows no leisure, I will now ask him to speak. Mr. Minister.

Pier Carlo Padoan: Good afternoon, everybody. Thanks David, for your kind words. It's always nice to be here. Believe me, I take this hour spent here at the Peterson as a moment of relief, believe it or not. The purpose of this meeting is to share with you a document which was produced by the Ministry of Economy and Finance and also, of course, discussed with the Italian government on European policy strategy for growth jobs and stability. Now, why a document now on Europe? And why the emphasis on growth and jobs?

The motivation, like many documents used by governments, I guess, is mostly political. We are convinced that Europe is facing a deep crisis in the sense of multiple challenges addressing Europe, which are translating themselves into decreasing support at the political level for the European idea. So that, like we say often, many European citizens, and indeed some Italian citizens as well, tend to see Europe as part of the problem rather than part of the solution. This risks slipping out of control.

So this document is about proposing a strategy for reverting that, addressing the main challenges that Europe is facing, and starting from the already important infrastructure and policy array that Europe has at its disposal. The purpose is, on the one hand, is to redirect policy and emphasis and strategy. And on the other hand, look at what can be added with different layers of complexity and institutional difficulties, so to speak, so that Europe moves towards more growth, more jobs, and more stability, all of these things that stand and fall together, in my view.

So this is the motivation, including why now. In a way it draws some of the inspiration to the fact that Italy was holding the semester presidency in 2014, and in that occasion the Italian presidency put on the table the emphasis on putting growth jobs and investment at the center of the policy debate, rather than the old fashioned debate between yes or no to austerity, or yes or no to flexibility, which is the new version of the old fashioned debate.

The urgency of a policy response, I think, is now being increased by the fact that, in addition to the dismal situation still of the European economy in terms of employment, in terms of support, other challenges are already hitting Europe. And let me mention three challenges. One is the migrant issue, the other one is terrorism, and the third one is Brexit.

They are very different challenges, of course, but they have one element in common; that they may generate ultimately a situation similar to a perfect storm by which the forces that keep Europe together fall apart so that we can enter a stage of disintegration rather than integration, which is exactly the opposite of what Europe needs and what Europeans need.

So this is the general introduction. Let me go quickly to the elements of this policy package, many of which are not new, but which I hope can be reconsidered in terms of simple principles.

Let me also add one little methodological element which we followed in drafting this document. There are three points which we think should be kept in mind when one thinks on how to design the economic policy framework for Europe.

The first one is, linked to what I just said, is that the progress of Europe has always associated with more not less integration, which can be articulated in a number of ways, at a number of levels, in a number of issues, but that's the basic point.

The second element is that, as we move towards a more integrated institution framework for economic policy, one should combine and progress in parallel two principles. One of risk mitigation and the other one of risk sharing. This is particularly relevant as this is part of the strategy of exiting the legacy of the financial crisis.

And the third element is that nation states, members of the European Union of the Euro Area, may well implement national adjustment policies, and they should, but this should be coupled with adjustment policies at the system level. In other words, Europe is a system. Europe is a one and therefore the consistency of the single parts should be preserved.

What are the chapters of where do we stand if we try to describe what the European policy framework looks like? The first one is what I would call economic surveillance. You are familiar with the sometimes not so transparent language that puts together things like the two-pack, the six-pack, of course the [inaudible 00:08:27] growth pack. But basically, where we stand today, at least as I see it from my daily experience, is that there is a structure in which there must be some combination of fiscal policy and structural policy.

This combination has to do both with the content of structural policy and fiscal policy, and with the distribution of structural policy and fiscal policy, keeping in mind that both levels of policy not only impact obviously the national economic stance, but they have importance to lower impacts. One first element is that more attention should be devoted to the systemic implications of fiscal and structural policy. What does that mean in practice? In fiscal policy, it means two things. First of all, that there are benefits from coordination.

Given my age, I still remember the hot debate when there was very serious attempts in the literature, in the academic and policy discussion, to show that if you coordinate national policies there is a net gain, so it's a welfare improving situation. Have we lost that? I don't think we should have lost it. So let's go back to that point and let's articulate it in a European fashion which, among other things mean one thing, fiscal policy adjustment, and microeconomic policy adjustment should be more symmetric, and you know what I mean.

The second element is about structural policy. Structural policies are national policies almost by definition. But in highly integrated areas, if one country goes structural and implements structural measures, which presumably improves the growth potential and effective mark of adjustment, this has benefits to the neighbors. There is scope for looking at these spillovers from the structural policy agenda. The third element, structural and fiscal policy interact with each other. This is a point during my OECD years was very well understood.

Now, I see this is becoming common wisdom, including in very important IMF documents as the ones that are supporting the meetings now just about to start. And of course, it has become fundamental, instrumental in the G20 discourse, where this element of interaction is well understood. This is, to me, not just a technical consideration of the fact there is an interaction between what you do in the fiscal and what you do on the structural, but it has to do with incentives.

If there is a policy link, and I am thinking of the so-called flexibility story in Europe. If there is a link between your path of fiscal adjustment and what you do in the structural domain, to me, this is not a fiscal undiscipline. I know if you hear it from an Italian you’re suspicious. But the case is, this is not fiscal being fiscally not disciplined, but this is about incentives for structural reforms.

If we believe, as we should, that the reform effort, it’s a multi-year phenomenal by definition, so it doesn't expire in one budget year. It has to be allowed to work through. In addition, this comes from my country's personal experience, there is a lot of synergies between what you can do in the structural domain and what you do with the fiscal domain.

One example is tax incentives for new contracts in an environment in which the labor market reform greatly emphasizes the move towards open ended contracts in the labor market. So that the net result is that you get more and better employment, as we say, when we look at the already visible results of the structure reform in my country, at least.

So this is about, more or less, the macroeconomic dimension and this is also about the structural dimension. The question that is posed here is, do we need new institutions to deal with that? I will argue later that we may need new institutions in the fiscal sphere, but I will come to that because that implies most likely treaty changes, which is something that, of course, you cannot do now.

The other element which is already there is investment. The European Commission put out a so-called [inaudible 00:13:11] Plan some time ago, with the, as I understood it at least, with the very obvious purpose of having public policy intervention to fill the gap between what the private sector is willing to take in terms of risk and what you need to take in terms of risk in order to have long-term investment, especially in infrastructure.

Here, in our case, is needed is that the scope of this approach should be expanded, not so much in terms of resources, but especially in terms of areas where investment should be directed. And this is also linked to another point I will come to it in a moment, what is the growth drive, what should be the ultimate growth driver of Europe looking forward. Again, a useful instrument, the [inaudible 00:13:59] Plan, which is basically working on the efforts of the European Investment Bank, more scope to be expanded, more resources if needed, more scope especially in supporting immaterial infrastructure, knowledge infrastructure, and innovation.

Then, we come to an issue, which is very much at the center of the current policy debate, completing Banking Union. Banking Union is indeed one of the most remarkable institutional transformations that Europe has gone to since the Euro crisis broke out. If you look back at 2010, you all remember there was no such thing as a Banking Union. There was a problem. Not so much a country, but the interaction between banks' balance sheets and public sector balance sheets.

This Banking Union idea, if I remember correctly, was parked off exactly with a purpose of eliminating, cutting down this negative link. We have a Banking Union, which is now one pillar and three quarters ready, which is the single supervisory mechanism.

We have a resolution mechanism, we have a resolution authority, we have resolution resources, but not yet fully in place. We don't have the third pillar, which is the common deposit insurance scheme. Why is this crucial? Well, for two reasons. Because this is where we could say once we have completed the reform that we have gone past the legacy of the financial crises.

Being in the US today, I like to point out that -- seeing from Europe, the policy sequencing that was adopted in this country to deal with the financial crisis would basically fix the finance first and then look at fiscal -- was more efficient that the other things that was apparently followed in Europe. Fix the fiscal first for heaven's sake and then look at the financial which Europe means mostly the banking sector.

Now, we have a very powerful and heavy and articulated banking sector reform, which is now being put into practical action. And this is where we strongly invoke the attention to the dual principles of risk reduction and mitigation and risk sharing.

We need to go along both lines. And this is not because of some 50/50 idea, but because I strongly believe that they mutually reinforce each other. This is about incentives, let's face it. It's not about technicalities. It's about whether or not member countries are willing to share and mutualize some common targets.

And when you deal with financial systems, it's very hard to believe that each single component of the financial system is separated from the rest. What you do with one bank, believe it or not, and the bank may be even small, this has implication for the rest of the system. And they may be good implications or bad implications. So you need to deal with an externality impact, which requires forms of risk sharing in addition to risk mitigation.

Why I'm I saying this because, let's face it, this is no secret? Views across the membership of the Euro Area and also the European Union differ significantly in what should be given more importance. Is it risk sharing or risk mitigation? And what should come first? This has a very practical bearing today because the policy agenda of [inaudible 00:17:52] over the next few months is exactly about these issues.

There is one problem here. That we still don't know, certainly, I don't know, fully how the implementation of the new system of rules will impact on the banking system. What I have in mind is that, we have done a lot in terms of risk mitigation by introducing the so-called [inaudible 00:18:19] mechanism, the BRRD, which leaves very little space to deal with emergency or fragility situations until you have gone to a sequencing of adjustment which bears the blunt mostly on individual banking units rather than on the system.

And in the meantime, you find yourself hoping that there will be no systemic impact on what you do at an individual level. I am pressing the issue a little bit, to be fair, but this is just to draw the attention to the fact that we are now in a very delicate phase in Europe. We are phasing in in practice a new system that is highly complex which is basically, strictly looking at respecting accounting rules and prudential rules but leaving much less space than it used to be in terms of how you manage emergency situations and backstop and situations where you need a backstop.

On top of that, you have to deal -- and this again comes from my personal experience -- with another set of rules, which now sits with the ECB. But sits with European Commission and this have to do with state aid provisions, which quite heavily limit what a country can do in setting up instruments that require public support of some kind, even when the money is private, to deal with emergencies situations.

So this is a really a crucial point, where we go from here, and if we are able in practice to put these two elements together. This has an immediate implication. This is mostly drawn from my personal experience here. This has immediate implications on the issue of, is Europe a good or bad idea for the citizens. Because in some cases, even, as you know, in my country we have witnessed a very minor bank crisis situation dealing with four small banks which amount to, on the aggregate, less to 1% of the market size.

In spite of that, the implementation of partial [inaudible 00:20:42] rules, because of the transition period, has had significant impact in terms of risk perceptions in households and therefore in attitude vis-a-vis the banking system. This was a very hard awakening to a reality on how we should implement this measures. Let me go on because I am taking too much time out of the time I allocated for myself.

Going forward, what about long-term growth? Here I am old-fashioned, like in many other areas. I think that we are still missing a great opportunity with the incomplete single market project. The single market project is now sliced up in a number of sectors. What we propose here is something more ambitious and more difficult to implement. What we would like to call an innovation union.

Innovation union which brings together what in the past scholars used to call, innovation systems, meaning, how different institutions that have a bearing on innovation activities interact. Not just the research community but also human capital, education, the financial sector, the competition degree, so that a business can exploit opportunities and so forth, and things such as public administration reform to speed up investment projects, and things such as civil justice, which are essential to defining whether an investment is worth undertaking or not.

So the proposal here is goes back and pick up again the single market idea oriented towards especially innovation in conjunction with what the now renewed [inaudible 00:22:40] Plan can do.

On the single market, there is one political element which I think is also very important. The extent to which the EU countries re-boost their political investment on the single market, this is a strong element to tie together the 28 with the EU members, the ins and out if you wish. The Euro Area, the single market, is one area where I think there is much less disagreement than there is in other areas. And therefore there is a lot of scope for building up the political consensus on a European project in ways that may be not so easy in other cases.

I am quickly going towards the end with three elements which are a bit more innovative in the picture. One is not an innovative idea but politically maybe it's innovative. It's a common unemployment insurance mechanism for the Euro Area. This is very simple. It's an old idea, which has a very strong rationale to me. A Monetary Union is something which does not have internal exchange rates, right? We agree on that.

So whenever you have an adjustment in the member of Monetary Union what do you get? You get the most of the brunt is on the labor market. And this again is inefficient, painful, and not good for the European idea. Why not introduce a cyclical unemployment insurance mechanism, which is typically a [inaudible 0:24:20] sharing mechanism? I underline, I stress the cyclical component, because the structural component requires different policies it requires structural policies. This would be funded jointly by the Euro Area countries and this would also give the signals that Monetary Union is not just about banks and currencies, it's also about jobs and work. The other element, which we include in the document, is "a European Finance Minister".

I am not looking for a new job. I am just saying that there might be a set of functions which requires an ad-hoc institution. And functions I have in mind are, first of all, someone really in charge of fiscal policy coordination, which I mentioned early, number one. Number two, someone in charge of what I would call European public goods.

Let me give you an example. The European refugee crisis has a huge economic cost, which so far has been addressed by extending national contributions, very much on an ad-hoc basis. But if we believe that unfortunately, emergencies such as the migrants will continue to put pressure on Europe, we have a European public good namely, European Borders, which must be serviced, not in terms of, guns and boats, or military, but in terms of, having a common policy vis-a-vis refugees, including policies to help people stay possibly in the countries they are fleeing from.

Another common good is what unfortunately and dramatically the terrorist attacks have produced to be a vacuum in the European institutions. A common security structure, which would deal, on a European level, with these. And you can think of other things. So a European Finance Minister would look at the European element of fiscal policy, would look at how to deal with the European public goods and by implication, would have to deal with a very controversial area, which is, how should Europe raise common resources.

And here of course, we can open a huge chapter on common taxation schemes and, forgive me God, Eurobonds. That's a dirty word to some. All kind of things. So there is a need of an institution, not because we like to multiple the institutions, but because they are functions, truly European functions, which are not delivered by truly European institutions. That's the point. And of course, from here, you can develop along these lines in asking what kind of fiscal union should we be looking for.

The third and final element is something which, of course, is discussed a lot, how to strengthen the European crisis managing mechanism. In short, how to transform the European stability mechanism in a fully-fledged European Monetary Fund. All of these things have one element in common, from the point of view of the items I described earlier. They stress instruments that look at risk sharing as essential components of building a European strategy. Many of these things require treaty change. Some of these things don't require treaty change. For instance, the common unemployment insurance scheme, believe it or not, can be done with the current treaty. So it's a question of political decision.

To conclude, can we do all these things? There is one element, in my idea which stands in the way of achieving more risk sharing mechanism and more integrated policy instruments and that is, lack of mutual confidence. Much of the European policy machinery, as I have interpreted it, is sometimes paradoxically not about achieving the goals for which the given rules have been drawn, but it's about proving yourself as being loyal to the rules. Now of course, loyalty to the rules is essential. And if I may say so, my government makes that a very strong point.

There is sometimes a criticism, sometimes very vocal, not by me, but by the young boss I have back in Rome. Is very vocal about the fact he doesn't like some rules. At the same time, the idea is not -- if you don't like a rule you still have to respect the rules as long as the rule in force. So the idea is how can we change the rules together? And this requires having common mutual trust in each other and this is the element which is linking.

I am concerned, and this is to conclude my presentation, that this element is present today when the dimension and intensity of the challenges is such that the risk of this integration is a severe and present danger. Let me just conclude with one obvious element. The [inaudible 00:30:14] treaty. If because a failure to have a European response to the migrant issue, countries start dismantling the [inaudible 00:30:25] agreements, and they go national to deal with these problems rather than going European, then what is this showing is that there is a national refusal to deal with common problems, which invokes nationalism.

And since the political climate—I am sorry to be so gloomy—in Europe it's not very favorable from that point of view, this may generate a domino effect which could be much more damaging than say, a repeat of the Euro Area crisis, which I am not looking for. Thank you.

Adam Posen: Thank you so much, Minister Padoan. That was wonderful. Ambitious without being fantastic, in the sense of untethered, and topical without being merely short term. So we are very excited to have you here to provide a forum for you to express those ideas. Thank you.

We have a very distinguished audience, so I am going to restrain myself more than usual in terms of my own questions. Let me pose one to you in particular. You made mention the idea of linking structural reforms that eventually pay, if not pay for themselves, certainly pay in growth, to some flexibility on some of the fiscal criteria. We actually talked about this early with your colleague, Minister Diezembloom, and we are aware that the commission did have some flexibility of the sort in place.

And in fact Italy did apply for this flexibility, and we talked about this this morning, but as far as we know, Italy is the only country to have made such a proposal to the commission to date of trying to get additional flexibility in return for structural forms, even though the principle is there. I was wondering if you could just expand a bit on Italy's own experience with this and what you think you can do to incentivize some of the other countries, the other members, to pursue this kind of trade off.

Pier Carlo Padoan: Adam, thanks for the question. It's never been put to me.

Adam Posen: I think every question has been put to you 10,000 times, so don’t blame me for that.

Pier Carlo Padoan: Just kidding. Thanks for that. First of all, two things. One in general, about the flexibility clauses in communication. The other one about the Italian case. The flexibility clauses basically, state that, if a country effectively promotes a program of structural reform, number one, and or promotes effectively a program of public investment so that you can envisage from those policies and improvement in the long-term growth or your potential upward growth. Then this can be facilitated by the fact that more time is given to the country to adjust the so-called MTO, the medium-term objective, in terms of structural adjustments. There is a shift of the time arisen.

So from that point of view, the fiscal benefit is temporary if you provide evidence and the evidence is accepted that you have the structural reforms in place. Not all countries can apply for flexibility because in order to apply for flexibility you must be, at your turn, in fiscal order, meaning you must be not in the corrective arm, but in the so called preventive arm. And if you are not in the preventive arm, even if you do structural reforms, you are not entitled to apply.

Having said that, one element which always is brought up into discussion with different approaches according to how much you love the country, is Italy is asking for too much flexibility. And the standard reply there is very easy. Italy is applying for all the flexibility that is allowed under the rules. And given that, believe it or not, Italy seems to be more disciplined from a fiscal point of view than other countries. We were given flexibility because we complied with the preventive arm requirements and we also had what was judged to be a credible structural form and investment program.

Now, if you cumulate the so-called investment clause and the structural reform clause, this cumulates in theory up to one point of GDP. Subsequently, the commission has put a cap on that saying, "Even if you are entitled to 0.5 plus 0.5 the most you can get is 0.75."

Adam Posen: Over what time sphere?

Pier Carlo Padoan: Over one time. So you cannot have an additional element of flexibility next year if you get it this year. This is what Italy has been asking. And what has been perceived as Italy asking twice is that we completed our request in two slots. First, we asked for some flexibility on the structural reform and nothing on the investment. Then, we realized that we could graduate for the investment clause as well. So we added another request. And now the commission is about to give us the formal response whether this has been accepted.

Just to be completely transparent, the current document of economy and finance, which is our public policy and macro framework incorporates the flexibility clauses. So we are assuming that we will be entitled to have that. No other country is enjoying flexibility, not because to my knowledge there was no request. I can think of two or countries, which I will not mention that actually advanced their request. But because they were not judged to be complying with the rules.

Adam Posen: Very good. Thank you. Let me open it up to our audience. There is a traveling microphone in front, there is a standing microphone in back. I think all of you know our operating procedures, but just when you are recognized, please identify yourself and please ask a question rather than making a speech, especially since the minister has to leave promptly at 3:32. The tall gentleman there in the front.

Male Speaker: The tall gentlemen will remain seated. [Inaudible 00:37:56]. I have economic stand on the advisory services to President [inaudible 0:38:02]. Minister Padoan, thanks for showing that contrary to rumors the Minister of Finance of the Euro Area do understand the fiscal framework of the European Union. On a more serious point, it’s very comforting to see that you are exposing several themes that we are going to be discussing on the second half of the year when we enter the second stage of the Five Presence Reports of the reform of the Euro Area governance framework, including an employment insurance, including a treasury for the Euro Area.

If you allow me, one of the proposals that we put early in the year, namely the allegedly missing leg of the Banking Union, the deposit insurance, has been, for several months, at the stage of discussion, both at the level of [inaudible 00:38:54] and at the level of council. That illustrates one of the constraints that we face when we propose policy issues, how to make a proposal which is politically acceptable to all the member states.

If you could indicate or show us a practical example of the difficult for that, where we are in terms of the depositing insurance, just as an illustration of the difficulties that might be associated with other policy proposals that you yourself have just outlined for us.

Adam Posen: Or maybe you’ll tell us where things stand on deposit insurance because it's actually important and it isn't just alleged to be missing.

Pier Carlo Padoan: On the deposit insurance scheme, there are a number of proposals on the table. There are proposals from some countries that prefer to keep it more national, rather than mutualized. We think that we need a fully mutualized deposit insurance scheme. Of course, this is very delicate, especially in the transition because basically, in those countries where this idea is resisted, the reaction would be, why should my depositors and my taxpayers pay for risks generated in other banking systems and therefore have a transfer of resources from the good guys to the bad guys. This is a very blunt simplification, but it captures some of the political discourse.

Then, there are intermediate proposals the commission, for instance, has put on the table an intermediate proposal which offers a combination of national schemes and some mutualization element. As I have said already, we are not extremely happy about the commission proposal, but we are less happy with the proposal of other countries that are fully national.

This is going to be a very important element on its own sake, but also because it will be discussed during a period in which the Banking Union itself is going towards the phasing in mechanism of the resolution procedure. So it's going to be very difficult in terms of managing the results and also very important in terms of sending the message. How far can we go in terms of mutualization on these very delicate issues?

Adam Posen: Thank you. The next question at the back. Bonus points if you do something more original than I asked.

Nicolas Véron: Thank you, Minister, for your illuminating remarks. I am Nicolas Véron. I work here at the institute and also at[inaudible 00:41:39] in Brussels.

Pier Carlo Padoan: Hi, Nicolas.

Nicolas Véron: My questions is also on Banking Union but seen from a different angle. And the angle is banking systems in Italy. There were reports in the last few days of a private sector fund, Atlantes, managed by a private sector firm management company [inaudible 00:42:00] SDR, which from media reports seems to have emerged partly as a consequence of discussions involving your ministry and the public authorities of Italy.

One way it was described to me was Italian money to fix the Italian banks. And some perceptions in the marketplace is that part of the intention of this fund is to prevent the arrival of money from outside Italy, including private equity fund managers like [inaudible 00:42:35] in Genoa, which was interpreted or is being interpreted by some [inaudible 00:42:39] as keeping it inside the country.

So my question is the following. How do you describe the intent of the fund? Can you give us a bit of a sense of how it connects with the general vision of Banking Union and especially, is this the idea of a single banking marketing of the Eurozone that is not defined by national borders? Thank you very much.

Pier Carlo Padoan: There is a mix of rumors, national and European stuff there. First of all, I like not to comment on one part of your point, which you reported from the press, it's not yours, which really sounds very much like a gossip to me. The fact that such an initiative were to be set up because we want to keep out the bad guys out of the Italian banking system. This is not the point.

The point is that this is a fully private initiative with private money put together on a voluntary basis and managed by a private sector wealth management company. The purpose of this fund, Atlantes Atlas, is twofold. On the one hand, to provide a backstop mechanism for capitalization of banks. A backstop, not a direct capitalization. A backstop is something that comes in -- I don’t have to tell you -- if needed. The other one is to provide private money, private investment going into the NPL issue, which of course, is still hanging out there in numbers which are relevant, although, sometimes they're misunderstood in their real meaning.

The idea is not to keep the bad guys, the idea is to avoid that valuable assets, banking assets are sold at a price which does not reflect those values. And if you are under stress, of course, you are pressed hard to sell at whatever price. This is, at the same time, a private sector response, which to me signals that the Italian banking sector is strong enough to provide self-made solutions, number one.

And number two, it is a response which takes into account the fact that, given the new rules phased in in 2013 about stay gate regulations in the banking sector. The role of the state can take up in terms of resources and support is much more limited than in the past. This is one example of what I was saying, that the general banking system framework in Europe, also because of the competition regulations, it's much more difficult to deal with than it used to be.

Let me add one piece of information. What has been the role of the institutions? Of course, the government but also the Bank of Italy has been to facilitate, to look at a history whole problem called the nation failure when you’re dealing with the private sector. So we provided some facilitation effort to bring together the banks and to put them around a table so that they can exchange views and put their own money. But it's also something else.

What the government is going to be doing over the next few days is to introduce measures which we believe will significantly accelerate the time needed to deal with the bankruptcy procedures. So if you need much less time to recuperate some of your assets, this increases the value of our assets. It's as simple as that. This is what the public policy leg of this initiative will do.

Adam Posen: Good. Thank you. At the back and then in front.

Fred: Fred Bergsten here at the Peterson Institute. A question based on your participation in the G20 finance minister's meetings. There has been speculation in the markets and elsewhere that at your recent meeting in

Shanghai, there was agreement, explicit or implicit, on the kind of package to deal with the world's economic problems.

The Fed might go a little easier on tightening, that the ECB and Bank of Japan might go for more QE than interest rates cuts, some fiscal stimulus in China and maybe a couple of other places. All with the objective of avoiding the risk of a big devaluation in China and avoid the risk of further strengthening of the dollar. Could you shed any light on that and tell us whether that indicates kind of a new beginning at least of some international policy cooperation to deal with the global difficulties?

Pier Carlo Padoan: As far as I recall, there was no secret deal at G20 Shanghai. There was a continuation of the discourse which has been started off recently that in the face of what seems to be an increasingly difficult economic environment, we need to work hard to make the best of the existing policy toolkit. And basically, ask the question, how do the different policy tools interact with each other in a way that's possibly positive rather than negative.

So more interaction between the fiscal dimension and the structural dimension. More role to long-term investment and therefore the question of, how can financial markets provide resources and incorporate risk taking for long-term investments in infrastructure. And how can we do that in a coordinated way.

I will say, no secret deal, but the knowledge that we need to act in different economic situations with different tools at our disposal, but in ways that the externalities are incorporated so that the traditional, if you wish, benefits from coordination are made explicit.

Adam Posen: Very good. Here in front.

Glen: I am Glen [inaudible 00:48:47] at the Center for American Progress. I would like to ask you about the notion of the European Finance Minister. I can see the benefits of such an institution. Can you tell us what the likelihood is? And who would be pressing it, advocating it the most?

And also, one might think that when you mentioned issues like European common goods, like the refugee issue, and the issue of terrorism, that this should be better handled by another institution that handles European public goods and that the Finance Minister should deal with the coordination of financial and monetary policy. What is, first of all, the likelihood of a European Finance Minister and its role and what countries would be most in the favor of it?

And I suppose, some people in Britain, for instance, who are wanting to exit might actually oppose such a notion thinking that it would increase central European supervision over Britain. So I would like you to elaborate on this. Thank you.

Adam Posen: Just for your reference, earlier this morning Commissioner Moscovici spoke here and he also expressed a personal desire that there should be a European Finance Minister.

Pier Carlo Padoan: How likely? Well, likely in the long-term, because this is one of the ultimate examples of mutualization. One could say it's about as difficult as the idea and establishment of the ECB. Remember the time when the ECB was not there and this was a huge transfer of sovereignty. Now, in the case of fiscal policy, this is even more demanding and has obvious implications of how to deal with the legitimacy of this institution. What is the relationship with the parliament? To what extent there is a budget, which is not the current EU budget, but a new instrument, a new fiscal instrument. It's very complicated.

The point I want to underline is do we need such an institution? My answer is, yes. And I can think of a number of them, including coordination, but also including public goods in the sense that dealing with these public goods has a very large financial dimension. So you may need a common interior minister or a common defense minister, or a common border police, but you also need the resources to deal with those. And you cannot simply count on the fact that you will go ask member states, "Can you please give me a billion or two, if you can spare them for that?" So you must change the way resources are raised and are allocated.

Adam Posen: This will be the last question, please.

Jacob: Jacob Kirkegaard from the Peterson Institute. I would actually like for you to follow up on the last point you just made about raising the resources because I personally, first of all, like the paper a lot, but one of the most innovative parts of it was actual, the very explicit calls you had for the potential joint bond financing of the refugee issue. Because it's often said, whenever you raise the issue of more Europe that there isn’t any political will for that. Well, I guess I would submit that there is actually a fairly elaborate will in Europe for more external border control at the moment.

And we also know that this costs money. It costs a lot of money. And therefore cannot be done within the existing European Union. Also EU budget. So we need to have some new instruments there. And I guess I would submit that if we accept the fact that currently the emergency situation on the Greek border seems to be by hook and crook to have been reduced to a politically acceptable level of influence, Italy is going to be the next frontline probably over the summer, potentially at least. My question to you is, what do you intend to do to pursue this idea, if anything?

Adam Posen: And is there anything we can do to help besides publishing Jacob which we are already doing, advocating this kind of thing?

Pier Carlo Padoan: I think what can be done by you and all of those who are interested is to work and elaborate the idea of European public goods and demonstrate that there is no effective national solution to Europeans challenges. This is, I think, a point which needs to be elaborated.

On what we should expect. Well, since you mentioned Italy, let me mention one fact, that for a few years Italy was the only country bearing the blunt of migration pressures. And for a period of time, which was not short, the European authorities did not accept the idea that this was a European issue. They said, "This is an Italian issue. You deal with it. We could give you some money on the side." But that is not the point. Once the dimension of the problems raised by size but also by quality, so to speak, and impacted directly in other countries then this became a European issue.

It is a European issue. The solution is still not European. We are still not agreeing on common immigration policy, which goes beyond the emergency. We are still not agreeing on how to reallocate or relocate those immigrants. And we are not agreeing on what should be a component of that policy, to say “Invest in the neighboring countries so that migrant flows are at least, minimized because people want to stay where they were born.” And this is a major challenge for Europe. Certainly, the North African part of the African continent is still very aware of those issues need to be dealt with. I am thinking, of course, about Libya, for instance.

Adam Posen: Well, you have generously included us in your schedule and maintained the space here, even though your schedule changed. I promised to get you out by 3:32 and I think we are there. I hope you enjoyed your respite at the Institute. We are delighted to have had you back and again, to have you advancing such a substantive and front reaching agenda for others to consider. Please join me in thanking Minister Padoan.

Pier Carlo Padoan: Thank you very much.