Tommaso Padoa-Schioppa was President of *Notre Europe (2005-2010)* and Chairman of Promontory Europe. He was Chairman of the Trustees of the IFRS foundation & International Financial Reporting Standards. He was Italian Minister of Economy and Finance (2006-08) and Chairman of the Ministerial Committee of the International Monetary Fund (2007-2008). In 1998-2005 he was member of the first Executive Board of the European Central Bank. Previously he was Chairman of *Commissione Nazionale per le Società e la Borsa* (CONSOB, 1997-98), Deputy Director General of the Banca d'Italia (1984-97) and Director General for Economic and Financial Affairs at the Commission of the European Communities (1979-83). He has been co-rapporteur of the Delors Committee (1988-89), Chairman of the Banking Advisory Committee of the EC (1988-91), Chairman of the Basel Committee on Banking Supervision (1993-97) and Chairman of the Committee on Payment and Settlement Systems (2000-05). He graduated from the Luigi Bocconi University and had a M.Sc. from the Massachusetts Institute of Technology.

Tommaso Padoa-Schioppa has died on 18th December 2010 in Rome. He was 70 years old.

Notre Europe
Thinking a united Europe

Tommaso Padoa-Schioppa :

The determination of a Euro's architect in the face of crisis

Extracts of the conversations on the eve of the European Council published by Notre Europe in March, June, October and December2010

The Euro crisis, a confidence crisis

« The force really driving the attacks on the euro is a lack of confidence in the EU's ability to move forward in the historic task assigned to it, namely setting up a fully-fledged union, building a power designed to complete and to supplement its member states› power (while curbing it at the same time). When all is said and done, what is at stake in this European crisis is not Greece but the euro, and beyond the euro, the Union itself. People have difficulty in grasping the nature of the European project because both market operators and a majority of observers are unwittingly bound to a political model in which all power is held by the nation state, and they think that any other kind of order, such as the one that the European Union is building, is not really feasible. We might call this a Westphalian mindset, going back to the Treaty of Westphalia in 1648 when the end of the Wars of Religion was marked by a treaty recognizing each country's power to choose its religion and its right not to have to put up with any external interference. The majority of today's actors still have a political culture anchored in this model. Now, the European Union is a new historic experience based on building a post-Westphalian order. If we fail to see that, then we will inevitably harbour scepticism and lack confidence in the very existence of such a thing as the Union. So if you are a market operator or a commentator, you naturally tend to put your money on the experiment failing rather than on its being a success. » (June 2010)

"If we describe this crisis as a hurricane, which moves from one place to another making victims of different types, indeed 2010 has been the year in which the hurricane has targeted sovereign debt in Europe. Previously it had targeted the sub-prime market, toxic assets and large US financial institutions. In Europe, however, the real target of the market hysteria has been not so much the debt of individual countries (Greece, Ireland and possibly Portugal, Spain or Italy) but the euro itself. What markets have been and are still testing is the capacity of the euro area to act as a single effective policy-maker in front of a crisis. They no longer seem to believe that "a currency without a State" is indefinitely sustainable." (December 2010)

EU's answer to the crisis

« We blame the EU for not having acted quickly enough and it is true that, if the decisions had been taken two months earlier, we would have acted in circumstances where the markets would have been less nervous. Nevertheless, it must be said that extraordinary democratic decisions such as these require a longer gestation period that we would wish. In the EU, but also in Greece, it has taken some time to build the political will necessary for a real turning point. Besides, if we compare the time needed in the EU to come up with a decision with that needed in the US at the autumn 2008, after the general panic generated by the Lehman Brothers' bankruptcy, we see that the implementation of the Troubled Asset Relief Program (TARP) was not faster, it even faced a negative vote from the Congress. It is not only in Europe where the time needed to build the political will to act is longer than that the time devoted to the conception of the measures. » (March 2010)

« In my June conversation I observed that, with its May-June decisions, the EU acted forcefully against the crisis: in May, by obtaining from Greece a serious adjustment package, by offering a very substantial financial support to Greece and by creating new instruments such as the European Financial Stability Fund; in June, by agreeing on a program of fiscal consolidation for all the member countries. These decisions refuted the critics of EU impotence. Yet, they were just emergency actions to stop the loss of confidence, not structural measures improving the crisis management and the crisis prevention ability of the EMU in a permanent way. So, the risks are still there and the challenge is to move from emergency to structural corrections. » (October 2010)

« My sense is the following: if the Heads of State or Government decided to adopt in full the proposals embodied in these various inputs the EU would, first, make a significant step forward in increasing fiscal discipline; second, lay the foundations for a possible surveillance mechanism on external imbalances among member countries; third, progress towards the creation of permanent mechanisms for crisis management and resolution; forth, and finally, move to create the legal and institutional instruments to implement the above. (…) Nevertheless, these reforms are not sufficient. First, we are still predominantly – although, admittedly, not exclusively – in a logic in which the EU is a coordinator of national policies rather than an actor for itself. The second reason why the proposed reforms are not sufficient is that they provide only a stability framework, not yet a growth framework. Fiscal discipline by itself will not suffice to put the EU on a sustainable path, such that it limits unemployment and improves fiscal ratios. (…) To sum up, the European Council is confronted with reform proposals which are necessary, but not sufficient. Moreover, it is far from granted that even the necessary part (namely the 'stability' reforms), will be implemented in a forceful way. I repeat, the initial proposals of the Commission have been weakened, by giving more power to the Council and less to the Commission, with the result that discipline is still largely based on the hope that the 'peer pressure' game will become more effective. We have, unfortunately, reasons to doubt that this will happen. » (October 2010)

The EU as an actor rather than a coordinator

« A real economic government can only be made of actions in which the Union is the actor - with its own instruments - rather than the coordinator. This is currently the case with the currency, the competition policy, the external trade. This should be the case for certain aspects of the energy policy, research, infrastructures and transports among others. These are fields in which the EU competence is – as we say – "shared". However, this sharing can't be achieved through coordination, nor by the simple creation of a big market. In this sharing, the EU's part today is close to zero. » (March 2010)

« The EU ensures the coordination of fiscal policies and of policies related to competitiveness and external imbalances, but it does not really have instruments of its own for the conduct of an EU policy. We have to convince ourselves that a European economic governance which assigns to the EU a mere role of coordinator is both too weak and too ambitious. Too weak because it is fatally flawed by the fact that the power of coordinating is at the hands of the same ones that are supposed to be submitted to this power. And too ambitious because it grants the EU a power of intrusion in its members States policies that - even in mature federations - the central government normally lacks vis-à-vis local governments (be they States, Länders, Provinces or Regions). » (October 2010)

« I am very well aware of the fact that what I am proposing here may sound very ambitious, not to say utopian; yet I believe that continuing to pursue a concept of economic governance consisting in assigning the EU a role as the coordinator of national policies is an even greater utopia than that of building a modest EU ability to act as a player in its own right. Once again, in the federal states that we know today, federal government has no powers of coordination and the members of those federations would not tolerate being coordinated by the federal government. If President Obama made the suggestion that the federal government coordinate the actions of the individual state governors, he would have a rebellion on his hands. People in Europe consider it excessively ambitious for the EU to develop its capacity to act in its own right, yet at the same time they are pursuing the even less realistic dream of coordinating the member states' actions. » (June 2010)

Stability, yes; but also growth

« The EU member countries need both budget stringency and support for growth at one and the same time. The key concept should be that the member countries must devote their energies to fiscal consolidation, while the EU must focus on supporting growth. » (June 2010)

« Fiscal discipline by itself will not suffice to put the EU on a sustainable path, such that it limits unemployment and improves fiscal ratios. The Irish case is a blatant demonstration of this: Ireland did approve very rigorous fiscal adjustment measures, but these have depressed the economy so much that fiscal ratios deteriorated instead of improving. Thus, fiscal austerity alone will not give Europe sufficient growth to preserve it from the risks of higher unemployment, lack of political consensus and social tensions. The social and political risk, in particular, is very high, as illustrated by the rise of xenophobic and populist movements across Europe and by recent demonstrations in Paris, Brussels and other member states. These are not simply risks hitting individual countries; they may jeopardize the cohesion and survival of the Union itself as well as democracy on the continent. » (October 2010)

« The scheme of the last years – in which stability came from Brussels and growth from member States - has now to be reversed. In our days, stabilization policies are imposed by market pressures that national policymakers cannot ignore. In these circumstances, a coalition of Member States to make the EU itself the engine of growth is the only way – and a politically rewarding one – to rebalance overall economic policy and avert a depression. » (October 2010)

« It is necessary to complement the current EU reforms on fiscal stability with EU initiatives to stimulate growth. Markets can quickly move from a concern on fiscal insolvencies to a concern on insufficient growth; in other words, from a concern about insufficient fiscal discipline to a concern about the negative consequences of fiscal discipline. Moreover, and more importantly, fiscal ratios – deficit or debt-to GDP ratios – will not improve if the denominator of the ratio shrinks. Growth is indispensable to restore sustainable fiscal conditions. » (December 2010)

Towards a European strategy to support growth

« Indeed, to make the EU the main actor in growth promotion a number of levers, not only the budget, should be activated in a coordinated way: strengthening the single market, activating the EU2020 strategy, launching a program of EU investments financed by the issuance of Eurobonds as well as a larger and more effective EU budget. » (December 2010)

« The current EU agenda already comprises most of the items that are needed to make the EU a growth promoter: strengthening and re-launching the Internal Market, as the Monti Report suggests, effectively implementing the 2020 strategy, reforming the EU budget, issuing Eurobonds to finance investments in infrastructure. Such items should now be unified to become the chapters of a true EU Program for Growth. This can only be done by the European Council itself in what I would call a 'top down' mode, in which the political leaders give directions to the bureaucracies; indeed, we cannot expect the impulse to come from the officials. » (October 2010)

« Various steps can endow the EU - or at least the Euro area - with own instruments, thus converting it into a real policy actor. One is the activation of the European Financial Stability Fund. The Deauville declaration states this intention, but there are no indications yet as whether the Fund will be used as an active instrument or simply as a reactive instrument for a rescue in a crisis situation. Notre Europe raised this point in a recent Financial Times's article, co-signed by Peter Bofinger, Henrik Enderlein, André Sapir and myself1. We highlighted the need to mobilize the Fund to support countries with high fiscal and current account deficits in their painful adjustment processes. I welcome the fact that our idea to make the Fund permanent is now supported, but the second proposal - to activate its resources to support growth in economies which are seriously adjusting – is not yet supported. » (October 2010)

« As to the single market, there is no doubt that strengthening and completing it would unleash dynamic forces which are at present paralyzed by national segmentations and impediments, My fear, however, is that, in the short run, the completion of the single market won't have much positive effect on growth, because probably it will bring about the rationalization of industries and services and, thus, increase unemployment instead of reducing it. I am in favor of strengthening it because it will make the economy more efficient, but in the short run and in current circumstances, it has to be complemented with other types of growth-enhancing actions. No significant stimulus to growth from the EU itself can come without a bigger role for the EU budget and a large program of public investments at the EU level. » (December 2010)

The EU budget: giving the EU the means to fulfill its ambitions

« We should highlight the greater effectiveness of European public spending over national public spending. It is easy to demonstrate that, without altering the overall amount of (national and European) public expenditure, if we were to cut back on the national part and to raise the European part by the same amount, that would allow us to achieve better results, or to achieve the same results while spending less. » (June 2010)

« The member states have arranged for their national budgets to act as filter between taxpayer resources and the EU in order to allow them to maintain control over the EU's resources. The effect of this filter function is that member states perceive the resources allocated to the Community budget as being funds of which their own national budgets have been deprived. That is a mistake; there is no federation in the world in which federal taxes go through the states (the United States), the provinces (Canada) or the Länder (Germany) the way they do in the EU. » (June 2010)

« (…) the EU should be entitled to raise revenues directly from the taxpayer. The creation of one or two EU taxes would provide enormous advantages: it would not only produce revenue necessary for financing growth-enhancing measures, but its introduction would have in itself positive incentive effect. For example, a tax on financial transactions or on banks could serve to contrasting excesses in finance, and an EU carbon tax would contrast climate deterioration. » (October 2010)

« An increase in the EU budget today is perceived as a subtraction of resources from the national budgets. And indeed, in accounting terms, this is the case because revenues accrue to the EU budget from national budgets. This state of affairs, however, is not inevitable. It is a unfortunate consequence of the lack of autonomy that member states have imposed upon the EU budget. It would be much more appropriate - and consistent with sound principles of fiscal federalism - if the EU budget was financed with genuine own resources, going from the taxpayer to the EU without transiting through national budgets. » (December 2010)

« The issue of own resources is central and, in my view, it can only be resolved in a satisfactory way if the EU takes two decisions. One is to introduce one or two specific EU taxes - for example on carbon emissions and financial transactions- and the other is to finance infrastructural projects with the issuance of EU bonds. » (December 2010)