HOUSE OF LORDS

Revised transcript of evidence taken before

The Select Committee on the European Union

Financial Affairs Sub-Committee

Inquiry on

COMPLETING EUROPE'S ECONOMIC AND MONETARY UNION

Evidence Session No. 8 *Heard in Public* *Questions 92 - 100*

TUESDAY 26 JANUARY 2016

3.10 pm

Witnesses: Sylvie Goulard MEP and Gunnar Hökmark MEP

Members present

Baroness Falkner of Margravine (Chairman)
Lord Butler of Brockwell
Lord Davies of Stamford
Lord Haskins
Earl of Lindsay
Lord McFall of Alcluith
Lord Shutt of Greetland

Examination of Witnesses

Sylvie Goulard MEP, ECON Member (FR, ALDE) and **Gunnar Hökmark MEP**, ECON Member (SW, EPP)

Q92 The Chairman: Thank you, Ms Goulard and Mr Hökmark, for agreeing to give evidence today for our inquiry on completing Europe's economic and monetary union. As you know, this session is on the record and we will take a verbatim transcript of proceedings, which will be published in due course. You will, of course, have the opportunity to correct any errors or minor misunderstandings. I also appreciate, Mr Hökmark, that you have to go promptly at 5 o'clock. We will try to get through as much as we can in this session. My apologies for starting a little later; our previous session overran.

I wonder whether I can kick off by asking you both to give us your overview of the Five Presidents' Report and the new measures announced on 21 October in support of that report. In particular, looking at this overall, do you believe the euro area will become more sustainable in light of that? Were there any omissions in the report that you would wish to see corrected?

Gunnar Hökmark**:** Thanks very much for inviting us. It is a very interesting time at the moment. My simple view regarding the European economies is that we are in a period where we have seen a rapidly emerging global economy, supplying and offering new competition of a kind that we had never seen before. It is a fundamental change. Without misusing the word "paradigm", you can say it is a paradigmatic change. It has a number of consequences. We see, for example, something that is a problem for more or less all central banks: inflation is becoming lower and every economist is worried about inflation coming down. Normally, it was always a problem when inflation was coming up, because that was a sign of economic weakness. We tend to read it in the books of Keynes. The books of Keynes were very simple:

they said that, when the economy is lagging behind or losing speed, if you stimulate it—you put a little more gasoline, so to speak, in the economy—by increasing the demand side, you thereby achieve inflation, which is a sign of increased demand, and suddenly the machine starts going again and people get employed, et cetera.

In the last 10 years, we have seen that this is not really working. That has very much to do with how the global economy is changing the opportunities for and the role of central banks. If you meet with very rapid new supply, which puts your competitiveness under stress, of course the best thing is not to perform a policy where you are increasing taxes and increasing your own wages and production costs. If you increase the demand side of our economies—and they are quite big, because all European economies have deficits, which is, in our normal reading, a way of stimulating the economy—then you are increasing the demand, but, if you are not competitive, you are increasing the demand for someone else's products. Then you have the negative current accounts, which is, in reality, the core of the economic crisis, more or less, in most European countries, in and outside the eurozone.

To be short on this point, this means I am more relaxed about the proposals from the five Presidents. I do not see that these are solutions to that. Some of them are relevant; some of them are relevant for the eurozone as such in other ways, but not as a way of solving the acute economic problems we have, which mean we need to recover competitiveness. In that sense, I fear sometimes that the report is creating an alibi for not doing the things we need to do.

The Chairman: Indeed. Ms Goulard?

Sylvie Goulard: First of all, I am sorry, but I do not disagree so much with you on your starting point. We can spend a lot of time being inward-looking but, if you look at how the world evolves, the key question is not so much the differences between the eurozone and non-eurozone; it is the competitiveness of this continent and it is the capacity to innovate in order to stay at the top in many fields. This is the first point. The second point is this: if you remember, this report was adopted during the Greek crisis in June. There was a political message in adopting this report, saying, "We want to continue. We want to defend the integrity of the eurozone and we also want to make reforms". Of course it is not enough as such. We do not have inflation, but we have inflation in the number of Presidents in the report. The next one might be the six Presidents' report. We now need to deliver, and to deliver bold reforms, not only for the eurozone, because we have one institutional set-up for all 28 member states of the EU.

The Chairman: Do you both see this, essentially, as a political project? What is your view on what the report says about governance and the institutional framework it sets out?

Gunnar Hökmark**:** If I may be a little heretical, I would say that, while everything we do is political, there is a tendency in this house, as in most other parliaments, to have a higher level of interest in the architecture and the design of an institution than the policies that come out of it. I feel that, if we look at the European economy, the difference here is not between euro-ins and euro-outs, because we saw the same pattern in a number of different countries. It is very easy to blame the euro. We had a meeting with the Minister of Finance for Cyprus yesterday. He was very clear, saying, "For us, it was not the currency; it was the wrong policy". If you spend too much, it does not do more damage because of the currency. This is a very core, simple way of defining the problem. If you look all over the Union, when the UK entered into deficits, it was obviously not because of the euro. When Latvia, which was at that time pegged to the euro, entered into deep problems, it was not because of the euro; it was because they lost control of their spending. But they were also able to come back, and they made a lot of courageous and decisive changes.

In some way, I see that the eurozone as such needs some rules that are relevant for the currency. That is the backstop regarding banks, the single resolution mechanism and, to some extent, the single supervision mechanism. However, that does not mean that, for example, a discussion about capital markets is related to ins and outs. We all need functioning capital markets. It is a good thing to be a little more relaxed about the currency, but a lot of politicians all over Europe, in or out, love blaming the euro for their problems. It is easier for those who were in government, who spent too much. They can say, "It was the euro". It is easier for those who dislike the euro to say, "It was the euro". Every time you do that, you miss the core problem. If you perform the wrong policies, things will move in the wrong way; if you perform the right policies, you will tend to move more in the right way.

Sylvie Goulard: I am a little bit puzzled by the use of the word "political". If you ask me whether European integration is a political project going beyond the single market, I am sorry to disagree with the presentation made by your Prime Minister, because it is, and has always been, since the beginning, more than just a single market. You can read the Schuman Declaration again. Of course, the euro was one of the ways that was conceived, at least, after the fall of the Berlin Wall, to increase the links between the members. There is a political goal.

If you look at the way the European Council is making decisions, the role it is playing now is at a very political level. It is at the highest political level, with the representatives of all our countries at the highest level. Here, I am a little puzzled. It is a political discussion, which means that very often you do not take the right decisions and you do not make the right policies. I do not know what you really mean by "political". If it means it goes beyond the currency, beyond the economy, beyond the single market or free-trade area, the answer is yes. By the way, the crisis—and not only the crisis of the eurozone but also the lack of progress in the single market, with the 28 member states—is amazing, because even when we produce the rules it is very difficult to make sure they are implemented.

The Chairman: That is the reference. That is what we were searching for.

Sylvie Goulard: You mean the second aspect?

The Chairman: Yes, the latter. The framework is established for several things. It always has been since the Maastricht Treaty, but the member states disregard, ignore or wilfully pursue policies that are contrary to the agreements.

Sylvie Goulard: Not only in the economic field.

The Chairman: That is what we meant by "political". That was the thrust of my question.

Sylvie Goulard: If "political union" means a way to violate the treaties, I am not in favour of a political union.

Q93 Lord Haskins: Mr Hökmark, I understand your views about the euro. What would your position be on Sweden and the euro going forward?

Gunnar Hökmark**:** I am a friend of the euro, and I am very market-economy orientated. It is a good thing to have the same currency. I know a lot of my close allies in the UK do not have the same instant feeling. Once again, though, I bring it down to the idea that it is a mistake to blame currencies for problems that are caused by political decisions. To some extent I am an economist, and I have never understood these discussions about "optimal currency union". I do not know whether Sweden is optimal for anything. We have the north with the forest industries; we have Stockholm with the service industry; and we have Gothenburg with the shipping industry, et cetera. It is much more a matter of adapting policies to the reality.

My experience is that, for a long time during the 1970s and 1980s, when to some extent the main problems of the European economies were founded, in the times of stagflation, inflation and devaluation were a way of leaving the room by the back door instead of taking responsibility for the decisions you needed to take. What happened was that European Governments did not take the responsibility. The whole Lisbon process was, in this sense, lost: the goals were good, but you were not forced to fulfil them, because you could always leave the door open for devaluation. When France and Germany did that, it opened the door for others because it was easier at the time. That is why I believe in stricter rules. I am a supporter of Sweden joining the euro, especially when things are sorted out a little more.

Sylvie Goulard: As a footnote, you are committed to it, as one of 26 member states. This is a very important point to make, above all in front of British people. You do not have a eurozone with 19 member states and the EU 28. You have the EU 28 with two member states having an opt-out and 26 committed to join, which was part of the conditions for accession.

***Gunnar Hökmark*:** We are committed to it, but I would like to underline that Sweden is one of the few countries that are fulfilling another thing we are committed to, which is the stability pact. I would like to remind my colleague that not all countries do that.

Sylvie Goulard: You know my battle in France on that.

The Chairman: We are familiar with the agreements, but there are question marks over the pace at which all those 26 will come in. Indeed, some might question whether they will all come in.

Q94 Lord Shutt of Greetland: It is quite interesting. We heard from a couple of your colleagues an hour or so ago who, at this stage in the meeting, were telling us that this Five Presidents' Report was a gift that had come down upon them and nobody in the Parliament had had anything to do with. Therefore, there was a sense of, "How legitimate is it?" and so on. Yet, in this report, it very much talks about democracy and legitimacy and so on. Where do you stand on this? Is it moving in a way such that it and the matters connected to EMU are becoming more democratic and legitimate?

***Gunnar Hökmark*:** The problem in Europe is that, as soon as we refer to things that are happening in the European Union we always say, "The European Union is responsible". We never say, "Sweden is responsible"; we say, "A political majority is responsible", if you see what I mean. We have a very clear division of responsibility when we talk about our normal, national politics. As soon as there is a proposal coming up inside the framework of the European Union, it is always the European Union that is to blame. As you say, it is a democratic process. This is a proposal that has come up, which is a function of a lot of discussion in the different political groups, but it is for sure under discussion and it will not be a decision until member states and the Parliament accept it. A lot of water will flow along the rivers of all the European capitals before that is done.

Sylvie Goulard: I just wanted to say that it is the five Presidents' report—no more, no less. They do not speak on behalf of the institution they are chairing; they speak for themselves. On the other hand, it does not mean that they cannot properly identify some issues, of which one is democracy. Four years ago, I wrote a book with Mario Monti on these issues[1]. I fully share the idea that we need to improve democracy in the European Union. The fact that this might be said by a group of people who are not democratically elected does not seem to me to be an argument not to read the report.

Q95 Lord McFall of Alcluith: How has the report played at home? Does it pay sufficient attention to the needs and interests of the home countries?

The Chairman: What are your interpretations of how it is seen in France and Sweden?

Sylvie Goulard: I can tell you that in France last year we were preoccupied with other subjects. There was not a huge discussion around the Five Presidents' Report. On the other hand, I am quite sure that part of the increase in support for populist parties has to do with the frustration created by the lack of democracy. It is very difficult, because you will never have people in the street fighting for democracy at a European level, but you cannot say that it is not something feeding the negative feelings towards Europe.

The Chairman: Mr Hökmark, what is the debate like in Sweden?

Gunnar Hökmark**:** If you ask anyone in Sweden what they think about the Five Presidents' Report, or the five chairmen's report, they will wonder which chairmen. In Parliament, this has been a subject of discussion for the relevant committees. It is a rather relaxed discussion. We do not believe in these national competition boards, for example. Regarding fiscal union, we think taxation issues will be a national competence for the foreseeable future. It is rather a pragmatic point of view. There is no feeling anywhere that here is a solution to the problems. Some things can be relevant for the euro and some countries as such, and some things can be a good discussion for us all, but not very much more than that.

Lord McFall of Alcluith: Do the proposed next steps in the report pay enough attention to non-euro area countries? Are political and national institutional safeguards needed?

Gunnar Hökmark**:** If you have a currency, you need to have special institutions for that currency. That has nothing to do with the economic policy as such. That has to do with the safeguarding of the currency; that is the backstop regarding banks and some other institutions, as we have seen emerge lately. That is good and relevant, but the main problem the report is

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[1] Sylvie Goulard and Mario Monti, *De la démocratie en Europe* (Paris: Flammarion, 2012)

addressing is the overall economic policy. The overall economic policy is the only way of dealing with the different instabilities we have in Europe. That is not done by financial regulations; that is done by a healthy economy working, growing and employing people. In that sense, it is dangerous, and I am very much opposed to this, when people sometimes talk about dividing the eurozone from the rest, or the rest from the eurozone. In reality, it would create new borders and new fragmentation, which we have invested a lot in avoiding. If you take the internal markets or the financial markets, the strength of these markets lies of course in the fact that we have them together. It is very important to differentiate what is really a banking union issue from an issue for the Union as such.

Q96 The Chairman: Could I press you a little on the Swedish position on the "E" in economic and monetary union, the economic part of it? In your engagement with the discussion in the eurozone, do you see it more as a single market or do you see it more as a deep economic union, even if you are not ready to come into it right now?

***Gunnar Hökmark*:** Your question is too advanced for me. First of all, I would say that, if you had a referendum or a proposal to the Parliament today, it would be a no, for different reasons. For the time being, there is no popular support for the euro. There is also a rather broad understanding that there is a need for the eurozone countries to come to stability and to deal with their problems and show they can be dealt with. If you are asking me about those who, from a long-term perspective, are supportive of this, I would say that the "E" is a deepening of the economic integration that comes along with the internal market. If you have a single market, it is quite a good thing to have the same currency. We have good experiences of having the same currency in Sweden, in the north and the south. Being relaxed, that applies to the single market that is now emerging.

Sylvie Goulard: One should remember that we are all living in the European monetary union. That is the reason why you have British MEPs voting on euro area questions, et cetera. You can agree or disagree with it, but the current framework is a single framework for everybody. That is the first remark I wanted to make.

The second one is this: there is a big difference, in my opinion, between what we want to achieve and what might happen. I really believe that no one wants new fragmentation or to split the Union, but my experience from the ECON Committee, of which Gunnar is also a member, is that sometimes you take a decision because it is necessary, like the banking union. It was necessary to consolidate the eurozone; it was part of the big package. Then, of course, you suddenly face the fact that you might have 19-plus member states on one hand, and then the others. Even if the intention is not to create a gap or a new dividing line, it might happen. We should be more honest about this with each other. You cannot make the sovereign choice not to be part of the euro and then complain that you are not in the majority or the driving seat. You are free to join. This is a contradiction, and we have to make sure that we all accept the consequences of the decisions we take. It is possible to be in; it is possible to be out. But, at a certain point, the way the eurozone evolves or what is required for the banking union creates a dynamic, and you are part of it or you are not.

***Gunnar Hökmark*:** I very much agree with that. Of course, we are all a part of it. The stability pact applies in different ways to the member states. When we use the phrase "banking union", it is important to remember that the banking union is not really dealing just with the eurozone. It is mixture of things. The SSM and the single resolution mechanism are, yes, but the bank recovery and resolution directive is applicable to us all. I was responsible for that and I dealt a lot with the British Government, as well as other Governments, when we were trying to get that in place.

Lord Haskins: You could argue that the British would be the biggest beneficiaries of banking union.

***Gunnar Hökmark*:** Yes, you could argue that, for very many different reasons.

Lord Haskins: It is the biggest criticism that goes on within Britain: that these financial markets are not as open as they should be, and banking union would resolve a lot of the criticisms in Britain.

***Gunnar Hökmark*:** That is a view I certainly can share. Just now, we are trying to make progress on the banking structural reform, which involves the British Vickers legislation. A lot of the things we talk about under the theme of banking union are, in reality, finalising the single market on financial affairs.

Sylvie Goulard: Here, if I may, we are in the field of the single market. Some member states—the UK with Vickers, the French and the Germans—adopted legislation. Is it really a good solution that we adopt national legislation in something that can be identified as a single-market issue? It is the other way round. We are now obliged to take into account the fact that we have national legislation, although our common goal would be to create a level playing-field.

Q97 Lord Davies of Stamford: I have agreed with everything that Mme Goulard and Mr Hökmark have said so far. I particularly agreed with you, Mr Hökmark, when you said that the fiscal crises we have had were nothing to do with the euro. Certainly, a country that borrowed as much as Greece would have had a fiscal crisis whatever currency it borrowed it in, as I remember saying at the time on several occasions. In the European Union, we have now introduced a series of initiatives designed to make it less likely that we have that sort of fiscal crisis again: the two pack, the six pack and the European Semester. How would you rate the success of those initiatives so far? By "success", I mean the extent to which they reduce the risk of further fiscal crisis in the future. Should more be done and, if so, what? That was three questions, really.

The Chairman: Answer briefly, please, if you could.

Gunnar Hökmark**:** The two pack and six pack have done a lot more than one sometimes imagines. They are part of the recovery in a number of our economies that have been driven, supported and incentivised to lower their debt and their deficit. We can see the emergence of development not only in Spain and Portugal but also in the Baltic states. It is very clear that this has emerged. It also has importance for a number of other countries that are dealing with deficits, because it is certainly felt that you cannot increase the deficit as easily as you could before. That is one of the best steps we have taken to put a strong stability pact in place. Regarding the European Semester, it is good and it is worthwhile that we look at broader economic circumstances, currency accounts and a number of other issues, although they are not binding in the same way. In spite of the fact that very few are living up to the rules of the new stability pact, it is still creating a framework in which you are stimulated to reform and do the right things, instead of avoiding them.

Lord Davies of Stamford: Do you have any further suggestions as to what we might do?

Gunnar Hökmark**:** It would be good if we could see that we are living up to the regulations we have before we have new regulations.

Sylvie Goulard: I was one of the rapporteurs for the two pack and the six pack, so I know them quite well. First of all, the goal was to rebuild trust. To a certain extent, you have what is in the package and the fact that the package was adopted. They are two different things, but it was absolutely necessary at the time. The second interesting element in the six pack is the new procedure for macroeconomic imbalances. We look beyond just budgetary rules; we give the Commission the opportunity to look at the real economy. Here we come back to the point you made at the beginning: the real economy matters. Take the exchanges with member states like the UK. I do not remember the name of the independent organisation in the UK that evaluates the Government's hypotheses for budgetary rules.

The Chairman: The Office for Budget Responsibility.

Sylvie Goulard: This was introduced here. The European Parliament introduced the role of the national parliaments in the semester. You have small improvements, but each of them is not completely uninteresting.

The two pack provides a framework and a programme for the countries, because previously there was absolutely nothing. It was a fair-weather system, in which there was no idea that a member state could come into a programme. This was also important. I would not say it is a masterpiece, but some elements of it were useful. If I had one wish, it would be, first of all, to respect it—and I battle in France for that—and, secondly, to simplify it. The system is too complicated. When rules are too complicated, the legitimacy of the rule is not there. We observe too much flexibility in the way the Commission is applying these rules, in my opinion. I really believe we need to go towards balanced budgets and reduce the debt, so I am not happy with the use of flexibility.

***Gunnar Hökmark*:** I very much share that view. If I could add one thing that could be done, it would be—I do not remember whether it is the two pack or the six pack—stronger requirements on national budget legislation. That can be developed, in the medium term and long term, to ensure you have surpluses. That is hinted at now in the legislation, but—

Sylvie Goulard: It is in the macroeconomic imbalance procedure.

***Gunnar Hökmark*:** Yes, that could be clearer.

Sylvie Goulard: The speed of it should be taken into account.

***Gunnar Hökmark*:** That could be very good, because if you have zero or if you are minus two and you are entering an economic crisis, you can have whatever regulation you want. It does not help. The regulation as such is playing the most important role at times when the weather is good.

Q98 Lord McFall of Alcluith: We have had a discussion with a German colleague before on the European deposit insurance scheme. It seems Germany is a roadblock to that. If I can summarise what he says, it is that we should wait until all 28 countries have it up and running smoothly; then we have reduced the possibility of risk and we can get on with it. It seemed to me that that is an awful long way off. It is a bit of a dream. Is there a harder edge to it? Do you see that European element being adopted quite soon?

***Sylvie Goulard*:** Being one of the rapporteurs, I hope so. Once again, we have to go back. When the Heads of State and Government decided to create the banking union, the third pillar was this deposit scheme. The second element is that the monopoly of initiative is with the Commission. We have a text.

I know the sensitivity of the topic in Germany. This morning I had all the German banks in my office. On the other hand, many of their concerns are legitimate and not German. We should not put a flag on this. The question is: how can we make sure that we find a serious system? If we all share the idea that we will finance the economy and allocate the resources in a better way with more circulation of capital, then we should make sure that this pillar exists one day. It is the modalities and the rhythm that we then have to work on. The Parliament is there to have this discussion in public, examining all the pros and cons.

We should stop saying, "Germany is going to block", because we are in the co-legislation field. The Commission is making the proposal and the deal will be made between the Parliament and the Council. Each member state has the right to express its view, but the others also have something to say. Once again, it is a mistake to look at it as a German problem. There is a problem of trust; there is a problem of member states with very high debt; there are links between the banking system and the debt. Let us try to play down the national element and look carefully at all the topics included in this file.

***Gunnar Hökmark*:** My view would be that I agree that this is not an especially German issue. I share it in the same way. This is about the banking union or, really, the single rulebook project. The deposit guarantee scheme was part of that. We have the legislation, but the deposit schemes are national. There is a value in that, which should not be underestimated. We have been talking a lot about freeing the banks from the sovereign, but you also need to consider that it is maybe not good to free the sovereign from the banks, in terms of having a responsibility. Here, we are relying on the macroeconomic development in each member state. You can have a sort of moral hazard if you are not wary of the problems you can create. How you deal with your national economy has a huge impact on the status and the health of the banking sector. For the time being, I prefer that we have deposit guarantee legislation in place, and it is good that it is national.

Q99 Lord Butler of Brockwell: I want to ask about the capital markets union. First of all, this is a very important step in producing greater integration of the economies of the whole 28. Also, perhaps it is a more practicable step than some of the other measures we have been talking about, in view of the difficulties of those.

***Gunnar Hökmark*:** I agree. In reality, the capital markets union was established under the treaty of Rome, with the freedom of capital. I think we are creating too many unions in the

Union. I like to remind my colleagues that we already have a union: it is named the European Union. It includes the freedom of movement of capital. Anyway, it is a good thing that the initiatives we are taking create better opportunities for cross-border, well-functioning capital markets and for deepening the markets. A good point of departure is to remember that we already have well-functioning capital markets in the European Union, which are rather deep. Let us use those experiences and what we can learn from them to avoid regulating in a way that we are undermining the good and well-functioning capital markets we have. The initiative of the commissioner, Lord Hill, is very good. Overall, we are very supportive of that, from our different perspectives.

Sylvie Goulard: We are supportive. I agree with you that the goal is financing the economy; it is not to create a union. In terms of public opinion, the saying used to be, “Nobody can fall in love with the single market”, but even less with the capital markets union, which is not clear to many people. It is important to boost investment, because we have not yet reached the pre-crisis investment level, which is very worrying because it is a lasting phenomenon. We need to invest. We need to make sure that start-ups and new companies find new financing. I know that for Lord Hill it is a step-by-step approach. At this stage I cannot say that simply the prospectus directive and some progress towards securitisation deserve the name “capital markets union”. These steps are minor. I want to be a little provocative here, because we are too polite. For example, there is a very strong tax incentive in the way you use the money. In France, we have l’assurance vie, which is getting a huge amount of money for tax reasons. One day, at least in the eurozone, we will also have to consider that, if you want to boost certain types of investment, you have to have the proper tax incentives and not ignore this aspect because it is difficult. I know it is not easy. You also have all the procedures for what the Americans call chapter 11, et cetera. If you invest, you know you can get rid of something that is a failure as quickly as possible. Bankruptcy laws are part of a well-functioning capital markets union.

Lord Butler of Brockwell: Even so, would you not agree that the progress towards it has to be a step-by-step approach? It is not something you can achieve by waving a wand in the next few months.

Sylvie Goulard: Of course not, but, on the other hand, I must be clear that I am really convinced we pay a high price in Europe for not making things properly. We always do too little, too late. It is complicated. For example, we do not have a budget in the European Union. What we have is not a budget, or, at least, with this budget we cannot finance what we pretend to finance. At a certain point, I prefer to go in front of my voters and say, “You want A. I will do everything necessary to get to this point”, not, “Well, one day, step by step, in the long run, we can get there”. If you look at all our concerns from China or America, we might be a little older and a little less future-orientated than other economies. I want to deliver what is right. I really believe if we need to boost investment, we should dare to open the chapter of tax.

***Gunnar Hökmark*:** May I be not at all impolite but have a different view? The most important thing for a capital markets union or a well-functioning capital market is that investors like to invest in it. The attraction of that is dependent on the policies in our countries and in the Union. Of course, we see the differences. In countries where there is a high level of regulation, bureaucracy and taxation, you get less, and in others you get more. I do not want the discussion about a capital markets union to create a belief that you can circumvent the economic reality.

Sylvie Goulard: That is not what I said.

***Gunnar Hökmark*:** Well, maybe. I do not know. We have this lack of investment of between €400 billion and €500 billion on an annual level. At the same time, this is related to the fact that we have more liquidity than ever in Europe. It is between these that we need to get things working. We also need to get things functioning well and working on the ground. Most of that has to be done in the member states. It has to be local policies and national policies, and then we can open up the preconditions on a European level. We can do a lot, but the main efforts must be made by the member states.

Lord Haskins: The reason that is being held back is the lack of demand in most of the national markets, particularly in Germany. Germany is not encouraging consumer expenditure. If Germany encouraged consumer expenditure, you would see the investment elsewhere.

Sylvie Goulard: Last year they introduced a minimum wage and they have adopted a new plan for investment. I can agree with you up to a certain point. If I may, though, we do not disagree, but you cannot explain to me why people are investing so much in Luxembourg. I am sorry, it is not because of the size of the market or the quality of the environment. It is for tax reasons. At least inside the eurozone, we have a situation that is like nudity on American TV: we do not want to discuss it.

***Gunnar Hökmark*:** That is very true. Luxembourg can only be Luxembourg because Luxembourg is Luxembourg, if I may phrase it that way.

The Chairman: We are running a little short of time. In completing this, I wonder if I can put one specific question to you very briefly. Do you have an appetite, given what you have just said, for European-level supervision, eventually, of capital markets?

Sylvie Goulard: With the first supervisory package, we already created the authorities—EBA, ESMA, et cetera—in order to have a single rulebook. I do not know what you mean by "European".

The Chairman: I mean direct supervision at EU level.

Sylvie Goulard: Once again, I want to deliver what makes us credible worldwide. If our procedures are too complicated and we have to change scale, I would prefer to change scale and compete with the Chinese and the Americans.

Q100 Earl of Lindsay: On fiscal union, can I ask you what you think it means? When might it become a reality? Does a full transfer union need to be a part of fiscal union if it is going to help underpin EMU? Also, especially as you are parliamentarians, do you think additional democratic accountability needs to be built to take account of fiscal union?

***Sylvie Goulard*:** I fully share your vision that there is a link between the answer to the first question and the answer to the last one. The reason why I am in favour of changes in the eurozone towards more accountability and more democracy—and not the intergovernmental, opaque way of dealing with it—is you cannot have a budget without having the accountability. This is something we have learned from you.

In my opinion, we need a budget in the future. Of course, we then have to discuss which types of policies we want to finance. For example, labour mobility is, in an optimal currency union, something we could finance together. Then you have many other options. Some people are talking about unemployment allowances. I do not want to enter into these details, but it is perfectly clear that in the long run, first of all, we need political power to discuss with the ECB, because independence does not mean isolation.

Until now, we have taken the independence from the German system, in which there was a federal Government, and we are surprised that the ECB is sometimes feeling a bit alone. We need a political power, and a political power needs some means. That also includes budgetary means. I do not whether it will happen; I do not know when it will happen. But, from an intellectual point of view, to avoid this discussion is not helpful.

If you then ask me about "full transfer union", I do not know what it means, because in all federal states you always have budgets at the state level—be it in the United States or be it in Germany—and a complicated relationship between the federal and non-federal levels. There are many options. There is not one option that is a nightmare and the situation today is a dream.

Earl of Lindsay: As a direction of travel, the federal definition of fiscal union would be the one you would like to see.

***Sylvie Goulard*:** I would prefer to explain to people that we build something solid with strong accountability and a definition of competences that makes sure that some competences at the national level remain at the national level. At the federal level, we should have very limited competences, but, when we claim we do something together, we should have the means to do it together.

***Gunnar Hökmark*:** A lot of people are sure they know what fiscal union is until they are asked what it is, and a lot of people want it until they get it. I am pro having a fiscal union regarding the stability pact, with clear rules on balanced public spending. But, as soon as we enter other steps, you are in some way bringing up decisions about spending that are better on either a local or a national level. That is very much because our different welfare societies are looking very different. The Swedish welfare society is very different from the Romanian one, I can disclose, and from the UK one, et cetera. It is a common concept. In that sense, I am a federalist. Not in the way it is used in English or Swedish, but I am pro that we are very strict on defining where the competences are. A lot of the discussion on fiscal union seems to me to be more centralistic than in the true meaning of the word "federalist".

Earl of Lindsay: Is the United States a model that we can learn from in terms of developing fiscal union?

Sylvie Goulard: The funny thing is that, if you read *The Federalist Papers*, the inspiration of the Americans was Europe. It is very funny. They were Europeans moving to the US and trying to invent something. They took their inspiration from Greek times and from the Saint-Empire romain germanique. It is not a model to duplicate.

I always stress in my speeches that you cannot complain that you are not as strong as the US, that you do not have strong leadership in the world, that you do not have a defence system, a strong trade policy, et cetera, and then refuse to pool sovereignty in some fields where the US did. You cannot compare yourself with states if you refuse to be a state. Accept being in the second class. In tomorrow's world, maybe we will still be somewhere in the first or second class, but I wonder where we are going to be in 30 years, or where my children are going to be in 30 years. Will we have a say in tomorrow's world if we do not unite? I mean simply a say. Have you seen the story of the renminbi by the IMF? Have you looked at the figures? It is very interesting. The renminbi was introduced for special drawing rights. Who gave space to the renminbi? The pound and the euro did. This is today's world. We will have to give up part of our power, and we will be kicked out if we do not.

***Gunnar Hökmark*:** The US is not a model, because we have to have our own model. The society of the United States is so very different, because of heritage, culture and tradition. There is another form of welfare state, another way of looking at how you finance college, universities, pensions, et cetera. It is leading you the wrong way in the discussion.

Lord Haskins: And social mobility.

***Gunnar Hökmark*:** Yes, social mobility and the language. Spanish is opening up many doors in the US, and there is English, of course. We need to start from where we are and try to do a lot of the things we are discussing here. As you have noticed, we have different views on a lot of things, but we also agree that we need to make Europe stronger in a number of areas. We need to model ourselves in our own way for that.

The Chairman: Thank you very much. This now concludes the public part of the meeting and the Committee will meet in private for a few minutes when you have left. We are very grateful for you taking time out to come today. It has been a very interesting session.

***Gunnar Hökmark*:** Thank you very much.

Sylvie Goulard: What about the elephant in the room? Please stay.

***Gunnar Hökmark*:** Yes, you are very important to us.