Breaking the Deadlock: A Path Out of the Crisis

23 July 2012

Summary

It is still possible -- economically and politically – to find a way out of the euro zone crisis if policy makers separately address two problems: dealing with the legacy costs of the initially flawed design of the euro zone, and fixing the design itself. The former requires significant burden sharing and an economic strategy that focuses on stabilising the countries that are suffering from recession and capital flight. In contrast, fixing the design requires a financial (banking) union with strong euro-area institutions and a minimal fiscal backstop.

I. The euro is drifting toward a breakdown of incalculable costs

1. We believe that as of July 2012 Europe is sleepwalking toward a disaster of incalculable proportions. Over the last few weeks, the situation in the debtor countries has deteriorated dramatically. The sense of a never-ending crisis, with one domino falling after another, must be reversed. The last domino, Spain, is days away from a liquidity crisis, according to its own finance minister. This dramatic situation is the result of a euro zone system, which as it is currently constructed, is thoroughly broken. The cause is a systemic failure that exacerbated a boom in capital flows and credit and complicated its aftermath after the boom turned to bust. It is the responsibility of all European nations that were parties to its flawed design, construction, and implementation to contribute to a solution. This does not mean that the costs of the crisis should be socialised across euro zone citizens: systemic failure does not absolve from responsibility individuals, banks, and supervisors who took or oversaw imprudent lending and borrowing decisions. But it does mean that the extent to which markets are currently meting out punishment against specific countries may be a poor reflection of national responsibility, and that a successful crisis response must be collective and embody some burden sharing across countries. Absent this collective constructive response, the euro will disintegrate.

2. European leaders recognise the need for a collective response. Yet, the euro zone has been drifting toward breakup for several months now, notwithstanding the incalculable economic losses and human suffering that this would entail. The cause of this has been the failure of surplus and deficit countries to agree on an action plan that both reassures financial markets and addresses the needs and concerns of the public in both sets of countries. Deepening recessions and high unemployment are tearing at the social fabric in the deficit countries and causing enormous and avoidable human suffering. Alleviating this suffering should be the first priority of euro zone policymakers. Moreover, the sense that there is no end in sight is undermining public support for fiscal adjustment and structural reform and fuelling capital flight. At the same time, growing crisis-related liabilities and a view that reform in the deficit countries will only succeed under pressure have undermined public support in the surplus countries for a stepped-up crisis response. Rising adjustment fatigue in the south has been matched by increasing support fatigue in the north.

3. Solving the current crisis is not a zero-sum game. Instead, it is a win-win choice for both creditor and debtor countries.[1] The economic and political losses that a euro breakup will bring about are likely to be an order of magnitude larger than the potential transfers required to solve the legacy problems. However, lack of trust between creditors and debtors is stopping them from arriving at mutually beneficial solutions. For example, if the deficit countries could credibly commit to fiscal rules that bring the ratio of national debt to GDP down to reasonable levels in the long run, then the surplus countries would have little objection to new debt issues in the short run to support countercyclical fiscal policies in the deficit countries, since these additional debts would be temporary and could be repaid. The problem is that it is difficult for the deficit countries to make a credible long-term commitment to fiscal prudence since that would bind future voters. What is needed are creative ways to solve this problem by making support available in sufficient amounts, but also under safeguards and conditions that are both perceived as fair by debtor country voters and credible by creditor country voters and the financial markets.

4. Although they contained steps in the right direction, the measures announced by euro zone policy makers on June 29 and again on July 9 did not meet this threshold. Agreeing on a timetable for creating a single euro area banking supervisory body and subsequently allowing direct bank recapitalisation from the ESM would help to address critical shortcomings of the euro zone design and the crisis response so far. However, the summit did not present a convincing plan to stop the downward economic spiral in the deficit countries. Stabilising bond yields based only on existing ESM resources and investment projects financed mainly by existing E.U. structural funds and the EIB do not add up to a convincing package. Furthermore, the summit offered no shared vision for the long run beyond the agreement on common European banking supervision. But such a vision is needed to restore the credibility of the currency union in the eyes of both investors and the general public, and hence to restore confidence in government bond markets and stop capital flight from the deficit countries.

II. A new strategy which recognizes large common gains

5. A comprehensive action plan must meet four objectives.

   - It must restore faith in the euro area and the European Union through a credible promise of a better tomorrow that holds the prospect for greater welfare and more stability
   - It must stabilise interest costs and reverse the decline of output and employment in the deficit countries;
   - It must be conducive to a reduction in debt levels over the medium term – including public debt in Italy and private debt in Spain, but also elsewhere – and support the continued reduction of balance of payment imbalances within the euro zone;

[1] This note uses the terms "surplus countries", "creditor countries", or "north" interchangeably to refer to countries such as Austria, Finland, Germany, Netherlands, and the Slovak Republic; and "deficit countries", "debtor countries", "crisis countries" or "south" to refer primarily to Italy and Spain. Ireland, Portugal, Greece, and Cyprus could also be considered to be in this group, but their situation is somewhat different because they are in IMF-EU supported adjustment programmes. We avoid the "centre" versus "periphery" terminology that has become engrained in the last year because a country such as Italy is too central to Europe – geographically, economically, and historically – to be considered part of the "periphery".

- It must address the fundamental structural flaws in the currency union, both to make the single currency credible again as a long-term proposition and to make it much less likely that a crisis as we are witnessing today will ever recur in the euro zone.

6. The challenge of coming up with such a plan relates in part to actual or perceived conflicts between these objectives. Stabilising output and employment in the recession-struck deficit countries is impossible without delaying some of the on-going fiscal adjustment and channelling more support to the deficit countries. From the perspective of the surplus countries this raises two concerns: how to provide support without overstretching the fiscal resources in the surplus countries themselves, and how maintain incentives for adjustment in the event that stabilisation succeeds. A related concern is whether the currency union is workable without permanent transfers in the future. Except in the context of a European super-state in which financing and control of spending are tightly linked, a majority of the population in the surplus countries believes that a permanent "transfer union" is too high a price to pay for the preservation of the single currency, even if the alternative is a catastrophic crisis. The resistance to scaled-up support as a means of getting out of the current crisis is in part due to the fact that it is viewed as the first step toward such a "transfer union".

7. Hence, the Council believes that the critical requirement for tackling the crisis is to separate the solution of the "legacy problem" – stopping the on-going recessions, reducing debt levels, and lowering current account surpluses and deficits within the currency union – from the problem of fixing the structural flaws of the euro zone for the long term. The former requires significant burden sharing. But it does not follow that the latter requires permanent transfers or jointly and severally issued debt.

8. As far as the legacy costs are concerned, European policy makers in the surplus countries must make an effort to convince their voters that significant burden-sharing is not only necessary to stop the crisis, but also just, and that it can be reconciled with – and indeed is necessary for – good incentives.

    - It is *necessary* because deficit countries will otherwise remain stuck in a spiral where fiscal adjustment depresses output in the short run, making it harder for the private sector to repay its debts, putting pressure on asset prices and asset quality of banks, constraining credit, and further depressing output and revenue, which undermines fiscal adjustment. This leads to a breakup of the euro zone, which imposes largely avoidable but very high economic and other costs on both surplus and deficit countries.

    - It is *just* because the problems that the deficit countries are struggling with were not caused by these countries in isolation, but were the result of a flawed euro zone design that encouraged both reckless borrowing (in the deficit countries) and reckless lending (in the surplus countries). Hence, all countries that signed up to this design, and took part in the lending and borrowing boom, bear responsibility for the crisis.

    - It is consistent with good incentives as long as (1) the burden of paying for financial system losses is in the first instance taken not only by the equity

holders but also the *creditors* of the banks that were engaged in over-lending (both in surplus and deficit countries), and only in the second instance by the taxpayers standing behind the banks and bank creditors; (2) it takes a medium term view, in which high debt countries commit to adjustment paths and receive support conditional on continued adjustment.

9. As far as the long-term vision is concerned, we do not believe that euro zone bonds, or a full fiscal union, are necessary to ensure a functioning economic and monetary union. Instead, the extent of fiscal union must be determined by the needs of the *financial* union (particularly the institutions governing the integrated EMU banking sector) that is the necessary complement to the EMU as a means to foster economic prosperity. While many Council members believe that further fiscal and political integration In Europe is desirable, we do no believe that they are necessary to make an economic system with a single currency viable. Thus, our proposal aims to build the minimum set of institutions necessary to exit the current crisis, *and* establish a solid future foundation for the euro.

10. Consistent with the view that any plan to overcome the crisis must begin by restoring the credibility of an economically prosperous system that embodies a single currency, the remainder of this note begins with a long-run vision. This represents the Council's view on the *minimal* institutional framework to ensure that the currency union functions as originally intended: that is, as a financially stable area that promotes the single European market and long-run growth and can function without persistent transfers from surplus to deficit countries. The short-run vision is about creating the conditions to recover output and employment growth while maintaining incentives for adjustment and reform to enhance fiscal solvency, reduce excessive debt, and narrow current account imbalances.

III. A long-run solution that limits mutualisation is achievable and sufficient

11. Although there is disagreement on which specific deficiencies are most to be blamed for the current crisis, there is broad agreement within the Council (and outside) on three categories of problems that are inherent to the currency union as it is presently set up.

    - Raising monetary policy to a supranational level while maintaining fiscal policy and banking supervision at the national level can create distortions that encourage over-borrowing and over-lending, both private and public. Membership in a currency union implies automatic access to official balance of payments financing. This mitigates the impact of a sudden reversal of capital flows, whatever its trigger, and hence the country-level costs of crises. At the same time, currency unions lead to closer economic and financial linkages, which imply that country-level crises have larger cross-country repercussions. This argues for stronger centralised control over both fiscal policy and banking supervision; and possibly also coordination on structural measures to prevent balance of payment imbalances from becoming chronic.

    - Giving up national-level control over the money supply exposes members of a currency union – particularly one where the central bank's mandate prohibits monetary financing of public debt issuance – to rollover crises with respect to their public debt. With no recourse to the printing press in an emergency, these could induce self-fulfilling fiscal crises.

Contagion from Greece to other euro zone members like Spain and Italy is often interpreted in this light.

- Giving up exchange rate adjustment exposes members of the currency union to painful and long adjustment processes in the case of real overvaluation (induced, for example, by over-lending in the real estate sector).

- The lessons from this are three-fold. First, that more euro-area level fiscal policy adjustments may be needed to counter the impact of a monetary policy designed for an average that is too tight for some countries and too loose for others. Second, that sound financial regulation, especially the macro-prudential variety, is even more important within the euro area than outside it. And third, that the exercise of monetary policy within the euro area may benefit from the use of additional policy tools such as differentiated credit reserve ratios and countercyclical real estate taxes that could help design policy so it is more customized to prevailing economic circumstances in different member states

12. The creators of Europe's currency union recognised the risk of fiscal free riding, which they sought to discourage by imposing a set of deficit and debt rules. However, the remaining risks were not fully appreciated, and no instruments were put in place to contain them. The result was excessive private borrowing and lending in Ireland, Spain, and other countries whose currency risk had been sharply reduced by EMU membership, fuelled by capital inflows from the surplus countries. At the same time, fiscal rules failed to constrain public borrowing in several countries (including France and Germany), and allowed at least one country, Greece, to accumulate unsustainable public debt. These borrowing sprees were cut short by the 2008-2009 crisis and recession, triggering private insolvencies and putting pressure on public finances as a result of both revenue collapses, automatic stabilizers, and the socialisation of banking losses. Fiscal adjustment was also complicated by sharp rises in public borrowing costs that arguably incorporated a self-fulfilling element. The clearest example for this is Italy, a country that avoided both public and private borrowing sprees but was nonetheless vulnerable because of its high public debt level. Finally, deficit countries suffered a real appreciation that was very costly to correct since only real (and not nominal) variables were available to rectify it by individual member states in the absence of flexible exchange rates.

13. In light of this diagnosis, financial resilience in the currency union requires reforms in five areas. These can build on on-going, but still incomplete reforms undertaken in the recent past.

- *Banking union.* Financial integration is critical to a stable union. The diabolical loop between banks and sovereigns is dragging both down as each rescues the other, most notably in Spain and Ireland, and could do the same elsewhere. As confidence disappears and investors run away, only the states finance the banks and only the banks fund the state. Breaking this nexus requires making the stability of the banks the concern of the entire union. A common E.U. or euro zone-level financial supervision and resolution agency must be established, either in the ECB or both in the ECB and in the form of a new agency with authority over national supervisors. National resolution regimes would need to be unified in a system that ensures the write-off of all bank debt or bail in (except deposits up to the insured limit) before tax payers are asked for funds. A European deposit insurance mechanism, based on industry premiums, should either replace or reinsure the existing national-level mechanisms after these have been reviewed (and

if necessary, replenished) to offer consistent levels of initial protection. An additional fund for the resolution of systemically important institutions should be established, financed by a "systemic risk levy." Residual fiscal risk would be shared between the country level and the euro zone level, in *recognition* of the fact that some policy and supervisory responsibility would remain at the national level. The E.U.-level backstop would take the form of "catastrophic loss insurance" in case fiscal costs of a banking crisis exceed a specified level (e.g. 20% of GDP). There are several ways of structuring this backstop, for example via the ESM.

- *Financial Reform*. Many, though not all, of the problems encountered in the euro crisis can be attributed directly or indirectly to a malfunctioning of the financial sector. The European Union has embarked on a substantial program of financial reform that seeks to make the financial system more stable, more transparent, and less rent-seeking. But much more needs to be done on this front. There is an urgent need to ask and answer the question: "What sort of financial system best serves the needs of the real economy?" Only by implementing far-reaching reforms that will necessarily include structural changes to the financial system can the E.U. hope to tackle the problems of chronic low growth rates and financial instability. These reforms are a prerequisite for any form of a financial union to be politically acceptable to citizens.

- *Fiscal controls*. A significant step toward discouraging fiscal free riding is the March 2012 "fiscal compact," which seeks to anchor E.U. fiscal rules in national legislation while maintaining some scope for countercyclical policy. However, in the context of national democracies, fiscal rules can never be 100% credible since national legislation can always be changed through an act of parliament—this is the essence of democracy. The fiscal compact has gone as far as possible in ensuring commitment to the rule and credibility of the rule within the democratic context of each sovereign state. These tensions would be diminished, if not eliminated entirely, within the context of a federal political union. Some members of the Council see a move toward a federal political union as a necessary development of the euro area. In the short run, the externalities associated with deviations from nationally approved fiscal rules have to be contained via euro area-level automatic adjustment levels. For example, some VAT rates could be automatically altered to provide at least a partial corrective mechanism, or alternatively limits to government expenditures could be imposed. The Council believes the fiscal compact must allow for a larger scope for countercyclical fiscal policy: provided that euro area level automatic adjustments are in place, there can be little objection to allowing countries in deep recession the opportunity to provide greater fiscal stimulus than that allowed by the current fiscal compact. To ensure democratic accountability, the institution in charge of the fiscal surveillance should be accountable to the European Parliament.

- *A euro zone-level lender of last resort to governments that respect the fiscal compact*. Ideally, this would be the ECB. The ESM will also be able to play this role, notwithstanding its limited volume in the steady state, once *public debt levels are reduced significantly from the current size*, and once flights of capital across countries are mitigated via a common risk-free asset (see below). Allowing the ESM to have enough "firepower" to achieve this aim requires that it be given a banking license so that it can access the ECB´s discount window.

- *A debt-restructuring regime for countries that are not eligible for ESM financing*. Unless there is a regime that provides an orderly alternative to chaotic default within the euro zone, exclusion of

crisis countries that violate the fiscal compact from the ESM will be circumvented through ad-hoc bailouts by the official sector. It is precisely this fear that is fuelling the "bottomless pit" theory of the currency union in some of the creditor countries.

- *A common risk-free asset not tied to or issued by a specific country.* This would ensure that pure panics – sudden drops in risk appetite of investors – take the form of flights to safety from between asset classes, rather than between countries. Moreover, such assets are essential in modern financial systems, both as collateral for derivative transactions and for prudent bank regulation purposes. A substantial part of any bank's balance sheet must be in safe assets, as defined by the financial regulators, and having it in a euro area-asset would help cut the link between the sovereign and its banking system. Also, the conduct of monetary policy requires the central bank to exchange money for safe bonds. Finally, the provision of such a safe asset would allow euro zone members the ability to capture the liquidity premium that comes with the provision of this safe asset, and thus would represent a significant source of new income. Such assets could be created without joint and several liabilities across countries.[2]

14. While these reforms would take euro zone institutions significantly beyond the status quo (particularly the banking union and the debt restructuring regime) it is important to note what is *not* in the proposal: a permanent mechanism for common euro zone debt issuance and a mechanism for countercyclical fiscal transfers. [3] Indeed, there is no common liability in any of our long-term proposals beyond those necessary to establish and backstop the banking union and the ESM, and both are subject to strict safeguards. While some Council members favoured going beyond this minimal level of "fiscal union" (for example, through a permanent joint and several guarantee on a portion of member countries' debt, or via common European unemployment insurance), other Council members felt that this would be practically and/or politically extremely difficult, particularly at the present juncture.

IV. Urgent short-run measures

15. The institutional reforms described above would be sufficient to put the euro zone on a firm footing only if they are accompanied by a successful adjustment process that unwinds the high debt levels and losses in competitiveness accumulated during the pre-crisis and crisis periods in a number of countries. The dilemma is how to do this in the middle of recessions that are beginning to strain some societies to the breaking point, and in light of the overwhelming size, power, and (so far) scepticism of financial markets. The answer must involve a combination of extraordinary measures, which include fiscal-structural reforms aimed at minimising the immediate output cost of real exchange rate and fiscal adjustment, support from existing funds (the EFSF and ESM), additional support from surplus countries, voluntary debt restructuring, an exceptional role for the ECB, and exceptional emergency macroeconomic and monetary policy measures.

    - *Partial and temporary mutualisation of legacy debt.* The legacy debt is partly the result of the bad design of the euro, as well of bad policies of the member states combined with the

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2 See Brunnermeier et al. "European Safe Bonds (ESBies)", Euro-nomics group, September 2011.

3 For a recent proposal that contains both of these elements, see Enderlein et al., "Completing the Euro", Report of the Tommaso Padoa-Schioppa Group, June 2012.

powerful pressures brought on by the global financial crisis of 2007-2008. Our group rejected the need for large-scale permanent mutualisation of government debt as a necessary feature of the euro zone. However, dealing with the legacy problem requires official support for countries pursuing adequate fiscal adjustment. Our Council endorses the proposals of the German Council of Economic Experts to provide progressively a guarantee on the legacy debt for countries pursing adequate fiscal adjustment under the E.U. excessive deficit procedure. To provide the right incentives this would take the form of a guarantee on new debt issuance up to a pre-agreed threshold. The agency initially executing these purchases could be the EFSF/ESM, backed by an E.U.-level commitment to a larger "redemption fund" backed by either additional capital or the power to issue bills under a joint and several guarantee if this were to prove necessary. The ESM could also receive a banking license to ensure that it had adequate fire power, or if it its direct borrowing from the ECB were considered in violation of the treaty, its debt could be the primary tool in the secondary purchases of the ECB.

- *Voluntary debt restructuring could take the form of offering to exchange existing bonds for new bonds with the same face value and coupons but longer maturities (say, the original payment dates plus 5 years).* While such an operation would not affect headline debt-to-GDP ratios, it could reduce the present value of the debt burden and create cash flow relief in the short- and medium-term (possibly beyond the horizon envisaged for official support of new debt issues). To create incentives for private sectors to accept the exchange offer, the new debt would be issued under foreign law. In addition, a short-term "sweetener" could be offered (cash or ESM bills), particularly to bond holders with shorter residual maturity, which could be financed by long-term government borrowing from the ESM. As a further incentive, the new debt could be treated *pari passu* with the ESM; while the existing debt would remain subordinated to ESM loans used to finance the "sweetener".

- *Fiscal-structural reforms that focus on:*

    i. reforms aimed at restoring solvency without creating a direct output cost (e.g. raising the pension age);

    ii. reforms that may have output costs and/or fiscal costs in the short-run but *create* lasting improvements in fiscal solvency and competitiveness (e.g. staff reductions in bloated public administrations, labour market reform); and

    iii. "fiscal devaluations" that use financial instruments to lower labour costs in a fiscally neutral way (essentially, by substituting payroll taxes with indirect taxes).

    The second group of measures could be financed (and their contractionary impact blunted) through a combination o*f* outright transfers from the E.U. budget and low interest loans from the EFSF/ESM.

- *A temporary role for the ECB in the crisis.* Putting in place all of the above mechanisms will take time. Convincing steps toward a banking union and a medium-term debt reduction plan backed by temporary guarantees should give the ECB room to act more forcefully in the market for sovereign debt and also for communicating to the market that this tool will be used actively. In particular, given that the fiscal compact has gone far in ensuring

commitment to a fiscal rule and credibility within the democratic context of each sovereign state, and given that for Spain and Italy we are dealing with self fulfilling fiscal crises, we believe that the ECB could and should be committing to much larger interventions in the market for debt of sovereigns who are meeting their obligations. We believe that this intervention is a condition for making the transmission mechanism of monetary policy work in all member states, and it is therefore in line with its mandate.

- *Emergency macroeconomic and monetary policy measures:* The last 10 years have bequeathed the euro zone with a legacy economic crisis as well as legacy financial problems, and as stated above solving this crisis is the first priority of policy makers. Indeed, without solving the economic crisis, the euro zone will eventually collapse. The Council notes that even the gold standard embodied implicit emergency clauses allowing the normal rules to be suspended during times of crisis, and this is a time of existential crisis for the euro zone. The deficiency of aggregate demand at present leaves many resources unnecessarily idle, narrows the tax base at a time of fiscal stress, and is on the cusp of rendering the euro zone system socially unsustainable. In addition, the euro zone must meet the challenge of reducing the large cumulative divergence in competitiveness between member countries. Any plan to achieve adjustment of relative prices of this magnitude must avoid absolute deflation in any country, which will aggravate debt burdens. Thus price level growth in surplus countries cannot be so slow as to force deflation upon a broad array of deficit countries already on the cusp of depression. The ECB must use all tools (conventional and non conventional) to ensure a more homogeneous transmission of monetary policy. As the IMF has suggested, monetary policy should be accommodative during this emergency period, using both conventional and non-conventional policies to support nominal GDP and facilitate the real exchange rate adjustments needed. Surplus countries with fiscal space should use that space to help maintain aggregate demand in the euro zone as a whole. And euro zone member states should explore as a matter of urgency whether there is greater scope for E.U. institutions to promote E.U.-wide growth.

16. The time horizon envisaged for these extraordinary measures could encompass about five years. Following this initial phase, public debt reduction in line with agreed EU fiscal rules would need to continue in some of the present high-debt countries, such as Italy. However, the presumption is that with the benefit of economic recovery and fiscal-structural measures already undertaken, continued debt reduction could take place without external financial support. Hence, to reassure the public in the creditor countries that financial support – particularly, with regard to supporting the prices of new debt issues in the deficit countries – will not turn into a "bottomless pit" there could be an agreed cap on such support guided by the expectation that price support will not continue beyond five years.

17. A complicating factor in the adjustment process described above is uncertainty on the extent of housing price declines, and hence the quality of the mortgage loan portfolio, in the banking systems of countries such as Spain. In dealing with this uncertainty, it is necessary to strike a balance between the principle that unrecoverable banking system losses that were incurred under the auspices of national supervisors should in the first instance be absorbed at the national level, and the fact that there are limits to the national capacity to absorb such losses without endangering the entire adjustment and reform process. In line with the logic of

proposed in Paragraph 7 for a future banking union, it is proposed to deal with this tension by setting a national "first loss" limit, and allowing the ESM to undertake direct capital injections into national banking system when national recapitalisation costs exceed that limit. This commitment to "catastrophic loss insurance" at the euro zone-level should be made conditional on euro zone-level conditionality to the national resolution process from the outset. It should also retroactively apply to other countries, such as Ireland.

Non Consensual Views

18. A majority of Council members take the view that fiscal devaluations in the deficit countries should be supported by fiscal revaluations in Germany and some of the other surplus countries (e.g. to equalise real effective exchange rates in France, Germany and Italy).

19. A minority of Council members believe that avoiding future crises requires changing the statute of the ECB toward a dual mandate that includes output and employment objectives, and that the price stability objective should be revised to target nominal GDP growth.

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Endnote

1. Statement based on June 26-27 Brussels constituent meeting of the Council and subsequent discussions, which included Council members Erik Berglöf, Peter Bofinger, Giancarlo Corsetti, Paul De Grauwe, Guillermo de la Dehesa, Lars Feld, Jean-Paul Fitoussi, Luis Garicano, Daniel Gros, Kevin O'Rourke, Lucrezia Reichlin, Hélène Rey, André Sapir, Dennis Snower, Hans-Joachim Voth, and Beatrice Weder di Mauro; advisors Sergei Guriev, Harold James, Rob Johnson, Leif Pargrotsky, Adam Posen, George Soros; and Heather Grabbe, Peter Jungen, Olli Rehn, Guntram Wolff, Philippe Legrain and André Wilkens, Sony Kapoor and Jeromin Zettelmeyer as guests or rapporteurs. This documentwas written by Luis Garicano and Jeromin Zettelmeyer and reflects comments from Council members.