

# Transcription of the interview with Alfonso Iozzo (Rome, 16 October 2012)


**Caption:** Transcription of the interview with Alfonso Iozzo, senior executive in the Sanpaolo banking group from 1961 to 2006, Chairman of Cassa Depositi e Prestiti in Rome from 2006 to 2008, member of the European Federalist Movement since 1963 and Vice-Chairman of the Triffin International Foundation, carried out by the Centre Virtuel de la Connaissance sur l'Europe (CVCE) on 16 October 2012 in Rome. The interview was conducted by Renaud Dehousse, Professor and holder of the Jean Monnet Chair in European Union Law and Political Science at Sciences Po Paris and Director of the European Studies Centre, and particularly focuses on the following aspects of Tommaso Padoa-Schioppa's life: his activities at the European Commission's Directorate-General for Economic and Financial Affairs (1979–1983), his influence in the Italian delegation that took part in the negotiations on Economic and Monetary Union and his work as Minister for the Economy and Finance (2006–2008).

**Source:** Interview d'Alfonso Iozzo / ALFONSO IOZZO, Renaud Dehousse, prise de vue: Alexandre Germain.- Rome: CVCE [Prod.], 16.10.2012. CVCE, Sanem. - VIDEO (00:25:52, Couleur, Son original).

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### I. Tommaso Padoa-Schioppa's early work at the European Commission

[**Renaud Dehousse**] Dr Iozzo, first I would like to thank you for agreeing to talk to me about the career of Tommaso Padoa-Schioppa. I'd like to begin by asking you to talk about your work together in Brussels, as you were one of the people who had the opportunity to be close to him when he was Director-General for Economics and Finance at the European Commission.

[**Alfonso Iozzo**] That was a very important time because Robert Triffin's idea of developing a private market in the ECU was outlined at a meeting at the University of Louvain-la-Neuve attended by Tommaso Padoa-Schioppa. It was held immediately after the EMS came into effect. It marked the launch of the idea that a group of banks could develop the market, especially Kredietbank of Luxembourg — Belgium, I mean — Lloyds of London and Sanpaolo of Turin, where I was responsible for international affairs. As a result, we were often in Brussels, and the Directorate-General for Economic and Monetary Affairs, DG2, headed by Padoa-Schioppa, followed the project closely and encouraged it a great deal. Specifically, it led to the idea that, in order for the system to operate, an ECU 'clearing' system needed to be created and facilitated by the market, and as a result a clearing system was put in place, with Padoa-Schioppa's support, in Basel at the Bank for International Settlements. That was an important step that was a major success for the ECU market. That success was important because it's what convinced Valéry Giscard d'Estaing and Helmut Schmidt to establish the Committee for the Monetary Union of Europe that, in essence, subsequently laid the groundwork for Maastricht. Padoa-Schioppa had an important role there too together with Renaud de La Genière (*sic*) [Jacques de Larosière], former Governor of the French Central Bank. The two of them managed to persuade Giscard d'Estaing and Schmidt that they should not go down their intended route, namely ultimately to develop the ECU as a parallel currency, but to go right to the heart of the matter and to establish a Central Bank. These were the first steps in Padoa-Schioppa's work with Jacques Delors that would lead to the committee set up by the European Heads of State or Government that would, in turn, lead to Maastricht.

### II. The Maastricht Treaty

[**Renaud Dehousse**] On the Maastricht Treaty specifically, as part of the renowned 'Guigou Committee', Padoa-Schioppa had a very important role in organising the Intergovernmental Conference on Monetary Union. Could you, do you perhaps have any memories of that period?

[**Alfonso Iozzo**] Of course! I know that Padoa-Schioppa was supposed to go to Maastricht with the Italian mission. And the Italian mission was led by the Prime Minister, Giulio Andreotti; there was the governor and him. He told me how he left the Bank of Italy buildings on the Via Nazionale to go for a

walk. And he bumped into a mutual friend, Gianni Ruta, the financial director of the telephone company, later the financial director of ENI. Now, Ruta and I were very active members of the Federalist Movement founded by Spinelli, and we had a theory that all European projects succeeded if they had a date. During their chat on the pavement outside the Bank of Italy, Ruta reminded him that the date was a major problem because there wasn't one in the preparatory documents. Padoa-Schioppa grasped the point and explained it to Andreotti on the aircraft on the way to Maastricht, and convinced him. Andreotti understood: without a date, the project would have no structure. Then he told me that, after arriving in Maastricht, Andreotti met Mitterrand and told him, 'We need a date on this.' Mitterrand replied, 'Kohl must agree.' Andreotti, Mitterrand and Kohl happened to meet in the morning at breakfast, before the meeting opened. And Andreotti said, 'We need a date.' And Kohl said, 'I agree. But do you know what having a date means for you?' It was evident that he would have told him that we would have to start sorting our accounts out. Andreotti said, 'Yes, I understand,' whereupon they went to the meeting where the date was set at 1997 subject to a given minimum number of states, and at 1999 at the latest in any event, which is what in fact happened. On the evening of the day when the Maastricht Treaty was done, Padoa-Schioppa phoned me. It was nine o'clock in the evening. And he said, 'It's done. It's agreed. But,' he said, 'a missile so huge has been unleashed that the recoil effect will be so massive that you'll have to step right back out of the way.' And he was right, he was right, for immediately afterwards came the crisis of 1992 which looked like it would destroy everything because the missile that had been unleashed was genuinely powerful. He had understood the nature of the matter.

[**Renaud Dehousse**] So he had realised that having a date was pivotal because otherwise that event might never have happened, or the single currency, so it was a key point.

### III. The importance Tommaso Padoa-Schioppa placed on regulation

[**Renaud Dehousse**] I wanted to ask you something else about Padoa-Schioppa, about his personality. Almost his entire career was in banking, first at the Bank of Italy, then the European Central Bank and latterly as Minister for the Economy and Finance. What was his reputation in Italian banking and later in international banking circles? How was he regarded?

[**Alfonso Iozzo**] Well, he was a man for institutions; he firmly believed that the Bank of Italy was an institution. This also explains why, in the tussling over the currency, he advocated the need for an institution, the European Central Bank. The idea of the establishment, of institutions, was very much part of his thinking. There is one fact I'd like to note. He was a Director-General in Brussels. They wanted to bring him back to Rome as Deputy Director of the Bank of Italy. He was an obvious Director-in-waiting. He did not accept the post. He returned as an executive because he did not want to be appointed from the inside only to be promoted by people on the outside. He wanted the Bank of Italy to co-opt him. That was the depth of respect he had for institutions. And that was precisely the reason why he had a very important role in the world of central banking globally. Indeed, he was part of the Group of Thirty, he was held in the highest regard by people such as Paul Volcker, the very person who sought him out, and he was one of the few people in the world who could go to all these countries and be accepted and recognised. I can only describe his last work as unfinished.

[**Renaud Dehousse**] Unfinished in what sense?

[**Alfonso Iozzo**] Padoa-Schioppa was convinced that the international financial and monetary system could not work. And having become convinced of as much, he gave a lecture to the Triffin Foundation in Louvain-la-Neuve that I thought outstanding, a textbook piece, it looked to me like a programme of work. The Triffin Foundation sparked the initiative that he was later to present to Alexandre Lamfalussy, Chairman of the Foundation, and Michel Camdessus, former Governor of the French Central Bank and former Managing Director of the International Monetary Fund. They launched what

would become the ‘Palais Royal Initiative’ that led to the Palais Royal document which Sarkozy subsequently took to the G20; it outlines an evolution, a reform of the international monetary system. He put together a group of about 16, maybe 18 or so people from all over the world from China to India, Brazil to Mexico. Proof of this lies in the fact that doors were open to him, from Governor Zhou at the Chinese Central Bank to Volcker.

**[Renaud Dehousse]** Yes, he was a member of the exclusive club of major international regulators.

**[Alfonso Iozzo]** I could tell you a story I told him if you like. I told him that, if you look at Ancient Egypt, you see that the Pharaoh always kept the high priest, the priesthood, close to him. I said, if you look at the world today, you see that the inheritors of the pharaohs, the political leaders, are always flanked by the new priests: the governors of the central banks.

**[Renaud Dehousse]** Indeed, they in no small measure qualify their scope of action.

**[Alfonso Iozzo]** Yes. To be able to be, to play that role, you have to be a member of the order, the quasi-religious order of the governors of central banks. And he was one of the people in that order.

**[Renaud Dehousse]** You’ve just used the word ‘order’, but it can also be used in the meaning commonly ascribed to it, in other words, a major advocate of regulation. Indeed, I remember at the time of the 2008 crisis he bemoaned the absence of a central regulator at European level and said, ‘But if something isn’t done, everything that’s been built around the currency could be undone by the banks.’ How was that viewed in banking circles? It was not viewed as a threat of ...

**[Alfonso Iozzo]** No, banking circles didn’t even understand the nature of the problem, in my view. They were at a stage where they were too caught up in development in a very rapid market that was expanding and were not aware of the factors that were visible to him and essentially underlay the Lamfalussy Report that led later to the establishment of the European control authorities, the EBA in London.

**[Renaud Dehousse]** Yes.

**[Alfonso Iozzo]** The markets authority in Paris, the insurance authority in Germany, obviously. For the first time, the Central Bank took on the role of coordinator of these roles, but I believe that the banking union project on the table today, as defined by Mario Draghi, the union of banking markets, is essentially the response he had sought for so long; and it is the response that they must provide now because otherwise the market created by the euro will break down.

**[Renaud Dehousse]** Yes, it’s a shame that it’s taken such a major crisis to get to that point, but these things often ...

**[Alfonso Iozzo]** I don’t believe it’s impossible to take these steps without major crises.

**[Renaud Dehousse]** Hopefully, but history shows us that often ...

**[Alfonso Iozzo]** ... the opportunity is missed.

**[Renaud Dehousse]** ... so many opportunities are missed.

**[Alfonso Iozzo]** Absolutely.

#### **IV. Tommaso Padoa-Schioppa at the Italian Ministry of the Economy and Finance**

**[Renaud Dehousse]** And so we reach a final important stage in Tommaso Padoa-Schioppa’s career, the milestone for him of a new role, or new to him, in politics, as Minister for the Economy and Finance, a completely new activity to him but also very demanding because he did not accept merely so as to enjoy the title of ‘Minister’. He accepted with very precise objectives in view. What is your assessment of his work in the Ministry?

[**Alfonso Iozzo**] He was extremely clear that Italy had to use the advent of the euro to return to normality. So his first action was to ... At the time, Italy was under observation by the European Commission because it had exceeded all the limits. There were proceedings. He understood that the first thing he had to do was to bring things back within the limits and close the proceedings. He succeeded in doing so because he brought ... he was Minister in 2006, from spring 2006 to spring 2008. The budget for 2007, his year, closed with a deficit of less than 2 %, 1.9 %, compared to 3 %. And with what we would term today a 'primary surplus' in the order of 5 %. Debt fell to almost 100 %: the cycle began there. He was very clear about that aspect. And it's clear that this achievement was no stroll in the park, so to speak. As often happens, he succeeded in the first part of the first year of his term of office in getting the very difficult measures through with the votes of the extreme left-wing pro-government parties. Then he embarked on a more complex phase than the one that he had embarked upon, attempted, at first, set in motion, namely measures to reduce tax evasion. This was an important matter for Italy, where tax evasion was very high. Look at President Monti today, he faces the same [problem]. You could say, to some extent, that the Monti government programme is a reprise of the Padoa-Schioppa programme. And not by accident: only two months after Padoa-Schioppa died, Monti as President of the Bocconi University held a major meeting in Milan attended by Delors, Volcker and the President of Naples to remind people of the measures taken, and I think that, from that moment on, he became the 'candidate' to continue Padoa-Schioppa's work.

[**Renaud Dehousse**] It was the passing of the baton.

[**Alfonso Iozzo**] Yes, yes. I think that was the passing of the baton. The operation was obviously difficult, and he obviously had to manage the situation continually, but he had an enormous work ethic, that was his gift because he was always ... well, it was the aspect of him that was particularly Teutonic, organisation was important to him. So much so that the first task he undertook when he went to the European Central Bank was organisation. The machinery, the organisation was ... He devoted himself to trying to reorganise the way the Ministry operated.

[**Renaud Dehousse**] With a degree of success, but later he encountered many political difficulties because he was the target of so much criticism.

[**Alfonso Iozzo**] Absolutely, absolutely. Enormous criticism.

[**Renaud Dehousse**] Both from the opposition, which is only to be expected, but also from the majority party that ...

[**Alfonso Iozzo**] Yes, indeed. That phrase of his; he was renowned for two phrases, and I think that anyone who says he was wrong to utter those two phrases has no idea about the media. If he'd said, 'Taxes are a fair thing,' no one would have said there was a problem. He said, 'Taxes are wonderful because they allow us to pay for education, healthcare and so on.' That obviously sparked major scandal and argument. But the words stuck, and his successors have to try and get people to understand that taxes are important.

[**Renaud Dehousse**] Indeed, now, a few years later, there is finally a shift, there is broad consensus around the idea, yet at the time it was truly ...

[**Alfonso Iozzo**] Yes, it was revolutionary.

[**Renaud Dehousse**] ... revolutionary, yes.

## **V. Tommaso Padoa-Schioppa and the European ideal**

[**Renaud Dehousse**] I would like to conclude with a question on European activism, because Padoa-Schioppa had something that is perhaps rather unusual for a high-ranking public servant, an ongoing political commitment, a core thread running through his career, namely his commitment to European integration. Perhaps you could describe for us his way of acting on that issue, because it was absolutely typical of the man not to seek glory for himself but to strive to make a useful contribution to the common effort.

[**Alfonso Iozzo**] I believe he had Spinelli's spirit and Monnet's method, and he knew how to meld them together in a way few others could have. To some degree, Delors did a great deal using Monnet's method. He had European vision, but he only went so far. Whereas Padoa-Schioppa was very clear that what was required was vision, determination and what we would now call Spinelli's roadmap and Monnet's method of finding the points on which action was possible, where intervention could be effected. When he was at the European Central Bank, I was President of the Federalist Movement, and as such I was President of the Altiero Spinelli Studies Institute, based at Ventotene, the island where the Manifesto was written. As a result, I invited Tommaso to come and talk at the seminar held annually for 150 young people, half of them Italians and half from all over Europe. It was a very important occasion for him. He understood this; he told me, 'I realise that this is the schoolroom,' because over 2 500 young people had already been through there in the seminar's 20 years of existence, and many of them are Members of the European Parliament. And obviously he was ... I said, 'But of course you have to make the pilgrimage to Mecca.' It was very, even more demanding for him because he was accompanied by Barbara Spinelli, and Spinelli's tomb is on the island, and he wanted ...

[**Renaud Dehousse**] Ah, yes.

[**Alfonso Iozzo**] ... indeed, his ashes were scattered in the sea around the island of Ventotene. So it was a particularly poignant moment, and it highlighted these two aspects of his nature to me, the Spinelli nature and the Monnet nature.

[**Renaud Dehousse**] Yes, often they are held up as if they were opposites, whereas essentially they can be complementary.

[**Alfonso Iozzo**] They have been, and indeed they are.

[**Renaud Dehousse**] But there has to be someone to make the synthesis.

[**Alfonso Iozzo**] Yes.

[**Renaud Dehousse**] And that was precisely where his strength lay. Well, thank you very much for taking the time to talk to us.

[**Alfonso Iozzo**] Thank you.