

An Interview with Pier Carlo Padoan

Member of the Italian Parliament

Nomination for the Presidency of the European Bank for Reconstruction and Development

Mikaela Gavas:

Welcome to the first of our conversations with the candidates for the presidency of the European Bank for reconstruction and development. At CGD, we hope to contribute to the EBRD presidency election process in the best way we can by offering this opportunity for the candidates to discuss their visions of the future of the bank. It is therefore a great pleasure to welcome the first of the candidates, Professor Pier Carlo Padoan, former Italian Minister of Economy and Finances and current member of the Italian Parliament.

Mikaela Gavas:

Professor Padoan welcome, and thank you for agreeing to take part in this conversation.

Professor Pier Carlo Padoan:

Thank you very much for the invitation and the opportunity to discuss views about the bank.

Mikaela Gavas:

Super. Let me start by asking you what you think the strengths and the weaknesses are of the EBRD as we stand today in the midst of this unprecedented global health and economic crisis?

Professor Pier Carlo Padoan:

Well, the bank beyond the economic crisis, and even before has been going through a number of other crisis and is by definition has being dealing with transition elements, and this is where strengths and weaknesses of the bank come up very strongly. Let me start with the strengths.

Professor Pier Carlo Padoan:

The strength is related to the original mandate of the bank, which calls for a partnership between EU and non-EU countries to support transition in European economies. And to do that taking into account at the same time general principles, such as bringing the private sector closer towards market behavior, and at the same time taking into account country specific recommendations, which have to do with the way economic institutions function in an economy. So its strength has been the enormous flexibility to take into account specific situations but at the same time, doing that with general principles.

Professor Pier Carlo Padoan:

One example is the transition gap. The transition gap is a way to pin down the distance that a country has to complete before being able to exploit the full benefits of market economies. And this has been a strength also given the fact that the bank like other international institutions has gone to two major crisis, the European sovereign crisis of a decade ago, and

of course the current crisis. This flexibility will be extremely important going forward. This is a strength, and in my mandate, if I were ever to get one, I would work to strengthen the mandate and to exploit the benefits of the bank.

Professor Pier Carlo Padoan:

Let me mention weaknesses. I can mention especially one weakness, which is in a word communication. The bank has been extremely successful in helping transition countries go making progress and moving towards so-called graduation. But this is possibly not being recognized fully in the public policy debate, and not because the bank wants to be thanked for what the purpose is, but because the bank activity represent a clear success story case, which can be replicated and which needs to be adopted by other countries if they need to do so.

Professor Pier Carlo Padoan:

So more communication, more explanation even to the broader public, what EBRD is about.

Mikaela Gavas:

Thank you. What is your vision for the future of the EBRD, and particularly how would you use this period to start thinking about the shape of things to come?

Professor Pier Carlo Padoan:

My vision is to exploit these benefits that I've just discussed and to go through a renowned activity towards the transition mechanism. Of course we cannot but take into consideration that the COVID imposes a huge transition, not only to countries that were in a transition phase before the crisis, but to many other countries as well. And this is of course a case to which at least diffusing the policy approach that EBRD has followed in transition could be useful to other countries.

Professor Pier Carlo Padoan:

Let me give you one specific example, which draws back also to my previous working experience at the OECD. One of the elements of strength of an overall public policy approach is to combine the benefits of appropriate macroeconomic, financial and structural policies. Now, we need to understand how the benefits of structural reforms and structural transformation translate into growth benefits for the country that adopts them, and the obvious answer to that question is this is true investment. So if you have an effective investment mechanism, by investment I mean both public but especially private investment mechanism, that is the best way to which a country can benefit from structural reforms and translate investment into sustainable growth.

Professor Pier Carlo Padoan:

So this would be one of the elements in which what we know from successful transition cases in other countries can help the EBRD improve its effectiveness, but at the same time show the other public what the EBRD can offer in terms of good practice and experience while the country's in a very difficult situation phase such as the COVID crisis, where right now struggling with.

Mikaela Gavas:

And just following on from that, if you are chosen to serve as president of the EBRD, what would be the top two or three things against which you would like your term to be judged?

Professor Pier Carlo Padoan:

Well first of all, I would say to demonstrate that the EBRD can provide useful support to the exit we will have to all face from the COVID crisis. So let me state the obvious. The COVID crisis has said that we need to restart growing, but we need to do that with different model in mind. This is in a way was clear even before the COVID crisis when, for instance, in Europe, the commission highlighted the need to deal with the twin transition towards sustainable economy, including green sustainability and the digital economy.

Professor Pier Carlo Padoan:

Now, my view is that the COVID crisis has accelerated the need to move towards the twin transition. So we need to re-think our policy overall schemes in that perspective. And so I would like whoever takes up this mandate to be remembered as one who has successfully exploited the so-called benefits of a crisis. Remember the well-known saying, "Never waste a good crisis to improve the standard of living of population."

Professor Pier Carlo Padoan:

Which brings me to another key word, which I like to introduce in the discussion, which is inclusion. Sustainable economies and societies must also be very inclusive. We have increasing evidence that more social inclusion strengthens the economy, while of course at the same time, stronger economy provides ways to deal with inclusion, which is both a social inclusion, gender inclusion, and other ways of dealing with that.

Professor Pier Carlo Padoan:

So we need to re-think how market institutions can be redesigned and re-implemented to deal with this big challenge we're facing. And this challenge will be showing its negative impact in the next few months, so let's be very cognizant of the fact that it's not over yet. Sometime you hear people saying the crisis is over. This unfortunately is not the case.

Mikaela Gavas:

So given this different model, do you foresee any short term and long term changes specifically to the bank's operations and activities?

Professor Pier Carlo Padoan:

Well first of all, let me say that as everyone can check, the shock of the COVID crisis has been huge and has impacted on the sustainability of many institutions. From that point of view, I understand that this has not been the case of the EBRD in the sense that the bank has so far fared well with the shocks coming from the crisis. But at the same time, looking at the issue of what to do with the resources and what should institutions like the bank do with this point of view, my one element which I take from the initial evidence of the COVID crisis is that in the emergency response, inevitably, to some extent, policymakers and countries have used a lot of resources just to provide defense against the wave. So this has gone to some extent, to the detriment of being more selective.

Professor Pier Carlo Padoan:

I know it's extremely difficult to be more selective in crisis. In my government experience this has been a case for some time. You would like to put the money exactly where it's needed and exactly in the amount that is needed with the instruments that are needed. The EBRD is able to do that. But of course, if the crisis is so large, so fast, so quick to hit you right on the head, sometimes governments do not have the time. But once the initial shock wave is being absorbed and possibly stopped and sustained for a moment, then it's time to go to the counter attack in a way, and to develop transition strategies, which need to be massive in terms of resources, but also as qualitative, as selective as possible. And by selective, I mean selective in terms of, for instance, which sectors should be prioritized to obtain support, and which should in other cases not be supported because they don't need support.

Professor Pier Carlo Padoan:

Let's not forget, and this is a point which has not been very much in the policy debates so far, that one of the features of the COVID crisis has been changing the relative implicit prices of sectors and goods. Let me be less cryptic. Some sectors have gained out of the aftermath of the crisis. One is being the web industry in a broad sense because we are now dealing a lot more than before with web instruments, which is good, which is accelerating the digital transition, but which also signals as some industries have to some extent benefited from the crisis because demand for the services have increased. But other sectors, and the obvious example that comes to my mind in Italy, but also in other countries, is tourism are devastated by the crisis.

Professor Pier Carlo Padoan:

So the issue is what do we do with the money? Money is not a problem in the immediate sense, but will be again budget constraints in terms of accumulating that in the future. So governments must be more careful in allocating the resources because at some stage we will need to deal with recovery of the huge debt that's being accumulated because of the crisis.

Professor Pier Carlo Padoan:

So the challenge of the head of governments, head of institutions is really huge, but I'm confident that the bank will respond effectively to this challenge.

Mikaela Gavas:

And talking about sectors, if we think a little bit about the climate agenda, how would you make sure that the climate agenda remains front and center of the EBRD's investments in the COVID era?

Professor Pier Carlo Padoan:

Well first of all, we all know, and it's worth repeating that the green agenda of the EBRD, the GET green agenda has been launched already a few years back and it's proving to be extremely successful. This is the case in which the crisis is an accelerator. Accelerator in the sense that since we need to change our economic and social model, because green is about the economy and about society, about behavior, then we need to do it faster. And again, raising the point I was mentioning earlier, being more selective.

Professor Pier Carlo Padoan:

There is one aspect, which is how do we generate more incentive for investment in the green sector? And this is related to the point I was making that in order to benefit from structural reforms, economists must invest. Private sector investment must be directed to incentives, which can be of several nature, be directed towards the green economy.

Professor Pier Carlo Padoan:

The other side of the story is of course, green finance, which we know has been a successful industry so far. And I think that the bank will have to look more carefully into the matching of the growth of a green finance industry with the green industry system, which needs to be financed. So this is one, a specific aspect for which a private sector will do most of the job, but private sector will need to have some guidance about where the longterm perspective and resources will be allocated.

Professor Pier Carlo Padoan:

So again, this is a role for which an institution like the EBRD is extremely well equipped to deal with. And I'm convinced that this is again, an opportunity that should not be wasted.

Mikaela Gavas:

You mentioned inclusion in a previous response. The EBRD has a gender strategy. Do you think it's being implemented well enough? Or do you think that it should be doing more to pay attention to gender, both in its external investments and in its own internal policies and administration?

Professor Pier Carlo Padoan:

Well gender is a key problem, a key issue, a key challenge, and a key opportunity. To be frank, I think more can be done at the EBRD to internalize and mainstream the gender agenda into the policies. This is because this is one component of the inclusion agenda, which is a broader agenda, which needs to be introduced, and also because it is economically interesting so to speak, to have a gender agenda.

Professor Pier Carlo Padoan:

Let me try to articulate the point. First of all, and this is what is probably one of the dangers Europe is running against, once we exit the emergency phase of the COVID crisis there will be a tendency to more divergence rather than convergence if policy is not active enough. This divergence strength could be extremely negative for those who parts are excluded. So the agenda exclusion could be accelerated by divergence because [inaudible 00:15:55] segments of society will be more relevant unfortunately if policies do not adjust.

Professor Pier Carlo Padoan:

So from that point of view, I think that there is a lot of work to do to putting together the economics of gender exclusion, the sociology of gender exclusion and the finance of gender exclusion. Again, finding appropriate instruments for people that are victims of gender exclusion, to add the resources to not only to be included in the economic system, but to contribute.

Professor Pier Carlo Padoan:

Let me just give you an example, which comes from my country once again, and my apologies for using it. Family is a key policy in which some countries fare better than others. And now economists are discovering maybe a bit too late, or at least some economists are discovering, that having an inefficient gender policy, little support for families, damages the whole economy and not just those families that are excluded from the benefits of growth. In times of crisis, this is especially important. And this goes back to the point I was making earlier about being more selective in support. One way of dealing with gender inclusion is to recognize that some segments of the population also related to gender, are more severely hit than others in terms of benefits of growth, in terms of benefits of structural measures.

Professor Pier Carlo Padoan:

Let me give you one example. I mentioned family [inaudible 00:17:39] mention education, education opportunities, other things equal. I have a gender bias, unfortunately, which needs to be addressed and needs to be addressed and targeted by appropriate resources. This is again why once we are out of the emergency phase of the COVID crisis, we need to be more qualitative and selected. Moving towards a longer term horizon helps us to do that because we have more time to design and implement investment programs that go in that direction, but this needs to be part of the strategy from the start, from the beginning, and not just an additional chapter in the story of country strategies, for instance.

Mikaela Gavvas:

So do you believe that the EBRD should set targets for measuring the implementation of both its external gender strategy and its internal strategy?

Professor Pier Carlo Padoan:

Well measuring impact of any policy, not just gender strategy, is useful. Policymakers on a daily basis use indicators of what is happening in terms of public finance, in terms of structural performance, in terms of growth. I am certainly in favor of being an economist by training of knowing a bit more before saying a bit more. Indicators of success are extremely important. And in my experience with international organizations, including the OECD, but before that, including the IMF, one of the points that were raised initially ... and I'm talking about 15 to 20 years ago ... one of the questions that were raised was how are you sure that your policy recommendation works. And many years ago, the answer was, we do not know. Now if you ask the same question to international organizations about specific policies, are you sure that those policies work, you tend to get much more precise and specific questions.

Professor Pier Carlo Padoan:

The issue is therefore, yes, we need more information, more measurement of impact. The measurement of impact, however, is not that easy to state the obvious. But again, let's use the crisis and opportunity. Let's agree among policy makers, among international organizations that we need metrics to deal with gender inequality, but also other inequalities that may emerge we are not aware of as a consequence of the crisis.

Professor Pier Carlo Padoan:

And since we're mentioning the COVID crisis let me say that this COVID crisis has changed the world also for another reason; for raising awareness, that we must know how pandemics eventually break out and diffuse. Epidemiologists tell us that we will live with pandemics in

the future more than we do now. Possibly we will be more aware of the pandemics risk and this is essential to provide investment in sectors that protect us against pandemics.

Professor Pier Carlo Padoan:

So one of the key messages is yes, we need to know more about preventing risk of pandemics, including its social consequences, including gender consequences, but also as a guide to structure programs.

Professor Pier Carlo Padoan:

For instance, in many countries, there is the awareness that healthcare spending needs to be upgraded significantly because the threats to health are much more acute than we thought they were a few months ago.

Mikaela Gavas:

Now moving on to the EBRD's countries of operation. What is your view of the EBRD's proposed expansion into Sub-Saharan Africa? And what do you think is needed to enable the EBRD to be really effective in that region?

Professor Pier Carlo Padoan:

Well since you mentioned Sub-Saharan Africa let me take this opportunity to thank Sir Suma Chakrabarti, whose mandate has just expired because among other things, he was the one who started work in this area and opened a new frontier I would say, the EBRD geography expansion.

Professor Pier Carlo Padoan:

I think that there is a potential role for the EBRD in the region. This potential role is particularly interesting for EU countries that consider the region as a priority region. I think that there is a possibility and scope to consider in a selective and a specific way, some countries in the region to be considered for intervention. This has to be done carefully. Also because in designing transition strategies to go back to my one of my initial points, we need to work with general approaches such as the EBRD tradition on firms, but also take into consideration countries' specific situations. This is possible.

Professor Pier Carlo Padoan:

There is another condition, which I think is extremely important in this case. That cooperation with other multilateral development institutions like regional banks should be strengthened so that the EBRD, if it were to provide support, it would provide support according to its comparative advantage in terms of flexibility of its business model, but also draw on the experience of other institutions and work together and in the division of labor.

Professor Pier Carlo Padoan:

This is the way to move forward given the options, but also given the fact we need to deal with other countries as well.

Mikaela Gavas:

And speaking of cooperation, just thinking more broadly now about the European development finance architecture, and I have no doubt you're aware of the proposals that

came out of the Wise Persons Group on the future of the European development finance architecture, and in particular, the debates around the roles of the EBRD and the European Investment Bank. So what are your views on the future institutional composition of European development finance, and how do you see the role of the EBRD evolving in particular in relation to the EIB?

Professor Pier Carlo Padoan:

Well first of all, the time is right to provide an assessment of this is this important area, which is also very complicated. And let me say that I very much appreciated the contribution provided by the Wise Persons Group and the report they issued quite recently.

Professor Pier Carlo Padoan:

Well, I think this is one classic area where institutions should find ways to collaborate more effectively. From the point of view of the specific case you mentioned, Europe needs to let me say, develop a narrative about Europe's view on development finance, especially in neighboring countries. And once this narrative is developed, then there are the basis for asking the next question, which is, who should do what in this agreed common narrative.

Professor Pier Carlo Padoan:

I am a strong believer in the notion of comparative advantage. I've worked a lot in my academic career in international trade, so I know how important comparative advantage is, and this is true also of institutions. Institutions evolve in a situation where multilateralism is under threat for a number of reasons. I think that the benefits of multilateralism are way larger than possible shortcomings of multilateralism. So I think this is the case where institutions should cooperate exactly to explore the benefits of multilateralism, and to do that through the principle of comparative advantage.

Professor Pier Carlo Padoan:

Now as far as the EIB and the EBRD are concerned, I see these institutions two strong players that interact among themselves between themselves, but also interact with other institutions, including other multilateral development banks, but also including with a national development banks, which, which are in cases very important, big players, also an international arena.

Professor Pier Carlo Padoan:

So my reaction to the point is let's recognize that comparative advantages are an important guiding principle. Let's understand on how this can be exploited in terms of common governance and let's strengthen each one on its own area of advantage. Let's deepen this comparative advantage and let's see where the overlapping can be eliminated if it is a cost.

Professor Pier Carlo Padoan:

I take this opportunity to remind that when I was Finance Minister of Italy in Italy at the G7 presidency, as a finance minister, I supported strongly a re-thinking of the multilateral development bank system, because one has the impression it needs to be nailed down with hard facts, that sometimes there is opportunity for filling gaps on the one hand and avoiding duplication for the other hand.

Professor Pier Carlo Padoan:

So let's take this general approach the multilateral organizations and structures to the case we were discussing, I'm convinced that we can come up with a stronger European system of international financial architecture.

Mikaela Gavvas:

Thank you. And finally, can you tell us something about your own career and background and how your experiences have shaped you to be an effective president of the EBRD?

Professor Pier Carlo Padoan:

Well thank you for this very personal question. I'll be happy to give some further information about my career.

Professor Pier Carlo Padoan:

I started my career as an academic and I've been Professor of Economics in a number of universities, including outside Italy. I am currently just retired from being a professor of economics at the University of Rome, where I graduated a few years ago. My areas of interest have been threefold. One has been econometric modeling, which was very time absorbing and very painful, but also very interesting. The other area where I worked a lot has been international economics, including international trade and international knowledge competitiveness. And finally, I worked a lot on an area which in the 1980s was known as international political economy. That is to say, to understand how international organizations evolve, how they reflect country specific interest, group specific interests, and how they can interact to provide global public goods. This area of expertise I think, has been obliterated for some time, has been kept in the drawer for some time. Now it's time to take it back on the table because it provides useful insights.

Professor Pier Carlo Padoan:

Having said that, I started working more on the policy area in the late 1990s. I was an economic advisor to a couple of prime ministers in Italy, especially in international issues, such as EU relations, G7 and G8. At the time there was G8 policies. Then I spent a few years at the International Monetary Fund as Executive Director for the Italian constituency. And I had the opportunity to see from there and help there the introduction of the Euro, which was a major structural change and was really a situation where the role of Europe was highlighted.

Professor Pier Carlo Padoan:

By the way, I had the opportunity of living through some major financial crisis, including the 2001 Argentine Financial Crisis, which was very severe at the time and which proved however, how the resilience of international institutions are a key element to provide support and strong development into international area.

Professor Pier Carlo Padoan:

I then moved to the OECD initially as Deputy Secretary General, and then also as Chief Economist. Again at the OECD, I witnessed a major crisis because I was there as Chief Economist when the 2008, 2009 financial crisis broke out. And so this is an area where I especially developed the notion that policymakers need to do to make the best use of what they can with their policy instruments they have at their disposal. So this is where

macroeconomic, both fiscal and monetary policy must interact in better ways with structural reforms, the point which has now become accepted broadly, but which at the time was not so much.

Professor Pier Carlo Padoan:

Let me mention one point if I may, in this respect. At the time of the big financial crisis, as you may recall, the G20 [inaudible 00:31:42] level was established. And the G20 included a number of emerging economies, such as the big place, such as China, such as Russia, such as Brazil, which initially did not want the OECD as an international organization to participate in the meetings because they said that the OECD was not including in membership the emerging economies. Why am I mentioning this? Because eventually by showing that international organizations can provide useful advice be it financial or nonfinancial, this is a benefit for all countries, be they member or non-member states. Now the OECD is a fully accepted and welcomed member of the G20 gatherings and is providing extremely important inputs.

Professor Pier Carlo Padoan:

So this has been also a very important element in my career, which I take along with me; interaction of different policy instruments in a one coordinated set and a strong role that international organizations can play in fostering international cooperation and addressing crisis. Something which I hope will be remembered when we take a stock of the COVID crisis, which in my view will require much more international cooperation.

Professor Pier Carlo Padoan:

And finally, of course, my experience as a finance minister has been extremely important for my knowledge, hopefully has been useful for my country. And I would like to take this opportunity for thanking the Italian institutions for giving me this opportunity. But also with one element of substance, which again I think is extremely useful when looking at the EBRD; Italy when I became finance minister was just exiting a severe recession and was lacking growth. And so the strategy of the government became a twin strategy of dealing with the effects of the financial crisis, which has been particularly severe against balance sheets, against retail savers, and the role of structure reforms. Italy badly needs structural reforms to raise its potential rate of growth.

Professor Pier Carlo Padoan:

And one of the difficulties that is associated with structural reform is that sometimes there is not enough urgency in the policy debate about structural reforms. Why am I mentioning this? Not just to, again, speak only about Italy, but because I think we are now globally facing a similar challenge. We need to feel the urgency of structure reforms so that they can contribute to exiting the COVID consequences in a way that is useful for the individual countries and for countries as a whole.

Professor Pier Carlo Padoan:

Again, the EBRD has a unique expertise in how to combine structure reforms action with macroeconomic policies for the benefits of these specific countries, but also for the spillover benefits, one element which I'd like to stress in concluding my answer, spillovers are much more important than we tend to think. We may be seeing a phase of globalization, which is more interior looking rather than exterior looking, but spillovers still remain. And we need to

harness the benefits of interdependence while dealing with the negative consequences of interdependence, which are of course there. And pandemic is certainly one of those.

Professor Pier Carlo Padoan:

So I would say that in my different country career experiences I accumulated a little bit of knowledge, which I hope could be useful to the EBRD well.

Mikaela Gavas:

Thank you very much Professor Padoan. I'd like to give you the opportunity to add anything further, anything you think we haven't covered, which you would like to express.

Professor Pier Carlo Padoan:

Well let me take this opportunity to thank the Italian government for having offered me the opportunity to be a candidate for this very important position. Whatever the result will be I will be happy to respect of course the indication of the EBRD membership, which is an extremely rich membership.

Professor Pier Carlo Padoan:

And let me say that looking at its membership, its number and its diversity, one element comes to mind, which I offer as a concluding thought, that diversity is a benefit for those who can participate in joint institutions organizations. Joint organizations are successful for two reasons. One, when they have shared common values that are strong and accepted and two, when they exploit their country's specificities as a benefit for others to learn or to accept lessons from others. So diversity is the other side of integration and it's a benefit, and EBRD is an instrument to harness the benefits of integration because it's based on common principles. So this is an exciting institution we're talking about.

Mikaela Gavas:

That's wonderful. Thank you very much Professor Padoan for your time, for agreeing to set out your vision for the EBRD. It's been a real pleasure talking to you. Thank you.

Professor Pier Carlo Padoan:

My pleasure. Thank you.