

RETHINKING THE EMU AND MAKING GREATER EUROPE POSITIVE AGAIN

Jacques Delors | *Founding president of Notre Europe - Jacques Delors Institute*

0ur founding president Jacques Delors delivered a speech on 5 June 2013 focused on three main elements: the three shocks the EU needs to address, the EMU's restructuring and the Europe of Twenty-Eight, during a conference organised in Lisbon by the Gulbenkian Foundation to launch a new multiannual partnership with *Notre Europe - Jacques Delors Institute*.

Allow me to thank the Gulbenkian Foundation for inviting me here to address you in what are difficult circumstances for your country, and also to applaud this cooperation between the Gulbenkian Foundation and *Notre Europe - Jacques Delors Institute*, which is chaired by a compatriot of yours, the very admirable António Vitorino.

I have numerous good memories where Portugal is concerned: membership negotiations, the pre-accession programme, the transition period, then the economy taking off, with the whole of Portugal - the political classes, businessmen, trade unionists and others - nurturing immense hope and displaying boundless determination. I have come here to talk to you today under very different circumstances, and the president of the Foundation has painted a striking picture. Indeed I am deeply struck by the country's difficulties and by the personal difficulties experienced by many Portuguese people, seasoned even with the occasional whiff of despair. Yet while Europe is not THE solution, it is a part of the solution. As I said back in the days of the referendum on the Maastricht Treaty in France, what we need to tell each country is this: "Help yourself and Europe will help you". Explaining is not enough, but it is still necessary. Talking about Europe, and about Portugal in particular, requires a long memory. I shall express my thoughts with a great deal of prudence and, I hope, with a great deal of sensitivity.

First of all, I think that the construction of Europe is facing three shocks which it must endeavour to address and to govern. Second, the Economic and Monetary Union (EMU) as it stands today needs to be virtually rebuilt. This, because for such an edifice to be manageable, decisions need to be taken in good time and rapidly implemented, yet the system is so complex that that is no longer the case. Thus we are basically going to talk about the EMU, yet we should take care not

to overlook Greater Europe, a Europe of twenty-seven members (or twenty-eight in the near future) whose existence has in many ways been overshadowed by the crisis in the euro zone. If we wish to map out a future for Europe, we also need to shine the spotlight on what I call "Greater Europe".

1. Europe and the three shocks

Europe needs to address three shocks: the sovereignty shock, the globalisation shock, and the human error shock. Only if we take these three shocks on board can we begin to talk about a way out of the crisis. What purpose do encouraging words for the future serve if we are not concerned with emerging from the crisis today? Yet we need to take into account the differences in situations and structures - Portugal is not Ireland and Spain is not Greece - and the individual nature of the treatment to be applied, in the knowledge that the crises and the errors made by certain countries have an economic and social cost. Of course, that cost must be neither too high nor borne for too long. It is crucial that a light be perceived at the end of the tunnel. This mention of collective errors, including those made by the Economic and Monetary Union authorities, shows us that the EMU needs to be changed in depth.

To emerge from the crisis, I shall quote a formula coined by Tommaso Padoa-Schioppa, a former president of *Notre Europe - Jacques Delors Institute* and former Italian economy minister who is sadly no longer with us: "Stringency for the states, growth for Europe". Today, though, while we see stringency, while each country is addressing it in accordance with terms described in detail earlier by the president of the Gulbenkian Foundation, we are still waiting for Europe to impart that fresh boost, and I do not mean a simple communiqué from the European Council telling us that 120 billion euro have already been earmarked.

The EMU must become manageable, in other words it must become capable of reaching decisions and of then implementing those decisions, as well as of agreeing on the appropriate time frame for them. The European Central Bank (ECB), which has been working well these past few months, must continue to pursue its action and to modulate it in order to address one of the most important shortcomings, namely the market fragmentation that is preventing Portuguese businesses from having access to credit at reasonable interest rates lower than the expected return on the loan. It is not right for the ECB to have pursued what our US friends call a quantitative easing policy yet for that money to be impossible to access. Thus it is necessary to invent tools, possibly more daring and more risky tools, to ensure that the aid provided by the ECB trickles through to the Portuguese people and their businesses. If Tommaso Padoa-Schioppa's formula is valid, then Europe also needs to rapidly adopt those measures that will allow the people of Portugal to say: "Now there are the bases for recovering growth and employment". Because that is precisely what is missing. There is an awful lot of debating but there are insufficient practical results. Without sticking our neck out too far, we can say that there is a feeling of urgency showing that it is possible to improve the situation and, in particular, to tackle the hurdles currently preventing Portugal from rediscovering activity, growth and jobs despite the implementation of fully two-thirds of its fiscal consolidation plan.

1.1. *The sovereignty shock*

The first shock Europe has to cope with is the sovereignty shock. This lies at the junction of national and European interests and has to combine the proper functioning of the institutions with member countries' ability to compromise. But we may ask ourselves just how far the sharing of sovereignty goes. It really pains me today when I see ministers going to see the Commission in Brussels the way a pupil goes to see his teacher or his professor to hand in his homework. If that is what Europe is, then it is fairly obvious why it is not more attractive and why no one has any confidence in it. Shared sovereignty means that while each country has indeed surrendered a part of its sovereignty, it also takes part in the decision-making process. There is not just the Franco-German duo (necessary, but insufficient of itself), there are all the other countries too. Thus we need to rediscover that *modus operandi* so that the citizens realise that Portugal has its say in EMU affairs too, just as it does in European affairs.

Naturally, the crisis has exacerbated the sovereignty shock problem, which has been supplemented by an identity crisis and by the inclination of countries to turn in on themselves. We see populism gaining ground on the left and on the right, which raises the concern that at the next elections for the European Parliament we may see an excessive number of abstentions and of anti-European votes. In this context, national governments are tempted to play on people's fears and anxieties and to draw closer to the protest movements or (and this is a speciality of Paris) to seek scapegoats, a role for which Brussels always comes in handy. Yet it is not Brussels that makes the decisions, it is the governments. At the very least all the governments should decide together. Some countries are going to set a different example and the institutions are going to have to play their role. I would remind you that one of the Commission's roles, without being excessively ambitious, is to attempt to get the European interest into focus, to get the governments to perceive that interest and to get them to mull it over.

1.2. *The globalisation shock*

The second shock is globalisation, a phenomenon at once geopolitical, demographic, economic and social. In 2020 the Europe of Twenty-Eight will account for some 7% of the world's population, as opposed to 30% in 1945. The globalisation shock is thus also a social and cultural shock because in the emerging countries everyone wants to eat their fill, get an education, have health care and hold down a job, and they are knocking on our door. We must not turn in on ourselves but we must stand by our values, and that is the difficult thing for the Europeans, namely to stay true to themselves while being open to other ways of thinking, to other civilisations. Václav Havel put it very well when he said: "Europe must not set itself up as a power but as a role model, also paying heed to the values and cultures of others; that is the only way to turn Europe into an agent of peace". There may also be a vitality shock: these people are motivated, they are hard-working, they are in the World Trade Organization and they want their place in the sun. Europe was more or less the centre of the world for many centuries. Well, we are not any longer, but that is no reason to accept decline, to forget our values, to sell off our social security system. If we are to avoid doing that, however, our vitality needs to be equal to that of these countries that are coming up in the world.

1.3. *The human error shock*

And lastly, there is the human error shock. The construction of Europe is by no means a long, calmly flowing river. Certain difficulties are caused by external sources, but others are the result of our own mistakes. First of all, at the national level: in all of our countries bar none there is a generation shock. I told the European Council in a White Paper back in 1993 that “we, the adult generations, have a tendency to resolve our problems amongst ourselves, without worrying about the future generations”. Well, we have now come to the crunch. What are we going to leave the future generations? An over-indebted state with insufficient potential for creating jobs. The generations currently in power, and even those (like mine) that went before them, must be concerned by this. It is all too common here in Europe for the bosses and the trade unions to thrash out agreements, or for governments to forge measures, without sparing sufficient thought for the younger generation. This is cruelly brought home to us today when we see that 40% of young people in Portugal are on the dole. Human errors must be remedied and there is no “miracle worker” called “Europe”. Each player must play his part, first and foremost at the national level.

On a European scale we witnessed the ideology of money and of the markets being crowned king, an ideology which dominated the world for some fifteen to twenty years. People even tried to explain to me that this system created values, in other words the stock market rose, one business bought up another and sold it off in smaller parcels, and that that created value for those steering the operation. But that ideology then turned into a fiasco and the financial crisis has been the dramatic litmus test proving that, plus it has also coincided with a moral crisis. We sometimes need to be capable of discovering the link between morals and the economy.

The Single European Act, which imparted a fresh thrust to Europe (and Portugal was already a member), was a founding treaty. It set modest rules for Europe and did not use big words. There was no mention of a common foreign policy because everyone knew that such a thing was impossible. But the idea was to build an economic, financial and social area that would be powerful thanks to its size and that would be open and stimulating, and its three pillars were competition, cooperation and solidarity. Competition has made progress within Europe thanks to the single market. There are still a fair number of problems but we can

assert that 80% of the job has been done. And solidarity, for its part, has been expressed through the cohesion funds. The missing link has been cooperation. But there cannot be any European construction process without a spirit of cooperation. Even if we change them, the institutions cannot do everything. This spirit of cooperation has never reigned in the Economic and Monetary Union. It was simply a question of the common currency, and the Stability Pact served as gauge. People used to say to me: “Mr Delors, you have never been a great federalist; all it would take would be to hand over more powers to Europe”. The trouble is, it is difficult enough to get Europe to work properly with the powers it already has today.

The real problem is the spirit of cooperation, which has never existed, and it has been absent in particular from the Economic and Monetary Union, whose structure is unbalanced. In fact, I often used to say: “The EMU is walking on only one leg, the monetary leg; we have forgotten the economic leg”. Well actually, the Delors Committee Report of 1988 that preceded the EMU did talk about it. I have often reminded people of that fact, but to no avail. And yet I recently got some small intellectual satisfaction, although that is doubtless no consolation for you, when Mrs Merkel told the European Parliament: “I have reread the Delors Committee’s report. If we had followed its advice, we would not be where we are today”. That revelation on Mrs Merkel’s part, however belated, bodes well for the future.

The governance of the euro zone has been negligent, hence the Eurogroup’s political and moral responsibility. This explains why, referring to Greece, I said back in 2011 that Europe was teetering on the edge of the abyss. We were waiting for the firemen, but they had no hoses; and we are still waiting for the architects for the reconstruction. The Eurogroup’s moral and political responsibility was involved so we could not simply let Greece go. Some people said: “If Greece goes, there will be a domino effect and the whole structure will collapse”. Greece’s responsibility was not the only thing involved (superficiality, doctored statistics and so on), there was also a moral responsibility, not to mention a technical responsibility. I mention the Eurogroup’s moral responsibility because even without subscribing to the quantitative theory of money, the European Central Bank and national central bank governors are aware of the amount of money in circulation. The excessive amount of money in circulation explains the bubbles in one place and the speculation in another.

The establishment of the Economic and Monetary Union was not well managed. The transition to a single currency was far more important and dramatic than the transition to a single market, yet people underestimated what the transition to a single currency – a transition which not a single citizen could ignore – actually entailed. When we set up the broad single market that I proposed back in 1985, the press barely mentioned it and the public knew virtually nothing about it, whereas when the euro was brought in, the whole world was aware of the fact. The currency was a symbol of prosperity but also of a standard of living. We should have been encouraged to prepare for the transition to the euro with far greater care, possibly even waiting another three or four years. It was difficult to transition to the single market, but it was extraordinarily difficult to transition to the single currency. Hence the importance of addressing this issue here at the Gulbenkian Foundation today.

2. Rethinking the structure of the EMU

The crucial problem today is rethinking the Economic and Monetary Union's structure. The EMU must be built around a principle to which certain pro-Europeans are unfavourable, and that principle is differentiation. According to former German Foreign Minister Hans-Dietrich Genscher, differentiation means that "one country cannot force others to move further forward than they wish, but by the same token those countries cannot prevent those who wish to move further forward from doing so". When I talk about consolidating the EMU, people say: "Mr Delors, we not going to make another treaty, it takes four years to put one together, then another three years to ratify it...". But there is no need for a new treaty because the translation of differentiation into institutional terms is called enhanced cooperation and it already exists in the treaty. It allows certain countries to move further forward on condition that they comply with the general rules, in particular with the basic rules governing the single market. It is thus this enhanced cooperation that we need to implement.

Political responsibility is based on shared sovereignty, in accordance with which each country is allowed its say. There would be a top group of heads of state and government leaders and a Eurogroup which would vote democratically, in other words on a qualified majority basis, so that for instance a single country cannot obstruct an aid policy for Portugal, as attempts were made to do in Greece's case. So there would

be a Eurogroup with a permanent president, as the French and Germans have recently proposed (albeit not in great detail). The Commission would continue to be the guardian of European interests and to have the right of initiative – without that right there would be no Erasmus programme today, which shows you just how important it is. Finally there should be some democratic accountability. For the euro, the European Parliament cannot be the sole democratic foundation. And in any case, the European Parliament is going to have to consider whether it should meet in a seventeen-strong group or a twenty-eight-strong group. It is up to the European Parliament to decide, but it must not complicate the situation either. I am also in favour of the most important decisions being submitted to an assembly of the economy and finance committees of the national parliaments for their opinion, so that national parliaments are involved in the issues and even, whenever necessary, so that they can debate them either in a plenary session or at committee level. This institution to be set up, comprising representatives of the national parliaments, is a means of better establishing the Economic and Monetary Union's democratic accountability. One of the most sluggish countries where Europe's progress is concerned is the United Kingdom, and yet the British prime minister appears before the House of Commons ahead of every European Council, and again on his return to report on developments. Take a look at what happens in the other countries and you will soon see the difference! A parliamentary basis is a factor in European democracy, and whenever an issue concerns the currency, taxation or the welfare system, parliament must be brought into the debate in one way or another. A way of achieving this can be found, and it will also help the principle of European citizenship to spread. So, those are the tools that are necessary, and even possible, in the context of enhanced cooperation.

Where economic, financial and social governance is concerned, the Eurogroup is going to have to have resources at its disposal. The Portuguese authorities place a great deal of emphasis on a banking union, which will also be a way of trying to avoid market fragmentation. But another thing that is required is an independent budget for the Economic and Monetary Union. This independent budget would be funded by a financial transaction tax or by some other fiscal resource, with a special cohesion fund within the Economic and Monetary Union. This, because what really lies at the base of the imbalances between Germany, Austria, Finland and to some extent The Netherlands on the

one hand, and the other countries on the other, is the shrinking in those countries of their structural competitiveness and prosperity base. To recover a growth model, Portugal or other countries need special aid, which has nothing to do with normal cohesion funds but which would allow them in the space of about ten years to build an industrial structure or a research policy for that specific purpose. I am well aware of the fact that the service sector is the most important activity, but we should not overlook industry. A tie between industry and research is crucial. And besides, industry is the first customer in the research sphere and in the sphere of the new information technologies. We would need a super cohesion fund, which does not need to be huge but which would allow these countries to say: "We have lost a healthy competitive base, but we can rebuild it". And indeed it would be easy to draft a cooperation accord between the EMU's European authorities and each country. We also require an economic regulation tool rather than mere aid, so as to be able to smooth the path in the event of critical economic circumstances should the need arise. The Economic and Monetary Union is going to have to move towards a relative harmonisation of taxation, and more importantly, towards a harmonisation of company tax. That is where we find the truly disturbing factor hindering a deepening of the internal market within the Economic and Monetary Union. The EMU will of course stand to gain from a deepening of the internal market, a large part of which has yet to be built, in particular in the sphere of the service industry.

That is the structure which, without making any changes to the treaty but with clear institutions capable of taking rapid decisions, and with the political will of the member states, could allow the Portuguese people to say: "We are stakeholders". If this super cohesion fund existed, it would be a contract between the country, in this instance Portugal, and the relevant institutions. It would put a stop to all the bureaucracy, it would restore a little confidence in each country, and it would rapidly give countries in difficulty a breather, putting fresh wind in their sails.

That is how I think it is possible to instil the feeling in our people that all of the EMU countries are in the same boat and that they all decide together in a framework of shared sovereignty. Certain tools simply reflect common sense: you cannot govern the currency without the economy or the economy without the currency, with a degree of fiscal and social harmonisation. All of this would make it possible to renew the EMU. I am not saying that if such

a decision were made by the heads of state and government leaders next month, the Portuguese people would immediately feel the benefit, but what they would feel is that there are prospects and that there is no arbiter of style in Brussels or a Franco-German duo ordering everyone else around. This would avoid a lot of the unfortunate remarks being aimed at Mrs Merkel, who does not deserve them.

3. The Europe of Twenty-Eight

Having said all of that, Europe is a great deal more than just the Economic and Monetary Union. It is a group of twenty-eight, not just a group of seventeen members of the euro zone. The other eleven countries sometimes wonder what they are doing there, because all people talk about is the euro. That is why we need to enhance the assets of the twenty-eight-strong Europe, to make the EU positive again regardless of the Economic and Monetary Union. Indeed that was the initial horizon envisaged by Europe's founding fathers. They said: "We on this continent ravaged by civil war and strife have decided to work together to promote mutual acknowledgement and recognition among its peoples, to resort to the law to settle any differences we may have, and to further our desire to be open to the rest of the world and maybe one day even to propose a solution for the governance of the world's economy". Their aspiration is still relevant today. Before Europe encountered its difficulties, you should remember that the Latin American countries wanted to set up Mercosur along the lines of what we had achieved, and that at one time the ASEAN attempted to change and to veer more strongly towards a system inspired by our approach based on diversity in unity. That is Europe's ambition, and it must go hand in hand with the renewal of the euro. If we return to the terms of competition, cooperation and solidarity, we should not underestimate the cohesion policy, peace or the means to foster peace by rallying around a common right.

Europe a power, as the French like to say, or Europe a source of influence? Well, we need a bit of both. We need the power to negotiate with others in our capacity as a trading power when, for instance, people want to dump their solar panels on us, or when the United States wants to build culture into the future US-EU agreement. We need power, but I realise that the Europeans first need to agree with one another. I wanted to convey to you the simultaneous need for power - without excess; this is not Charlemagne's Europe, after all - and for influence. I sincerely believe that that influence is a crucial factor, but

only on condition that we shed the kind of Western pride that has done us such harm and that prevents us from understanding others.

We can impart a fresh boost to Greater Europe through an environmental policy. There is no need for lengthy debate to discover that we respect neither nature nor man's rhythm. An environment policy for the whole of Europe has yet to be devised.

The neighbourhood policy is undoubtedly one of the important spheres as well: Ukraine, Turkey and other countries are watching us. Africa is emerging from its torpor, people are forecasting fairly high growth rates for it over the coming years and China is very active in the region. Yet to some extent Africa still casts its gaze our way. Are we going to show ourselves to be insensitive or uninterested in that? And we should also consider devising an aid policy for war victims and for development.

And lastly, there is the European energy community. This is a proposal that I made three years ago. You know, the saddest moments for a militant pro-European like myself are when I see each of our countries traipsing off individually to see Mr Putin in order to win a favourable rate for gas or oil. Mr Putin must feel vindicated in his vision of the world, a highly cynical vision, when he sees that we are not even capable of negotiating together in the name of trade policy. And I could supplement that story with a long list of wasted opportunities. A European energy community does not mean that each country would have the same energy mix. Germany, for instance, does not want much nuclear energy... But we can agree on that point and still devise a common policy and a policy for the future. A development of that kind would allow us all to go and see Mr Putin together. And then we could say that Europe finally has a common foreign policy.

That is why we must not just think of the euro, we must also make Greater Europe positive again so as to boost the European peoples' morale. Let us think of this Greater Europe, of what we, without being complacent or proud, can still give to those people who are looking towards us. Look at the compromise between

Serbia and Bosnia-Herzegovina. They have managed to thrash it out because they both hope to join Europe and they know that if they carry on with their wrangling and their bickering, if they spell trouble, they will not be able to join!

Europe still wields a power of attraction, but does it deserve to wield that power of attraction? That is the question! To ensure that it does, we need on the one hand to turn the Economic and Monetary Union into a consistent unit within which Portugal feels that it is a stakeholder involved in the decision-making process and a player in all the rest, and on the other hand we need to breathe new life into the sails of the Greater Europe envisaged by its founding fathers Schuman, De Gasperi, Monnet, Adenauer and others - this Greater Europe that does not aim to enforce the euro on everyone, that has no great dreams of a common foreign policy. And indeed that was one of the criticisms levelled at me when the Maastricht Treaty was being prepared. People would talk to me about a common foreign policy but I would answer: "Do not let us get people dreaming, because the more we get them dreaming for no purpose, the greater the distance we will be putting between them and the European blueprint".

We also need to dream about this Greater Europe, with the formidable tool that an Economic and Monetary Union would be if it were properly functioning, more cohesive and more comprehensible both to the man in the street and to the national parliaments because they play a role in it. On the other hand, there is this dream of a Greater Europe, of this group forged by a common ideal of peace and brotherhood, by people's mutual acknowledgement and recognition, by a rejection of all forms of indignation or of scorn for others, for anyone who is different. Putting it in a nutshell, that Europe still exists and if we wish to be loyal to those who tried to create it after so many wars, we need to think of it today in terms of these two new perspectives: the Economic and Monetary Union, but also Greater Europe, an area of peace, brotherhood and social balance. In other words, an area of controlled freedoms.

Thank you.

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