

LEADING EUROPE FROM THE FRONT

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Our honorary president Pascal Lamy delivered the 3rd Tommaso Padoa-Schioppa lecture at the 2013 Brussels Economic Forum on 19 June. This Tribune, based on his speech, deals with three key elements: the European crisis, the relevance of a further European integration and the avenues for such a closer European integration.

I am very glad to be in Brussels to address the Brussels Economic Forum and deliver the Tommaso Padoa-Schioppa lecture.

Tommaso was unpretentious, determined and competent. He always thought – like Jean Monnet – that it wasn't enough to have ideas, you also had to propagate them, plant them in fertile soil. And this is precisely what he did, in finance, in economics and in monetary issues, with Europe at the centre of his endeavours. He was both an architect and an engineer.

Two years ago, Tommaso left us. Many in this room lost a friend. We all lost a guiding light. We lost much-needed intellectual input precisely when Europe is suffering the gravest crisis in 50 years.

1. The crisis in Europe – the European crisis

The word "crisis" is not new in the European vocabulary. In fact, history has taught us that European integration has weathered many crises.

Some of you in this room will remember De Gaulle and his "empty chair" policy in 1965 and 1966.

With the recent death of Margaret Thatcher, we have been reminded of her fierce drive to reduce the UK's contribution to the European budget in the 1970s. This led to serious conflict over the financing of Europe which still remains to this day.

In the 1990s, we saw the European Monetary System crisis, which was followed by the demise of the European Commission in 1999.

More recently, Europe was shaken by the French and Dutch rejecting the European Constitution in their respective referendums.

But today's crisis is not just another example of taking one step back to jump three steps forwards. This time, it is an existential crisis. It is a crisis about the pursuit of the very European integration process which started in the 50's. In fact, we are seeing a triple crisis unfold.

First, a **crisis in legitimacy**. As the recent Eurobarometer and Pew polls show, support for the EU among the public is sharply declining. Part of this stems from the severity of the economic crisis which started in 2008 and which is having a serious impact on many European citizens. But another part results from the perceived "division of labour" between Brussels and European capitals: "austerity" for Brussels and "growth enhancing measures" for the capitals. And all of this comes on top of a longer term disaffection with Europe. Interestingly, these polls also show that Europeans do not want to return to their national currencies. They want the euro and they even accept that changes and reforms are needed. But they are not seeing concrete answers to their concerns.

The second is a **crisis in credibility**. For the first time in 60 years, the rest of the world is starting to have serious doubts about the solidity of the European project. This has led to an unprecedented process of "re-nationalisation" in the area of international relations. It is as if diplomats in foreign capitals were hedging their position in case there is a break-up of the European Union.

The third is a **crisis in the European social model**. The social market economy model – *Sozialmarktwirtschaft*

model - which makes the specificity of the European Union recognises that strong social protection systems improve competitiveness. As Olli Rehn well knows, it is not easy to convey this European model to the average Greek or to the average Portuguese or Spaniard today. They want to see this model transformed into concrete measures. In particular, since this crisis hides another one - a crisis in solidarity - the difficulties of the euro have shown that European solidarity mechanisms have not been sufficiently well designed to withstand a shock of the type we have seen since 2008.

The economic crisis in Europe is in reality the backdrop of a wider and deeper European crisis: a crisis in the very soul of European integration. Pandora's box has been opened, and voices pleading for the de-construction of the European project are becoming louder.

2. Is further European integration still the way forward?

But is further European integration the way forward? This is the existential question that Europeans will confront at next year's European elections. And this is the question that the programmes of the different political groups must answer. European citizens will not care about parties or individuals. They will want to know about today's European integration project.

Before we answer this question, we should look at the context. The world is becoming ever more globalised and interdependencies are on the rise. We are witnessing a rebalancing in world power, with the rise of emerging countries and the pendulum of power moving east. For the first time in world history, GDP of developing countries in 2012 matched that of developed economies. Furthermore, the growth differential between developed and developing economies is becoming larger. By 2030, the middle class will more than double in size, from 2 billion today to roughly 5 billion. In a nutshell, we are seeing a re-adjustment in strength and influence among countries and regions.

In this evolving context, one can answer the question about the European project from an economic point of view. What we know is that market size does matter, especially in a market capitalist system in which we live, whether we like it or not.

Europe has a strong advantage: its regional economic integration is the world's most advanced. In fact, other regions around the world such as the Eastern African Community, the ASEAN, the Eurasian Customs Union and Central America are moving in the direction of further integration. And a number of other regions around the world are also pursuing deeper forms of economic integration through the Trans Pacific Partnership, the Regional Comprehensive Economic Partnership or the Alliance of the Pacific to name a few.

But Tommaso had a more complex view of the world, which I fully share. He believed that with globalisation, economic and political integration go hand in hand. Globalisation was not what moved Europe from a common market to an internal market and then to a monetary union. But this is the logic of regional integration in the 21st century. As the current crisis has shown us, we cannot have a monetary union without greater economic integration, and this in turn will inevitably demand closer political ties. This is not an intellectual dream. In my experience, this is simply the imperative stemming from the logic of ever-growing economic interdependence.

Let me try to make this point through the prism of trade. As the report of the stakeholders that I convened last year to look at the future of world trade has recently concluded, our world faces the challenge of convergence. And convergence of markets today is more and more about identity issues, about values. This is what we see very clearly in regional trade agreements being negotiated, such as the EU-US Transatlantic Trade and Investment Partnership, the Trans-Pacific Partnership or the Regional Comprehensive Economic Partnership. It is less and less about tariffs and more and more about how to build common markets. And today this inevitably requires addressing value and culturally charged non-tariff obstacles to market integration.

In sum, while further integration is a necessity, it has also become clear that we cannot think "integration" without thinking "identity". In other words, integration today goes hand in hand with "values". And this in turn requires closer political integration. As worldwide political integration remains a very distant horizon, the way forward is regional integration, an area where Europe still leads the way.

3. Avenues for a closer European integration

Let me briefly mention what I see as the three key areas for closer European integration.

The first one is to **regain political energy for the European project** and this requires breaking the glass ceiling on legitimacy. Legitimacy has always been a bone of contention in Europe. Today, the exit strategy for the euro crisis requires more stringent disciplines and stronger solidarity, which can only be achieved through greater legitimacy. But I do not think it is about institutional "re-juggling". I think the problem is one of affection. Europeans simply do not feel that they belong to a community.

We have tried all possible ways of adjusting Montesquieu's ideas to the needs of Europe. Europe has a legislative, an executive and a judiciary. But this tripod is not enough to create a supra-national political space.

National stereotypes which we thought long forgotten have reappeared during the crisis. What Romans called "*affectio societatis*" has proven to be dramatically thin in Europe.

Rebuilding greater affection for the European project will require accepting that there are two sources of political legitimacy - the people and sovereign states - and that both are needed in a federal system.

It will require an institutional system in which the executive can only be a neutral third party (the Commission), a senate of states (the Council) and a chamber representing the people - the European Parliament.

It will also require a debate, maybe even negotiations, over the civilizational model of Europe, one that is based on a set of values more tightly knitted than the current description in the European Union's Treaty.

Europe stands for a set of values enshrined in Article 2 of the European Union Treaty: freedom, security, justice, a social market economy, sustainable development, environment quality, social justice, cohesion, solidarity. It has found a balance between freedom, private initiative and social protection.

But, even leaving aside political differences, I guess it would be fair to say that these generic values are

not perceived or even felt the same way across Europe. They need to be sharpened and to be owned by Europeans. Political integration means changing anthropological perspectives, and establishing a framework in which "cousins become brothers and neighbours become cousins".

This new narrative for Europe can only be the result of positive choices. Not just a refusal of wars in European soil. Not just a common detestation of the horrors of the past. Not just a common nostalgia about the cradle of western civilisation. But a new positive, action-oriented narrative that unites Europeans in the belief that their future can be better than their past.

This new narrative will not come as a result of "leading from behind". It will emerge from explaining, debating and convincing, which will lead to "accepting".

The second one is to **re-invent differentiation**. Given what integration means today, we must recognise that not everyone will be ready to move forward at the same pace. Differentiation is inevitable.

This debate is not new to the European Union. But it would be fair to say that variable geometry has often been invoked but rarely practised. Today, finding answers to the question of differentiation is both urgent and essential.

Is "enhanced cooperation" the right way forward? What about the "open method of coordination"? Or opt-outs? This is particularly relevant to the strengthening of the economic governance of Europe, in particular that of the euro-zone. Two things are clear, in my view. Whichever route is chosen, priority should be given to the Community method. And the Franco-German engine should be at the heart of any solution. Other formats have been tried and tested and have not worked.

The third relates to **two economic priorities of the EU**: completing the banking union and improving European competitiveness. This conference will address at length the imperative of completing the banking union. Suffice it to say that this is an urgent task as well as a jump in the direction of further solidarity.

I will therefore briefly focus on the issue of competitiveness. By competitiveness, I mean improving the performance of the European economy at large, not just that of the eurozone. Not just parts of the eurozone.

Much of this has to do with domestic policies. A good dialogue between European countries, on the basis of facts and figures tabled by the Commission, could be very helpful to look at where and why certain measures have or have not worked.

But a lot of this has to do with horizontal policies that require community action. Starting with better exploiting the European services sector. Untapped growth and jobs potential can be achieved through further opening of this sector at the European level. Developing a European energy strategy is another essential ingredient to combine price competitiveness with environmental sustainability. Investing in innovation and fundamental and applied research is another area which requires pooling more resources through a common budget. Establishing a level playing field for taxation would also be an important ingredient for better European competitiveness, for both producers

and consumers. Finally a "European SMEs Compact" - another source of untapped potential for growth and jobs - could be developed.

Ladies and gentlemen,

The task ahead for Europe is huge. Time is short. And there is urgency. In May 2014, Europeans will go to the polls to elect their representatives at the European Parliament. They will be looking for answers, for a sense of direction, for the way forward. European leaders must "lead from the front" and they must start soon.

Thanks a lot for your attention.

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