

For a revival of Europe

by Jacques Delors, Founding President of Notre Europe

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I would like to give my full support for the call by socialist comrades for a revival of Europe, for a recovery of Europe. They know that this will take time. A key forthcoming date is, of course, the election by universal suffrage of the European Parliament in 2014, but it is not too soon to begin reflecting. I wanted to bring a message of wholehearted solidarity because I believe that the signatories of this call have embarked on a course which inevitably will give new hope and vigour for the rebirth of Europe.

I know that the situation is not easy. And, it is not my intention to deliver a demagogic speech, that would be out of character. I know that the euro and the Economic and Monetary Union (EMU) for one, are in a very difficult situation, though rest assured, I shall speak about the situation of the 27 countries. I am obliged to make this distinction because currently the euro's problems overshadow the problems of the Union, to the great despair of European parliamentarians who would also like us to talk about the European budget, environmental policy, energy, the common agricultural policy and many other subjects concerning our foreign policy.

But I have to say that the Economic and Monetary Union is caught in a stranglehold: on the one hand there is the fire still smouldering on the financial markets, and this is the main argument for those who wish to impose the fiscal compact, they have no other argument – I shall come back to this compact which is a sort of labyrinthine system. And on the other hand, the risk of stagnation which, apart from its dire consequences – unemployment, inequality, poverty – confirms, sadly, the evolution of Europe towards its decline relative to the world as a whole.

Therefore, I am very much aware that we are in a stranglehold. I do not have a miracle remedy, I simply support a proposal, an approach which endeavours to resolve the contradiction between two elements: how to reconcile the necessary economic restructuring, demanded by those whom we call “the markets”, and the need to restore confidence in Europe, in its dynamism, in its growth and in its ability to create jobs, which in itself is the synonym of inequality reduction. The fire is smouldering, but we must not keep the fire burning. And I say straight away: it is tragic and irresponsible when Spain, under a right-wing government, tries to reduce its budget deficit but is unable to reach the figure decided by technocrats and immediately a government leader and a member of the Commission publicly raise alarm bells, at the risk of reactivating market anxieties. Such attitudes are appalling and irresponsible. We must keep the sense of time, be aware that this risk exists but avoid fuelling it by such reflections, which, essentially is merely a way of salving our consciences. And yet, Spain is currently making a huge effort. Casting aspersions is tantamount to fanning the flames. In what way, I ask you, does that steer Europe towards the solution to its problems?

I consider that this detailed call by socialist leaders has perfectly understood the stranglehold in which we find ourselves. The present climate is complex. It should be noted that the socialists are not alone in their anxiety. Twelve countries, also worried about the risk of recession, have made a common declaration. Amongst these countries, there is Italy and also Great Britain, which surprised some people. Then, there was the declaration made by Italian and German personalities, inspired by the European Movement, a sort of awakening of which I approve and which was published at the time of

the meeting between the German Chancellor, Mrs Merkel and the Italian President of the Council, Mr. Monti.

The call which brings us together today, illustrates in my opinion, the beginning of an offensive of social democracy in the broadest sense of the term. Social democracy is reacting to the current situation and speaks on behalf of its fundamental values and in the hope in the reinforcement of a united Europe. This is what is at stake and what will lead us to 2014. There is a sentence in this call, which specifically caught my attention and I wish to quote: "A socialist reform that could constitute the basis of a new call to European citizens". It will take two years of patient and focused work to achieve it.

Obviously, during the course of my presentation I shall sometimes be obliged to talk about the 17 countries, i.e. the Economic and Monetary Union, and sometimes about the Union of the 27 countries. I know that the permanent President of the European Council dislikes this distinction because he uses either depending what suits him. But we have to face up to reality. The step towards a European currency is considerably bigger than the one responsible for the creation of the Single Market or even common policies. It represents a radical leap with its inherent requirements, something that we have perhaps not fully understood in the last 15 years.

First of all, I would briefly like to invoke the **lessons of the past** because without memory we do not exist, then I shall come back to a **few personal principles** and finally there will no doubt be, alas, a mandatory route via **the institutional**, though in its current form, it cannot help the decision-making and the action. A wake-up call is therefore essential. With a twofold implication: national and European. It is not simply a question of changing Europe, each country must also do the necessary. I know that it is a much debated issue: I have greatly contributed to social dialogue and to the social dimension in Europe. And I regret to say that today social dialogue is absent and lacks substance. Why does that frustrate me? Not because it is the opposite of what I have tried to achieve, but because social dialogue is, along with the parliamentary system, one of the corner stones of democracy. Moreover, the most successful countries are those that have been capable of associating the forces of capital and labour with their reforms, as is the case in Austria and Germany. This has been forgotten and frustrates me all the more.

Some lessons from the past... and the present

But I would like to come back to the **lessons of the past**. First of all, let us take the Single Act, not because I initiated it, but for a simple reason. In a few months' time we are going to celebrate the twentieth anniversary of the Single Market and, some argue, it is the Alpha and the Omega. As far as I am concerned, it is not the Alpha and the Omega, it was simply necessary. The Single Market was founded on three notions: competition which stimulates, cooperation which strengthens and solidarity which unites. Where do we stand today? Where does social dialogue stand? I have already spoken about it, historically this dialogue is extremely important. The trade unions had the courage and the audacity, from 1985, to support the aim of the Single Market. They took risks and they bravely accepted them. There was compensation, no doubt insufficient, but it existed.

Then, there are the international causes of the crisis affecting the euro. Of course, it is easy for the United States Secretary of the Treasury to talk about the euro crisis forgetting his own deficit and the domination of the dollar. But the international causes of the euro crisis still exist. It is, of course, due to the excess of financial ideology. I will quote you a single sentence that shocked me when I was talking to a leading French banker, who said to me: "Jacques Delors, you understand nothing, the creation of value is essential". "And what is the creation of value?" I asked him. I did not wait for his answer, as I already knew it: it is the increase in stock market prices. We are a long way from the Schumpeterian entrepreneur and the economic moral doctrine of Max Weber. For years we lived with this ideological euphoria and the Commission services were not insensitive to it. After all, to sum up, finance was the

queen of the game and capitalism worked well, provided that employees accepted to be mobile and to earn less. That was their system. Such are the international causes of the euro crisis.

I am not saying that the Economic and Monetary Union would not have experienced a crisis if there had not been an international crisis, for the increase in our debt was worrying and it began long before the beginning of the crisis in 2007. But, all the same, it was quite reasonable, quite manageable. If you look at the evolution after 2007, we came to the rescue of banks to endeavour to reduce the consequences of the crisis. Now we come back to the crucial point: why did the Economic and Monetary Union function badly? You know my essential warning; there has to be an economic pillar and a monetary pillar in the Economic and Monetary Union. There was only a monetary pillar, the economic one did not exist. My approach was perhaps angelic but I thought that the coordination of economic policies would balance and complete the power of the Central Bank. But until 2007, the Economic and Monetary Union functioned well. I quote from memory: more than 2% growth rate, more than 4% investment rate, 12 million jobs created in 10 years. In short, many people have forgotten that. Simply, we were caught up in the international crisis and the absence of a balance between the coordination of economic policies and the coordination of monetary policies. If there had been a coordination of economic policies, if the ministers of Finance had agreed to speak to each other frankly, it could have functioned. But to my knowledge, this was never the case, they sorted things out between them and sought elsewhere the causes of their difficulties. This explains why it was necessary to go to the top, to the level of European heads of state and governments. However, if the ministers of Finance had wanted to get a clearer picture of the situation, they could have seen Ireland's extravagant behaviour with its banks, Spain's equally extravagant behaviour with mortgage lending, Greece's dissimulation of its real statistics. But they turned a blind eye. That is why I have always considered, since the beginning of the crisis, that the Eurogroup was morally and politically responsible for the crisis and that it should have reacted as early as 2008 to rectify its mistakes.

During this period the euro was a source of protection, not of growth. The Economic and Monetary Union continued to fall behind in terms of competitiveness, excepting Germany, of course. Moreover, the euro protected us from our own mistakes! Spain, Greece, Ireland, Portugal and others thought they could make mistakes protected by the euro. The trade balance between countries was disregarded. Nobody was concerned about that. Without doubt, it is the responsibility of the Council of Finance ministers. But also, with all due respect to Mr. Trichet, who is a friend of mine, it is also that of the European Central Bank. Why? Because the European Central Bank's only goal was, and that was demanded by the Germans, to maintain price stability. But everybody knows that in today's world a Central Bank must also deal with financial stability, public debt as well as private debt. At what moment did the Governor of the Bank of Ireland, the Governor of the Bank of Spain or other governors tell the Governing Council of the European Central Bank that something was wrong? They did not say anything, nobody said a word. Therefore, they too are responsible for this situation. So, this is no time for them to lecture others.

That is what we can learn from lessons of the past. There can only be an Economic and Monetary Union in as much as there is a balance between the economic and the monetary. And that is only the first condition to which others must be added, a point I will come back to. I had proposed the coordination of economic policies in 1997, when I was no longer president of the European Commission but a simple French citizen. I had proposed this as a consequence of the 1987 Delors report. It was not taken up: instead, "growth" was simply added to "stability". That is typically French, the French adore formal requirements. They returned home happy because "growth" had been mentioned. How irresponsible. Or what a fraud?

Nothing is possible without shifting the balance between economic policies and monetary policies. But how far should we go? The problem is complicated. It was simple at that time: they should have given the ministers of Finance responsibility for coordinating economic policies, but they did not do it. But there is something that I personally under-estimated, I must admit, because knowing that we could not go any further with federalism, I believed in cooperation – in the context of the triptych: "competition,

cooperation, solidarity". I believed in cooperation and I was wrong. During this period, the Single Market with the Single Currency had given rise to an increasingly large diversification, a specification of production, to the benefit of some countries, of which Germany, and to the detriment of others. The fact that some of them had made mistakes does not change the diagnosis. It means that in economic terms, we can only have a Single Currency in a union of transfers. A union of reasonable transfers – there is no question of paying for others' mistakes. That is the lesson I learnt from this period. Economic and social union should have been reinforced at the initiative of the EMU.

But, until 2007 it worked well. Alongside the international crisis is the euro crisis, which is not simply a debt-related crisis but a crisis in relation to the conception of the Economic and Monetary Union system. Moreover, to let you in on a secret, when I used to go to the United States and they knew I was in charge of the group which was drawing up a report on the EMU, people would often say: "But, do you really believe that a European currency is possible? Remember previous attempts, do you believe it is possible without federalism?" I listened to them, but I knew that if I had proposed a federal solution, it would have been turned down point-blank... because the member States did not want it. It was not the enemies of a strong Europe and euro in the State Department who made such comments to me, no, it was academics who were saying: "Is it possible without a minimum of federalism?" I have learnt the lesson.

We know now the strength of Germany and I am absolutely appalled when I hear economists talking about comparable competitiveness as if it were possible to club together in the same model Germany, Portugal and Greece. Europe is founded on the concept of diversity, can it live with this diversity or will it have to accept the implicit domination of Germany and its rules?

Rebuild on the basis of the foundation principles

I return now to the three principles which have always guided the relaunch of Europe since 1985 – competition, cooperation and solidarity – to endeavour, from this basis, not to build – that would be over-ambitious – but, to provide an impetus to your reflection which is likely to continue, I hope, with success.

Competition. It has been positive and stimulating. Between the announcement of the internal market and its launch in 1992, Europe created 15 million jobs. So, there is a need for competition. Moreover, you cannot criticise it, as, within your own socialist parties, there is competition between your leaders. Competition is an integral part of life. I accept it even though I dislike it. But I am obliged to say that everywhere I go there is competition.

What about the monetary zone, with the effects of specialisation? That is where the policy of economic and social cohesion, whose advances I am prepared to defend since it was created, has been inadequate for the Eurozone. But why? Because everybody refused to let the Eurozone be reinforced by cooperation, with its own instruments. Would that be awkward for the 10 countries and others that do not belong to the EMU? No, because Europe has always moved forward thanks to differentiation. I shall ask you two questions: whatever the criticisms of Schengen, would this agreement exist if a few countries had not decided to go ahead without waiting for a unanimous decision? What would have become of the free movement of people, which is an amazing freedom whose advantages are never highlighted in comparison to the disadvantages? Where would the euro be if we had had to wait for the agreement of Great Britain? Differentiation does not divide Europe, it is the source of dynamism in Europe. To my mind, the Eurozone should have been an enhanced cooperation with its own instruments. This is what was lacking, for want of means. Of course, nothing excuses the mistakes and the follies that I have already mentioned. But, as far as the rest is concerned, there cannot be a single monetary zone without reasonable transfer instruments. Why? Because the only instrument available to a national state to fight against a fall in competitiveness is devaluation. Yet, devaluation is forbidden, and happily so, because, recalling France's experience amongst others, it never really worked. The Economic and Monetary Union is not an enhanced cooperation, it does not possess the

elements to progress. It can do it without jeopardising the marriage contract which ties it to the 27 countries, and I insist on this point, simply by introducing movement and dynamism.

Cooperation, second element. It is the missing link. But there we are faced with a problem that the Stability Pact has not solved. Can Europe be governed solely by rules and not by politics? Rules are useful. How did we establish freedom of movement, competition? It is through competition policy rules even though we can debate them. But, can we govern a union with a common currency solely by rules and sanctions? If we add politics, what happens? Either politics is the result of an agreement between the 17 countries, but I see nothing forthcoming, or, there is a delegation of power and a little more federalism. The choice is as clear as that. Obviously, I have a good knowledge of German history and every respect for it. I know the *Liberalordnung*, I know the German passion – and I share it – for the *Soziale Marktwirtschaft* accompanied by rules. But it also includes social consultation, there are not just rules. If we want to solve the problems of the Economic Union solely by rules, we can be punitive, provided we escape from the labyrinthine system that I shall talk about later, but we cannot govern Europe. We must have recourse to the delegation of sovereignty. To whom? Implicitly to Germany, or, explicitly to an Economic and Monetary Union organization? That is the question, as believe me, and now I am speaking as an economist and I am fairly sure of myself: all the countries will not be able to adopt the German model. We are a union in diversity and that does not mean a union between the strong and the weak. That means that we each have our strengths and that we pool these strengths. That implies, in my opinion, a different type of political management. Yes, people will tell me, it boils down to discretionary power, that is the meaning of the argument employed by Jean Pisani-Ferry, who said in his last article: “the discretionary power must be a delegation of power, controlled by national parliaments”. If not, I can see no other solution. I was wrong in thinking that they would cooperate with each other like they had done in other fields. But, unfortunately they cannot do it, they cannot even do it regarding Schengen. They are obliged to have recourse to a delegation of sovereignty, whether they like it or not. It is the necessary choice.

When I hear our government leaders today talking about growth, I have the impression that they have forgotten what they have done in the last 20 years. I remember one of the best propositions of the Commission concerning the environment: 20 – 20 – 20. But that implies a new development model, which will create jobs. We will not succeed with a traditional growth model other than by increasing the distance between Germany and the other countries, but rather by a new model of development that creates wealth, employment and social justice. This is where the Union’s budget, or the budget of the 17 countries, the project-bonds, that is the cooperation on major projects, have a role to play. However, if after having said in this magnificent report by the Commission that we are going to take into account our Mother Earth, we do nothing, and we do not believe that the new growth model is the solution, we will not progress. We must send out a signal of optimism. We are going to implement together the means for a new development model, which will create millions of different types of jobs, not simply in digital technology and not simply in alternative energies. And we shall regain our self-confidence.

Obviously, that cannot be achieved without a certain degree of territorial cohesion. That is where I remind you of the need for diversity, the diversity of models. Each country must employ its own human and natural strengths.

Who speaks in the name of Europe? That is what Obama or the President of China wants to know. Everyone speaks in the name of Europe, the result has been three years of multiple and discordant voices. And here they go again. They clearly have not understood! We need a single voice for Europe. It is only good sense, it is not major politics. But when the markets – the markets, that is a vague notion, there are speculators but there are also all those who manage retirement funds, insurance –, hear multiple voices going as far as to criticize publicly fellow partners. Do we want to reassure the markets or cause them to panic? Are we a union or aren’t we?

The third element is **solidarity**. I have already explained what could to my mind constitute a Union of transfers but I wanted to repeat that Europe does not exist without a certain degree of territorial cohesion: it is the sum of our nations, but also that of our territories. If you could see the degree to which abandoned territories in Europe have drifted into poverty and inequality, you would understand. Economic and social cohesion has not been a whole-hearted success from this point of view. And as we need this solidarity, let us talk about euro-bonds, rejected for the moment by Germany. Euro-bonds are not the equivalent of a fire hose wielded recklessly to wipe out mistakes of the others. The euro-bonds must be conceived according to rules – and the best rules that I have seen, up until now, (nobody mentions them) are those proposed by Romano Prodi. The guarantees that he proposes are capable of reassuring Germany, as the euro-bonds would be based on the sharing of responsibilities. Euro-bonds represent the opportunity to create a financial market of the euro and as such, are an essential support for enabling the euro to be a currency which can both defend us, and, be an international currency. Euro-bonds are not a passing fancy, it is not a way of helping Greece or Ireland unconditionally. It is the necessary complement, with certain conditions, to the existence of the euro and a financial market. Moreover, three months ago, towards the end of the crisis, the markets themselves demanded euro-bonds. But the obduracy of some of our leaders did not allow progress. To summarize: euro-bonds are not an easy way out. They are a support enabling the euro to have the following two dimensions: an internal dimension – a factor of stabilisation and stimulation – and an external dimension –, a factor of the euro's power, our self-respect and our capacity to finance our development.

The mandatory route via the institutional

There are projects at the level of the 27 countries: the common election of the President of the Commission, a review of the rotating presidencies system... We need to take stock. It always bothers me to talk about either the 27 or the 17 countries, and I have the impression of not being clear. What I have said to you up until now, is that I am in favour of an enhanced cooperation laid down by the Treaties for Europe of the 17 and I add that it is not at the expense of the 27, I am prepared to demonstrate it.

Above all, I would like to recall the advantages of the Community method. When I hear my President, Mr. Sarkozy, reassure the French by saying that it is the intergovernmental method that dominates... as if Europe could only be French. Europe will be European or will not be! And when I hear the current leaders say that they are not getting rid of the Community method, but are keeping it, I am not convinced. For a simple reason: from the beginning, since Europe has existed, it is the governments who have decided, there is no question of going back on that. It is the governments who decide. The chancelleries are another matter. Whether the chancelleries have contact between each other to endeavour to get round the European system, is another story. Nevertheless, the governments always have the last word.

What is at stake? It is the Community method in its basic structures: there are two executive bodies, two legislative bodies and a Court of Justice. And in among both executive bodies, there is the Commission. The role of the Commission is to take into account European interest on a daily basis, and to demonstrate it on a daily basis. It only has one argument for that: the right of initiative. This right of initiative must be exercised by the Commission sparingly, it serves the governments – but when the Commission exercises it, this must be done with a degree of solemnity. I am going to cite a personal example: if I had not brandished the right of initiative, there would never have been the Erasmus programme. Because the governments were afraid that I would announce publicly that it was due to their refusal that we could not allow millions of students to discover another country, to have another university experience.

I have just read a book by a Dutch scientist, who is the spokesman for Mr. Van Rompuy, and who explains that everything, finally, falls to the governments and all the rest is pure agitation, “the gurus of the Commission, Parliament's resolutions, etc.” I totally disagree with this vision of things, which,

moreover, is false and contemptuous. We are not asking for the Community method to substitute the governments, but for institutions that think about Europe every day and which leave the decisions on major orientations to the European Council, and the necessary legislative decisions to the Council of Ministers. They are in the process of misrepresenting the European method to get us to swallow I don't know what "method", which is the return to the Congress of Vienna and nationalistic governmental attitudes. With chancelleries that stand out for their cynicism and their concept of power relations! If we do that, it is because we want to kill Europe! It no longer exists. Yet, the personalities that created Europe wanted to combat this narrow nationalism, this vision of things whereby I win against another European, whereas, in reality, we all lose in the world such as it is. That is the reason why we must defend the Community method and set matters straight. We must not play with the Community method and the intergovernmental method to obtain results for the sake of results. Indeed, the Community method is the constant presence of European interest, it is the responsibility of each commissioner, not to be there because it is a good thing to be there, but to constantly bear in mind the European interest. And even to make mistakes, to express one's point of view, to vote, to be a college, to make propositions. If governments do not accept it, it is their responsibility. The Community system is the only one that enables sovereign countries, having accepted to delegate a part of their sovereignty, to live together according to the rules, but not only rules; but with living organizations, the Parliament and the Commission which feed the system. This is what is at stake. And beware of this prevailing view, which, under the pretext of efficiency, will end up totally destroying the heritage of Europe's founding fathers.

I am not saying, mind, that we must neglect technocratic excesses: they do exist, as the fewer powers the Commission has, the more civil servants tend to overreach going beyond their duty to propose and to execute. It is the duty of the Commission - as a college - to be vigilant.

This is what is important today with regard to institutional matters. From a clear conception of the Community method and the transfers of sovereignty that have been decided. In the "labyrinthine system" that is the fiscal compact, the new development model is missing, as well as its essential complement on growth, which would suffice as a major criticism. But in this "labyrinthine system" which is established we can no longer see clearly who will decide what. I have put together in 7 pages the fiscal compact, the Six-Pack and the rest to see how it could work. I have to know how it works. "How to do" is for me as important as "what to do". I say to myself that nothing much is going to happen. We must take another look at that. I know that there are threats from the markets, but we have to find a simple system. You know democracy is the Parliament, parliamentary democracy. And it is social dialogue and is simplicity.

Being an inventor of simplicity, is to enable citizens to understand better what is happening. So, obviously, I am a little vehement. I know that we are well aware that the crisis is not behind us and that we have to learn lessons from it. We are worried about the risks of social and political destruction. After a while, the absence of economic dynamism causes the break-up of societies. I have already said that since 1970, Europe has the choice between survival, or decline. It is as simple as that. What remains to be done is this: we have to think about a new model of development, investment, job creation, assets to equip our youth. All of which does not prevent each member state from taking responsibility, within the framework of its own model, for fiscal consolidation. I insist "within the framework of its own model". We must take into account diversity. The argument of unity within diversity was evoked to prevent further federalism. Today I turn the argument around: be understanding of other countries. Currently, that is what is at stake. And each country must take its responsibilities. I really like this thought by the former president, alas deceased, of *Notre Europe*, Tommaso Padoa-Schioppa. He said: "Austerity for the states, growth and dynamism for the Union". I shall reuse this formula and I insist: without dynamism and without strength in Europe, nothing will be possible.