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A CLOSER AND STRONGER EUROPE - LESSONS FROM LISBON AND THE CRISIS

KAREL DE GUCHT

EU KOMMISSAR FÜR HANDEL

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- ES GILT DAS GESPROCHENE WORT -

Das Forum Constitutionis Europae ist eine gemeinsame Veranstaltung des Walter Hallstein-Instituts und der Robert Bosch Stiftung.

I. Introduction

"The causes of hostility among nations are innumerable", Alexander Hamilton wrote over two hundred years ago, *"There are some which have a general and almost constant operation upon the collective bodies of society. Of this description are the love of power or the desire of pre-eminence and dominion. There are others, which have a more circumscribed though an equally operative influence within their spheres, such are the rivalships and competitions of commerce between commercial nations. And there are others, which take their origin entirely in private passions; in the attachments, enmities, interests, hopes, and fears of leading individuals in the communities of which they are members."*

When Hamilton wrote these lucid remarks in his *Federalist Papers*, in 1787, his analysis guided him towards strong support for the constitution of the United States of America.

Today, I would hesitate to use the word 'hostility', but we do witness tensions between nations emerging. In times of economic crisis and political populism, the desire for power is as strong as ever. Stereotypes about strong and weak nations reappear. Aspirations and shortcomings of political leadership matter again.

How should we assess these trends and more importantly, where does our analysis lead us in terms of political action in the European context?

I am very grateful to the *Robert Bosch-Stiftung* and the *Walter Hallstein-Institut* for giving me the opportunity to discuss such profound issues at this most prestigious venue, where the former German Foreign Minister Fischer unveiled his famous thoughts on the *finality of European integration* back in May 2000.

So here are some of my personal reflections on governance *in* Europe and leadership *by* Europe in the world after Lisbon and in the crisis.

In this, it is not so much the *finality* as the *history* of European integration that guides me.

My reading of Europe's trials and triumphs over the past few decades teaches me two fundamental insights:

- *first*, for European integration to advance, to benefit the interests, realise the hopes and assuage the fears of our citizens and to play a significant role in global affairs, it is important to *stick to the community method.* It is the hard road to travel, but the only way to combine efficiency and legitimacy across the EU;

- but *second*, institutions are not enough; they are *no substitute for leadership*. Even if we are going through hard times, *especially* when we're going through hard times, national and European politicians should keep up courageous efforts for reform where necessary.

The stakes are high, pressure is huge, but fear is never a good counsel and only our combined, coherent reaction will see us through our current challenges.

The Community Method

Ladies and Gentlemen,

What exactly do we mean when we use those two words that are at the heart of governance in Europe: the "community" and the "method".

The first word is rather easily explained, or defined in terms of its opposites: *community* instead of *nationalism*; *cooperation* instead of *rivalry*; pooled sovereignty instead of exclusive sovereignty.

The second word, the "method" is more ingenious. As the first German Commission President, Walter Hallstein, analysed in his famous book *Der unvollendete Bundesstaat*, dating from 1969, our community is characterized by the law. This works in three ways. It is a *creation* of law, a *source* of law and a *legal order* at the same time.

Why is this so important? Because it underlines that law, rooted in cooperation, can do what power cannot achieve: to bring governments and people together in a social contract; to find a common understanding on how to integrate for the common good and through an agreed institutional set-up; to take a united stand against new, common challenges.

The European institutional triangle reflects those principles.

The Council of Ministers and the European Parliament act as legislator forming a dual basis of legitimacy – and the Lisbon Treaty brings them on a par in almost all policy areas.

There is a strong judiciary – the European Court of Justice ensures legality and a non-discriminatory enforcement of agreed rules. It is the guardian of the common legal order.

And finally, the European Commission is entrusted with the mission to seek the common European interest, weighing the various policies and the various national interests of large and smaller Member States: it makes legislative proposals and is, in principle, the executive branch of the European constellation.

The hallmark of the Community method is that there is an institution tasked with looking after the common good and setting policy accordingly. In the monetary field, the European Central Bank is the embodiment of the Community method.

But I am not one of those who believe that *the method, Community or otherwise, is the message*.

What matters in politics is not just *how you do it*, however important institutions may be, but *what you do with it*.

At a time when many people have mixed feelings about European integration, it's good to remind ourselves of what we have achieved in a number of key domains, where we have failed so far, and why.

Let me start this review with the theme that has taken centre-stage for the last two years. The euro and the Economic Monetary Union.

The euro has brought many benefits for producers and consumers alike. One market can operate more efficiently with one currency. But the Achilles' tendon of the euro zone lies in its macroeconomic regime.

The constitutional architecture of the *Economic and Monetary Union* was laid down in the 1992 Maastricht Treaty. Conceiving a monetary union as such was fairly straightforward: the creation of a single central bank issuing a single currency.

However, it was much more controversial to define – on top of the single market – the precise meaning and *modus operandi* of an economic union.

There was general agreement that the abandonment at national level of the interest rate and exchange rate instruments necessitated closer economic coordination, avoiding untenable budget deficits and more flexible labour markets to turn the Economic and Monetary Union into a success. But, in the end, the Treaty was loosely-worded on this point. It provided for the excessive deficit procedure, which was later elaborated in the first *Stability and Growth Pact*, as well as the famous 'no bail-out' clause (art. 125 of the current Treaty) under which no Member State can be held liable for the debts of another.

But the Maastricht Treaty did not extend the Community method to Economic Monetary Union. The Commission watched over the Member States but could not take real enforcement measures against the Council. Even when the Court of Justice annulled in 2004 the decision of Finance Ministers to practically suspend the deficit procedure on a complaint from the Commission, the then German Federal Finance Minister, Hans Eichel, commented the outcome of this case: "The Member States are and remain the masters of the deficit procedure".

The debate that led to the Lisbon Treaty did not deal in any depth with economic and monetary union as everything seemed to be pretty much under control at the time. It is the storm we have been in since 2008 that has laid bare the defects of the construction of the euro zone: the rules were inadequate and enforcement mechanisms too weak to keep Member States on the straight and narrow once they had been allowed in.

The only control device available was peer pressure in the Council but, as often, Member States were little prepared to tighten the screws on each other.

This is perfectly understandable, because imposing from above tough constraints on a country's budget, wages, pensions, banks and so forth is politically very intrusive and embarrassing, and therefore not done among equals in the Council.

Perfectly understandable, but also completely *wrong* - as we have learnt to our own cost!

We now know that once you are in a monetary union the possible channels of positive spillovers or of contagion, especially through banks, are so much more powerful and rapid. The truth is that a monetary union calls for a set of rules and governance that is of a much higher *integrative* nature than what is needed for a well-functioning single market.

Arguably, the rules that have now been put in place should enable the eurozone to avert grave crises tomorrow. However, that still leaves us with the huge challenge of sorting out *today's* crisis.

The misery we are in is in large part because the policy response on the European front has so far been *too little, too late*. A familiar pattern has developed over the last 18 months: financial markets attack strongly indebted eurozone members, driving down the value of bonds in banks' portfolios; emergency meetings make sweeping announcements; but on closer inspection, markets are unimpressed and the cycle starts all over again.

It is now two to midnight; this vicious circle must be stopped. The Commission has set out last week in a five point-plan the menu of measures – not *à la carte!* – that have to be implemented to get on top of the escalating crisis. The nettles have to be grasped, ALL of them.

Europe must now find the political courage to do what is economically necessary - explain to public opinion in both AAA-countries and those receiving help from the European Central Bank, the EFSF and the IMF that thorough measures are necessary to avoid greater evil.

Having been in politics for over 30 years, I realise better than most how difficult this is for democratically elected, and preferably *re-electable*, politicians.

But if Europe's political class is unable to take unpopular decisions on deficits, haircuts, the size of the EFSF and bank recapitalisation, the monetary union may well unravel with truly incalculable economic and political costs.

The Internal Market and Growth

Economic and Monetary Union, the most advanced form of economic integration, only involves at present seventeen Member States and one of the systemic challenges is how to manage the relationship between the ins and outs. The EU's bedrock of economic integration, common to all Member States, is the single market - an engine of growth, but one that requires regular updating to tackle new sources of market fragmentation.

Back in 1957, the Treaty of Rome foresaw the creation of a single market based on the elimination of internal tariffs and equivalent measures, a common external tariff, and harmonised rules. The first two elements were achieved after some years, but we made little progress on the harmonisation agenda. We had to wait for the *Single European Act* of 1987 to see a new major push.

Alongside the creation of common rules for the Internal Market, the Treaty also laid down strict disciplines to prevent two types of market distortions. We have competition or antitrust rules to address market distortions by private actors – like cartels or abuses of dominant position – and we have strong state aid rules to counter the European tradition of economic *dirigisme*.

In these areas, the Community method fully applies: rules are enforced by the Commission, under the control of the European Court of Justice.

This governance system has proved supremely effective not just before but, even more importantly, also during the financial crisis since 2008. The rules have been flexible enough to allow Member States to rescue their banks but robust enough to ensure that the impact on competition and on the internal market are low.

That being said, there is no room for complacency, quite the contrary. In fact, completing the single market is recurrent business: sectors change, people's needs change, and rules need to adapt accordingly.

There are still many internal barriers, segmentation into 27 markets supervised by at least 27 different authorities, limited citizens' and workers' mobility, and insufficient physical network infrastructures in energy, telecom, broadband internet, transport and logistics.

In many areas of the internal market, the European Commission has tabled proposals but Member States have refused to follow suit. Let me take just a few recent examples:

- In June 2008, the Commission proposed to create a *European Private Company*, which would be a new form of corporation with very flexible rules including, in particular, a minimum capital of one euro - this to facilitate the creation of new companies and start ups. This, however, was blocked by Member States, who do not want it to have a minimum capital below the level of their existing types of companies.
- A second example is a legislative proposal to simplify accounting rules for micro-companies, i.e. 90% of all companies existing in Europe. Again, this remains blocked in Council.

I could name many more examples where the absence of a true internal market hinders Europeans in their development – in the digital market, in services, in transports, for SME's, in patents... Some of these areas are absolutely critical to enhance growth in Europe.

And growth it should be stressed time and again is of the essence for our future. Without it, our welfare state will become unaffordable.

Justice, Liberty and Security

Ladies and Gentlemen,

Let me finish my review of European 'domestic' policy by turning to the field of justice, liberty and security. As you are aware, the Lisbon Treaty brought this sensitive policy area within the realm of the Community method as well.

True, there are still some leftovers from the previous system, such as unanimity in the Council and/or consultation of the European Parliament instead of ordinary legislation in several important domains.

But despite a few anomalies we can safely say Lisbon did away with the important shortcomings experienced under the old system: a poor legislative track record; bad quality legislation, often based on the lowest common denominator; a bias towards repressive action; and often insufficient implementation in the Member states.

The post-Lisbon track record so far is much more encouraging. New legislation has greater democratic accountability and respects fundamental rights more effectively.

Let me quote a few examples: the Commission has already made a number of proposals in the area of asylum and migration, as well as co-operation in criminal and civil matters. Most make good progress and some have already been adopted.

Here as well, the community method has shifted the logic of integration into a higher gear.

Ladies and Gentlemen,

I come to my second part – probably the most difficult one: what will Europe's role be in the world tomorrow? Are we able and willing to meet contemporary challenges? Our weight in the world is bound to decline, so how do we make sure we still matter?

Challenges

Europe's role in the world is impacted by deep global developments, in particular the emergence of new economic powers. In the economic area, four challenges prevail: keeping global markets open; managing an orderly shift in power; preserving the European economic and social model and ensuring security of supply of energy, raw materials and food globally.

The emergence of new, economically powerful partners on the scene is a challenge but also a great opportunity. Today, the group of seven emerging economies (E7: China, India, Russia, Brazil, Mexico, Indonesia, Turkey) have a total GDP that is already one-third of the G7 (US, Germany, Japan, UK, France, Italy, Canada).

By 2020, the E7's combined GDP could represent well over two-thirds of that of the G7. Domestic consumption within these emerging economies will grow to a similar degree and create more opportunities for trade. The EU can expect to remain an attractive source of hi-tech and high-value goods and develop new targets for brand loyalty. Whether it is a passenger plane, a machine, a pair of shoes or a bottle of champagne, there will be opportunities to capture new markets and thereby create and preserve jobs.

So I am not pessimistic. Europe has much to offer. A single market of more than half a billion consumers; a highly specialised workforce with a talent for innovation and quality; a number of world-class companies which are firmly embedded in global supply chains; a very attractive destination for foreign investment; high environmental and social standards; a firmly-rooted standing on the world trade scene.

Trade and Investment Policy

But our position and potential should not be taken for granted. More than ever before, we need a trade and investment policy to make the most of the opportunities on offer.

Keeping global markets open is a key part of a European strategy for recovery. Indeed, last month, Chancellor Merkel acknowledged that concluding Doha talks is one of the cheapest economic stimulus packages available. Multilaterally, we play a strong and proactive role in the WTO and will continue to push the Doha and a broader WTO agenda in the future. However, I must confess that this is difficult task. You do not only need "two to tango" here – you need at least five and formally more than 150!

Trade is an exclusive EU competence. We speak with one voice. And I can tell you from my own experience how important this is. When negotiating for example with the Russian Federation about their WTO accession, I met Vice Prime Minister Shuvalov twice recently. The European Union was represented only by the Commission, and we defended the EU position as it had been defined in consultation with the Council in advance. The Russian delegation consisted of several members, hailing from different ministries and the President's office. My position was clearly more comfortable and more effective!

Moreover, we do not forget the poorest countries in the world. We are busy preparing a communication on trade, investment and development to be adopted by the end of November.

As befits the Community method, the Commission proposes and conducts negotiations, but it is Council and Parliament that in the end decide on the fate of a trade agreement. To my satisfaction, I can observe that, despite the crisis, the EU still is fundamentally pro-international trade, unlike, for example, the US Congress which has become much more inimical. This is gratifying, not only as it facilitates my job, but more importantly because trade and foreign investment are part of the solution to the crisis. *La 'démondialisation'* as some French call it, is definitely not the solution!

Foreign Policy

My final area of review is foreign policy.

Since the entry into force of the Lisbon Treaty, much has been done to create a more cohesive way of shaping EU foreign policy. Cathy Ashton is both High Representative for foreign policy and Vice President of the Commission for the external dimension of internal policies. She also chairs the Foreign Affairs Council and leads on security and defence. Ashton thus wears not two, but three if not four hats.

There are deputising arrangements in place. She can request the assistance of other Commissioners in the external relations cluster or national foreign ministers on specific tasks. This is not a perfect situation because foreign affairs is a field where 'personal chemistry' matters.

Those who drafted the Lisbon Treaty wished to improve coherence. The EU used to go to summits with three foreign persons at ministerial level on foreign policy (the High Representative/the RELEX Commissioner/and the Foreign Minister of the rotating Presidency. Lady Ashton has replaced this "troika". But the "doubling" now takes place at the highest level: in a summit both the President of the European Council, Herman Van Rompuy, and the Commission President, José Manuel Barroso, speak on foreign policy. For our third country partners, we still remain a very complex entity to deal with.

This also affects our global representation. In the G20, for example, we still have a parallel representation of the EU and some Member States, and EU coordination on matters such as trade is difficult. And at the IMF, only the ECB has an observer status, whereas Germany, France and the United Kingdom keep their permanent executive director. There is still no single Eurozone representation despite the fact that the Lisbon Treaty (Article 138 TFEU) calls for specific rules in the area.

Lisbon has streamlined processes and structures but ultimately the decisive factor for EU foreign policy effectiveness has stayed much the same: the EU is able to take global action only in as much as Member States support it. Efforts to find EU solutions for example in relation to the Arab spring were firmly circumscribed by individual Member State positions.

Here political leadership will be necessary to break bureaucratic resistance to achieve what the Lisbon Treaty meant to bring about.

Ladies and Gentlemen,

Let me bring my address to you tonight to a close.

Our economies and societies are going through a period of disruptive change, fuelled by events within Europe and the world at large.

It makes people uncertain as well as frustrated, which makes them hark back to the old, national, reference framework that they better understand and control more directly.

However, for many of our most pressing problems, especially economic stability and growth, and in order to keep on playing a role of significance in world affairs, there is no real alternative to 'more Europe' directed by the Community method.

But however appropriate the institutional set-up, 'more Europe' will become 'stronger Europe' only if those in charge have the capacity and boldness to rise above the fray and risk short-term unpopularity and pain for the long-term gain.