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Special Committee on the Financial, Economic and Social Crisis

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NOTICE TO MEMBERS

(01/2011)

Re: Speech by Mr Jacques Delors at the CRIS/ECON dinner following the Interparliamentary Meeting with National Parliaments, European Parliament, Brussels, 14 March 2011

Chairs, Members of Parliament,
Ladies and gentlemen,

Thank you for inviting me to talk to you today and, in particular, for allowing me to attend this afternoon's meeting. I learned a great deal from it, with all the different complexities that can be explained by your countries of origin or political affiliations. I am aware of the theme of these two days, and I am not going to repeat the analyses or the diagnoses made by the European authorities and experts. I will take them as my starting point, with the aim of answering the political question that concerns us all. What can we do on a European level? In order to give a realistic response, we have to take three levels of decision-making into account (not forgetting the decentralised authorities): the national level, the European level and the global level. In trying to clarify this issue, I would like to briefly put three pre-conditions before you:

Firstly, we cannot ignore the diversity of national situations, even if the European Parliament, the Commission and the Council of Ministers have to think in European terms. Political structures and situations, the distribution of added value between agriculture, industry and services in each country, and the specific features of different social models all need to be considered, not forgetting the different demographic situations. Consequently, in member

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countries where the standard of living varies between 40 and 130, on the basis of a European average of 100, it is essential that the directions proposed are appropriate to this diversity of situations.

Secondly, I am going to use the analytical model I proposed at the time of the Single European Act (1985), which revived European integration through the single market, economic and social cohesion, social dialogue, etc. Regardless of foreign policy, which is not of concern to us today, I think that our union is based on three principles that draw their inspiration from the Single Act: competition that stimulates, cooperation that strengthens and solidarity that unites. And this solidarity that unites is not merely a question of ethics or political preference but a consequence of the growing interdependence between our countries.

Finally, the third requirement that cannot be overlooked is that of keeping to the contract that unites the EU27. I will speak later about the particular problems of the EMU17 but, for the moment, I simply wish to say that the rules of the EU27 contract must be respected. There are exclusive responsibilities, national responsibilities and, in the middle, a vast array of shared responsibilities; too vast in my opinion, because this has become a source of misunderstandings and ill-advised initiatives. The difficulty with shared responsibilities is the need for a common approach in line with the three principles above, whilst also remaining faithful to the principle of subsidiarity. This principle should not just be raised when a country has difficulties with a certain aspect of the Treaty. Subsidiarity is essential for democracy and civic responsibility.

I repeat, however, that we have to consider what Europe can do on these two levels, whilst obviously respecting the Treaties of the EU27 and EMU17. I do not wish to dwell on this, and at the risk of annoying a number of you, I shall not talk about methods, although you will be aware that I remain a fervent supporter of the Community method, as opposed to the intergovernmental method and, contrary to what I learned from a speech in Bruges, the so-called Union method. Even after a careful re-reading of that speech, it seems to me that the Union method is scarcely any different from the intergovernmental method. That discussion, however, is for another day and is not relevant to the matter in hand.

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Let me talk, then, about the European Union level:

Competition that stimulates

I will focus first on competition. There is still work to be done in terms of deepening the single market. That is why Mario Monti has been asked for a report on this. We need to make the most of all the good ideas. I will give just a few examples: energy, which is close to the President of the European Parliament's heart, services and, within services, transport in particular. There can be no effective market without rules, however, and the first rule is competition policy. I am surprised that, even in my own country, the use of this policy is often not understood. Of course, these rules must also involve regulation of the banking and financial sectors. I have chosen an abstract expression here because this is a daunting issue. How far should this reform go and how should it be implemented? In global terms, this will

be the G20's task but, in fact, you can see that the financial ideology is still there. It has gone through some rough times, and the taxpayer has footed the bill. And yet it is clear that, despite the crisis, the banks and other financial institutions have learned little. Rules are therefore necessary; quite drastic rules, I admit, given the complexity of the system. But you will no longer hear today what has been said for the past 10 years, that what matters is the creation of value. If you ask a banker, he will end up admitting that the creation of value results in an increase in stock market prices. To use Tommaso Padoa-Schioppa's words, this is the triumph of the short-term view. I would like to argue for the possibility of a European initiative in relation to the broad principles of banking and financial regulation. A European initiative would not create the problems that the ultra-liberals fear. On the contrary, the European Union is important: when you look at GDP distribution, we are the number one trading power in the world; we are attractive to foreign investors. We should not be afraid to put European-level regulation in place, without being aggressive.

A rejection of social dumping is also an element of the single market, although we still, naturally, have to respect the diversity of social models. We cannot expect Bulgaria or Romania to meet the standards of the Netherlands or Germany overnight. Let me give you an example: there are some countries in which social standards are set by law and others in which social standards are established by a collective agreement, by a national agreement between unions and employers. The European authorities and the Court of Justice have to respect this diversity. And that has not always been the case.

Solidarity that unites

Let me now talk about solidarity. I would first like to say, in response to a number of criticisms, that solidarity is not synonymous with a lack of responsibility. Solidarity is, first of all, a movement that reflects the interdependence of our countries: what would become of German exports if, tomorrow, the euro were no longer to exist or if Europe were to break up? It also, however, represents an attempt at convergence. I will give you an example: when the Union first implemented economic and social cohesion, Portugal's standard of living was 50% that of the European average. Twenty years on, it is now 80%. Social Europe is also a part of this economic and social cohesion, and this is one of the great successes of European integration. When the time comes to discuss budgetary perspectives, it will be important not to talk only of constraints. Moreover, economic and social cohesion must not be reduced to the distribution of cheques. It involves cooperation and an exchange of good practices: the virtue of bottom-up practices, experiences implemented on the ground in order to catch up, modernise infrastructure, develop rural regions. It will be essential for the Commission to play a kind of mentoring role, as the best of these experiences will need to be shared with other regions. This mentality has now disappeared. And yet there are many positive lessons to be learned from regional development policies. There are, of course, still two institutions that work on the basis of this initial mentality, but no-one listens to them very much: the Economic and Social Committee and the Committee of the Regions. So, before taking any decisions, it is absolutely essential to listen and to explain. That is the spirit of democracy and a condition of effectiveness.

Cooperation that strengthens

This is, unfortunately, the missing link in European integration. I know that, among the 27

countries, there are some that do not wish to go any further down the path of integration, but cooperation is not integration. We are not asking for new powers to be transferred to Europe. It is a question of countries cooperating with one another, out of a concern for the common good and pride in belonging to a community. This missing link, and I will come back to this, can clearly be seen in the Economic and Monetary Union. I could give other examples: energy, application of the 20/20/20 plan, the promotion of alternative energies, infrastructure optimisation, security of supplies and, without wishing to be controversial, let me ask if any of you are proud to see our heads of government troop off, one after the other, to see Mr Medvedev and Mr Putin to ask a particular favour, a key role in gas supply or transportation? We talk of foreign policy and yet, even on this matter, which is an economic issue first and foremost, we are not capable of speaking with one voice! I could also illustrate my point with the Copenhagen meeting and the Community's weak external policy. Take trade for example: we have one Commissioner who speaks on this issue, and he cannot say just he wants, he has to speak on the basis of instructions from the Council of Ministers. At Copenhagen, Mr Barroso should have been our spokesperson. And yet we saw three or four heads of state flex their muscles, stating their differences. So in the end it was the other superpowers who came to an agreement... without Europe. Before talking about a common foreign policy, we should thus begin to apply our good practices to areas such as energy and the environment, which are areas of common interest. Along with President Buzek, I advocated a European Energy Community. You can be sure that objections were raised almost immediately: 'Not another treaty; governments are tired of them'. However, this is not a matter of signing another treaty but of being aware of where our common interests lie and what cooperation could offer in this regard.

This is also the case for infrastructure and transport. Mr Maystadt was very clear on this: faster, cheaper transport is a factor of competition. And, finally, there is higher education - I was glad to be able to get the Erasmus programme accepted but we could go much further in the area of education and research. In other words, cooperation involves a certain mentality, plus financial incentives from the Union to stimulate this cooperation.

In terms of the Economic and Monetary Union, when the euro was not doing so well, some Anglo-Saxon thinkers reasoned that there were only two possible systems: a national central bank with a national state or a central European bank with a European government. I replied, with evidence to support it, that no-one wanted a European government! The only alternative is cooperation, in other words the coordination of national economic policies and joint regulation of financial and monetary developments.

To come back to the wider budgetary debate

You have a strategic rendezvous in this regard, ladies and gentlemen of the national and European parliaments: the European budget, or how to make good use of the public purse. Consider this for a moment, although my example is absurd because it is too simple. Let us assume that each country puts 100 euro extra into its national budget, and let us assume that, in another experiment, we put 2 700 euro (27 x 100) into the Community budget. We then compare the effectiveness of these two measures. The European budget can help to optimise the results of social and economic measures and promote innovation. That is why we need to find additional resources. So let us emphasise Europe's needs, reasonable needs, and seek new sources of funding, ensuring good management but management with an eye to the

future, leaving behind national self-interest and short-term obsessions.

As for Eurobonds, President Maystadt has already talked about these but I will do so again as others are not of the same opinion. He made a clear distinction: I have never spoken of Eurobonds in terms of financing or repaying national debts. Eurobonds are reserved for future expenditure: the famous golden rule of Mr Gordon Brown. Mr Maystadt and the EIB must be congratulated for having shown proof of financial engineering. It is possible, as he explained to us, to combine a low European budgetary commitment, borrowing possibilities and a certain responsibility on the part of the private sector.

In praise of differentiation

I must now come on to the specific problems of the Economic and Monetary Union. I know that it shocks some of you to hear me talk of two Europes. I have never considered the EMU to be the vanguard of the wider Union. However, I know that if there had not been a principle of differentiation in Europe over the past 50 years then progress would not have been made. It is this method that brought about Schengen and this method that led to the euro. Differentiation is a way of enabling some countries to go further whilst respecting the general rules imposed on everyone, the rules of the EU27. Since Europe will be enlarging again, to reject differentiation would be to opt for a weak entity instead of a positive combination of both enlargement and deepening. The Lisbon Treaty anticipated this differentiation: enhanced cooperation, although some countries that have just joined us, and perhaps also some longer-standing members, do not want this. It is not, however, a question of implementing a two-speed Europe! What do I mean by 'weak entity'? I mean a system focused on the single market, with ever fewer common policies. We know what happens next, based on past experience: a lack of political will, a lack of joint purpose, each focusing on his own petty interests, with a good dose of protectionism and nationalism and a nod to populism thrown in. It will be decadence, gilded to begin with, but then what?

The euro, the key to our destiny

First of all, although it is never pleasant to quote oneself, there was economic and monetary balance in the Delors Committee report. Eight years on from this report, it was decided to focus only on the monetary side of things. In 1997 I proposed an economic policy coordination pact that was not accepted. One day someone will explain why, because the faults are far more widely shared among the actors of that time than you might think. This defective integration meant that the euro protected us until 2008, but it did not provide any stimulation. It even protected the foolish acts of some countries. Imagine: for five years countries became indebted, their banks spent extravagantly, and no-one lifted a finger in the eurozone Council of Ministers. It was pathetic. If we had had this economic pillar, such financial instability would have been highlighted and overcome. Nevertheless, we must not forget that, up until 2007, i.e. before the financial tsunami, the euro's results were good: 2.25% annual growth, 15 million new jobs, and a eurozone investment rate higher than in any previous year (you have to go back to 1990 to find a similar figure).

The financial crisis turned this trend on its head, but it also pulled us up short. You hear talk of economic government, but it is not an expression that people like. This turn of phrase was condemned because 'economic government' implies, in the minds of some Member States,

that their central bank would no longer be independent. It is to avoid such misunderstandings that I have never used this expression. I proposed an 'economic policy coordination pact', which is not the same thing. Now the talk is of economic governance, this is the new buzz phrase. The reasons for this are the diversity of situations and the distribution of powers. In producing this euro pact, we need to be extremely vigilant. When two countries met at Deauville, they had every right to dream. Take the example of salary indexation: there are two countries that implement salary indexation, Belgium and Luxembourg. Do you think that these two countries are doing worse than the others? I am certainly not going to try to convince you that the only criterion of competitiveness will be the unit cost of labour; look at the works of Professor Kruger, winner of the Nobel Prize for Economics, in which he explains the broad parameters of international trade, and you will see that the unit cost of labour is not the only measure to take into consideration when considering competitiveness.

A minimum level of fiscal harmonisation is, moreover, essential. The Irish should know. They were showered with economic and social cohesion loans, and I was active in this regard. But I ask you this: can we live in an Economic and Monetary Union, that is, a grouping in which a common currency confers rights and duties on us, without a minimum of fiscal and social harmonisation? Is it not the condition that will ensure, by means of a euro that stimulates it, that the Economic and Monetary Union obtains the greatest success in terms of sustainable development, jobs and social progress?

A market guarantee is required and progress has been made. A permanent financial stability fund is going to be created and, at the risk of shocking you, I am a supporter of the German theory: if any difficulties arise within this financial stability fund, we must ensure that it is not only the institutions and taxpayers that take responsibility but also the private creditors. We cannot accept a system in which some will never have to make a contribution but could, at any moment, put us in a difficult situation.

Finally, the Economic and Monetary Union requires a contingency fund in order to get the best out of economic policy. During periods of impending recession, we can endeavour to mitigate the consequences and the effects. In cases of overheating, however, we can focus on easing the tensions.

This is what is needed. It is a question of finding rules that will enable us both to curb speculation and respond to investor expectations. It is a question of moving towards coordinated macroeconomic management in the medium term. I never believed in the Lisbon strategy, for one reason: there was no realistic way of implementing it. From a wider perspective, higher education reform, pension adaptation, social security system adaptation, improved employment policies: all of these can only be successful in the long term. Within the Euro Plus Pact, which I am not happy with as it currently stands but which can be perfected, some want automatic sanctions while others want this to come from the Council of Ministers, i.e. a collective decision. I am undecided on this point, given that the criteria are not yet finally established.

And so you see why, when talking about the EU27, I wanted to focus on the EMU17. It is not a vanguard but it is my belief that if the euro fails, the European project, the European dream will be as good as dead. There is one simple reason for this: in the world as it stands, with all its environmental, technological, demographic and geopolitical challenges, Europe has only

two options: survival or decline...