SPEECH/11/760

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President of the European Commission

# Speech by President Barroso: "Debate on economic governance"

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

European Parliament

**Strasbourg, 16 November 2011**

President,

President of the European Council,

President of the Eurogroup,

Honourable Members,

The European Commission's recent economic forecasts are further proof that the backdrop against which we are all working is indeed pressing, extremely challenging.

Economic recovery has hit a standstill. Since our last fully-fledged forecast in May, global economic conditions have worsened. Investment and consumption are stagnant and being damaged by a persistent lack of confidence. Growth forecasts are low and unemployment is set to remain at around 10% for the next two years at 23 million people across the European Union in this terrible situation. Added to this are the continued turbulent events in the sovereign bond markets – meaning that our challenges are of a greater magnitude.

It is precisely for the restoration of the confidence that our work on fiscal consolidation, on structural reforms, on strengthening economic governance and on boosting growth – this is more important than ever before. That is why the Commission is advancing its work and taking its responsibilities with the utmost seriousness.

As I said to this House the day after the Euro Area Summit on October 27th, the Commission will advance its second Annual Growth Survey on policies for growth and jobs in the European Union for 23rd November. At the same time we will come forward with our proposals on further strengthening economic governance of the euro.

The purpose is to continue the comprehensive approach I set out in my State of the Union address to this Parliament and also in the Commission's Roadmap to Stability and Growth two weeks later. We need more discipline but we need more convergence. We need more responsibility but more solidarity. We need financial stability but also economic growth. And this is the Pact we are proposing to the European citizens. We cannot do this only through responsibility, we need solidarity. We cannot do this only through financial stability, we need economic growth.

The Commission's second Annual Growth Survey will provide a first assessment of progress in the implementation of commitments made in the first European Semester, including country-specific recommendations and those under the Euro Plus Pact, and constitutes the starting point for the second European Semester.

Two remarks on the Annual Growth Survey. The first message will be the importance of staying the course and implementing what has already been agreed. Consistency in implementation is key. We cannot be all the time changing our plans, we have to be consistent and deliver concretely the commitments that have been made. The problems we will face in 2012 are even more systemic and urgent. We should continue to deal with them robustly and not be diverted from the direction we have set ourselves. The downbeat economic perspectives do not mean we can allow ourselves to reduce efforts in fiscal consolidation or in promoting growth. They must be stepped up because we are reforming for the long-term.

The second remark is that the experience of having completed one full Annual Growth Survey and European Semester, combined with the strengthened rules we now have on economic governance, means that our decisions need to be reinforced and adapted in certain respects. Not least to take account of the persistent and pervasive nature of the crisis.

We are indeed now facing a truly systemic crisis that requires an even stronger commitment from all. And that may require additional and very important measures.

For 2012, the Annual Growth Survey will focus on five key areas:

First, on pursuing stability through fiscal consolidation.

Second, on further strengthening the financial sector. I would like to thank this house for the support for the 27 proposals on the financial sector that the Commission has put forward over the last months. I count on you in 2012 to support the Financial Transaction Tax and the proposal we adopted yesterday on Credit Rating Agencies.

Third, on boosting growth by reducing fragmentation in our markets and making Europe a more attractive place to create and invest. In the year ahead, I count on the support of this Parliament to fast-track a number of measures on the table, namely the proposals of the Single Market because, let's not forget it, we have to liberate the full potential of the Single market because the key to the response to the current crisis is growth. Without growth there will be no way out of this crisis. We can do much more through structural reform to achieve the goal of growth..

Fourth, by nurturing our human and social capital. I am thinking here specifically of young people unable to find meaningful work in Europe and of all that can be done to help them.

And fifth, by modernising our public administrations, which are a determining element of competitiveness and productivity.

Honourable members,

Today we are invited to discuss economic governance. For some, it may seem frivolous to discuss this topic at a time when urgency demands action. And yes, let me be clear: all levers of action must now be used without delay. Discussing governance, including Treaty change, must not be an excuse not to take action now because action is needed now. But this being said, governance matters: it defines the perimeters in which action can be taken or cannot be taken. In this respect, we have been held back by the intergovernmental approach which has been predominant in many of the decisions. Because the intergovernmental approach puts a premium on the slowest and the most reluctant – not on the most decided and the most engaged. Take the EFSF for example – it must be as flexible as possible. The unanimity rule has held back its development for too long, until we finally came to the decisions of 27 October. And this is one of the problems. Today the markets and the investors are not only looking at the deficits or the levels of debt, but also in the capacity of the euro area and the European Union to take decisions.

That is why having a stronger governance of the Euro area is vital for the survival and the reinforcement of our common currency. Markets, investors demand a stronger governance of the Euro area. It is not just a political issue for those like me and many of you that share a passion for a stronger Europe. It is indeed now a matter of common sense to have a stronger economic governance in the Euro area and of course in the European Union.

Reforms at national level must be completed with the appropriate structures at European level that will give weight and resonance to the economic decisions.

On 23 November, I expect the Commission to adopt and to send to this House two initiatives on further deepening European Union and euro area economic governance in line with the Roadmap for stability and growth that I presented to you on 12 October, and which was largely endorsed by the European Council.

These initiatives are based on Article 136 of the current Treaty. In addition, the Commission will present, as is eagerly awaited by this House – a Green Paper on stability bonds.

These will be followed before the end of the year by a Communication that I believe deserves special attention. A Communication on the external representation of the Euro area, based on Article 138 of the Treaty, paragraph 2. It will make proposals towards a more consolidated European voice and representation in international forums and institutions such as the G20 or the IMF. In strengthening our integration, we must also strengthen our voice and strengthen our credibility worldwide.

The initiatives based on Article 136 that Vice President Rehn is now completing will address two issues. On the one hand, they the need to increase surveillance, especially for Member States that put at risk the financial stability of all.

The first Regulation is for enhanced surveillance of euro area Member States that are experiencing severe financial disturbance or requesting financial assistance. It will provide an interface between intergovernmental financial assistance and Treaty-based surveillance – in other words, bringing it into the Community framework. It will step up surveillance for euro Member States receiving precautionary assistance and assistance under an adjustment programme, and will also ensure post-programme surveillance. The key here is to ensure coherence between reinforced governance in the Euro area with the overall acquis of the 27 Member States of the European Union. Increasing convergence in the 17 members of the Euro area without damaging the interests of all the European Union.

The second Regulation is for enhanced surveillance for euro area Member States in excessive deficit procedure, thereby translating one of the commitments of 26th October. It will set out graduated steps and conditions for monitoring national budgetary policies. It should enable the Commission and the Council to examine national draft budgets ex-ante and to adopt an opinion on them before adoption by the national parliaments, requesting a second reading in serious cases. In addition, the Commission will monitor budget execution and, if necessary, suggest amendments in the course of the year.

But in connection with this, I want to be clear about one thing in particular. The final say on national budgets will remain, where it belongs, with national parliaments. But national parliaments have to be made much more keenly aware of the European rules which their governments and they themselves have agreed to respect. Increased surveillance by the Commission will lead, unavoidably to a greater role in domains previously restricted to national governments or Parliaments. But this is necessary and indispensible if we want to have a common currency. Here I think that the European Parliament can play an absolutely vital role, in particular through interparliamentary dialogue and cooperation.

The final part is the Green Paper on euro stability bonds. It will present and assess the options for the joint issuance of bonds in the euro area. It will also explore reinforced economic governance options that would need to be developed depending on the decisions taken. I believe that Euro stability bonds will be seen as natural when we achieve our goal of reinforced governance and of course discipline and convergence in the Euro area. There will be a concrete demonstration of the principles of responsibility and solidarity.

If I can summarise by saying a few words on the principles behind this package. The increasingly systemic nature of the crisis has made it clear that we must progress with greater integration of economic governance, especially within the Euro area. This crisis has exposed weaknesses and gaps, in terms of surveillance, intervention and decision-making. Some of these can now be addressed thanks to the recent successful conclusion of the six-pack negotiations, for which I thank this House for its excellent cooperation and its decisive committment. The six-pack will come into force in around one month from now and as Vice-President Rehn has stated, the Commission will use its provisions from day one.

But as we could see from the conclusions of the Euro Area Summit on October 26th, there is full consensus now to go further and this is indeed a very important development. Member States are now accepting what some time ago would have been considered unthinkable. Euro area Member States must now consult the Commission - and each other - before adopting any major fiscal or economic policy reform plans. They have committed to respect the Commission's recommendations in implementing the Stability and Growth Pact. And they have entrusted the Commission with the lead role in monitoring the implementation of the 2nd Greek programme and the reforms in Italy.

That is why this package, and in particular the Regulations based on Article 136, will address problems that have become more visible and more acute in the sovereign debt crisis, namely risks of contagion and spill over from countries experiencing severe financial disturbances. Reinforced surveillance is absolutely crucial in bolstering confidence among the general public and market participants.

While this reinforced discipline is now recognised as entirely necessary, the Commission is committed to going further to make sure that changes in economic governance are done in a transparent way. In a democratic way. In the Community way.

These Regulations will be based on a principle of full transparency. Both Regulations will be subject to co-decision. And we look forward to continuing the excellent cooperation with this House that we saw for instance with the six-pack negotiations.

Honourable Members,

The instruments we have developed and are still developing will be essential to ensure that we do not face again the kind of situations that made Europe so vulnerable to the crisis. They insist that Member States, especially in the euro area, live up to a long-standing obligation. It is, to quote the EU Treaty, that Member States must "regard their economic policies as a matter of common concern".

This is the fundamental lesson of the crisis: it's the lesson of interdependence. It's the lesson that, when things go wrong, the consequences are felt far beyond national borders.

And the hardest lesson is this: when things go badly wrong, the impact is felt by every European taxpayer and by far too many European workers whose prosperity and livelihoods are put at risk not by their government sometimes, but by someone else's government.

That is why we need to learn these lessons. To do all we can to rebuild our structures and revise our rules in a unified way that takes proper account of our interdependence and the responsibility that gives to all of us including of course the European institutions.

A key way to ensure this is – as I have said many times to this House but also to the European Council – that the Community method and the Community Institutions remain at the heart of our response to the crisis.  And they must be at the core of how we shape the European Union to make it stronger and fitter for the future. To make it more efficient but at the same time to uphold its democratic principles. It means governance for all and by all not only by a few.

In the future, we will need to go even further on strengthening integration. And this will require Treaty changes. And let me be clear: I am in favour of Treaty change if the Treaty change is to reinforce the European Union, the Community method, the European institutions and the sense of the common purpose. But let's not fool ourselves. Treaty change takes time and should not be seen as the immediate solution for the current crisis. Let us discuss it seriously, with due reflection, with due involvement of relevant actors and institutions, namely this European Parliament.

As President Van Rompuy has mentioned, there will be a report to the next European Council. The president of the European council was asked in close cooperation, with the President of the Commission, and the President of the eurogroup, to identify possible steps on further strengthening economic convergence within the euro area, improving fiscal discipline and deepening economic union, including exploring the possibility of treaty changes.

But this should be seen just the beginning of a process in which the level of ambition, the democratic participation and the involvement of the representatives of the European citizens is absolutely crucial. I am committed and I will make sure that this process will be conducted in close collaboration and cooperation with you, the European people's representatives.

The Community method and the Community institutions remain at the heart of the process and they must also remain at the core of how we shape the EU to make it stronger and fitter for the future.

This shows also that for the Euro, if we are committed to the Community approach and if we are committed to respect the Treaties, for the Euro we don't need another Commission, another Parliament, another Court of Justice. The Euro is a central part of the European Union. Not something separate, or apart. The Euro is not an opt-out from the EU. This is why we should implement the Community approach when we deal with the Euro. We will not make the Euro stronger through fragmentation of the European Union.

As I have stated several times to you and also to the European Council the economic government of Europe in matters of European Union competence is the European Commission. Its accountability is to this Parliament. And this is the responsibility of the full College. Not a part of it. I have given Vice President Rehn special responsibility regarding the Euro governance. And we have made sure that economic analysis must be done in the most objective way. But let's be clear: in matters of political decisions, responsibility of the Commission is collegiate. We need to respect the rules. We need more than ever strong Community institutions and strong governance. This is also part of rebuilding confidence. Any revision of the Treaty should be for deeper integration of the Euro area but also for a stronger European Union, in full respect of the Community method and of course of the prerogatives of this Parliament.

Reinforcing the governance of the Euro is also reinforcing our Union. There should not be any divide between the current 17 Member States on one side and 10 on the other most of them, almost all of them have as a vocation to join the Euro. All Member states are full members of the Union. And all should be committed to fulfil the objectives in the Treaties. The Member States of the Euro area have committed to completing the monetary union with an economic union. But this must also be completed with a political union. With political unity to move forward together.

The Community institutions par excellence, this Parliament and the Commission, have never left a doubt about their determination to take this crisis head on and to work for stronger European Union and I know that I can count on you and you certainly can count on the Commission to continue precisely doing that.

I thank you for your attention.