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Speech by Minister Stubb:

"The European Union – from Crisis to Regeneration"

Check Against Delivery

College of Europe
Bruges, 17 November 2011

Honourable Rector,
Dear professors and students,
Ladies and gentlemen, dear friends

It is an honour to be given this chance to speak at the College of Europe in Bruges, my old school. This place gave me more than I bargained for - including my wife! I even had a chance to teach here for seven years. I simply love this place.

I remember my early years working with European integration as a time of great optimism, a leap from an economic community to European Union. Now, the EU is in the midst of an unprecedented crisis with the grave problems the euro area is facing. Optimism is no longer the main game in town.

We are living through a global financial crisis and a western debt crisis, already in its fourth year. The problems of the euro area are far from over with added Greek and Italian drama and brinkmanship. Nothing could be further from the festive mood of ten years back when the euro was launched.

However, this is not the first time the Union faces a big challenge. The history of European integration is paved with crises and challenges that have resulted in the Union taking bold new steps, steps forward. Be it with the crisis of the coal and steel industry that resulted in the community approach in the first place. Or the economic stagnation of the 1970s that led to the single market and consequently to monetary union. Or the end of the Cold War that prompted European unification across the old dividing line.

We have to look beyond the crisis into new European horizons. Today, I want to talk to you about the future, not just about next week. I want to talk about European regeneration. Don't blame my government for the positions I am going to outline, these views are strictly personal.

In crisis situations, the clear response has always been more Europe, not less. And so it must be today – the European Union needs to emerge from this crisis stronger than ever. A stronger Europe, a smarter Europe. This is the mood I want to share with you here today.

The European project works on many fronts, and I could talk for hours about its trade or foreign policy agenda, the need for more unity in external action, the multi-annual financial framework or innovation policy, but today I want to focus on economic governance. Namely on three aspects:

- i) Growth
- ii) Rules
- iii) Cohesion

I will make the case for three concrete proposals: i) improve growth by realising the digital single market, ii) make stronger rules for the euro, and iii) provide institutional arrangements that will preserve institutional cohesion.

So let me come to my first point, the European growth agenda.

We all know that financial stabilisation will only produce results if economic growth is strong in Europe at large, not just in the select few, northern export-led economies. If growth does not resume, buying time with rescue packages has no point. It amounts to kicking the can further down the road, but it does nothing to change the end state.

For the time being, dealing with the immediate crisis takes precedence over long-term growth plans. Plugging holes takes priority over destination when ships are in trouble. But we should also start looking beyond the crisis.

A while back Gideon Rachman argued in a Financial Times column that the United States is the military super power, China the economic super power and Europe has opted for being the lifestyle super power. I agree with this choice, but as Gideon pointed out, our lifestyle is dependent on economic dynamism. We need to have world-leading cutting-edge companies in Europe also during the next decade - and the next century.

We talk a lot about growth and competitiveness, but little concrete action is taken. We need more ambition. One dimension is of course firm structural reforms removing obstacles to growth. Another dimension is opening markets to European companies – the EU is remarkably open, but we should make extra efforts to achieve improved market access with our external partners. More efforts are needed with e.g. the United States, Russia and the emerging markets. Yes to free trade and investments, no to all forms of mercantilism and protectionism.

But above all, we should take better care of the internal market, the heart of the European economy, the world's biggest single market in terms of GDP or trade.

Let me clarify. If you are pro-internal market you are also pro-European. If you are against the internal market, you are in essence anti-EU. This is why Britain – to my mind – is an instinctively pro-EU country, as paradoxical as this may sound to many of you.

The internal market is a major European achievement and it is the foundation for the economic competitiveness of European companies. It should be the hassle-free home arena from where our start-up companies can launch their global success stories. And it should include a fully-functioning European financial market guaranteeing access to finance for promising companies.

One of the biggest gaps missing from the single market is the digital dimension. You cannot believe the amount of red tape our promising digital companies have to deal with when they want to sell in the European market. Usually twenty-seven rule books, instead of unified European rules. The situation is no better for the European consumer – try buying music or applications and you face a wall of national restrictions. And the digital market

is where growth is happening, where our promising companies should be thriving.

No wonder American companies rule the web. We have surrendered without even starting. This must change and we have called for the establishment of a Digital Single Market by 2015. A new big bang for the Single Market, like the original 1992 deadline.

So my message is that this aim needs to be taken seriously. We need ambitious harmonising legislative proposals from the Commission designed to make the Digital Single Market a reality. The Digital Single Market – if implemented – can bring even extra 4% of GDP by 2020. The business of making growth actually happen is not about presenting endless Europe 2020 slide-shows but preparing and tabling legislative proposals.

I am encouraged by the fact that the friends of DSM 2015 – a catchy slogan by the way – are not just northern nerds. Our biggest allies in this project have been more southern partners, countries that are serious about growth, like France and Spain.

Dear friends,

My second point is about rules and treaty change. The euro was a fair-weather currency – running smoothly as long as the sun was shining. There were only carrots, no sticks. This has to change. What I propose is firmer sticks with stronger rules, but I also want to remind you about the existing carrots.

First, let me talk about rules.

The Greek debt crisis has very clearly demonstrated the fact that soft coordination is not credible when it comes to economics and financing, things that really matter. I cannot say that Greek problems should have come as a surprise to anyone – even with Greek accounting the numbers were clear enough for everyone to see – but nothing forced us to take the situation seriously. Markets were happy to lend money to Greece at 4%. We had rules to prevent euro area countries from over-borrowing, but these rules became redundant the day that Germany and France decided that they did not need to respect them.

We need strong rules, strong enforcement of rules and a culture of rules. The strengthening of institutions upholding the rules should be an inseparable part of European regeneration.

I cannot downplay the shock that the Greek debt-crisis has caused with my Finnish electorate that believes in fair play and following the rules. People feel cheated because European rules were not followed and national authorities even gave false information. The EU rarely provokes an emotional reaction among Finns - this time is different. For us this is not really about money, but principles.

The European Union is a deeply integrated system where we are all interdependent. Nothing moves without having an effect on others. We have participated in rescuing Euro members in difficulties. We have felt an obligation to do this because it was in our interest and because we are all responsible for the Euro. However, this responsibility needs to be complemented by firmer obligations on all euro area members to run their economies in a sustainable manner.

If there are rights, there have to be obligations. Freedom cannot mean the freedom to harm others.

We need to restore credibility to the Union as a rules-based institution. This is after all the fundamental mission of the Union – bringing European countries and citizens together in a constitutional civilization built on common rules, not the arbitrary rule of the strong and mighty.

We need a system where irresponsible economic behaviour can be stopped in its tracks. The no bail-out rule is clear, but the markets have until now failed to take its meaning fully into account. The recent six-pack legislative package on economic governance goes a long way. This was an excellent move and I pay my deep respect to the European Parliament for making the six-pack a legislative reality.

However, we should go further. I see no reason why sanctions should not be tougher if a euro area member state deliberately or out of negligence puts the common currency in danger. I understand the Dutch reasoning on a gradual loss of national control if things get out of hand.

The Union needs a budget tsar, the economic affairs commissioner with beefed-up powers to keep member states on the straight and narrow path. And please remember, I am a Finn – I do not speak about tsars lightly.

I am an academic at heart. So let me dissect the institutional steps that can be taken to improve rules and governance. First, there are measures that can be taken in an inter-governmental setting, like agreeing to further reforms in the Euro Plus treaty. Second, many things can be done within the existing treaties by introducing new legislation, the six-pack being an eminent example. Third, there are measures that would need treaty change, for instance political sanctions like revoking voting-rights or curtailing budgetary sovereignty. Fourth, we can also use enhanced cooperation where euro area countries could make rules for themselves.

I am a convinced – some would say enthusiastic - European. But I nevertheless think that we need to approach treaty change with caution. We should do whatever necessary, but no more. If opening the treaties is a necessity for tougher rules, we should have a ring-fenced intergovernmental conference designed to make treaty changes that are relevant for euro area governance, not more. We should not put everything on back on the table so soon after the coming into force of the Lisbon Treaty.

If this limited change to prove politically impossible, we would need to look at enhanced cooperation as a way forward for the euro area. After all, budgetary discipline and fiscal policies are not exclusive union competences.

The big picture is nevertheless clear – we need to balance rights and responsibilities. The majority has had to make major commitments to safeguard the euro area. Now the minority has to recognise its responsibilities towards the area as a whole and make that responsibility as firm as possible. Solidarity is a two-way street.

Carrots for following the rules exist today. And they are market-based, as they should be.

Eurobonds have been busily debated, but I think that we have taken a wrong approach to the whole issue. Joint eurobonds are not a solution to the present crisis. We should not seek means of economic governance that would remove market discipline from the euro area. We need more competition, mobility and capitalism in Europe – not less.

During the debt crisis, the market has started to fully appreciate the differences between euro area countries' competitiveness and sustainability. The Euro has become an essentially Darwinist currency. The market rewards the triple-A countries and punishes those who have been slack about their public finances. Survival of the fittest prevails.

As a consequence the core of the Europe's core is economic, not political. It includes all the AAA-rated euro countries which fulfil the Maastricht criteria. Unfortunately this core is quite small.

The crisis has led to closer economic cooperation among the core countries and provided an additional incentive for all euro members to stick to the rules. All euro members need to strive for a triple-A credit rating.

The re-emergence of market discipline in Europe is definitely painful for many. And I have no doubt that we have during the past two years seen the market overreact as if to make up for past mistakes. Countries with a solid economic base have seen their bond interest rates spike. But eventually the market will calm down and learn. In the long run, raw market pressure is the only really effective tool to ensure the governments pursue sound good economic policy. The market is both the stick and the carrot.

Dear friends,

Last, but not least, let me come to my third point, maintaining institutional cohesion, EU unity, even as the euro area moves forward.

I wrote my thesis at Bruges on the famous Schäuble-Lamers paper of 1994, which suggested a euro core of founding states minus Italy. Just to prove I am

an institutional nerd, I continued on the theme of differentiated integration with my Ph. D. at the London School of Economics and Political Science.

Many debates have been fought over cores: should we have them or not. Every time institutions, enlargement, Schengen, the euro or foreign and security policy are mentioned, cores come up in the debate. So far an institutional core Europe has not really emerged, but this time it may be in the making - by the markets.

I think there is a clear case for deepening integration in the euro area. But a deepening EURO17 may pose risks and question marks for the well being of EU27.

But before I turn to this issue, let me make one additional point about the euro and the union. This may sound strange as the crisis is still brewing, but do remember that all EU members are supposed to join the euro when they meet its conditions. And these conditions must not be fudged.

Only Britain and Denmark have negotiated the right to remain outside. Estonia showed the way quite recently, unafraid of assuming euro obligations. Sweden – and I do say this with deep neighbourly love - is in fact living in sin as it has not joined the euro, in spite of the fact that it has the ability to do so. I have the conviction that the euro area will grow, once the crisis is over. So the division between the 27 and the 17 should only be temporary - at least for a true believer like me.

So the deepening of the euro should not happen in a way that endangers the Union. We cannot introduce elements that would for instance harm the internal market. We need to find ways to make the development of the euro area compatible with our daily life at 27. I think that the key for this harmony lies in the way we construct new institutions for the euro area.

The general rule in developing EU institutions should be streamlining: more simplicity, more continuity, and more stability. This was in fact a guiding light in the constitutional process leading to the Lisbon treaty. But now the evolution of the euro area seems to be taking a new turn with the possibility of electing a separate president for the euro area summits. We need fewer presidents, but are in fact opening the door to more.

There is something of an Iron law in European organisation - every time you create a new functionary, you create a new dimension of bureaucratic competition. We all recognise this. You only have to read the daily papers to witness it. And bureaucratic games are not conducive to decisive leadership in times of crisis.

I am convinced that entrenching the euro area with its own president would deepen the divide between the 17 and the 27. And just imagine future decision making: President of the Commission, President of the European Council, President of the Euro Area, President of the European Parliament, President of the European Central Bank, President of the Eurogroup,

President of the Council. I am sure that I have forgotten someone, but this is already decision-making at seven presidents. You need a new building to house just the presidents.

We need to make a different choice – fewer presidents, not more. I think we should streamline decision-making in the euro area and at the same time ensure that the institutional set up leads to more coherence, not entrenchment and infighting.

My solution would be to combine the functions of the Presidents of the Commission, the European Council and Euro Area Summits into one high post. In effect, not double-hatting, but triple-hatting the holder of office. As we have seen, combining the presidency of the European Council and Euro Area Summits works.

You can just select the same person to all three posts. It does not require treaty change. But making this permanent and doing so in a clear and unequivocal manner - paying careful attention to procedures and structures - would require treaty change. It is worth exploring. My conviction is that this solution would be of great benefit to the Commission and the community method – the Commission would naturally take centre-stage. Let's be frank, the financial crisis has not been good to the community method.

Careful attention should be given to how this European President would be elected and how he or she would work. And I do not pretend that I have a ready and detailed blue print in my back pocket.

The exercise is worthwhile only if it brings more order and more harmony. Command, control and communication all need to be crystal clear. The President would in effect be Commission based, but would need a strong administration bringing together the preparations of the European Council, the Eurogroup and the leadership of the Commission.

I am not proposing institutional innovations just for the fun of it, but we need to remember that form follows function. There is a need for more leadership in Europe and I would rather have this leadership in the hands of a joint – perhaps elected - trustee, than self-anointed member states. I would rather choose an open rostrum than a smoke-filled backroom.

Dear friends,

As we are in College, we need to keep academic standards and mind pedagogical method. So let me recapitulate my message. The EU faces an unprecedented crisis, but the way is forward. And this way consists of three steps: one - pay attention to growth, two – make rules work, and three – upgrade institutions in a way that are conducive to improved leadership. Sometimes less is more.

I thank you for your attention and the opportunity to address you.