

Euro crisis: a bombshell for European Integration?*

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I. Introduction

It is a pleasure and honour to stand here today and to deliver the speech for the opening of the Master Program on European Legal Studies.

The question I want to address tonight is whether the Euro crisis could become a bombshell for the European integration?

In fact almost every day we see new news about the EU in the different media, almost exclusively BAD NEWS about the so-called "**Euro crisis**". On this issue I want to be very clear: the current crisis situation is not a crisis of the Euro. It is a crisis of the sovereign debt of some countries, in the Euro area and elsewhere. My conviction is that the situation would be far worse without the Euro. The Euro has proved to be an effective protection against currency speculation, and the vicious circle of devaluation, inflation and lack of confidence in the currency.

However, the **sovereign debt crisis** is perceived as being a crisis of the EU as such and has not only put into question the role and viability of states but also achievements in European political and economic integration over many decades. For instance: In recent public polls (Allensbach October 2011) in Germany the EU is loosing its credit: the question was: Would Germany be better off without its membership in the EU? 34% BETTER, 17% EQUAL, 22% WORSE, 27% DON'T KNOW In 1977 on the same question only 22% replied that Germany would be better off without its membership.

Will this crisis put an end to European integration or – as so many times in the history of European Integration– will it be the stimulant for further integration, notably towards an economic union?

The answer is not straightforward. A meaningful response must first build on an honest description of what happened and what has been done and could be done further in order to combat the current sovereign debt crisis.

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In my view, the crisis must be understood as the compound effect of three kinds of interlinked "frictions":

1. The **economic frictions** posed by the financial and sovereign debt crisis.
2. The **political frictions** due to a population hit by the crisis and questioning the historical consensus in Europe. and
3. The **institutional frictions** in the EU that demonstrated its lack of readiness to take on these challenges.

II. Let's have a closer look at the frictions

1. Economic frictions

Foremost, and obviously, Europe has gone through a series of major economic and financial challenges.

The financial crisis starting in 2007 led to the *rescue of financial institutions by governments* around the globe and was *followed by fiscal strain*. The consequences are still visible:

- The crisis has left the *banking sector in many countries in a rather weak position*.
- The crisis has also impacted on *government accounts*: lower tax revenues, funds deployed for bank bailouts as well as higher risk and liquidity premia on government debt.
- *Growth dynamics around the globe have been affected*. Many advanced economies, including the US and parts of the EU Member States, face softer labour markets and decline of demand. More fundamentally, the *growth models of the last decade have shown their limits*. They used to be based on strong growth which was fuelled by economic activities that were particularly relying on credits. Furthermore, it seems clear that in many countries debt has been accumulated well beyond long-term sustainable levels. The correction has started, but it is slow and so far rather a levelling off than a true reversal.
- And, finally, *economic integration and globalisation imply that economic and financial frictions are not and cannot be geographically isolated*. This is even more so the case in Europe with its much higher degree of economic interaction across borders.

2. *Political frictions*

The crisis brought, across the EU, EU-sceptical voters, parties and governments to the forefront: taking a critical or destructive attitude seems to pay off for politicians. And it is also the EU that was blamed for the loss of stability and welfare as a consequence of the crisis, not only in Greece, Portugal or Ireland but also in Finland or Germany.

This backlash is on the first sight not surprising or even alerting because economic crises are fertile ground for such trends. But if these become too large, become self-perpetuating or mutually reinforce across borders, as it is currently the case, it bears the risk of becoming structural in nature.

One of the immediate effects of this shift in the political landscape has been that the fairly high consensus on resolving the banking crisis has broken down in resolving the sovereign debt crisis: on the surface the disputes and public debates have turned into a fight on burden sharing between different groups within countries and between countries.

3. *Institutional frictions*

Since the beginning the EU has always been both: the European institutions and the founding Member States. Both are meant to pursue their interests and mandates, but play their role in a constructive setting. In particular, European institutions are meant to be the sufficient counterweight against Member States' particular interests.

When it comes to economic and fiscal policy, the Union always had to reckon with the particular attachment of Member States to their budgetary and fiscal competences. This is also reflected in the distribution of powers between the EU and Member States: although there are clear Treaty obligations on fiscal conduct, the enforcement mechanisms are much less straightforward than for normal EU obligations of a Member State.

The recent economic and political frictions across the continent have further weakened and partly broken this balance between the Union and its Member states. At least on the surface, Heads of State or Government have taken over the control and it seems that the Union is sliding back into a loose intergovernmental setting.

Accordingly, the level of discord has risen, also due to the veto power by individual Member States that is characteristic for intergovernmental arrangements.

III. The current response

Faced with the crisis and the frictions the European Union has not been sitting on its hands. That was simply not an option. Against this setting of a deep economic and fiscal crisis, the EU has walked along a cliff over the past year. The margin of error has been rather small.

Actually, the EU has been able to adopt some landmark changes to its functioning and institutions in order to give a **systemic response to a systemic crisis**. Let me just point to the most important elements:

- The EU has adopted *a new legal framework for the financial sector* and established *a new architecture of supervision* in Europe for banks, insurance and securities markets.
- The *European Systemic Risk Board* was created with the task to spot and defuse potential future risk in financial stability.
- The *European Financial Stability Facility* was set up with a large overall financial envelope, a broad range of instruments and lending rates geared to securing fiscal sustainability of beneficiary countries.
- With the *European Stability Mechanism* a proper, strong and permanent international organisation for the euro area was created.
- The so-called "*European Semester*" was established according to which national policy choices and budgets are first discussed at the EU level before being implemented at national level.
- And finally within the last four weeks a *legislative package* of measures has passed the European Parliament and the Council improving economic and fiscal governance in the Union.

In parallel, the EU institutions and Member States have been in an **active crisis management mode**, as in the middle of a crisis, prevention is obviously not enough:

- Member States advanced necessary and sometimes overdue fiscal consolidation and reforms to render their economy more competitive and dynamic.
- The Commission organized Europe-wide stress tests of systemic banks and insurance companies and helped ensuring a proper follow up to their results where needed.

In short, the Union has made substantial progress in strengthening the economies, stabilizing the financial sector and government accounts. Equally importantly, it has made concrete

efforts in reducing the likelihood and impact of a future crisis, be it financial or fiscal in its root.

In the area of crisis management, true innovations have taken place in the architecture of Europe's governance and institutions, and that in a short span of time. Nothing existed still 18 months ago: no concept, no legal or institutional basis, and in the beginning not even the political will.

These achievements did ultimately come quite fast, but somehow in a painful incremental mode. This was mainly because disagreement between Member States reflected the difficult interplay between solidarity on the one hand and systemic reasons and national interests on the other hand. In addition European decision making process showed shortcomings, notably the inability to be ahead of the curve; instead it seemed driven by day-to-day market pressure only.

The public took ample notice of this and understandably even more so than of the actual achievements. In that sense, the EU did a poor job in calming and steering markets when this was needed most.

Therefore:

IV. What comes next?

The crisis is further unfolding and mutating. The crisis response so far has been based on the general Community approach. However, the success of this response has so far been mixed at best.

What are the essentials for a credible solution?

- We need *closer fiscal integration*, because of the strong impact of fiscal conduct in any Member State on its partners. This fiscal integration will be even more indispensable in a situation where fiscal solidarity between Member States becomes a key feature of the Union.
- We must define and implement a *new growth strategy for the Union* in a situation in which the classical macroeconomic tools of fiscal and monetary policy are fading;
- We need *further financial integration* within the EU without repeating some of the mistakes made in the last decade and we need to match the integration of markets with proper integration of policies, regulation and supervision.

- And, finally, we must quickly learn from the current sovereign debt crisis and sharpen our *tools for effectively combating systemic* crisis hitting one or more of our Member States.

Living up to these huge tasks requires rules and institutions at the central level rather than loose coordination between Member States.

We must build consensus about this vision of Europe's destination. For the sake of the challenges ahead, this consensus must be broad and robust. That can only be achieved as a result of an open, wide and, if necessary, controversial debate.

There are of course some who contest this vision, and for various reasons. What we are often told is that the EU's system of decision making and co-operation is essentially just a blueprint for fair-weather conditions, and that this system would fail, and necessarily so, in adverse conditions.

The so-called "Monnet method" of progressively integrating Europe has been recently called into question, for example by the *Economist* earlier this year. They argue that the main drawback of this method would be a voters' backlash, resenting the shift of power to the European level and the ineffective decision-making process.

I do not deny any of these two observations: public opinion has shifted in some Member States to more Euro-sceptic territory. Moreover, our way of reaching decisions is sometimes rather ineffective, particularly when time is of essence.

However, I consider the conclusion drawn from these facts fundamentally flawed, and particularly dangerous for the long-term welfare of Europe. Let me mention two of the most celebrated quotes of Jean Monnet:

- "*Europe will be forged in crises, and it will be the sum of the solutions adopted for those crises*", and
- "*Nothing is possible without men and women, but nothing is lasting without institutions*".

This applies today more than ever. Europe is built on stable institutions that allow responses to the vast and systemic crisis on our continent. One thing is crystal clear: intergovernmentalism, or any kind of a more ad-hoc form of co-operation among our countries, does not properly function over time. Our own history has shown that fact repeatedly.

It was an illusion to think that we could have a common currency and a single market with national approaches to economic and budgetary policy. Let's avoid another illusion that we can have a common currency and a single market with an intergovernmental approach. Within the EU competencies, the Commission is the economic government of the EU. We certainly do not need more institutions for this. We do not need a "European economic Government" based on an intergovernmental approach. If the French-German initiative of a European economic government goes in that direction (which is not quite clear: France rather yes, Germany rather no) this is certainly the wrong direction; we do not need a shuttle diplomacy between capitals. The result of an intergovernmental approach would not be a stronger Europe but a fragmentation. We need to complete our monetary union with an economic union. Not less Europe – more Europe is needed. Not less competencies – more competencies need to be conferred to the EU in economic policy. We need a truly Community approach.

As we have just seen a lot can be done within the current Treaties and a lot has been done so far. Certain other things need a modification of the Treaties, notably

- The conferral of new competencies in economic policy allowing for stronger cooperation and sanctions.
- Abolition of the unanimity clause: the exercise of the new competences cannot be dictated by the slowest. And today we have a Union where it is the slowest member that dictates the speed of all the other Member States.

V. Conclusion

Let me sum up. The crisis has polarized the likely future of Europe. If we do not succeed in building a stronger Europe, ready to take on the challenges of the global economy, we will slide back into national "turf" policy or we will suffer fragmentation with the renewal of the debate of the 80ies on a Europe with concentric circles or a two tier system. In both cases the achievements over the last five decades will be at risk.

And what is at risk goes very far. The EU today is much more than an "economic Community". Of course, the current sovereign crisis is a major challenge for the EU and its Member States, but this should not disguise the fact that the EU stands for much more than "current economical and financial crisis management".

- The EU is first and foremost a guarantor of peace: There is no greater motivation for European unification than the desire for peace. In the last century, two world wars

devastated Europe opposing countries that are now Member States of the European Union. Thus, a policy for Europe means at the same time a policy for peace,

- The EU stands for unity and equality: The present-day problems can be mastered only if the European countries move forward along the path that leads them to unity. A divided Europe cannot assert its political and economic independence from the rest of the world and cannot win back its influence in world politics. Without European integration, without the European Union, it would be very difficult to secure peace, democracy, law and justice, economic prosperity and social security, and guarantee them for the future. No citizen of the Union may be placed at a disadvantage or discriminated against because of his nationality or because of gender, race, ethnic origin, religion or beliefs, disability, age or sexual orientation. Member States enjoy equality in the sense that no State has precedence over another, and natural differences such as size, population and differing structures must be addressed only in accordance with the principle of equality.
- The EU is granting fundamental freedoms: This means, in particular, freedom of movement for workers, freedom of establishment, freedom to provide services, free movement of goods and free movement of capital and last but not least the protection of the fundamental rights of European Citizens.
- The EU stands for solidarity: Solidarity is the necessary corrective to freedom, for inconsiderate exercise of freedom is always at the expense of others. For this reason, solidarity of its members is a fundamental principle according to which within the EU its members are sharing both the advantages, i.e. prosperity, and the burdens equally and fairly.
- Finally the EU is contributes to safeguard the security of citizens and Member States. Particularly since the attack on the USA of 11 September 2001, the fight against terrorism and organised crime in Europe has also been in the spotlight again. Police and judicial cooperation continues to be consolidated, and protection of the EU's external borders intensified.

Against this background it is unthinkable that Europe can fail because of the sovereign debt crisis. There is simply no alternative to the EU and always the EU will go out of this crisis stronger than ever before! At least this is what I would like to see.

Thank you for your attention.