



**EUROPEAN COUNCIL
THE PRESIDENT**

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**Summary of the opening address by Herman Van Rompuy,
President of the European Council,
to the Brussels Economic Forum 2010
"Lessons from a crisis"
Brussels, 25 May 2010**

I should like today to share some thoughts on the current crisis of public debt. Firstly: how did the European Union deal with this crisis? Secondly: what lessons should we draw from this crisis, in terms of economic policy? and thirdly: what lessons should we draw, in general political terms? What does it mean for the state of European integration?

Listening to some commentators, one gets the impression we are living the biggest crisis since the Second World War, or even the First one. Last week, one observer urged European leaders to use the Churchillian language of "blood, toil, tears and sweat" in order to convey a sense of urgency. Well, it is not exactly the outbreak of the Second World War... We are not in the monetary Armageddon. Verbal inflation will not bring back confidence. It is a political duty to keep a sense of proportion. We are certainly in a critical moment; one can call it "unprecedented" and "historical". But crises are always unprecedented, that is the whole point. Therefore I am glad that the EU has been able to deal with this one. It took time, the coordination was difficult, but it is the result that counts.

In my judgment the EU did reasonably well. We stumbled, but we did not fall.

I stress that, during the process, we kept all our commitments towards Greece. Let me recall the facts:

- In February, we agreed on the principle to take action to safeguard the euro's stability and to help Greece.
- In March, we agreed on the mechanism.
- It was only in April, on the 23rd, that Greece for the first time asked for support.
- A week later, on 2 May, a deal was reached, and one week later, on 7 May, the support mechanism was effectively triggered.

All along, the European Union did what it promised, and when it was needed.

P R E S S

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What lessons should we draw from this crisis, in terms of economic policy?

Firstly, we should reach greater budgetary discipline. We have agreed on the need to strengthen the Stability and Growth Pact. A lot of proposals are on the table. They concern both the preventive and the corrective side of the Pact. I will not go into the details here, but they include stronger warning procedures and new types of sanctions.

The second objective is a reduction of the divergences in competitiveness between the Member States. This is vital, especially for the euro area. The Stability Pact remains the corner stone of European economic policy coordination. However, sound budgetary policies are necessary but not sufficient to ensure competitiveness. We could have known this from the start, but it took this crisis to hammer down the point.

Third objective: We need to have an effective crisis mechanism in order to be able to deal with problems such as those of today in the Euro zone. The general crisis mechanism that was put into place two weeks ago, will function for three years. The question is whether, and if so under which conditions, it should be developed into a permanent fixture of the system.

Fourth objective: We need to strengthen the institutional cooperation and coordination, in order to be able to act quicker and more efficiently when problems arise. In the Greek crisis, we did build a lifeboat at sea, but we can clearly not go on improvising like this. Therefore I intend to put proposals on the table of the Task Force for better coordination between the main actors.

I now come to the third and final issue. What lessons can we draw from the crisis in political terms? What does it mean for the state of European integration?

In a way, the old cliché holds: every crisis is an opportunity. It creates a possibility to act. To do things we were unable to do.

But again, a sense of proportion is in order. I do not belong to those who are cheering with a European flag and who are almost thanking the markets for obliging the European Union to take a step forward on political integration. European integration is not a goal in itself. I would rather not have had this crisis, and I am sure the Greek people and most taxpayers in the Union would agree.

However, now that we are at this juncture, as a Union, it would be irresponsible not to draw the right lessons. That is what the work of the Task Force is about.

We are clearly confronted with a tension within the system, the infamous dilemma of being a monetary union and not a full-fledged economic and political union. This tension has been there since the single currency was created. However, the general public was not really made aware of it. The dilemma remained invisible. Nobody ever told the proverbial man in the street that sharing a single currency was not just about making peoples' lives easier when doing business or travelling abroad, but also about being directly affected by economic developments in the neighbouring countries. That being in the "Euro zone" means, monetarily speaking, being part of one "Euro land".

Today, people are discovering what a "common destiny" in monetary matters means. They are discovering that the euro affects their pensions, savings, and jobs, their very daily life. It hurts.

In my view, this growing public awareness is a major political development. It forces the governments to act.

The European Council has an important role to play. Alongside the Commission and the Central Bank, it is responsible for the Union's economic governance. As the body where the Heads of State or Government of the Member-States gather to deal with common European issues, it is particularly capable of squaring the circle, of finding ways out of the dilemma between the need for common action and national responsibilities. The European Council can assume responsibility for European decisions in front of national parliaments and public opinions, not at a technical level, but at a political one.

In the first proposals on the table of the Task Force, one sees other attempts to square the circle. Take the German idea to integrate the European deficit and debt rules into national legislation: it is a way of making visible that European rules are not just "from Brussels" – and therefore easy scapegoats –, but that they are self-imposed by each Member-State to the benefit of all. The same is true of the suggestion to hold national finance ministers accountable in their own national parliaments for the examination of the stability programs of their Euro zone partners. This may have disadvantages, but it would make visible that within the Euro zone, economic and fiscal policies of the partners are not just a matter of foreign affairs and old style financial diplomacy, but that they are, in a way, domestic affairs. These are encouraging shifts.

Let me conclude with the most important point. We cannot solve our budgetary problems without more structural economic growth. Without growth, we risk a negative spiral. In the short term, the acceleration of fiscal consolidation will hamper growth only marginally. I am even convinced that lower deficits will enhance consumer confidence and stimulate economic growth.

Moreover, the EU 2020 strategy remains absolutely important. The fiscal strategy has to prioritise R&D, innovation and education. They are key for the future, for increasing competitiveness. Therefore political leaders will be confronted with a reform programme in the budgetary field as in the socio-economic domains. All this will not be easy to achieve, but it is vital.

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