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"The economic and political challenges for Europe"

**Speech by President Herman Van Rompuy
at the opening of the Academic Year 2011-2012
European University Institute**

It is a great pleasure to be here with you at the European University Institute: one of Europe's best universities!

As someone schooled by the Jesuits, I am even more pleased that the "Padri Scolopi" have allowed us to speak in their beautiful church! And they let even the choir of the professors and students sing! Although here in the hills of Tuscany, alongside Brahms and Beethoven, I would maybe have expected Verdi or Puccini ...!

In medieval times, the great European universities -- Sorbonne, Oxford, Bologna -- allowed ideas to circulate and flourish all over Europe. The European University Institute stands in that tradition. Acting as a "treasurer" of the knowledge about the EU, researching, but also contributing to the political debate. Working for academic circles, and for the wider public. This is a most useful combination.

I was happy to assist at the presentation of the Padoa-Schioppa Chair. It is a most appropriate tribute. I knew Tommaso Padoa-Schioppa personally: we met a few times between the spring and the fall of 2010, after I had entered office. Each time we discussed the euro crisis. I recognised in him a likeable, balanced, wise man – with strong European convictions. A soft-spoken gentleman and hard-headed thinker. For me Tommaso Padoa-Schioppa is the example of a "sage", *di un "Saggio"*. What do I mean?

P R E S S

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A wise man not only weighs the pro's and contra's, seeing a problem under all its aspects. Real wisdom also means, on the basis of these analyses, showing the way. A real wise man points to action. Padoa-Schioppa was therefore more than a wise man: a man of action. There lied his great force of conviction. In innumerable Italian and European meetings, during 30 years, he was talking, calculating, impressing people, because he knew where he wanted to go. On his own, he has elevated the level of the debate on our Economic and Monetary Union.

Europe needs men and women with this capacity to convince to move forward. Europe needs this typical mixture of expertise and political sense. Men of ideas, courageous but also realistic.

The European Union is again at such a moment of its history. It is an hour of truth. *È l'ora della verità*. The road ahead is not laid out neatly before us, yet we cannot stay where we are. We need to reflect and forge a way forward.

I promised, some weeks ago, to speak here today about Europe's challenges. Challenges: we can see them before our eyes. In Italy, all over the Union. We are in the midst of a crisis which affects the material and symbolic heart of the European Union, the euro. An existential crisis. And we need to overcome it. Maybe there were days when the EU was an abstract subject. Fish quotas. Harmonisation of product standards. Shorter queues at the border.

Maybe there were days when you, teaching and studying the EU's Law or its political system, had difficulties in explaining to your friends or even to your own mother why this would be a fascinating subject...

Those days are gone. Gone are boredom and indifference. There now is drama, even too much of it. There now are different, stronger emotions. Anger. Disorientation. Frustration, too -- about excessive financial risk-taking, or political hesitation. There is also the hope that we can leave the situation behind us. The drive to get back a grip on the situation, a drive I feel very strongly in Italy in these very days.

From the table of the Union's political leaders, I can assure you: there also is the sheer determination to bring the euro back into safe waters. And the conviction we will succeed. We have said on a number of occasions that we will do whatever is required to safeguard the stability of the Eurozone. And it is very simple: even if some have doubts about it, we mean it.

Earlier this week, thinking about this lecture, I admit it did not prove easy to find the right words, credible words. The situation is shifting rapidly -- markets are moving. Of course, this permanent flux is a fact of life (even the source of life!). And yet it seems different this time. We are in terra incognita. A rule of thumb of political action: "One step at the time", is under pressure. What, today, is prudence, what is risk? How to reconcile the instantaneous rhythm of the markets -- *i misteriosi mercati* -- with the rhythm of democracy? Let me put it more sternly.

From a series of national debt crises, the situation has been evolving into a systemic concern, threatening the stability of the Eurozone as whole. This threat must be contained. Containing the threat has been the goal guiding our action, most recently in a series of meetings on 23 and 26 October.

As you know, we took important decisions on the five fronts where action is needed.

- Improving the sustainability of the Greek debt.
- Building a firewall against contagion.
- Restoring confidence in the European banking sector.
- Consolidating the budgets and enhancing competitiveness, especially by those Member States at risk.
- Stimulate economic growth and employment.

These five elements are all interrelated. For instance, the banking problems and the sovereign debt tensions were feeding each other. Achieving growth is the best way to reduce public debt, to bring back confidence. The efforts of each country are part of the wider strategy. Everything is in everything and vice versa.

These elements were and are sound. Of course they need to be implemented. Yet they were immediately tested by the volatility of the markets and politics. Political events in Athens of the last two weeks were not helpful, even if -- as I am confident it will -- the ground is prepared for a return of confidence.

In these days of financial "war", we need national consensus. It is the only viable political answer to extreme situations. As we speak, credibility is what we need. Credibility is absolutely key in this stage of the crisis. Not "announcement effects", but action, sustained and consistent action. More has to be done; more will be done. Both by Member States individually, and by the Members jointly, at the level of the Union.

Here in Italy, host country of this University and a founding member of the European Union, one is at the eve of a key decision.

End October, the Italian government laid out Italy's reform program. The Eurozone's leaders welcomed the clear commitment of Italy to achieve the objectives of fiscal consolidation and structural reform. Increasing competitiveness, liberalising the economy, raising the retirement age, a balanced budget by 2013: it is a truly ambitious package. Now it is about to transform into law and - more important- to implement it .

I know that the Italian lawmakers in a bipartisan spirit are at work today to adopt some important measures which are re-sealing Italy's pact with Stability. The adoption of the Stability Law is a major step in the right direction, containing the measures to put Italy back on track and - when implemented - starting regain the necessary credibility. Implementation is absolutely crucial. Italy has a potentially high economic performance; yet it needs a huge efforts to unleash it in a structural and permanent fashion.

The state's finances and the prospects for growth are at stake. Beyond the economy, it is about a new political contract between the State and the Italian citizens, and between Italy and its friends and allies, the other Member States of the European Union.

A positive vote on the package: that's what the markets expect, that's what the rest of Europe expects. There's more need to be done: the country needs reforms, not elections. The European Commission, the ECB and the IMF are engaged in an enhanced monitoring. This was decided -- in full agreement with the Italian government -- at the 26 October European Council and reconfirmed at the recent G20 summit in Cannes. This also enhances credibility.

But when I say "Europe" expects this, I do not mean only Brussels-based officials, checking the numbers. No, I really mean: your fellow Europeans expect it. Anybody. A grandmother in Madrid, a small business man in Vienna, an employee in Luxembourg or Estonia: they all know that, indirectly, their jobs, pensions or savings could be affected by choices in this country. And the same is true of course the other way around: the Italian citizens are confronted daily with decisions taken by citizens elsewhere in Europe. For all of them the financial and economic interdependence within the Eurozone, long a rather abstract notion, has become very concrete.

At the G20 in Cannes last week, I was told that even in small villages in Australia and in Korea people were discussing the Eurozone crisis and the Greek referendum. Decisions of one, affect all. It is an important responsibility. For Italy, for all us.

There is not only work for individual Member States to do. There is also work for the Member States jointly, as a Union. A systemic threat requires a systemic response. Responsibility and solidarity.

Further short-term action and bold measures by the EU institutions may be needed. In times of crisis, one must have the courage to take crisis measures. But short-term action alone will not do. We also need this medium or even long-term perspective. The events of the past two years have laid bare the flaws of the EMU. Tommaso used to say that the euro was "a currency without a State". A Monetary Union without sufficient Economic Union.

The last Euro Summit has asked me to reflect on how to enhance the EMU's structural credibility. This is about a further strengthening of economic convergence within the euro area, improving fiscal discipline and deepening economic union. All countries should work in the same direction, assure better balanced budget books, and be more closely integrated.

I will present my ideas to the European Council in December. A final report is due in March or June. I will not reveal these ideas here. The task I see for us is clear: we have to bring the economic monetary union to a solid end-state. We have already immensely improved our economic governance: thanks to a better Stability Pact, the Euro Plus Pact and recently the far-reaching (but not yet well-known) decisions of 26 October. Now the lawyers among you can jump to a favourite EU subject: the Treaty...!

However, my intention is that we discuss the "what" before the "how". First we should examine the goals, only afterwards the legal instruments required to get there, including limited Treaty changes should this prove necessary. Treaty changes are difficult, not least because they need the support of all 27. However, improvements in governance are possible and in themselves desirable. It can be useful, too, to give the public and the markets a sense of our medium term direction. To assure that the 17 are linked monetarily, economically and financially in an irreversible way.

But a Treaty change is not the right means to deal with the immediate financial crisis. So we have to get the different time perspectives right. To this reflection, which has to be a collective effort, I personally bring three lessons of my time in office during the Euro crisis, now already two years, two long years...

First lesson (the lesson of Padoa-Schioppa): we cannot have a common currency, a common monetary policy, and leave everything else to the States involved. And yet this is what we have experienced. There needs to be a coherence of policies and institutions at the European level. If, right from the launch of the euro, we had had the instruments that we devised "on the job" in 2010 and 2011, we would have been spared a great many difficulties.

The crisis started with the crisis of sovereign debt of some Member States. Without these extravagancies there would not have been a crisis. Returning to sound public finances is the royal road to ending the crisis. It is also good to remember that not all countries were affected by the bond crisis.

Second lesson: The euro area, so we discovered, is as strong as the weakest link in the chain. We have all become so dependent on one other that we cannot afford continuing divergences within a monetary union. Responsibility and solidarity. Each member of the euro area holds the fate of the whole euro area in their hands, economically and politically. I would stress that solidarity consists, therefore, not merely in receiving but also in giving. Solidarity is a duty, not only a right. A lax national policy is therefore contrary to the spirit of solidarity. Solidarity within the euro area is now a matter of necessity and survival. And this is not only a matter for the governments and public authorities. Europe is not "them"; it is you, it is us.

Third lesson: The crisis in the euro area requires us to do more, in terms of both fiscal discipline and economic integration. We have achieved a lot, certainly if one compares with the starting point, the empty or decredibilised tool-box I discovered when I entered office, facing a crisis with bare hands. For instance the Stability Pact for budgetary surveillance has been strengthened. But we need to go further, and we need both fiscal discipline and economic and fiscal integration. Not only to punish those who did not respect the rules but also to link our policies. To demonstrate that we share a common destiny.

We need to acknowledge that this means a sharing of sovereignty for all, and not only a loss for the countries in difficulty.

At the end of October President Napolitano - in his speech at the inauguration of the Academic year in Bruges - a "sister" of this University - rightly said " No substantive argument has been produced that puts in question the validity and the irreversible nature of the decision to adopt the euro. (...) There is no alternative today to continuing along the path of the euro".

These three simple lessons will guide my thinking on the fundamentals of the Economic and Monetary Union in the months ahead. My aim, as President of the European Council, is to preserve the integrity of the European Union and of the Eurozone.

Let us be clear: we will not "prune" the Eurozone to a more selective club. That would be contrary to the letter and the spirit of the European political pact, as embodied in the Treaties. If the Eurozone's integrity would not be preserved, one should not take the continued functioning of the Internal Market for granted.

I will personally do my utmost to keep the 17 and the 27 together. My reasoning here is simple. It is normal that those who share a common currency must take some common decisions relating to that currency.

However, it is also vitally important to safeguard the integrity of the single market among the 27. It gives the Union cohesion and is the very basis of our prosperity and our role in the world.

So we must keep the links between the two types of configurations as close as possible, in a spirit of trust. That is why, for instance, it is my intention to organise Eurozone Summits if possible immediately following a European Council meeting. The Commission and the Parliament will also continue to play their roles.

But let us also de-dramatise this debate. The Treaty already provides a separate article on the Eurozone (art. 136). I do not call it a "two-speed Europe" but a specific method to go forward. Likewise, the Stability and Growth Pact foresees already now sanctions for the euro members and none for the 10 others. We also have the possibility of "enhanced cooperation", only recently launched for the European patent, to increase the competitiveness of our business environment. So let us keep our heads cool.

Let me add another consideration, going from form to substance. In the European Union we excel in talking about institutions, but we should not fool ourselves. Better institutions alone do not solve underlying problems of substance, of choice. The crisis has hit us hard, because it brought structural weaknesses to the surface.

Since the 1970s, we Europeans have put all our energy in keeping growth and in maintaining our advantages. One result is a "culture" of public and private debt, which is not tenable. We also thought that we would automatically continue to outcompete and outsmart the rest of the world. That too has proved to be an illusion. I am convinced that we can continue to deliver better services, to produce more stylish goods than everybody else, but not without hard work.

In sum, this crisis is also a hard confrontation with a new reality. That's why we can only overcome it if we also take this new reality into account. Change is part of life. We cannot put it behind a curtain, or bluff ourselves out of it. It means responsibility, seriousness, mutual trust.

For this academic audience, I should like to conclude with a remark on our use of time. Time is needed to overcome any crisis.

The European Union is often charged with coming up with "too little and too late". In front of this well-informed audience, I do not have to sketch the difficult legal and political constraints under which we work. The markets have the luxury of moving at the speed of a click of a mouse. Political processes, even if they are working at their most rapid, cannot deliver so speedily. And within political time, one should distinguish at least three aspects.

There is the time of parliamentary democracies: of legislative procedures, of votes, the work to get a majority. Approval of the EU's package of last July by 17 national parliaments in 3 months -- summer included! -- is impressive by political standards, even if it is slow by market standards!

There also is the time of public opinion, which needs to be convinced, taken along a road. For the weaker economies in terms of accepting austerity measures, for some of the stronger ones in happily helping others with loans. On issues which touch people's identity, or their idea of solidarity, one cannot always push.

There finally is the time of implementation, of executing the measures once they are agreed. That is vital too. For instance in Italy, after the vote tomorrow, hopefully positive: there will be some real work to do. But all this, Ladies and Gentlemen, is Europe.

Europe is the continent of unity in diversity, of a culture of compromise, of respect for minorities, of the rule of law, of responsibility and solidarity. These are major qualities of our political and social life.

The euro began as a political project, and so it remains. Admittedly, even the fairest and most inclusive ideal cannot survive without a sound and stable economic foundation. But nor should we forget the basic reasons for this enterprise, which – far beyond the question of money – stem from values, from that idea of peace, democracy, solidarity and a social market economy which we call the European model. Europe cannot survive on an idea of "I want my money back", nor on that of Europe as a source of subsidies.

In any case, Europe is much more than this. We need more Europe.