

Herman Van Rompuy
President of the European Council
Speech to the European League for Economic Cooperation
Thursday 1 December

Ladies & Gentlemen,

It is a pleasure to say a few words tonight ahead of the dinner of the European League for Economic Cooperation.

I will speak before your dinner. I hope I can give you food for thought, so to say.

Tonight I would like to focus on the issue which no doubt also dominates many of your conversations. The Eurozone turmoil.

At the stage where we are, remaining credible is the key to the whole problem.

In the end it is all about confidence.

Winning it back starts by acknowledging where we are.

And persuading that we can overcome the situation.

The EU is going through a difficult period. No doubt about that. Since the summer, it is no longer a problem in this or that country. The trouble has become systemic. We are witnessing a full-blown confidence crisis. Some may blame it on the irrationality of the market (*and even if I see strange behaviour sometimes, I am not among those!*). But it's a fact and we need to confront it.

Certainly, we have done a lot over the last 20 months to bring this storm to rest. Dealing with the current crisis, and preventing a new one from arising. Taking emergency actions, like the setting up of rescue funds, while also putting together, step-by-step, a new economic governance to help avoid future problems. We have made changes that were unthinkable only a year ago.

But it's not enough.

Today we are getting to the core of the matter. It is this: the systemic crisis needs a systemic answer. We need a significant step forward towards a real economic union commensurate with our monetary union. We need to offer our citizens and the investors a direction for the future that brings back confidence. We have to show that the Euro is an irreversible project.

There is a certain number of short-term risks to deal with. By individual Member States and by the Union as a whole.

The countries perceived as the most vulnerable are addressing their weaknesses resolutely and implementing strong and sound policies. New governments in Italy, Greece and Spain deserve our full confidence.

At the level of the Union, we have to implement rapidly -- and in the short term also -- the decisions of the Euro summit of 26-27 October. All institutions of the Eurozone have to act within the framework of their responsibilities.

As regards further Union action, all strands will come together at the European Council of next week, 8 and 9 December. The political framework is clear. It is about discipline AND integration -- both of them --, and about short term actions AND long term reforms. Regardless of whether there will be treaty change or not: both entail a sacrifice of sovereignty in exchange for providing the Economic and Monetary Union with a structural credibility.

Ladies & Gentlemen,

Before addressing how we will and should go forward as of next week, it is important to stress how much has already been done over the past two years in improving the EU's economic governance.

What is it that we have achieved so far? It is often overlooked and underestimated, not least by the outside world and the markets.

Many of you are close observers of European affairs, but then it is sometimes possible to "miss the forest for the trees"... So what is this "forest"?

We have in fact put in place a multifaceted reform combining three types of pressure: institutional pressure, peer pressure and market pressure. Each of the three has been enhanced.

Institutional pressure has been strengthened in a number of ways:

- We have established three financial sector supervisory authorities and the European Systemic Risk Board – *primarily as a response to the financial crisis of 2008, after the fall of Lehman Brothers*
- *And as a response to the euro crisis which started in Greece in the spring of last year, we have:*
First of all reformed the Stability and Growth Pact, providing for shorter deadlines, a greater focus on debts (and not just on deficits), and making it easier to sanction a Member State not fulfilling its obligations.
- We have added a new Macroeconomic Surveillance Procedure, looking at other macroeconomic imbalances, bubbles and risks. This was something which did not exist at all.
- And finally, we have established the EFSF rescue fund (with the permanent ESM rescue fund under construction) which is capable of providing support in return for strict conditionality. *Conditionality* is a powerful tool, as is now becoming clear to all those who follow these matters.

At the same time, peer pressure has been enhanced. A few examples:

- For a start, all governments now realise much more acutely how the conduct of another country can have an enormous economic and financial impact on their own. So leaders hold each other to account in a way which is completely new. Of course everybody remembers how in 2003 the rules of the Stability Pact were broken because Member States did not act courageously vis-à-vis each other. In the current circumstances, a repetition of that behaviour is hard to imagine, because the stakes are much higher – not only for those transgressing the rules but ALSO for those who close their eyes for it: their taxpayers have to pay part of the bill!

- Peer pressure will also be exerted at the highest political level, through regular Euro Summits. The events of the past few weeks show how effective this can be for some countries.
- There is the European Semester, which provides an annual cycle of intense macro-economic, budgetary and structural policy coordination.
- Moreover, 23 of the 27 Member States have agreed to go further and work together in the "Euro Plus Pact" on structural reforms that have a bearing on their competitiveness, over and beyond the important Europe 2020 programme.

Market pressure will complement the above because institutional and peer pressures will also have an impact on the market, amplifying their political effect. Markets may now be over- reacting, but they will not go to sleep again!

I hope this "triptych", this way of looking at the set of reforms helps to clarify some of the institutional debates with which some of you are familiar. Today, there is no difference of opinion at all between, for instance, on the one hand the Commission and its recommendations (institutional pressure) and on the other hand the Council of ministers or the European Council of leaders (peer pressure): we all work in the same direction!

I am personally convinced, if all this would have been in place at the start of the Euro crisis, we would not have been today where we are now.

Many of the weaknesses and imperfections of the previous system were of course well known among specialists (*like yourselves*). But they were not acted upon...

Unfortunately, however, there is no better teacher than reality itself. The hard facts of the crisis have learned us more about what it is to be an Economic and Monetary Union than we would have wished for...

Historia magistra vitae.

In the days and weeks ahead, it is not excluded that the crisis will do some further teaching work.

Let me mention the three issues in my mandate from the Euro Summit: strengthening economic convergence, improving fiscal discipline, deepening economic union.

Firstly, as regards economic convergence, we need to examine for instance whether to go beyond the so-called "sixpack" in terms of further macroeconomic surveillance, and how to strengthen the Euro Plus Pact.

Secondly, in terms of fiscal discipline, should we go further in terms of the automaticity of the sanctions provided for under the Excessive Deficit Procedure? Should we provide, in extreme cases, for further sanctions (such as a suspension of voting rights or structural funds) or power for a central authority to intervene in national budgetary procedures?

Thirdly and finally, in terms of economic union, is there a need for harmonisation in certain areas such as taxation or even some social fields? Should there be a form of mutualisation of public debt? What further regulations are needed for the financial sector?

All these questions are interlinked. Changes in one aspect cannot always be assessed independently of changes in others.

In any case, the crisis in the euro area does require us to do more. We have come a long way from the empty or de-credibilised tool-box I discovered when I took office. But we now need to go further, and we need both fiscal discipline and economic and fiscal integration focussed on growth. Not only to punish the "sinners" but also to link our policies.

To demonstrate that we share a common destiny.

In this regard I read with interest the ELEC proposal for an EMU Bond Fund. It links the short-term needs with a long-term objective.

A more general remark. It strikes me that almost ALL observers – both within and outside the Union – underestimate the political will of the Member States to continue this common enterprise.

There were deep political motives behind the decision to LAUNCH the single currency, directly linked to the end of the Cold War and the place of a united Germany in Europe. I do not have to tell YOU that such motives are still at work, in today's decisions to SAVE the euro. Even if the language is economical – spreads, inflation, banks... --, below the surface the politics are still there, and with it the soft-spoken words of stability, peace, friendship, balance of power.

This deep political motive is something to reckon with.

Yourselves, many of you closely involved in economic and financial professional circles, could usefully raise this awareness to a wider audience.

It will take time to overcome the current situation. But we will get there. Step by step.

Ladies & Gentlemen,

Let me conclude. ELEC was founded in 1946, when Europe was a continent shattered in ruins. You know that European integration is work of patience, great patience...

A work not of years, but of decades,

A work not of pamphleteers, but of statesmen.

It requires to acknowledge that being patient does not mean that you should not work hard every single day to move it forward!

That is what we are doing.

And we need the time for that.

Time is needed to overcome any crisis.

The European Union is often charged with coming up with "too little and too late".

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.

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.

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.

There finally is the time of implementation, of executing the measures once they are agreed. That is vital for credibility too.

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.

I thank you from ELEC for contributing to making this most generous idea work.

Thank you.