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Think Global – Act European

THE CONTRIBUTION OF 16 EUROPEAN THINK TANKS TO THE POLISH, DANISH AND CYPRIOT TRIO PRESIDENCY OF THE EUROPEAN UNION

CONLCUDING REMARKS

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Excellencies, dear colleagues and friends, ladies and gentlemen,

It is indeed a great pleasure for me to be part of the project Think Global - Act European. And I am honoured to address on behalf of the Cyprus Center for European and International Affairs such a distinguished gathering, here in this impressive venue in Brussels. We have had a day of very interesting presentations and stimulating discussions. Certainly the Trio Presidency of Poland, Denmark and Cyprus will have a challenging agenda over the next 18 months.

The previous 18 months were marked by efforts toward the implementation of the Lisbon Treaty and the serious financial and economic crisis that threatened the very foundations of the Eurozone and of the European Union. In the midst of this came the Arab uprisings and prompted the need to rethink comprehensively our relations with our southern neighbours.

Is the economic crisis over? If we are to be honest with ourselves, the answer is No. So the next Trio Presidency will have to decisively contribute to its successful tackling.

These are difficult times for the EU as we have high unemployment rates, serious fiscal problems and admittedly, a lack of a common vision toward the future. On the other hand, if we look back and assess the process of European integration we will see on several occasions that out of crises major breakthroughs emerged. During the early 1980's the then European Community was criticized for suffering from eurosclerosis. The Community of 12 responded positively to the challenges and reached an agreement on the Single European Act which in its turn paved the way for the Treaty of Maastricht. The Treaty on the European Union promoted monetary integration and further advanced the economic union. There was much debate in relation to its social dimensions and heavy criticism from many segments of the

European populations. The strongest criticism was that the EU was promoting monetary integration at a heavy cost, social disintegration.

Furthermore, a particular school of thought stressed that working toward a common currency did not make much sense in the absence of a political vision for federal integration. This school of thought underlined that asymmetrical shocks in conjunction with distinctively different economic structures, could create more problems than the single currency could solve. In response to this, it was noted that monetary integration and indeed a common currency had become imperative in a world of capital mobility and repeated currency crises. It was also an indispensable strategic step.

Coming to the present, the implementation of the Lisbon Treaty and the successful management of the debt crisis in the European Union are certainly critical objectives. The Lisbon Treaty is changing the way Europe functions and makes decisions. The consensus process of intergovernmental conferences has been a characteristic of the past. And whilst consensus is desirable it will not always be possible; so we will have to work on the basis of strong and broader alliances. This is not a bad thing; it is in fact the Union coming of age. What is also important is to realise that a united Europe is more effective in the global framework and that ultimately translates to benefits for all Member States.

The debt crisis on the other hand, which started in Greece, is in fact leading to the redefinition of the Eurozone. To avoid crises in the future, the European Union has to work on three overlapping fronts: fiscal consolidation; structural reform; reform of its institutions. None is easy. Fiscal consolidation requires political consensus that is hard to build. Structural reforms are even harder to achieve because these impact on national economic and social models like pensions and the labour market. These may take years to reform and re-formulate. Equally challenging is the reform of the EU institutions because these require the consensus of all member states. But let us not be pessimistic: The European Union amidst these severe crisis conditions is achieving notable results on all fronts.

Ladies and gentlemen

The break up of the euro is unthinkable not least because it would destroy a major achievement. Indeed the creation of the euro is an irreversible act. The single currency is here to stay and to play a significant role in European and global economic and financial affairs. But for this it is necessary to 'complete' the monetary and indeed the economic union. A lot has been done over the past 18 months, but the work is unfinished.

Europe needs effective fiscal rules and sustained economic growth. The debt crisis is at the same time a financial crisis and the new regulatory framework may need additional reform. Details of the results of stress tests should be made public and regulators should be prepared to recapitalise banks when their positions are dangerously weak. Reforms to improve competitiveness are also required.

The management of the debt crisis so far has mitigated the potential cost. And the European Union has demonstrated a capacity to respond quickly when necessary. Monetary stability and economic growth remain Europe's top priorities for the next 18 months. At the same time, I would like to raise two more issues: (a) solidarity, that is the European solidarity among member states that is entrenched in the Treaties and the implications of its absence and (b) the need, at some point in time, to increase the level of the EU spending from the 1% of the total European GDP, which is too low for an economic and monetary union. After all this is a characteristic of a true fiscal union.

Much needs to be done to support growth. Without growth the pain of adjustment and consolidation can quickly become unbearable. Surplus countries need to stimulate their domestic demand at the same time as troubled economies undertake fiscal consolidation. In times of crises more flexibility is required in relation to the budget rules. More specifically, besides any suggestions for fiscal discipline and harmonisation, the EU must also revisit its philosophy in relation to spending. While the rule of the Stability and Growth Pact for an annual fiscal deficit no higher than 3% is essential, given the reality of business cycles, it may be wiser to expect the 3% deficit to be an average over time, instead of an annual target.

The European Central Bank has a role to play also as a lender of last resort and as a market maker. The Bank's functions cannot be, and this crisis shows they are not, simply to serve one monetary rule. In the wake of the crisis the European Central Bank introduced a number of extraordinary measures, mainly the provision of unlimited liquidity for eligible collateral, and a programme of purchasing securities on the secondary market supporting as such, bank balance sheets. In general, the European Central Bank needs to be more transparent and account for growth considerations in its decision-making.

Implementing growth strategies will require a high degree of coordination. And the next Multiannual Financial Framework can in fact be turned into an effective growth tool.

There are a number of other issues that I want to very briefly touch upon. Regarding further enlargement, the European Union cannot disengage from it, but at the same time the necessary benchmarks set in the accession negotiations should not be compromised. There are also serious issues of foreign policy that need to be addressed. In foreign affairs consensus may not be easy to achieve; nevertheless, it is an area where increasingly common policies and a comprehensive approach will be required. These include strategic relationships, security issues and successful Neighbourhood Policies.

In closing, I want to refer again to the Eurozone and the scepticism about the Euro. The ongoing economic crisis has certainly raised the question whether the reforms proposed and enacted so far to stabilise Europe are in the interests of all countries involved. A degree of unease is also emerging in relation to the direction the Union is taking. For instance, reluctance on the part of Poland and the Czech Republic about the eventual introduction of the Euro is indicative of these concerns. The rise of political parties opposed to financial aid to crisis countries is another worrisome development. In this context, we should not forget that the biggest stakeholders in the construction of the European Union are the European citizens. Thus, it is essential that nation states and citizens believe in the Eurozone and what it can deliver. Such an approach would certainly encourage further integration as well as economic stability.

These are times that require leadership. In fact, these are times that I think will force those who possess leadership to step forward. In this remarkable Union of 27 member states it is the turn of Poland, Denmark and Cyprus, with their close coordination and constructive spirit, to facilitate this leadership process.