



**EUROPEAN COMMISSION**

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President of the European Commission

**Opening keynote speech at the Conference on the  
Blueprint for a deep and genuine EMU**

*Check Against Delivery*  
*Seul le texte prononcé fait foi*  
*Es gilt das gesprochene Wort*

Blueprint for a deep and genuine EMU conference/Brussels  
**7 May 2013**

Dear Jean-Claude

Thank you, Minister Vitor Gaspar,

Distinguished members of the European Parliament, of national parliaments, ambassadors, distinguished guests, ladies and gentlemen,

'The most dangerous strategy,' Benjamin Disraeli once said, 'is to jump a chasm in two leaps'.

This, we must now admit, with the benefit of hindsight, is what is happening since the eurozone countries originally set up the economic and monetary union: while the leap towards monetary union was taken, the economic leg of the EMU stayed behind.

The consequences of this were not entirely foreseen at the time, which is understandable. As in all big projects of this nature, successes and shortcomings only become visible when the project is being implemented. The development of EMU also clearly shows that rather than conceptual problems, it was above all the incorrect application of the rules which lead to a malfunctioning of this EMU.

At the same time, economic reality quickly surpassed public institutions and academic thinking. Since the inception of the EMU, financial integration accelerated to a degree never seen or even imagined before. The resulting asymmetry between integrated financial markets on the one hand and a financial stability architecture still nationally segmented on the other, was to have far reaching consequences.

The hidden shortcomings of this set-up became clear with the fallout from the financial crisis.

Then the weaknesses in the initial design of the EMU became apparent. Before the crisis, monetary union had provided an unwarranted sense of security, shielding member states from the pressures of markets against their very often inept economic and budgetary behaviour. At the same time, the set-up was insufficient and the incentives too weak to motivate member states to push through the economic reforms they clearly needed. All this papered over the competitive problems and budgetary irresponsibility of some governments. It is only afterwards that Europe learned, the hard way, that the unbalanced framework and weakened rules of the EMU were unequal to the task of running the Euro area economy in times of increased interdependence and insecurity.

We must not underestimate to what an extent the global context has evolved since the conception of the EMU. Globalisation and economic interconnectedness has fundamentally changed the way we work; technology is changing the way we live and do business, financial integration has progressed on an unforeseen scale. Decisions by national governments, but also the economic health of the banking and corporate sectors, and of the households in one specific country, irrespective of its economic dimension, have a very strong impact on the situation in other parts of the EMU.

This is the new reality the crisis has brought to light. It showed that the EMU, as it was designed, had indeed become out of date. We will have to adapt our political and institutional framework to effectively deal with this reality, or it will mercilessly deal with us. We will create new certainties, or suffer uncertainty for some time to come.

We undeniably needed a fundamentally revised version, a deep and genuine economic and monetary union.

Ladies and gentlemen,

Dealing with the 'unfinished business of Maastricht', as you could call it, has proved to be difficult and demanding work.

By the time the financial crisis erupted on the other side of the Atlantic, a number of Eurozone countries had developed weaknesses that would turn the global financial crisis into a European sovereign debt crisis: they were falling behind in competitiveness, they had accumulated large private and public debts, and macroeconomic imbalances were growing beyond their control. The weak supervision of the financial sector and insufficient compliance with the criteria of the Stability and Growth Pact had allowed the situation to slip dramatically.

This rendered those economies particularly vulnerable when the crisis struck. Through contagion effects that were also underestimated at the time, this rendered the whole Euro area particularly vulnerable, but also the European Union as a whole.

In essence, this was not – this is not - a crisis of the euro, but an economic and financial crisis in individual countries that share the same currency and therefore impacts on the Eurozone as a whole.

Indeed, the euro remains a credible, stable and strong currency. And the financial crisis was also not euro-specific, for it affected countries in the Eurozone and outside, inside the European Union and outside, as the case of Iceland clearly shows. The economic, financial but also, in some cases, the deep social crisis was the result of the combination of irresponsibility of a significant part of the financial sector with aggravating unsustainable public debt and the lack of structural competitiveness in some member states. The monetary union absorbed some of the shocks – as it was intended to do - but was itself severely shaken as a result, and it is appropriate to say that while this is not a crisis of the euro area as such and was certainly not created by the European Union, it has posed very specific challenges - economically but also institutionally and politically - to the euro area and implicitly to our European Union.

So the role of the European institutions was - and is - not simply to reform themselves but to support reform in member states, both in the public and the private sector, who had indeed resisted reform for all too long. The revision of our role, responsibilities and institutions can only be seen in the light of this Bermuda triangle of private imprudence, public indulgence and economic inefficiency where our immediate growth prospects disappeared. The eventual success of our efforts will depend on the consistent progress we make on all three fronts.

I will not, ladies and gentlemen, dwell too long on the analysis of what went wrong before the crisis and on everything that has happened since. But it is important to underline that we have come a long way since then, step by step, in addressing some of the main inconsistencies and problems in the EMU. We need not be shy about Europe's response to the crisis and we have to keep in mind the relevance of and the rationale behind these steps:

The euro area has now a permanent crisis resolution mechanism, the European Stability Mechanism, with the capacity of providing financial assistance to the tune of some 700 bn euros to the countries in financial distress. Indeed one of the major shortcomings of the initial EMU construction was the inexistence of such a mechanism. Having allowed Greece to default would have had disastrous consequences for the euro area as whole. It was decided, and rightly so, to support Greece, in spite of the absence of well-defined mechanisms to do it. But it was done! And then the EFSM and the EFSF were created, as predecessors of the ESM, which now is a Treaty based institution.

Decisive steps were also given on the economic governance front. With the 'six pack', a series of measures to strengthen the follow-up and the implementation of the Stability and Growth Pact, in force since December 2011, and the 'two pack', which further reinforces control and coordination of national budgets and which will enter into force at the end of this month, we have significantly changed the way member states' economic and budgetary policies are assessed, coordinated and where necessary, revised. With the new macroeconomic imbalances procedure, situations derailing like we have seen in some member states recently would not have happened.

Instead of the incomplete system of reviewing economic policies we had before, we now have reinforced, pro-active and corrective instruments, including possible penalties, to make absolutely sure that governments act responsibly. And the European Commission is implementing and will continue to implement this new framework in a consistent and very determined way.

The European Semester of economic policy coordination that culminates with the adoption of the country-specific recommendations before the summer, allows for a comprehensive approach to the reforms needed to boost competitiveness, enhance growth and create so much needed conditions for job creation.

By signing the Treaty on Stability, Coordination and Governance, member states have legally underlined their commitment to balanced budgets and instated much stronger oversight by the Commission. It is interesting to note that even in such an instrument that was designed as an intergovernmental instrument, Member States agreed to give more competence to the Commission as a supranational institution.

A technical but nevertheless crucial element is the reform of the European Union statistical system. Even before the crisis, the European Commission warned that the quality and credibility of fiscal data gathered by member states sometimes left much to be desired. In 2005, during my first Commission, we put forward a proposal to strengthen the mandate of Eurostat, which was opposed and then significantly watered down by the member states at that time. The same happened with a new proposal we made in 2007, and in the end it took member states until 2012 to agree to robust rules and strong monitoring mechanisms to guarantee the independence, integrity and accountability of statistical authorities.

With the rules and tools we have today, a situation such as we have unexpectedly and unpleasantly found in Greece in 2010 need not have happened or at least not on that scale.

Ladies and gentlemen,

A lot of progress has already been made over the last two years, more than anyone would have deemed possible before, and these are certainly important steps to move towards economic union. But focusing on the individual institutional reforms we were still missing a bigger picture of the changes – or even more – a sense of purpose – to move forward on the road to complete the design of the EMU.

With its Blueprint, the European Commission fills this gap and drives the agenda for a deep and genuine economic and monetary union.

Our main purpose is to present the political vision that justifies the institutional change in the short term, builds political awareness and leverage in the medium term, and launches a public debate also on our longer term.

This vision is complemented with a description of the mechanics of the new and improved version of the EMU.

This comprehensive approach is based on key principles that need to be upheld in order to deepen the EMU while at the same time preserving the integrity of the European Union at large. This is about the EMU, but for the EU as a whole.

First, the euro area is a product of the Treaties, and its deepening should also be done within the institutional and legal framework of the Treaties. Moving outside of this framework would not only bring risks of legal fragmentation but also undermine democratic accountability, apart from increasing the overall complexity of the system and the lack of readability of many of the decisions.

Second, the deepening of the EMU should primarily and fully exploit the potential of EU-wide instruments, without prejudice to the adoption of measures specific to the euro area. Whenever legally possible, measures targeted at the current members of the Eurozone should be open for participation of other Member States. We must remember that the present configuration of the euro area is only temporary, since all member states but two are destined to become full members of the EMU under the Treaties.

And third, moves towards a genuine EMU should primarily be made through secondary legislation. Treaty change should be contemplated only where and when necessary and after careful preparation. Most of the building blocks of the EMU in the medium term, however, go beyond what is possible under the current treaty.

The Commission will, therefore, set out its views and explicit ideas for treaty change in order for them to be debated before the European elections.

These principles should provide us the much needed guidance on the way forward, especially when preparing for the longer term or addressing particularly sensitive and politically ambitious questions on the road towards a deep and genuine banking, fiscal and economic union that you will be also discussing in detail today.

The Blueprint also sets out the major questions of where we will land eventually, and how we advance on all fronts at the same time. Fiscal union, banking union and political union, all three need to move forward together, through each phase of the further development of the EMU. Because if the crisis, at this stage, has made one thing clear, it is that economic governance, democratic legitimacy and social commitments need to move forward hand in hand, keeping pace with one another.

But this can only be achieved through a fundamental public debate on how far we want to go with our political integration and how far we are willing and able to go in reforming our political institutions.

All that is the real challenge we face today, and it is quite a formidable one.

Ladies and gentlemen,

Since we presented the Blueprint on a deep and genuine EMU last November, the Commission has been working hard to prepare the next steps, the immediately necessary initiatives that can still be undertaken before the European elections, and without changes to the Treaty, to further develop our framework for economic governance and to support economic reform:

The first priority has been to build a banking union. And I'm happy that now this expression is more or less agreed. I remember at the beginning, when we spoke about this, it met with strong resistance.

With the agreement on a Single Supervisory Mechanism, entrusting the European Central Bank with the responsibility to oversee bank management throughout the eurozone, we are putting in place the first main element of a genuine banking union. Again, this is something for which there was no appetite or political momentum before the crisis, which is now becoming reality. If already in place it would probably have avoided a drama on the scale of Cyprus.

Already before the crisis, in May 2008, our EMU@10 Report stated: 'In contrast to the accelerating trend in cross-border financial activity in the EU and the euro area, financial-stability arrangements have been relatively static and remain predominantly national-based. The result is inefficiency in the framework for supervision and financial-crisis management, implying the potential for an inadequate response to contagion risks within an integrated financial system.'

Soon after, this inefficiency and those contagion risks we warned about became painfully visible. And now, we are revising the static and national-based framework, because an integrated financial system simply demands an integrated system of banking supervision and resolution.

In the same logic, we also have to go further, beyond the Single Supervisory Mechanism. The link between sovereign debt and bank debt has to be broken once and for all. We must end the vicious circle whereby the use of taxpayers' funds to rescue banks – all included, with guarantees, more than €4.5 trillion so far – weakens governments' budgets, while increasingly risk-averse banks stop lending to businesses that need funds, undermining the economy still further.

A genuine Economic and Monetary Union needs common rules, shared responsibility for policing the banking sector and joint intervention in case of banking crises. A single rulebook for financial services in the single market is now established, strengthening the resilience of the EU banking sector to absorb economic shocks.

The Single Supervisory Mechanism is agreed upon, putting in place the architecture for coordinated and coherent supervision throughout the eurozone. Building on this, we need a Single Resolution Mechanism in case better banks and better supervision should still prove insufficient, to be able to effectively stabilise the financial sector, to benefit from economies of scale, and to preclude negative externalities that result from purely national decisions. The Commission will come out with its proposal next month.

In March, we have put forward some ideas on so-called ex ante coordination of major economic reform plans in member states, in order to fully take account of possible spillover effects they may have on others.

We have also started the debate on a Convergence and Competitiveness Instrument, which is the most concrete example of combining member states' individual responsibility on the one hand, highlighted in binding benchmarks and timelines for specific reform plans, and on the other hand real solidarity with the member states under particular economic stress. This new Instrument, which could be designed on the basis of some existing tools under the reinforced economic governance, would include safeguards against the moral hazard of reforms being almost rewarded because they are overdue, but it could also help us out of the Catch-22 situation in which many countries feel themselves trapped, struggling to find funds and support for major economic reforms because they are in such a bad state economically.

Another important work strand is the social dimension of the EMU. We are working on the better integration of the social indicators and closer involvement of the social partners in the European Semester, whilst keeping the process coherent and streamlined. This involvement of the social partners in policy debates and European decision-making is critical, both through European level mechanisms and by forging links with national partners. We need to review the existing processes for consulting the social partners at EU level — the macro-economic dialogue, tripartite social summit, social dialogue committee, tripartite exchange of views and if necessary introduce new coherent forms of consultation.

The Commission will come forward with some proposals in this field before the summer.

Ladies and gentlemen,

The subtitle of our Blueprint is 'launching a European debate'.

This is important to note because we do not have either the intention or the insolence to suggest we have all the answers. No - we want to start and fuel a democratic debate with the European Parliament, members of national parliaments, governments, academics, people of culture and thinkers, citizens, on where the future of Europe should lie. We want to put all the elements on the table, in a clear and consistent way, even if some of them may sound like political science fiction today. They will be reality in a few years' time, sooner than we might think. Not only we want to be prepared for when that happens but also we have the ambition for ensuring the democratic legitimacy of the decisions taken.

That is also the role of the European Commission, to advance ideas, to prepare the ground and provide a coherent vision. I am happy to note here that the Blueprint is followed up by open debates in the Council, in the European Parliament and in a number of member states, some of which might even organise a national conference on the Blueprint, similar to this event. The fact that, for instance, last month one of Europe's most important and respected philosophers, Jürgen Habermas, referred to the Blueprint as "the first more detailed document in which the European Union develops a perspective for reforms in the medium and long term that go beyond the present" and the fact that Habermas used it as the basis for his ideas on the broader vision for Europe, strengthens my conviction that this debate will progress beyond the confines of the European institutions or beyond the confines of Brussels and Strasbourg.

A truly European public debate is necessary to underpin the intensified political union that is a key complement to fiscal and economic integration. Europe's democratic legitimacy and accountability must keep pace with its increased role and power, and I hope that the last panel later today will show the multiple ways to do this.

Further economic integration would transcend the limits of the intergovernmental method of running the European Union and the Eurozone in particular, so ensuring democratic legitimacy is increasingly a priority. In this context, the role of the European Parliament and of the national parliaments will be critical.

Above all, public support for Europe requires a change in political leaders' attitude to create a truly European political sphere. A full-grown European Union cannot do without a mature democratic debate. However difficult it may be to convince citizens in times of crisis, however hard it is to explain often technical and sometimes very unpopular decisions, there is no other option in a democracy.

Europe will be open and democratic, or it will fail.

This is why I believe the mainstream forces in European politics must seize the initiative, should leave their comfort zone to welcome and embrace this debate, rather than relinquish the momentum to eurosceptic or europhobic forces.

If you believe in the democratic resilience of Europe, if you take Europe's citizens seriously, you have to fight with rational arguments and unwavering convictions - and be convinced, as I am personally, that these will win the debate for us in the end.

Ladies and gentlemen,

The world has moved on since we set up the Economic and Monetary Union.

What 20 years ago was a big step forward, has now been surpassed by rapid evolutions in technology, in the economy and in our societies.

Europe's economic interdependence - so strikingly highlighted by the financial crisis - calls for increased political integration.

We will not get away with half-hearted solutions any more, and half-integrated institutions will no longer do. We will not regain the trust of investors if we allow the momentum for reform to slip once again. We will not serve our citizens unless we do what we have to do - all of it - and do it well.

That is the challenge we are now facing. And though it is a serious challenge, in a troublesome context and with a heated democratic debate about the decisions we need to take, I am absolutely convinced that we will succeed in transforming the European Union so that it is fit to face the demands of this 21st century.

I thank you very much for your attention. And I wish you a very rich and interesting debate.