

## The euro, in historical and institutional terms

Jacques Delors

*Speech made in Paris on 30 June 2011 as part of the 22nd meeting on globalisation organised by the Centre d'Analyse Stratégique, CEPII, Sciences-Po Paris and CERI-CNRS.*

I will try to follow the method of CEPII – that is, to examine changes (sudden and gradual) so as to decode what is important, what is lasting, and what underlying trends are driving Europe and the world.

“The euro as a part of globalisation” was the title chosen. I will return to the past, because it seems to me that from past failures and advances we can take lessons for today, and above all for tomorrow. I will therefore deal first with the historical dimension of European cooperation. Behind the terribly difficult economic and monetary issues, behind the complicated institutions and rules, there are men and women who vote, and others who govern, in an atmosphere and context which changes. Circumstances have changed since 1948-50 and this is why I do not always judge harshly those who have the responsibility of governing today.

I will then look at the euro's institutional dimension, as a product of the Single European Act. People say now that Europe only ever makes progress when there is a crisis. But the Single European Act which preceded the euro was not the product of a crisis. In the mid-1980s the economy was in a poor state. This explains why governments accepted an economic and institutional stimulus, the creation of the Single Market (the 1992 objective) and substantial new solidarity policies (economic and social cohesion).

Finally, I would like to deal with one last question, that of collective responsibilities in this crisis. It is true that Greece, Portugal and Ireland, among others, have behaved badly – but are they alone in their responsibility? As participants in a shared venture, should we not also look for the collective responsibilities? I would like to show you that the euro zone's Council of Finance Ministers has, over the last few years, also been responsible for the current situation. It saw nothing coming and did not want to start the necessary debates on coordination of economic policies and on the dangerous rise in private debt.

\* \* \*

### **The historical dimension**

A little indispensable history: the pioneers of European cooperation were haunted by the past and had a vision for the future: “Never again will there be war between us.” At the beginning there were painful memories, and grudges. The climate was not easy. But there was also a desire to move beyond these differences and to go forward together. It was in this context that certain individuals had the courage to propose something new, and from this point of view Robert Schuman’s appeal is surely one of the spiritual high points of the last century in Europe. The appeal was based on something simple. Hannah Arendt described it in the following formula: Germany’s adversaries would offer “a pardon and a promise”. The pardon did not mean forgetting, while the promise was that new generations of Germans would be reintegrated into the international community. That is politics at its best, and it needs to be remembered today.

Once the desire was stated, the problem became “how”. And of course politicians tend to think of institutions: the European Defence Community, the Spaak project, and so on. But these fell victim to national misgivings about giving up too much sovereignty in a treaty. As a motor of cooperation, all that was left was the economy. Integration was therefore economic integration in the first place, with the treaty establishing the European Coal and Steel Community (which is the most complete such treaty for those looking for a balance between supranational and national, or between the economic, the social and the financial – it’s an example to think about). And European integration thus came about by the spill-over effect: one measure brought about the next.

Of course, that is not the spirit of the founders. But that original spirit has sometimes resurfaced and I will give two examples.

There is firstly the case of the European Monetary System (EMS). Think about what is being said at the moment on the frictions and differences between France and Germany. In 1974 there was a crisis due to the oil price rise and the floating of the dollar. The French president, Valéry Giscard d’Estaing, responded to it by stimulating growth. But the German Chancellor, Helmut Schmidt, told Germans to tighten their belts, and imposed an austerity plan. It is difficult to imagine two more different positions. Yet these two men managed to create the EMS together. Imagine the trust necessary between these two leaders to act that way while they were conducting two different economic policies. There was no convergence to speak of. The example shows that there was a time when French and German leaders put aside their differences and thought of the future. The EMS had mixed success but it was there. There would be no euro without it. It is a beautiful example of staying true to the spirit of Europe’s founding fathers, and of vision for the future.

A second example was the Single European Act and its financial package. At the time Europe was not at the top of its form and I proposed to member states a market stimulation by means of the 1992

objective. A new treaty was signed, and it was necessary to find resources to put it into effect. In January 1988 European leaders fought among themselves in a way you cannot imagine. But they managed to negotiate a financial package which allowed Europe to launch the Single European Act measures, as well as the cohesion policy and a few significant social provisions.

We see, therefore, European leaders who are capable of going the extra mile and explaining their opinion. It must be added – and this is not talked about enough – that Chancellor Kohl, when he created the euro, had at least 60% of his public opinion opposed to the abandonment of the German mark. Today public opinion is often used as an excuse to slow down envisaged steps forward. That is the difference between Europe's pioneers and today's leaders.

Since then "*l'air du temps a changé*" (the atmosphere has changed) – this was the favorite phrase of a great civil servant and *Commissaire au Plan* (France's General Planning Commission), Pierre Massé. That is the impression I have when I look at Europe: the atmosphere has changed profoundly. The enlargements are not in question, I would say that straight away. Europe's historic mission is enlargement (even if there is much to be said about the methods by which the enlargements were brought about).

What is in question is values, which have changed radically: the tension between global and local, people's need for security and reassurance – hence the relative success in France of the "*démondialisation*" (de-globalisation) theme. In addition, individualism is an obstacle to thinking in terms of projects which emphasise the collective and the necessary solidarity between Europeans. Thus, on one hand a fear of the wider world leads us to ask more of our national state, and on the other individualism invites us to turn in on ourselves and, for example, as the German press has done, to insult the Greeks in a way that is inadmissible.

And to talk a little more about history, there is a hint of Westphalia in the air. In 1648 we tried to find a precarious balance between nations. Apparently we are falling back on these intergovernmental habits, forgetting the demands of the European marriage contract.

### **The institutional dimension**

It must be emphasised, first of all, that the debate over institutional method is a real one. It is not enough to talk of political will. It is not enough to plead for a wise mixture of the intergovernmental and community methods, as Ms Merkel did in her Bruges speech.

The community method has proved itself by its past successes: when it functions, Europe moves forward. For example, the Single European Act proposed qualified majority voting (QMV) for everything relating to the single market. The treaty only entered into force in 1987 (following one country's

objection) but starting from its signing in Luxembourg in December 1985 countries started to use QMV spontaneously (or else abstain). This shows that a collective dynamic exists. The community method has been a success, and one based on simple principles. There are three great institutions: the Council of Ministers, which decides; the Parliament, whose powers have increased (and fortunately so); and the Commission, which has the right to propose initiatives and even withdraw them if the debate gets bogged down. The right of initiative is important, and I will give you an example of this. When I arrived at the Commission I wanted us to create a student exchange programme. The commissioner in charge started working on what would become Erasmus. But the proposition was subject to unanimity voting in the Council, and it was refused. In preparing the European Council meeting I went to see Mrs Thatcher, who asked me what we would do for the press conference. I replied that we had a problem with a student exchange programme. Mrs Thatcher told me that she had heard about this and that it was a costly project whose benefits she did not see. So I asked her for ten minutes so that I could withdraw the proposal and explain why. Unsurprisingly, at the following meeting of the European Council the heads of state and government, worried about criticism from the public and students, ended up accepting and launching Erasmus.

The community method works, even in the European Council, which was created next. The European Council always votes by unanimity, but there is one exception. In Milan in 1985 the heads of state and government accepted that treaty changes could be implemented with seven votes against three. This scandalised the British and Greeks, defenders of unanimity.

But another factor, which poses a problem for Ms Merkel, has recently appeared. This is known by the ugly word “differentiation”, meaning the possibility for certain countries to go further. Mr Genscher’s formula puts it well: certain countries cannot prevent others from going further, but those who want to go further cannot force the others to follow. We have two major examples of differentiation: Schengen, concerning the free movement of people, and the euro. If, when we voted for the euro, it had been necessary to vote by unanimity, then the euro would not exist. Our treaty writers understood that, because they introduced enhanced cooperation into the treaty.

Jean Monnet was right. The institutions do not do everything, they do not do politics. But when people want to work together, institutions make those people more visionary and more wise. There have been the innovations of the Lisbon Treaty – unconvincing to me. More worryingly, since the euro’s launch we have not distinguished between the euro area countries (17 today) and EU countries (27). The Eurogroup is not independent: the finance ministers of the euro area meet on the night before an Ecofin Council which includes all EU members. To me it seems indispensable to have a distinction between what we can and must do as 17, and what we do as 27.

But one fact is undeniable: the marginalisation of the Commission by governments. And it is not the Commission's fault. The community method is in retreat. Ms Merkel has devised a method, and Mr Van Rompuy quite likes it, but to me this system seems to introduce much friction. I will give you an example. When the G20 meets, there are seven or eight Europeans among the 22 participants: the three EU representatives plus those from four or five EU countries. Put yourself in the shoes of Mr Obama or the Chinese president, who are wondering "With which of these people can I have a discussion which would move things forward?" This is why we appeared ridiculous at the environment summit in Copenhagen.

### **The euro: a design flaw from the start**

I come now to the euro. Financial and institutional innovations are not everything. The 1985 measures were taken against a gloomy economic backdrop. But within two or three years growth had passed 2%, job creation was picking up, and this was the sunny context in which it was decided to study the euro idea. As a reminder, the important parts of the Single European Act package were QMV, relaunch of workplace social dialogue and the central principle of economic and social cohesion.

The European Monetary System, meanwhile, overcame many obstacles. The largest was the 1992 speculation against the pound sterling and the Italian lira. An excellent idea of Jacques de la Rosière led us in that particular case to widen the band of fluctuation for the ECU. The EMS surmounted the crisis. So there was renewed growth, the Single Market was in place, and workplace social dialogue was producing results. All this inspired Mr Balladur and Mr Genscher to talk about a single currency. They were the first to mention it, even though the Single European Act contained a reference to the ECU (which I had introduced and not without difficulty, given the reticence of certain Finance ministers).

In 1988 the European Council decided, despite an unfavourable letter from the president of the Bundesbank to Chancellor Kohl, to create a committee to examine how economic and monetary union might work, taking inspiration from the Werner report. The committee, which I chaired, presented its report, the Maastricht Treaty approved it and in 1997 there was one last compromise which I must mention.

In the design of the euro, an important clause was introduced at the request of the Germans and others: the "no bail-out" provision. In other words, we would create a currency area, but no country would commit itself to systematic help for another country in difficulty.

What happened next can be interpreted using the triptych that I chose for the Single European Act: "Competition that stimulates, cooperation that strengthens, and solidarity that unites." Competition we have. Solidarity we have too, whatever Europe's critics may say (it is enough to remember that

cohesion is due to make up 35-40% of the EU budget in the new multiannual framework). Cooperation is the missing link. And here can be found a problem which we have often debated with Anglophone specialists. They say that it was naive to think that cooperation could grow stronger with the resources we had, and that institutions are needed like in the United States. Scepticism about the euro comes from this feeling among many Anglophones that the system cannot function solely on cooperation.

How did things turn out? Firstly, at the time of the Maastricht Treaty I had asked that alongside the five conditions for a country to join the euro, we add two more: youth unemployment and long-term unemployment. This proposal was refused, in the first place by Spain and the Netherlands.

In 1997, when the leaders met to put the euro into practice, I proposed to the French government that alongside the absolutely necessary Stability Pact, there be a pact for economic policy coordination. I did not use the words "economic government" because I knew that the Germans would not like that concept. Under this pact the Commission would issue reports and member states would need to make serious efforts to compare their national economic policies, to maximise their advantages, and to take joint action either to reduce imbalances or boost growth. Well, this coordination pact was not even defended by the French, because they obtained something they adore – an extra word. To "Stability Pact" the French managed to have the word "Growth" added, and that way they felt reassured.

The current crisis has placed the debate on economic policy coordination back on the agenda.

But before the crisis began, we must not forget that during the period 1999-2007 the euro had a good record: 2.1% annual growth, inflation under control, 16 million jobs created, further economic integration (with a third of investment and trade taking place within the euro area). And in 2007 the euro represented 22% of world currency reserves.

However, as I warned at the time, the euro provides protection but not stimulation. And it protects us from our mistakes too – in particular excessive public and private debt, and laziness over the need to improve competitiveness.

Alongside the Stability and Growth Pact, therefore, an economic coordination pact was needed. It would have allowed us to identify the risks to the euro and fight them. This imperative remains sharply relevant today.

Lastly, I would like to highlight the deeper origins of this crisis, and our collective responsibilities.

It is too easy to say that the euro crisis is simply a product of the financial one. No: in the euro system there were elements which did not work. I do not intend to reverse the priority of the factors. The financial crisis was central, its effects devastating. And it was followed by the euro crisis, which we have still not resolved.

Regarding the European Central Bank (ECB), should its unique objective be inflation control? In a globalised world, should it not be monitoring the development of public and private debt? How is it that in recent years the governors of the banks of Spain, Ireland and others, members of the ECB Governing Council, had nothing to report to the ECB's Executive Board?

Concerning the Council, did Ecofin not decide in 2004 to relax the rules of the Stability and Growth Pact by allowing euro area countries to ignore the rules with impunity? Did it not reject, also that year, the Commission's proposal to give investigative powers to Eurostat? These examples highlight the responsibility of the Council of Ministers, and show that it cannot now simply blame Greece and other countries in difficulty.

But fortunately it seems today that Europe's leaders want to save the euro.

My conclusion is that the "no bail-out" clause should go, as a consequence of the Council's responsibility. Some kind of mutualisation will therefore be necessary. One other remark on this subject: in a union, a community of nations, it is to be expected that decision-making should take longer than in a state. But this should not mean cacophony. Leaders need to use clear language and avoid alarming or contradictory declarations, which have an impact on markets. Words need to be understandable. If the markets are determined to kill the euro then we will find out, but I think that today the markets are waiting for a single, clear voice – rather than a clamour of accusations, which does nothing but exacerbate the confusion.

Following the crisis new structures and mechanisms have been put in place. In particular there is the European semester, an attempt at coordinating economic policies. Countries submit two documents to the Commission: a programme called "stability" for the euro countries and "convergence" for the others, and a national reform programme linked to a third document – which incidentally I find unimpressive – known as the Europe 2020 strategy. The Commission subsequently issues recommendations to each member state, which governments and parliaments must debate. And this is where a little more transparency is needed. If we want citizens to take an interest in Europe, it would be sensible of governments to make public the remarks they have received – for example by launching a debate in parliament so as to explain, to listen and to adapt a clear line of policy. This is how we can rehabilitate democracy at European level. The European semester is in progress and it is an attempt at both coordination and democracy, since member states can and must hold debates. Will it be enough? Other proposals have been made on the basis of the European semester. One is for a euro-area finance minister. I am not in favour of this because it would be simply one more personality in the debate and in the EU's already excessively complex representation. But another is an interesting idea proposed by the economist Jacques Delpla. It provides the only reasonable blueprint for debt mutualisation, because it involves issuing two categories of bonds. "Blue bonds", for debt up to 60% of GDP, would enjoy the

Union's guarantee, while "red bonds" would be for debt superior to 60% of GDP. When we talk about the euro's role in the world it must be remembered that in order to thrive a currency must have a sufficiently large bond market – like that of the United States, for example. A partial mutualisation of debt is therefore also a means of imposing the euro and benefiting from the currency's circulation.

Before concluding, I will make a remark about austerity. It is necessary, but austerity without the return of growth – is this possible, even from a financial point of view? To repeat a phrase which I used 20 years ago and which did not please the IMF, I would answer: no, unless one wants to die cured. It is thus necessary to provide complementary help alongside the austerity imposed on member states, to enable them not only to push through reforms but also to stimulate growth. And in my opinion this is where the EU, or at least the euro countries, should have made an effort, by adopting Eurobonds or another instrument to finance investment – the motor of growth for today and tomorrow. That way we could tell the Greeks and others that despite the harsh austerity measures they are enduring, the medicine is better than leaving the euro. Because the latter solution would mean a drop of at least 20% in their living standards.

The constructive solution lies in a division of roles, between more growth delivered by the Union and more austerity within member states. And I insist that this route is both realistic and possible in the actual state of the treaty. If it had been possible, at the time of Maastricht or later even, to make a greater leap of institutional reform, then this would have been done. But history shows that Europe's leaders did not want it. Cooperation does have an advantage, however: if the EU makes a success of its triptych, it will become an example to follow for organising the wider world. For the EU is the only example of states accepting to transfer a part of their sovereignty by cooperating among themselves. Cooperation remains thus a crucial issue. But if these realistic, common-sense propositions are not heard and implemented, there will be always the nasty strategy of brinkmanship and improvisation. Those who bet on a leap of institutional reform as the ineluctable solution to the crisis are deluding themselves. Because firefighters are not enough, even if their water pumps are good (which remains unproven). We urgently need architects and visionaries ready to make use of the community method which has always pushed the European construction forward. But, to repeat, the current climate is not conducive to such transcendence. Unless, that is, we can invent and disseminate a new project capable of mobilising people. As experts and citizens, that is our responsibility.