

**Sylvie Goulard (MEP)**

**8 February 2011**

*Humboldt University*

*Walter Hallstein Institute for European Constitutional Law of the Humboldt University  
Forum Constitutionis Europae (FCE)*

## THE SPOKEN WORD PREVAILS<sup>1</sup>

### **More than a financial crisis: a perspective from the European Parliament**

Thank you for the introduction, Professor Pernice. I am delighted to be here in Berlin today and to be able to speak in this prestigious lecture series.

With the turbulence in the Eurozone, the need for cross-border discussions is greater than ever before. I especially appreciate the opportunity to outline a perspective from the European Parliament (EP). A few days after Chancellor Merkel proposed her "Competitiveness Pact", this is the perfect time. Of course, I am speaking here as an individual, which allows me to use clear language.

I wish to present three points:

**- Firstly: the current crisis is much more than a financial crisis. It is primarily a crisis in the organisation of the Economic and Monetary Union (EMU). An objective assessment shows that the coordination up to this point has been neither efficient nor sufficiently democratic.**

**- Secondly: the current reform contains some positive elements, as do the latest proposals from the Chancellor. However, neither is enough because they bypass the question of democratic legitimacy.**

**- Thirdly: Germany is standing at a crossroads.**

---

<sup>1</sup> In the German version

Firstly I would like to put my remarks in the overall context.

The debate over the future of the monetary union cannot be separated from the global situation. In Spring 2010, Barack Obama called Angela Merkel several times when the Euro was in danger, and not without reason. China invests massively in the weak countries of the Eurozone. As Europeans we have a very special responsibility, as Europe enjoys worldwide respect as the continent of peace, and legal and social justice.

In Europe we have learnt to fear megalomania and thinking too big. But small-mindedness and navel-gazing can be at least as dangerous. In Goethe's *Faust*, Dr Faust refers to Mephistopheles in the following quotation: "*You can't destroy everything at large / So now you start on a smaller scale.*" We cannot think on as small a scale as we have since the beginning of this crisis. Nor as negatively.

What worries me about the current critique of the EU is "*the spirit of permanent negation*" which is now spreading due to fears and a new populism. As if in reality "*everything that is created deserves to be destroyed*".

On the other hand, the pro-Europeans must accept that something has gone wrong. And we cannot look at the situation through rose-tinted glasses if we are to propose suitable reforms.

This leads me to my first point.

### **I. The current crisis is much more than a financial crisis for Europe**

In the summer of 2007, a financial crisis began in the USA. In 2008 it took on systemic proportions with severe economic and social consequences. However it was much more than just an economic phenomenon for Europe.

The unfinished nature of the EU made it less able to act quickly than the strong Federal State of the US or China. This financial crisis has brought the already existing weaknesses of the Eurozone unsparingly into the spotlight. I would like to highlight four main weaknesses:

- **Firstly: For years the national governments have not been keeping pace with their European obligations**

In 1992, the responsibility for economic policy was ceded to the Member States. They pledged to keep public sector deficit and debt under control. Jean-Claude Trichet recently explained to *Bild Magazine*<sup>2</sup> "*We don't have a Euro crisis, rather we have a crisis of public finances in some Euro countries*".

These States have financed maintaining their standard of living with debt rather than pushing through painful reforms. Although globally emerging powers (such as China) and the ageing process in Europe have put pressure on productivity, some national governments have ignored the warnings from the Commission and the European Central Bank (ECB). The principle of solidarity was violated in these countries.

The finance ministers should have exercised a strict mutual control under the supervision of the Commission. But the Euro Group has not always played the role that it should have. In 2003, even Germany and France did everything they could to escape sanctions and thereby undermined the credibility of the Stability and Growth Pact.

In recent years, today's "troubleshooters" themselves tolerated high public debt and the housing price bubble in the Eurozone. They have never given EUROSTAT (the institute for EU statistics) the necessary investigatory powers to identify cheating. They have mostly ignored the pleas of the ECB for more discipline and greater convergence.

- **Secondly, it is apparent that the budget criteria are not sufficient.**

With the Stability and Growth Pact (SGP), from 1997 the EU has only concentrated on budgetary deficits and public debt. Due to these restricted criteria, Ireland and Spain were at the top of the class in Europe before the crisis. There is little sense in strictly controlling public expenditure (such as productive investment in research) without taking into consideration private expenditure (such as speculation on the housing market or excessive private indebtedness). Macroeconomics cannot be reduced to budgetary discipline.

---

<sup>2</sup> 15 January 2011

Several specialists – Wolfgang Münchau<sup>3</sup>, Patrick Artus<sup>4</sup>, Jean Pisani-Ferry<sup>5</sup> – and market experts such as Georges Soros have pointed out the danger that the imbalances within the Eurozone could develop further if we do not create any new instruments for convergence: with the Euro, the individual countries no longer have the option of devaluation; mobility in the job market is very limited; if transfers are excluded, raising or lowering wages remains one of the few financial instruments. Supervision of the banking sector has also remained national even though financial markets have developed across borders.

Furthermore, the markets should have strictly ensured discipline: those who carefully managed their finances should have received cheap credit. This didn't happen: the "spreads" stayed within borders. Only belatedly, and then very brutally, have the markets differentiated between the individual Euro countries.

**- Thirdly, during the crisis tension has arisen between the community's legal basis and its ability to act.**

After the Second World War, the European Community (EC) was founded on law, in order to enable reconciliation and cooperation. Hallstein said the EC was "*a creation of the law, a source of law and a legal system*"<sup>6</sup> "*In the beginning there was Kant*", as Nipperdey might have said of the EU.

Room for manoeuvre with regard to management of the Euro at the European level was deliberately restricted (except for the ECB). Many experts – above all in the USA – have sharply criticised this failing from the outset. When times were good, this was no problem. In times of crisis, however, our complex procedures and our inhibitions have proven unsuitable.

---

<sup>3</sup> [www.eurointelligence.com](http://www.eurointelligence.com)

<sup>4</sup> "Les erreurs conceptuelles qui sont derrière les institutions de la zone Euro" ["The conceptual errors behind the Eurozone institutions"], *Natixis Flash Economie*, 18 January 2011; "De quoi dispose-t-on pour traiter les asymétries dans une Union monétaire?" ["How can we treat imbalances in a monetary union?"], *ibid*, 17 January 2011

<sup>5</sup> Various articles, notably "Vous avez dit fédéralisme ?" ["Did you say federalism?"], 6 July 2010

<sup>6</sup> *Der unvollendete Bundesstaat [The Unfinished Federal State]*, 1969

Although the financial crisis did not originate in Europe, and although mountains of debt piled up on the other side of the Atlantic, the EU was still seen as being weak. Perhaps that has something to do with the way that the Americans assert "Yes, we can!" while we in Europe continually ask: "Can we?"

- **Fourthly, in the Eurozone we still haven't achieved this feeling of "union"**

Ten years after the introduction of the Euro it is still expensive and laborious to transfer money within the Eurozone. We use the same currency, but we live on separate planets. In the crisis, this "solidarity" has suddenly been put to the test. Nobody should be surprised if the necessary decisions were not easy to make. But the racist undertone in some tabloids is alarming in a "union".

Since the survival of the Euro and perhaps of the EU itself is at stake, we can be pleased that state and government leaders and finance ministers have finally agreed on bold measures – albeit late and albeit reluctantly. In May 2010 when the Eurozone stood on the edge of the abyss, they (with the crucial participation of Germany) saved Greece, and with it the Eurozone. They established a fund of 750 billion euros of possible credit for the future.

\*

According to this objective assessment, we can only establish that Europe is largely not to blame for everything. Jacques Delors recently explained in the French Senate, "*ne faisons pas porter à l'euro le poids de nos insuffisances*"<sup>7</sup> [We should not make the euro carry the burden of our shortcomings.]

Today is not about apportioning blame. Anyway, the discussion about the euro is characterised too much in terms of morals: people talk above all about "sins" and "punishment". However, the Last Judgement is not handed down in Brussels. Furthermore, since the time of Moses, God has known that tablets of stone alone are not enough to persuade people to obey.

But the shortcomings must be named precisely in order to, if possible, bring about suitable reforms.

---

<sup>7</sup> Hearing, 16 November 2010

**II. Second point: the current reform contains some positive elements, as do the latest proposals of the Chancellor. But neither go far enough, because they bypass the question of democratic legitimacy.**

At the end of September 2010, the Commission adopted a "package" of six texts, in order to improve the "governance" of the EMU.

Thanks to the Lisbon Treaty, the new legislation can only be adopted if the Council and the European Parliament (EP) agree on identical amendments to the Commission's texts (hence the "codecision procedure"). Six EP "rapporteurs" have been named (I have the honour of being one of them) and are working hard on this.

This package draws some lessons from the first years of the euro and from the crisis, and it contains interesting proposals:

- the close collaboration in the "European semester" could contribute to better integration of the national parliaments. Under pressure from events, the Papandreou government in Greece has already passed reforms to a degree that would have been unthinkable a year ago. In France and Italy economies are being made and furthermore in Spain the banking system is being modernised.

- A degree of "automatic" application of sanctions should enhance the credibility of the Stability Pact. Discipline is absolutely necessary, particularly for the next generations.

- Control of the macroeconomic inequalities, which include both deficits and surpluses, could make the whole oversight more efficient.

It is a step in the right direction: Europeans are finally thinking beyond controlling budgetary problems. In reality, managing a zone which is wider and less homogeneous than the USA requires more than a few rules and the virtues of a good businessman. With the motto of "more discipline" alone we can live still with a clear conscience without solving the problems.

I cannot enter into details here. The important thing is that, for the first time, such issues are being specifically discussed and, thanks to the European Parliament, this discussion is taking place in public. Furthermore, all political groups are included in

the EP, which can improve the long-term acceptance of the rules (only the parties which are currently in the majority sit in the Council).

Parliament is also making its own proposals. In my report, I have raised the controversial question of Eurobonds. My aims are to create a worldwide liquid euro market, to release the ECB from the role of "bad bank" and to combine discipline with incentives<sup>8</sup>. To me it is clear that many people in Germany and elsewhere are afraid of a "transfer union". We must tread carefully and not neglect the AAA-rated countries. Technical solutions certainly exist. The problem of Eurozone indebtedness cannot be tackled only by depending on Germany to balance the books. Furthermore, to me it seems difficult to manage it with only sticks and no carrots. Eurobonds would be an incentive and such a proposal deserves to be debated in the EP, without any taboos.

The Council (the so-called "Van Rompuy Task Force") has announced its first impressions regarding the Commission's package: not everyone seems to be enthusiastic about sanctions. There are already signs of attempts to water it down, although there are also some improvements such as, for example, the EU missions in the Member States (following the model of the IMF).

Today no-one can predict how our package will look at the end of the codecision procedure, not least since the European meeting on 4 February, where a new and important initiative (the "Competitiveness Pact") was launched by Angela Merkel.

This Pact includes two very positive elements:

- the Chancellor gives a clear signal that she had not previously wanted to give: the Eurozone (of 17) requires specific collaboration.
- She also recognises the necessity for stronger macroeconomic convergence and mentions, for example, the promotion of cross-border mobility, alignment of the retirement age, convergence in the area of corporation tax, and the introduction of a minimum rate for investment in research and education. The Chancellor also

---

<sup>8</sup> Delpla, von Weizsäcker, *The Blue Bond Proposal*, 6 May 2010

demands domestic constitutional amendments in order to enforce budgetary discipline.

A tighter macroeconomic control of the Eurozone is desirable, as is a more extensive convergence of the national economies. Retirement age, taxation and constitutional questions are, however, very sensitive issues in all of our countries. But in order to achieve joint success in these areas, we need more than just coordination.

Firstly on the grounds of efficiency: who can believe that in the future ministers will strictly control their department colleagues when these are ministers from a neighbouring country? Above all when these colleagues are also customers: how many submarines did Germany or France sell to Greece before they accused the Greeks of being heavily in debt? It is obviously more important to members of government to keep their own electorate happy than to please the other ministers in the Council.

Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, has already stressed that the EU needs a "center driven agenda" for growth with common policies and an EU budget. As provocative as this may sound in Germany, he is right. In the last 30 years, the Council has too often preferred subsidiarity and "open coordination". The results are very disappointing and the centrifugal forces stronger than ever before (see for example the failure of the Lisbon Strategy for Growth and Jobs).

Secondly on the grounds of democracy: if the ministers lose all room for manoeuvre, what would be left of national democracy? To be quite honest, what would happen if the others felt increasingly strongly that they were forced to operate under strict control from "Berlin" or Karlsruhe?

Even if I am convinced that the Chancellor is right in her analysis, here this evening I would like – as a friend of Germany – to warn against "diktats". Such a system can be damaging for the EU, and not least for Germany itself.

According to Tommaso Padoa-Schioppa, one of the founding fathers of the euro, who sadly died recently<sup>9</sup>, European "governance" is actually weak "*because the power of coordination lies in the hands of precisely those who should be subject to this power*". Whoever acts should not also have control: independent institutions are better equipped for this. Here we have the Achilles' heel of coordination and of all existing proposals.

Chancellor Merkel's Pact assumes that "representatives of the national parliaments (...) meet regularly and also guide this strengthened coordination process for greater competitiveness beyond national legislation".

But what do we mean here by "guide"?

Where democratic control would be necessary – namely at the European level – it is not offered. Where controls already exist – at the national level – they can only be partially effective: no national parliament can completely scrutinise the shortcomings of the other governments of the Council. Because of this, the EP has been directly elected since 1979. In recent decades, the strengthening of the EP has always been a priority of Germany's European policy, and for that we are grateful. In 2007, during the German presidency, Frau Merkel herself negotiated the Lisbon Treaty, which extended our powers.

Now she is ignoring the EP's codecision procedure in the area of "economic governance". Strangely, the Commission's package is portrayed in the Pact as "the proposals of the Van Rompuy Task Force" and they must be "accepted by June at the latest". The Council determines content and timescale...

Fortunately, in the official conclusions of the European Council of 4 February, the codecision procedure is better described: the hope for the EP's formal agreement with the Commission's proposals is mentioned.

---

<sup>9</sup> "La stabilité oui mais aussi la croissance" ["Yes to stability, but also to growth"], *Notre Europe* [*Our Europe*], October 2010,

The Eurozone does not actually have its own parliament; therefore the question of the democratic legitimacy of the Eurozone is a very difficult one. But perhaps the Humboldt University – with other elite European jurists – could work on this and help us to be more creative.

For years, France has spoken of "gouvernement économique" ["economic government"]. Now Chancellor Merkel and Minister Schäuble have also used the term in various speeches. But no-one defines what it means and to whom this "government" should be accountable.

Nowadays we do not expect the European Council or the Euro Group to determine the most important decisions of economic (and social) policy without parliamentary control at the European level and without cross-border public debate. It is reminiscent of a saying from the Ancien Régime: "ci veut le Roy, ci veut la loi" ["as the King wills it, so the Law wills it"]. As a member of the Liberals and Democrats Group in the EP, I find something like this hard to accept.

The laborious coordination of 17 or 27 countries, up to this point neither very efficient nor controlled, can not be defined as "government".

Consequently, this evening I would like to speak frankly: a still more extensive reform of the EMU is necessary, and even a new configuration of the EU. Not for idealistic reasons, but viewed quite objectively because the coordination has disappointed us and could lead to tensions.

It is clear to me, how difficult the debate is in Germany. And incidentally also in France. But please! When Robert Schuman offered Germany an equal partnership in the European Coal and Steel Community in 1950 (only 5 years after the war!), such an idea was not at all popular. If he had only considered the next election, where would we be now? Gorbachev didn't follow his people either when he accepted the reunified Germany into NATO.

Jean-Claude Trichet<sup>10</sup> himself has already specifically spoken about the necessity for a "fédération budgétaire" ["budgetary federation"]. And Joschka Fischer already pleaded for this nearly 11 years ago in this very university.

Now we are again faced with a **historic** decision, and this applies especially to Germany.

### **III. My third point is that Germany is standing at a crossroads**

As the most powerful and richest country in the EU, the German government can quietly try to assert itself in the European Council, if necessary against the will of others. Chancellor Merkel, for example, has recently demanded a revision of the treaties, which is seen as a risk in many Member States. In this crisis situation her demand was understandable. But in the long run, such an attitude – and equally a Franco-German "board of directors" – would lead to tensions. The negative reactions to the Franco-German summit in Deauville show what happens if the "big leaders" impose their views, without consulting the others.

Frau Merkel gave a speech in Bruges in November 2010<sup>11</sup> where she pleaded for a so-called "Union Method" which puts the Council at the forefront. She gave the impression – repeated this week – of wanting to go back to the time before Monnet. Just after the war, Jean Monnet came up with the concept of the "Community Method" and the Commission because he had personally experienced the impotence of intergovernmental committees in the League of Nations.<sup>12</sup>

Do we want an EU that is able to act or a crippled League of Nations (a more precise expression than the German "Völkerbund" or "Federation of Peoples" since there is no trace of a federation or of peoples in the League of Nations)? Have the last 60 years been a kind of interregnum, an exception, or is the supranational organisation

---

<sup>10</sup> *Le Monde*, 31 May 2010

<sup>11</sup> Speech in Bruges, *Collège d'Europe*, 02/11/2010

<sup>12</sup> For a complete analysis, Sylvie Goulard, "Le Coq et la perle" ["The Cock and the Pearl"], *Le Seuil*, 2006.

of Europe a model for the world of tomorrow which is worth improving and defending?

In the interests of Germany, and in the interests of the EU, we must care for what we have inherited: the Community Method. In this method of working, the central focus is on a neutral independent body – the Commission – which designates common interests in collaboration with the Member States. No "heavyweight" can assert its will alone. Alongside the national parliaments, the European Parliament ensures democratic legitimacy.

For good reasons, the judges in Karlsruhe risked everything to preserve the extraordinary achievements of the post-war period. In fact since 1949 the FRG (and then the reunified Germany) has been an exemplary model democracy. In the EU we need constitutional judges who are exacting and because of that demand that the citizens determine decisions by election and voting. And who also continually emphasize that public opinion is part of democracy. I have a lot of respect for that.

But the German people has set itself the aim of "contributing to world peace as an equal member of Europe". Germany exports worldwide. So Germans know about globalisation.

Why can't the political system take on forms other than the states and nations that we have known up to this point? Unfortunately we cannot talk of a "principle of perpetuity" in human activities. Rather we only survived in the twentieth century, as the poet Paul Valéry wrote so beautifully, "nous autres civilisations savons désormais que nous sommes mortelles" ["We other civilisations now know that we are mortal"]. And that "Europe could soon just be Asia's poor relation"...

As early as 1966, Paul Henri Spaak<sup>13</sup> wrote, "The nations we have now come into being through a slow process. They followed on from a long development. What right could we have to claim that in their current state they have reached their final state? What law could stop them firstly combining into a league and then uniting? Who can believe that nations stay as they are through all global upheavals and that people's

---

<sup>13</sup> Article for *Le Soir* "Le désarroi européen" ["European disarray"], 4 November 1966

lives stay the same through all huge technological advances when they have developed over the course of time?"

The essential reform becomes much easier if we begin at the right starting point, namely: our sovereignty is already divided within the Eurozone. Democratic legitimacy, which constitutional law rightly requires, must not happen only at the national level but must also be anchored at the European level.

"The Long Road West" (Winkler) must not stop in Karlsruhe. It can lead Germany to the head of Europe in a pioneering role in the foundation of a political entity.

What sort of entity? One which is self-determined from without and democratic and socially fair from within. I can think of no better name for it than the United States of Europe (coined by Victor Hugo).

This name would at least make it clear that neither our states, or cultures, languages or identities are threatened with extinction. But a Federal Union is needed – no ifs or buts – in order to have any influence alongside the USA, China, India and Brazil.

The Council's and the so-called national elites' claim to sole representation no longer corresponds with the current level of integration. The national parliaments alone will not be able to exercise any satisfactory control over the Council and the complex economic issues.

Of course this will not all take place overnight. But it is our responsibility to define a clear aim for the medium term. Only jurists can be enamoured of an eternal "sui generis" creation. Europeans have long since dismissed this dream.

We can already try to better respect our achievements up to this point. [Parliament's working methods as well as the voting system could well be improved. I am not making a blind plea here for an institution that I am a member of, rather I became a Member of the EP because I put democracy ahead everything else.]

The current tendency to deny the legitimacy of the EP because there is no "common people of Europe" seems to me to be particularly dangerous. If the EU is a new creation then the argument is irrelevant. And if we have a common fate then it is insufficient.

Some support for the introduction of a direct – if also limited – accountability before the EP could already help to make the best of the forthcoming reforms. Let me take a specific example: the EP rapporteurs propose, among other things, to introduce a public debate on "economic governance" in the EP. If the Commission finds an alarming development in a country, the Commissioner could make their point publicly. The finance minister of the country concerned or the President of the Council would have the opportunity to respond. In early 2009, the Greek Prime Minister Papandreou voluntarily made himself available to be heard by the EP's ECON committee which dispelled many prejudices. Transparency can help make the coordination more effective. And can also increase the legitimacy of the decisions.

We must also take responsibility for one of the mistakes of recent years: if Germany is now distancing itself from the Community Method, this is no coincidence. The Commission with 27 Members from the 27 Member States (many of which are smaller than German Federal states) has become an entity of a completely different nature. In the future we must be less "politically correct" and reduce the number of Commissioners and reform the institution so that no country punches above its weight. We could even support this institution without making modifications to treaties. Instead of always grumbling about the "frenzy of regulation from Brussels", we could for example send first class people to be President of the Commission. The last German to head up the Commission was Walter Hallstein (57-68).

\*

Now I arrive at my conclusion: the time has come. The founding fathers of the EC envisioned a political union. The founding fathers of the Euro envisioned a political union. The crisis has shown how fragile our position in the world is. Perhaps our generation now faces the difficult – but exciting – task of bringing this political union into existence.

Germany has much to offer to Europe: the concept of the "social market economy" was born in Germany as Max Weber's reflection on "Protestant ethics and the spirit of capitalism". Since the crisis we need such concepts more than ever. Man does not live on bread alone.

After many years of dwindling competitiveness, Germany is particularly successful in economic terms. At the same time Germany is a solid parliamentary democracy, and it has specific experience of federalism. Here the Germans have a lot to teach the French.

For me, the success of the European Financial Stability Facility (EFSF) – under the leadership of Klaus Regling – is very symbolic. Perhaps our politicians will discover how positively Europe is seen by the world when German virtues play a part in the European unification process. Better to be in harmony with the European tradition of the Community Method than with dangerous intergovernmental experiments! Incidentally, Wolfgang Schäuble himself wrote in *Le Monde* last week that "the intergovernmental" proposal was only the first step<sup>14</sup> ...

Thank you for listening.

---

<sup>14</sup> 4 February 2011, *Le Monde*, "Inventons un outil juridique pour garantir la stabilité de la zone Euro" ["Let's invent a legal instrument to guarantee the stability of the Eurozone"]