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Finance for growth. A new vision for Europe

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I have been asked to bring to your attention the fact that the European Union is the Union of citizens. Actually, since its very inception and throughout its history, the Union has had the citizens at its heart. It has always been committed to its citizens. Of course European citizens are very different today than 60 or even 10 years ago. They have never been so aware and so knowledgeable as they are today. They form part of the global world and that is why to understand challenges that Europe faces, one must reach out beyond Europe to more universal processes of change. Not to justify our helplessness, but to explain the nature and depth of challenges. We see regressive and illiberal forces not only in Europe, but this is not a consolation.

For some Europe means sovereign nation states, for others it is more about shared European institutions, for some it is about peoples and national identities, for others rather about individuals. But Europe is also about mind sets and emotions.

Europe suffers today from polarization. It is visible at different levels and different dimensions of European society, European politics, European economy. But it is also an outstanding feature of the national reality. Without doubt it is a dangerous process. To a certain extent divisions are fueled by the universally felt growing inequalities. There are strong trust related consequences of this process but there are also economic consequences which must not be ignored. The more wealth goes to those already rich the less of it converts into new market demand, the lower the growth dynamism and the weaker the job creation. This is important for Europe when we reflect on inclusive nature of new policy areas.

The option of muddling through is brought back to our thinking about possible ways to go, not as a recommendation but a scenario that can become a reality. A warning, actually. The probability of this European path is augmented by what is already the fact of life. First, there is no vision but a step by step approach. Pragmatism can be successful if steps take us toward a well-defined objective. We have never chosen a path toward a very concrete finalité politique of Europe but the biggest European projects were based on a vision, followed by a road map and concrete steps. Secondly, decisions are made under immediate pressure of events. That implies short termism in thinking and acting and at best second best policy choices. And thirdly, outstanding national interests lead as a rule to the lowest common denominator for policy decisions.

These three characteristics of the European political process have a bad reputation. Choosing intergovernmentalism - as a path for problem solving machinery in the times of serious lack of political unity, when nation state mentality is back in Europe, when there is a lack of solidarity, when European solutions are the only potentially effective ones, when at national level the capacity to think and act in a pro-European way has been weakened seriously, when the capacity to deliver on European commitments has been vanishing for years - is a bad choice. How can you build trust and allow for fragmentation at the same time? All institutions suffer from declining support of citizens, yet the European Parliament, according to a Breugel study, remains the most supported institution. Notorious blame gaming of Europe pushes citizens towards populists. Citizens would benefit from national governments and European institutions working hand in hand. Unfortunately, it is becoming increasingly difficult to find national capitals where European solutions would be cherished. Governments' representatives go to joint meetings with national political agenda, oppose European solutions and go back home blaming Europe for lack of actions.

Policies shaped by the intergovernmental method of decision making are reactive, come too late and, hence, too often are rather restrictive than stimulating.

We seem to be losing political cohesion, this connective fabric of a political system, which is fundamental for the system and those who live in it. The question of what it is that holds us together, that makes us as European citizens willing to cooperate has been present throughout its history of European integration. Every generation has the right to ask the question what Europe is for, to have their own story of Europe. What story of Europe does the young generation of Europe have? Is it a story that unites?

When reflecting on how our societies evolve we see that they have been for quite some time subject to both anti-European and anti-globalisation narrative. The challenge now is to get back the once existing commitment of our citizens to the European values and principles and to help them recreate their commitment to an open continent, to help them understand that actually Europe is the best way to make globalization work for them.

We have lost a substantial part of European confidence capital and even more of what I would call solidarity capital, two fundamentals of European integration. They are both difficult to restore but it is not an impossible task. Europe needs to deliver what citizens are expecting from us, and we need to involve citizens in a dialogue on Europe and in European decision making. Europe needs to be talked about to become a desired element of our life.

People do have legitimate concerns, fears and expectations. They do not care about what politicians argue about which is "more Europe or less Europe". They want their concerns being taken seriously and effectively addressed. And they do see that some solutions can come only from Europe, and security is a good example here. And there are more and more not less and less problems that require European solutions. So yes, Europe's capacity to deliver is and will be crucial.

The erosion of people's in-depth commitment and attachment to the Europe's ideal makes it easier for the populists to put themselves between citizens and Europe. They have also made their way into some European governments. They have also managed to convince people that referendum is a good way of involving people in European decision-making. Through this extremely demanding instrument of democracy they lead people to make uninformed choices often damaging to next generations. So, yes, the need to get people away from populists demagoguery is one of the outstanding challenges Europe faces. However, neither national nor European narrative against jingoism, nationalism and xenophobia has been effective so far.

It is actually rather amazing that recent crises, so deeply felt by people and so long lasting, have not been seen by political leaders as a powerful source of strong legitimation for far reaching reforms. Quite the opposite is the normal. Many of those urgently needed reforms can still be implemented within the current treaty framework. It does not therefore require excessive political courage. And this is true in case of the Economic and Monetary Union, Common Foreign and Security Policy or long term solutions to migration.

Heated debates reveal strongly diverging views on the needed reforms producing collateral damage emanating from lack of political cohesion. This is in particular true when it comes to controversies on the ways and means to complete the architecture and functioning mechanism of the euro area. Heated debates on this issue are not only confusing to people, but they also undermine the confidence in the capacity of political elites to make Europe work. The clear preference given to the soft method of intergovernmental coordination in reality contributes to weakening of the European project, especially if accompanied by an anti-European rhetoric contesting the role of the European institutions. This must be stopped. It encourages action of some governments which suffer from euroscepticism. One could demand from national leaders when they gather informally as heads of state and government or formally as European Council a pledge to Europe, a pledge to spare no effort to bring back peoples', their voters' commitment to Europe, to the values and principles that many years ago have become the foundation for a common Europe. Just to stop the bashing of Europe would not be enough this time around.

There are democratic pro-European forces in Europe. We have in the Union cohorts of young people in all sorts of European movements. They should be encouraged to leave their ivory towers, Erasmus students should talk to other Erasmus students, committed academics should get outside campuses, European institutions should cooperate on communication. Famous blame game cases should be discredited each time they occur in the public space. The policy of saying the truth, the policy based on "facts matter" principle should be the new old normal.

With digital single market the space for pro European connections expands. We should support mushrooming pro European platforms for debates, for

countering the bashing of Europe, the anti European lies and false promises of miracles that end of Europe might create.

Many small pro European currents can easily unite into powerful pro European narrative that can create sufficient space for a good change. Inclusive Europe starts with inclusive debate. We can reach a moment when one day, hopefully sooner than later, from all those debates a civic European convention will emerge.

Fight against nationalisms and populisms must be carried out to strengthen unity. This is one of the most difficult challenges to cope with, this fight for a reinforced unity and rejection of returning national state mentality. Nationalism has never worked for Europe. Those who are against European unity and who are for national answers to global problems, they should be honest about risks and costs of this.

Everyday somewhere in Europe there is a conference discussing nationalism, xenophobia, populism, how they undermine democracy in Europe but also how a dysfunctional democracy facilitates those currents. Everyday we hear news about governments that practice democracy bending the rule of law. We see democratic regression as well as ethnic and cultural identity tensions. We see that building democratic institutions and having free elections is not enough when there is lack of political democratic culture.

Political class in some Member States questions European decision-making processes, the existing "rules of the game" are being put in question. Yes, we should continuously seek improvements in the functioning of our democracies, on national and European level with the aim to increase our capacity to act, improve legitimacy and democratic accountability. But we should ensure that we also continue to respect fundamental rights and freedoms and the rule of law and, may I add, never lose sight of human dignity, for each and every individual.

Those of us who talk about the need of taking seriously the challenge of a new treaty, we have in mind also the fact that the current treaty is obsolete when it comes to the way the decisions are made in Europe. It does not allow for a more participatory process, does not give assurances to citizens with regard to their impact on decisions, giving them guarantee of being listened to, it does not provide sufficient access for individuals and civil society representatives to the decision making process. We need a system that would be a convincing credible alternative to the referendum mechanism, which is not well suited to the European decision making.

Another important reason to prepare for a revision of the Treaties is that if we do not address relevant problems now, it is very likely that those Member States that really wish to complete the EMU will do so amongst themselves in the form of an intergovernmental treaty. Therefore, we are at a crucial stage when Treaty reform has become necessary and we should create the momentum to move forward on necessary reforms of the Eurozone. We

should not leave to the monopoly of proposing Treaty changes to Eurosceptics.

Should the treaty change continue to be a taboo or should we stop shying away as political class from explaining to the citizens that treaty changes are nothing more than a normal way of making the Union effective, democratically legitimate and efficient in the constantly changing global world? This is difficult because we failed and allowed the populists to capture the territory with their policy of “facts do not matter” and of false promises.

Of course, discussions on decision-making processes are never without controversy. There may not be great haste or big enthusiasm to embark immediately on Treaty changes, nevertheless this should not prevent us from analysing where our Treaties should be improved so that we are ready when eventually there is political wisdom and will to do so comes.

As a citizen, I would like the Union to take care of my fears related to globalization and interests. The world is messy, conflict prone, there are wars in the neighbourhood and individually as member states we cannot do enough to protect our citizens. The only way forward is through European solutions. This seems to me also the area for European action which can be a major source of legitimation of Europe today as citizens are worried about their security. The battle for European solutions in the area of Common Foreign and Security Policy is therefore one more to mention. Another challenge is trade. This is one of the key competences of the European Union, and trade is a major driver for our economies. Without a united European Union at the negotiating table with our partners, we would not have achieved the success we have in the last decades to open markets for our companies, create fair rules for everyone, and achieve economic growth - today and in the future. This is under threat.

Europe has strong foundation to rebuild unity. It is our culture, it is our science, it is the rule of law, democracy, all values which we share. We need solidarity and ethics. This means also that every member states must be well governed. There will be always integration mechanisms that bring the risk of moral hazard. We will not avoid situations when we have to help a state. In those situations solidarity comes from joint interests. There is a rationale behind solidarity.

We need to fight for growth, sustainability of jobs and competitiveness. This battle requires a shift from an efficiency driven model to an innovation driven model of growth in Europe. We have invested a lot during crises in mechanisms to deliver stability, in particular in the area of economic and financial governance. But what we have created did not make us capable to deliver growth and sustainable jobs. Clearly the current fiscal - monetary policy mix is not the adequate one from this point of view. In spite of an unprecedented role of the ECB that reached out to monetary policy measures not existing before the crisis, growth remains stubbornly low and deflation risks are not gone. Fiscal policy to support aggregate demand has not become achievable yet. Reforms to boost demand but also to increase

growth potential require a governance technology that would stimulate them. They will in any case occur slowly because resulting benefits tend to be back loaded and costs rather front loaded. This generates political resistance.

We see on the side of European Commission, supported by the EP a very good move towards investing in this dire need of growth. Vice-President Katainen spoke here about the EFSI established for an initial period of three years, with the aim of mobilising at least EUR 315 billion in investments with maximum private sector contributions, and now successfully expanding its firepower. It's reform strengthens the additionally of the fund, aims at enhancing its take up in the regions that need it the most and improves the transparency of the procedures followed.

When asking the question: what now?, it seems worth to take note of an amazing fact that neither the depth nor the length of crises have been seen by politicians as providing strong legitimacy for difficult and far reaching reforms. This is particularly true in the context of the EMU. Its mechanism has been for quite a while an unfinished business of European integration. Unprecedented mobilization to reform took place but reforms were frozen again in search of a better balance between the scope of risk reduction and risk mutualisation. The question is how much can still be done to get EMU governance stronger under the current Treaties. EMU challenge continues to be both its architecture and its common governance. In both areas changes are needed to reach an adequate equilibrium allowing the euro area to deliver. Diversity of political preferences does not allow to make the system effective.

We need political unity and commitment. This is one of those moments in the history of integrated Europe when disintegration of Europe is possible. It has never been an option and it must not be an option now. If we disintegrate we will disintegrate into twenty eight globally irrelevant states.