

**SPEECH**  
for  
Commissioner Joaquín ALMUNIA  
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**The European Union and reform: a global agenda for a global age**

Ladies and Gentlemen

Let me begin by expressing my gratitude to Director Howard Davies for inviting me to deliver this lecture. I'm delighted to have this opportunity to address the staff, students and guests of the London School of Economics, an institution that has shaped the study of modern economics, including Economic and Monetary Union.

Indeed, it was Robert Mundell, the Nobel laureate and distinguished alumnus of this university that helped pave the way to the creation of the euro with his theory of optimum currency areas.

However, today I would like to cast my net a little wider and look at broader developments in the European Union.

This has been a landmark year in Europe's history. Not only are we celebrating the 50<sup>th</sup> anniversary of the Treaty of Rome - an impressive half century of EU construction and achievement - but last month, European leaders agreed on the text of a new reform treaty, a crucial step forward that will end years of institutional wrangling.

However, coming in the midst of our anniversary celebrations, the debates surrounding the Reform Treaty and the future of Europe have highlighted an interesting paradox.

While many citizens recognise the advantages brought by Europe in the past, today the EU is subject to a large degree of scrutiny and doubt. In other words, although they recognise the benefits of European integration over the last fifty years, citizens seem less confident that the EU can address the challenges of the future.

And yet, in the age of globalisation, it is clear that the EU is more necessary than ever. I believe that a robust and capable European Union is essential for negotiating the globalised world of the 21<sup>st</sup> century.

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But let me begin by briefly looking back on half a century of the European Union. Even for the strongest euro sceptic, the achievements of the EU during this period cannot fail to impress. In its first fifty years, the European Union has helped consign centuries of European interstate conflict to the history books. For those in France, Germany, the Benelux and elsewhere who lived through the horrors of the Second World War, the EU has come to symbolise the end of hostilities and the beginning of a process of reconciliation and cooperation.

Longstanding peace in Europe has been supported by a remarkable consolidation of democracy. For those of my generation growing up in Spain, Portugal or Greece, the EU has become synonymous with the values of freedom and democracy after long years of dictatorship. Recent enlargements to the East

have sustained this legacy, cementing the reunion between eastern and western Europe following the Cold War.

Political achievements have been matched by equally impressive economic advances. Take the economic miracle of my country, Spain. Or of Ireland, which when it acceded to the union in 1973 was the poorest nation in Western Europe and is now one of its richest in the EU. Economic integration within the European Union has been instrumental for closing gaps in prosperity. And the EU continues to directly support Member States across the Europe. Here in the UK, 500 million euro from the European Social Fund will fund investment in jobs and skills in the North West of England, while the British government is likely to receive 160 million euros for flood relief.

The EU has created the largest Single Market in the world serving nearly 500 million citizens and accounting for 20 percent of global trade. By removing cross-border barriers to the free movement of goods, services, capital and people, and strengthening competition, the Single Market has created millions of additional jobs across the Union and boosted prosperity.

The launch of Economic and Monetary Union took integration one step further with the creation of a single currency. Today, as we profit from almost ten years of experience with the euro, we can state confidently that this ambitious decision has been a success.

EMU has established an area of macro-economic stability for its member countries, creating an environment where inflation and interest rates have been kept at consistently low levels. It has removed the risks stemming from intra-euro area exchange rate volatility and made exchange rate developments much less relevant for our economies. EMU has also helped euro area countries, and

to some extent the EU as a whole, to weather a series of external shocks, including the impact of 9/11, the recent rise in oil prices and the current financial turmoil.

EMU has increased economic opportunities. Employment growth has soared with 15 million new jobs created since the launch of the euro and unemployment currently stands at its lowest level in 15 years. Equally impressive, recent figures indicate that EMU has boosted flows of Foreign Direct Investment into the euro area by up to 60%.

The single currency has had an important impact on economic integration in Europe. Conservative estimates put the increase in trade between euro area members as somewhere in the range of 5-15% and EMU has also driven the rapid integration of Europe's financial markets.

Robert Mundell predicted that the euro would fast become an international currency to rival the US dollar or the Japanese yen. He was not mistaken. The euro is the second most important international currency and is well established in foreign exchange and international securities markets. Today the euro dominates the international bond market, with issuance in euro overtaking the dollar. Its role as an important reserve currency reflects the confidence and credibility it has built up over the space of a decade.

In sum, economic integration within the EU and the euro area has brought important advantages. Why then do some citizens appear to regard the European project with little confidence or enthusiasm?

15 years of rapid economic and social change have no doubt given rise to a level of uncertainty in public opinion. Concerns spurred by globalisation, such as the

growing competitive pressures from emerging countries, have fuelled fears that Europe's place in the world is declining.

If citizens have looked to Europe for concrete answers, they may have felt – mistakenly – that drawn out institutional debates during the last period were all the EU had to offer. Indeed, it may be the case that the painful negotiation processes of five successive treaties – Maastricht, Amsterdam, Nice, the Constitutional Treaty and the Lisbon Treaty – have overshadowed the enormous progress that we have made in recent years.

A rise in growth and jobs, successive enlargements, new heights of cooperation in immigration and policing, not to mention the considerable advances made in environmental legislation are too often overlooked.

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With last month's agreement on a new Reform Treaty, I very much hope that we can finally put institutional debates behind us and concentrate all our efforts on policy. The Lisbon Treaty – as it will be known when it is signed there on the 13<sup>th</sup> December – ensures a solid institutional base that will allow a system originally created for 6 Member States to function efficiently for a Europe of 27 or more. It also strengthens the capacity of Member States to work together in areas where there is a clear common interest in achieving results.

In recent years a whole new set of external challenges has emerged that no one country can hope to tackle alone. Today, global issues dominate the political agenda, whether meeting the competitive pressures of emerging economies, addressing energy and climate change, or dealing with migration and cross border crime. The European Union gives us valuable leverage to take concrete

action on these cross cutting challenges. It allows us to pool our resources for greater effect and is a potent source of political and economic power.

Our pioneering efforts to tackle the question of climate change and energy, for example, are testimony of what we can achieve when we act together. Today Europe is leading the worldwide response to global warming. We have set ambitious targets to reduce greenhouse gas emissions, increase the share of renewables as part of the energy-mix and enhance energy-efficiency by 2020. But we know that this challenge cannot be solved by Europe alone.

The EU is prepared to deploy effective 'climate change diplomacy' in order to convince the US and key developing countries to agree on binding targets for emission reduction within the framework of the UN. This is only possible because we wield the global weight to lead and influence international debate.

But it is not only in the environmental sphere that the EU's value added can be brought to bear.

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Managing the impact of globalisation and meeting the growing competition from emerging economies is one of the most pressing economic challenges that we face today. Acting alone alongside major players like the US and China is a dubious strategy for individual European countries. But acting as a union of 27 Member States, as the world's largest market and largest exporter of goods, Europe can shape globalisation and set global agendas.

This is why developing an effective economic response to globalisation has moved to the forefront of EU policy making in recent years. This response does

not perceive globalisation as a threat, from which we should be protected and defended, as some would have you believe. Such backward looking approaches are not the way to build a dynamic, global economy.

On the contrary, the European Commission sees this process as an enormous opportunity, one that we can harness and shape to the benefit of Europeans and citizens worldwide. Thus strategies for internal reform to boost economic growth, create more jobs and improve our internal competitiveness have been married with a revamped external agenda that stresses the primacy of open markets and fair competition.

The **Lisbon Strategy** - designed to raise Europe's competitiveness to a level that will ensure sustainable growth and employment creation - is speeding up the pace of internal reform in the EU.

The strategy puts an emphasis on raising R&D and innovation. However, if we mean to keep up with economies like the US or Japan, we will have to do more to establish advanced research infrastructures, improve the mobility of researchers and establish better links between business, research institutes and universities.

A competitive knowledge economy also relies on a skilled workforce. Therefore better investment in human capital is a high priority. Modernising education systems and making lifelong learning programmes more available will help drive a dynamic economy. This is also an essential means to help people cope with the changes brought about by globalisation and advances in technology, equipping them with the skills needed to adapt to a fast changing work environment.

For half a century, Europe has placed a premium on the welfare and wellbeing of its citizens and we will continue to promote the values of equality of opportunity and a fair society. Although inequalities are smaller in Europe than in other regions of the world, safeguarding social cohesion and fighting poverty remain a significant challenge. By improving the quality of education for all ages, and promoting adequate social protection, we can support those left vulnerable to the changes sparked by globalisation.

At the same time, the Lisbon strategy promotes better regulation in order to free up the private sector to compete on a global level. The Commission has pledged to withdraw legislative proposals, simplify legislation and cut the administrative burdens for small businesses.

We can also count on the **Single Market** to provide a sound basis for a strong and internationally competitive economy. As an integrated market of 500 million consumers, it is an extraordinary platform for European companies to take advantage of economies of scale, sharpen their competitiveness and so prosper in the global economy.

Despite this, the Single Market needs updating in line with the new economic realities of the 21<sup>st</sup> century. Originally designed for a union of 12 countries and an economy based on manufacturing, the enlarged Single Market today functions within a more diverse, knowledge based economy, one that is dependent on a single currency and which must be open and responsive to the rest of the world. The review of the Single Market to be adopted by the Commission next week will set out a number of proposals to reposition the Single Market to meet these new challenges.



For example, high priority will be given to removing barriers to competition in the services sector which, despite accounting for 70% of GDP, only constitutes 20% of intra-EU trade. In particular, progress in the sphere of financial services is essential given their important role for the functioning of the economy. The recent financial market turbulence has focused the need for better integration which would help us respond more effectively to financial crises in the future.

Special focus will also be laid on the **external dimension** of our policies. We have in the Internal Market a valuable instrument for shaping global norms. Through its sheer size, we have been able to develop and export European rules and standards in areas like health and safety, consumer protection and environmental regulation that are today raising the bar worldwide.

We must continue to use our global and economic influence to shape global regulation and push convergence. The greater the consistency in rules and practices with our main partners, the better for EU business and for international trading as a whole. After all, the global marketplace works most effectively when there are common ground rules.

The same approach applies to market access. Europe has embraced the economic opportunities of open international trading. We stand firm in our conviction that protectionist sentiments will only serve to take us backwards and must be avoided at all costs. But we need to use our global clout in international negotiations to ensure that openness is not a one way street. We are committed to establishing a universally fair and open trading system worldwide through both the multi-lateral approach and by strengthening our bi-lateral relationships with key partners like the US and China.

The Single Market and the strengthening of our external policy provide tangible examples of how common action at the European level can serve and defend the shared interests of European citizens.

And the same reasoning is valid for other important areas of policy where there remains significant scope for joint action. I have already mentioned the benefits of the euro for the countries of the euro area. But an **Economic and Monetary Union** comprising 320 million people and representing 15% of world GDP is also a powerful lever through which to influence economic and financial regulation in the global economy.

Given the financial market turbulence we have witnessed over the last months, I do not need to stress how vital global financial stability will be for future prosperity and growth. Global imbalances and the possibility of their disorderly unwinding represent a risk to the international economy that will not diminish unless significant action is taken by global partners. Euro area representatives can have an influence in this regard, on the condition that we manage to coordinate our actions and speak with one voice in the international arena. Devoting our energies to this worthy goal will prove far more rewarding than sterile debates on the independence of the ECB.

## **Conclusion**

Ladies and Gentlemen, let me conclude.

In this age of global challenges, the value added of united action at European level is more apparent than ever. We are responding with policies and a global strategy that will meet these challenges head on. The new Reform Treaty is a

vital part of this agenda. Modern, streamlined institutions will support more effective policy. But institutions without policies will not solve our problems.

Fifty years after the Treaty of Rome, the European Union is counting on the Treaty of Lisbon to continue in the 21<sup>st</sup> century the remarkable work accomplished during the 20<sup>th</sup>. It is time we recognise that as Europeans, we have a shared interest in taking joint action and a common desire to shape the process of globalisation according to our European values. All member States have a stake in seeing this project succeed and all have a responsibility to make it happen.

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