

LSE European Institute and Department of Law public lecture

Reforming Europe in a Changing World

José Manuel Barroso
President of the European Commission

London School of Economics and Political Science

Friday 14 February 2014

Check against delivery

http://europa.eu/rapid/press-release_SPEECH-14-131_en.htm?locale=en

Ladies and gentlemen,

It's good to be back at the LSE, which always provides such a stimulating environment for debate, with its splendid intellectual tradition of openness and looking at things from the wider international and European perspective.

It's also very good to see all of you here today, and I'd also like to welcome those who are following this debate on the internet - although I have to say that seeing so many young people who have chosen to spend Valentine's night debating Europe, I am pleasantly surprised by your sense of priorities

Europe may not be the most romantic subject, but it certainly stirs up real passion – and it does merit real debate. What I want to do in my introduction is to look at the way the European Union is constantly changing in order to manage and make the most of globalisation. And I am particularly interested in hearing your point of view, for the outcome of this process will have far-reaching consequences for us all, but especially for your generation.

It's your future. So it's your voice that should count the most.

So what sort of future do you want to look forward to?

I bet that a stimulating and rewarding job would be quite close to the top of your list of expectations. Getting people in work and creating growth is right at the top of the Commission's 'to do' list. But the world is changing fast, influence and economies are shifting. The pace of international competition has shifted up not one but several gears.

The question of our times, then, is whether or not we succeed in adapting to this changing, complex and challenging global environment – and how.

That is the case for companies – both big and small – who are increasingly operating in a world of global supply chains and multinational finance. That is the case for universities, engaged in a worldwide competition for brains, funds and prestige. That is the case for the media, whose input and output are now able to cross borders as never before.

Most importantly, adapting to a changing global environment is a challenge for citizens, too. That is why structures of governance need to adapt to help citizens do the same, to protect them from some of the undesirable effects of globalisation, to support them in getting the most out of the

opportunities that globalisation offers in terms of jobs, travel, knowledge and innovation, education and exposure to new ideas.

Technological changes and economic shifts have altered both the tools and the targets of government. Challenges such as climate change, supply of energy and other natural resources, and the sheer interdependence of economies and financial markets simply cannot be dealt with at national level alone. Citizens have higher expectations and different ideas of what government at all levels should do – and should not do - for them. And this in turn has led to a legitimate debate about where decisions are best taken.

In this fast-changing world, size matters more than ever. Critical mass matters. And an enlarged European Union of 28 Member States has more impact than any of its Member States do individually.

Ladies and gentlemen,

This process of adapting can feel like a new and uncomfortable challenge. Sometimes the temptation can be to close the curtains, hide behind the sofa, and hope it will all go away.

But the European story has always been about dealing with a changing context. The Coal and Steel Community that literally bolted a continent together in peace and shared values.

The single market that overcame economic inefficiency and fragmentation, deliberately creating interdependence through one trading space, a single market in goods, services, capital and people.

More recently, within the European Union, we have brought countries together around a shared agenda to update our economies to deliver smart, sustainable and inclusive growth in today's globalised world. That means updating skills, going digital, boosting research and innovation, and using our resources better.

European integration has been and remains one of our best tools to manage and benefit from globalisation. And maybe most importantly, the European Union has expanded, and as more Member States have joined, Europe's nations have strengthened their place and voice in the wider world.

We have come a long way. 100 years ago Europe showed the world how not to act. Today Europe points the way forward - a more peaceful, more prosperous and more progressive continent than anyone would have thought possible. In just under 100 days, when 500 million people across Europe will have the chance to voice their opinions on the future of Europe through democratic elections, we should not take this for granted.

Just ask the people waving European flags on the streets of Ukraine.

They look to Europe for freedom and security.

They know what Europe is for.

Ladies and gentlemen,

We are starting to emerge from one of the biggest financial and economic crises ever. At the height of the crisis, some said that European integration could not survive the shock, that it was the end of the euro, even of the European Union.

The financial and economic crisis was not a result of European integration. In some countries, including this one, the turmoil in the financial markets was the result of irresponsible practices in

parts of the financial sector. In others, the economic crisis was deepened by a lack of competitiveness as a result of delayed or half-hearted reforms. And too many Member States – inside and outside the euro area – had built up untenable debts, again often against the consistent recommendations made by the European Commission.

Not only was Europe not the cause of the crisis, it has shielded us from even bigger risks during the crisis. It was thanks to European solidarity that we could help the most vulnerable countries inside and outside of the Eurozone. It was thanks to European resolve that we could forestall a cycle of protectionism and kept markets open for, amongst others, British exports, which at a time when the UK economy was readjusting radically, was good news for British businesses and British jobs too.

But the crisis taught us all lessons, and the European Union has adapted as a result. We have radically reformed the way Europe's single market in financial services is regulated and supervised. We have prioritised initiatives to boost employment, in particular amongst the young. And above all, we have now all understood that full monetary union demands a more advanced and more integrated system of economic governance for the Eurozone countries, open to everyone and fully compatible with the single market.

Before this reform, the European Commission could draw governments' attention to excessive debts, structural inefficiencies or macro-economic imbalances, but it relied on peer pressure alone to remedy them. Now, for countries in the euro, we have effective tools to act against budgetary irresponsibility, to target macro-economic risks, to push for profound structural reforms – with the threat of strict sanctions.

And we are seeing the results of the reforms underway. Latvia, that has implemented one of the quickest and toughest adjustment programmes, has not only joined the Euro area but currently has the highest growth rate in the European Union. Ireland is now able to issue long-term debt at rates of only about 3%. Spain has exited its specific programme for banks, and is once again attracting new investors. Greece is expected to return to growth this year.

Portugal has seen positive growth since the second quarter of last year, its unemployment rate and interest spreads are consistently going down, and we expect it to successfully conclude its programme shortly.

Countries have worked really hard to rebalance their budgets and reform their economies, more than ever aware of the impact their efforts – or lack of efforts – have on other economies. They couldn't have done it on their own.

At European level, we have deepened economic governance, bringing our economic integration in line with the Monetary Union. We have set up systems to support Euro area economies in need, such as the European Stability Mechanism. We have put in place common rules for all EU banks – including making sure bonus policies do not encourage irresponsible behaviour – as well as a framework, partly inspired by thinking here in the UK, for managing when banks go wrong without calling on support from the taxpayer. To sum up: we have shown that we are willing and able to do whatever is necessary to make sure the euro survives, to maintain the benefits of the single market, and to regain the trust of financial markets, investors and citizens alike.

When the difficulties in the Eurozone first became clear, the outside world - from international political partners to global companies, to experts and academics – was unanimous in demanding far-reaching change, fully aware that their fate was tied to ours, and vice versa.

But at last year's G8 meeting in Lough Erne, and the G20 meeting in Saint Petersburg, we Europeans did not receive any lessons on how to address the crisis any longer. Instead, we got appreciation and encouragement. Because the challenges are now well understood and they are

not at all limited to Europe. And the effectiveness of our crisis response is now equally well noted, because Europe has taken the bull by the horns.

So it is perhaps surprising to see the persistence of some of the doomsayers within Europe.

They have updated their tune of course: the argument is now that Europe lacks the capacity to deliver growth and jobs and faces a lost decade. And all too often, instead of looking at the things that need to change at home, it seems much easier to point to 'Brussels' as the ball and chain that is dragging down Europe's growth potential. We still see the temptation to Europeanise failure and nationalise successes. By the way, that is not the worst we are accused of – just last week Brussels was blamed for the devastating floods here in the south of England. We have also been accused of the death of poor Marius the giraffe in Denmark...

It's an interesting caricature. But it is just that – a caricature.

Of course neither the floods nor the giraffe have anything to do with European regulations or responsibilities at all.

Let's take a look at some of the facts. Starting with the fact that for the past decade the European Commission has been working with, and for, Member States to deliver the right environment for growth at home and abroad.

- Under our programme for smart and better regulation, which I launched back in 2005, we have presented 660 initiatives for simplification, cut administrative burden by over 25% and have repealed more than 5.590 legal acts. We no longer have unnecessarily complex rules on fruit and vegetable standards, so you will already have seen you can buy cucumbers in all the shapes and sizes you may wish.

- As I have said very clearly and very often before, not everything needs a solution at European level. Europe must focus on where it can add most value. It does not have to meddle where it should not. That is why – despite the strong lobbying - we have not proposed European legislation against back pain or to stop hairdressers from wearing high heels. Our default rule is to exempt the smallest companies from European legislation. The EU needs to be big on the big things and small on the smaller things.

- One of the biggest things we do is upholding and deepening the single market. Enforcing the competition rules and stopping unfair subsidies. Laying out concrete plans for further opening our internal market, for instance in the telecoms and digital sectors where UK companies stand to benefit from new European markets. And taking action against Member States where they have been slow to fulfil their commitments for example in relation to the internal market in energy.

- On trade, the European Commission negotiates international deals on behalf of all the Member States – and having been personally engaged in this, I can tell you, on this size really does matter. We've had some great results recently, finally achieving a breakthrough in the WTO last December, while our bilateral liberalisation effort has gathered unprecedented pace. The Transatlantic Trade and Investment Partnership with the US could be worth 10 billion pounds a year to the UK alone. Investment negotiations with China could be crucial for UK businesses. We have concluded good trade deals with South Korea and Canada. We are negotiating with Japan, Mercosur and India... That is a world of new opportunities for European companies, which means job opportunities for European citizens.

- And since we want our European companies to be able to compete on the merits abroad, we have fought for better rules against tax evasion and tax fraud internationally. And last month we presented our long-term framework on climate and energy, building on the successful experience of our 2020 policies and looking beyond, combining ambition with realistic assessments and proportionality.

Taken together, all this shows that there is space for reform, and that the necessary changes are being actively and ambitiously pursued, debated and delivered. And I think the moment is ripe – here in the UK but also more widely – to pursue this. There is a groundswell of people - civil society, businesspeople, commentators and politicians - making the positive case for looking at Europe on the facts – and pragmatically addressing the things that can be improved.. That is something I can only welcome.

In this context, I would like to mention free movement of people. I know that feelings run high on this issue, so we need to be crystal clear:

I am very much aware that free movement may put unintended strains on local communities and services and in some cases there has been abuse. There is a lot that national governments can do to tackle abuses if and when they occur. European rules include firm measures to tackle fraud. The European Commission is eager to help. We can provide financial support for integration through the European Social Funds. And we have clarified anti-abuse rules, for instance on sham marriages.

We are tough on abuse.

At the same time, we remain absolutely firm on the principle of free movement rights.

There are four freedoms in the single market: goods, services, capital and people. We need all four of them. There is a balance here: for some, opening up one area such as services is self-evident, because it creates huge new markets for things like the legal or business services that the UK excels in. When it comes to goods, we all benefit from more choice. The same goes for capital. It was no easy ride keeping our internal market for financial services open during the crisis. But we have done it, in the interests of strong and competitive European financial centres right here in London, as well as in Paris and Frankfurt.

You cannot have a single market without free movement of European citizens. The UK has long shown that flexible and mobile labour markets help deal with economic changes and asymmetric shocks. Those who move to take up work tend to put way more into the tax system than they take out in benefits. And successive UK governments have been at the forefront of efforts to bring new opportunities to new member states through enlargement. Can you imagine a situation where goods, capital and services could move from New York to California, but people could not? There must be no first and second class citizens in Europe, where only the highly skilled are able to move and work freely while the low-skilled are not.

We need to be clear about the figures as well: there are as many UK citizens in other EU countries as there are Europeans living and working in the UK.

And what is very clear, is people's perception of free movement, because in all opinion polls across Europe, it consistently comes out as the one thing people see as Europe's greatest achievement.

Ladies and gentlemen,

In a democracy, any reform agenda should provoke debate.

In Europe the discussion is not about a lack of reform, it is about the depth, direction and speed of our reform efforts. In a few weeks' time people across Europe will exercise the democratic right to question those changes, put forward their views and decide the outcome.

This is a process of constant adaptation.

Personally, I feel further integration of the Euro area is unavoidable. It must be designed in a way that complements everything we have achieved so far: that preserves the integrity of the single market, that guarantees the equal treatment of all Member States and free and undistorted trade and competition, that maintains our economic, social and territorial cohesion.

We must continue to find ways to accommodate diversity without undermining the fundamental unity of the 28-member European Union. Flexibility is necessary. That does not mean we should move to a Europe à la carte, nor would it be right to put into question our shared values and principles. But it is clear that some countries are going to go further, quicker, than others. That is something that I think can – if the political will is there – be accommodated in the same way as diversity in areas such as justice and home affairs and defence has been an integral and workable part of European life for decades now.

Last of all, above all, let me say this:

This is a collective moment to focus on what you expect from Europe, what can be achieved in Europe and, through Europe, in the wider world. This is your decision, your responsibility, your future.

In all the areas I have just mentioned – the single market, financial services, competitiveness and innovation, enlargement, trade, the way we promote our values and our economic interests on the world stage... In all these areas, successive UK governments have engaged proactively, won over allies, and convinced their partners of the legitimacy of their case. The European Union would not have become what it is today if it weren't for British politicians and entrepreneurs, British thinkers and British ideas. Without the UK, Europe would be less reform-driven, less open, and less international. Less effective as a tool for managing and benefitting from globalisation. For a country so open to the world, it's a paradox that the UK remains so torn on Europe.

The European Union is not some diktat forced upon Member States. It is created by Member States to work with and for them and promote our shared European interest at home and in dealing with the rest of the world. The UK, which is very good at selling its views and promoting its interests in the European Union, is a lot stronger as a result of it.

I know that there are several perspectives on Europe. But I believe the right thing to do is not to turn away but to engage and see what together we can do to make it better.

If you don't like Europe as it is: improve it!

Talk about it. Explain the practical concerns. Find ways to make Europe stronger, internally and internationally, and you will have in me the firmest of supporters. Find ways that allow for diversity without creating discrimination, holding up the equality of Member States and a shared engagement to preserve our four freedoms, and I will be with you all the way. Because that is precisely what I have been doing from the moment I took up office in Brussels.

And when it comes to the British question, ladies and gentlemen, in the end, the British people can judge for themselves. But my very personal, very strong conviction is that the EU is better off with the UK, and the UK is better off in the European Union.

Thank you very much.

END