

Written Communication from
European Commissioner Professor Danuta Hübner
to the German British Forum
in Hamburg
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Thank you for inviting me to your conference. Unfortunately at the last minute, I was prevented from attending owing to the holding today of an urgent debate in the European Commission on the World Financial Crisis.

I was particularly honoured to be invited to participate in this early event celebrating Helmut Schmidt's 90th birthday. It is a timely occasion to remember the great achievements by Chancellor Helmut Schmidt for European integration. Thirty years ago, he and Valery Giscard d'Estaing invented the European monetary system. It became the precursor for the euro. It is interesting to remember that they did this in Hamburg - sitting in Helmut Schmidt's kitchen, where they used the biggest table in his home. Only after having worked out the essential features of the new system between themselves did they ask their staff and administrations to put their ideas into law and practice. The German chancellor and the French president taught us that political leadership can make a difference.

In times of crisis leadership is needed. Today, new threats to financial stability require creative thinking. The European Union has had the good fortune of strong leadership during the French presidency and the election of a new president in the United States yesterday will also provide us with a new leader. It may open the way for new cooperation in

the world. Let us hope that President Obama will live up to the challenges and opportunities which confront us today.

Let me talk about these new challenges and opportunities. In January we will celebrate the 10th anniversary of European monetary union. Again, this would not have happened without the continuous commitment by Helmut Schmidt. Together with his friend Valery Giscard d'Estaing he fought for the European currency even after they both had left office. They created the Committee for the Monetary Union in Europe, which was a group of private citizens and business people, who understood that the single market was not sustainable without a single currency. Here, too, we learned a valuable lesson from Helmut Schmidt: private citizens can make a difference in Europe. Europe can change, not only because governments – or the Commission – do what is needed, but because Europe lives from and by the commitment of its citizens. We all can be inspired by this example.

Creating the euro was not easy. Many were sceptical - even some of your own members assembled in Hamburg today. But 10 years later, I think we can all agree that the euro is a success. We have seen a decade of unprecedented price stability. Public finances have been put in order: in the 1980's the aggregate deficit for the euro area members was around 6%. Over the last decade it has been 1.7%. Unemployment has also fallen dramatically: It was above 10% when monetary union started and it is now close to 7%. These are no minor accomplishments.

But most importantly the euro has proven to be a stable rock in the turmoil of the recent financial crisis. Who can seriously believe that our European economy could weather the storm with 27 different currencies? The Deutsche Mark would have shot up to unprecedented

exchange rate levels, killing all economic growth in Europe. Other currencies would have been attacked, depreciated and would have distorted the proper functioning of the single market.

What is more, the euro brought about a fundamental change in mentalities. This enabled the Heads of State of the European Monetary Union to take the lead in drawing up a united EU-wide response and leading the world into a revision of the international financial system.

Let me say it loud and clear: without the euro the single market would be under threat, jobs would disappear faster than we can count and the European role in the world would be diminished. I am not surprised to hear voices in Sweden and Denmark who say that *keeping a small national currency may have been nice in good times but in bad times it becomes important to stick together*. As far as my own country is concerned, Poland has announced that it will join the euro in 2012, not only because it is economically the right thing to do, but also because it will express the strong attachment that the Polish people have to participate in the historic movement of Europe growing together peacefully.

The experience of monetary integration in Europe may also carry some valuable insights for other areas in the world. We all know that the geostrategic power centre is shifting towards the east. The emergence of China and India as economic growth poles will sooner or later translate into political power. For us in Europe this is an opportunity, not a threat. Already today, China imports much more from the European Union than from the United States. We must develop economic cooperation between our two continents. The present financial turmoil is also an opportunity to coordinate policies more closely with our Asian partners. Exchange rate

stability is as important for Asia - and for ASEAN in particular - as it was for the European Community at the time of Helmut Schmidt's chancellorship. Of course we are far from an Asian monetary system, but regional financial integration in Asia has progressed significantly since the financial crisis ten years ago. Europe's experience may be useful for others, and in fact they are looking in our direction in search of inspiration.

It is true: every crisis is an opportunity to learn and to grow. We have seen a decade of excessive greed. Returns in the financial sector of over 25% were clearly not sustainable. The unconstrained desire to become rich fast has destabilized the world. By contrast, the conservative monetary policy by the European Central Bank may have prevented the worst excesses in Europe. This conservatism, criticized as it has been, may turn out to be a blessing over the long term.

But these early successes should not make us arrogant. We need to strengthen our financial supervision. National authorities often know best what is going on in their banks and financial institutions. But it has also become clear that if some banks in Europe have liabilities that by far exceed the national GDP of the country where they have their head office, national supervision alone is not sufficient. We need to create an efficient European Financial Supervisor Authority that can also act rapidly in a crisis without member states going alone or having to wait until everyone can find some agreement.

European competition policy could be a model to structure competences for financial supervision. European merger control applies only to mergers and acquisitions of a European dimension. Smaller transactions remain subject to national regulation. Along these lines one could

imagine that European financial supervision only assumes competences for financial institutions of a certain size and present in a number of Member States. I also think it is about time that Europe creates its own rating agencies. The American agencies have contributed to an inappropriate assessment of risk by the markets and we should think how the European quality certification could contribute to more stability in the world.

No doubt, European monetary union has been a stabilizing factor in the world economy. But this is not enough, European integration was founded on three fundamental values: *peace, democracy, prosperity*. This is still what unites us. Many peoples take these values for granted. But in the new member states we are still acutely aware how precious democratic freedom is. For many long and dark years, we could only dream of joining the community of democratic nations in Europe. Today it is a fact and we wish to fully play our part.

The recent events in Georgia or before in Kosovo, in Bosnia and Yugoslavia, have reminded us that peace, even in our immediate neighbourhood, is a fragile good. Every time Europe is disunited, ordinary people suffer. By contrast, when European States act jointly, it can help to diffuse conflict. The EU's action in response to the conflict between Georgia and Russia, I am convinced, has been decisive.

The lesson to be drawn is that when, and only when, the EU is united, it has the tools to be a very effective player on the world stage. We need to show this unity of purpose more consistently, for instance with regard to Balkans, and the new institutional setting foreseen by the Lisbon Treaty – an External Action Service, permanent President of the European Council and Vice-President of the Commission acting as High

Representative for foreign affairs – would be of crucial help in this respect.

We also need to show this unity of action when it comes to climate change. We all agree that this is a major challenge, not least due to its asymmetric impact on the territories throughout the world. Natural disasters will generate massive waves of migration. Some will be caused by sudden crisis; others will be the result of gradually deteriorating living conditions. The resulting social, ethnic and cultural conflicts will need new forms of government. Europe's half century of integration and reconciliation may inspire some new approaches of dealing with these issues.

But climate change is also an opportunity for Europe's businesses, which are at the forefront of clean technologies. We all agree that prevention is more important than cleaning-up later. We Europeans and the whole industrialised world must contribute our fair share to reduce carbon dioxide emissions worldwide. We must develop new, safer and cleaner energies. And this will provide new opportunities for businesses and regions which have been left behind in the past.

I believe that political and economic stability will only last if it is founded on social stability. Cohesion policy is a unique model that the European Union has developed to overcome social tensions in Europe. With rapid growth comes rising social inequality. We seek to empower and support less prosperous regions to catch up with their more advanced partners. We have developed a sense of solidarity across nations, that was unthinkable only half a century ago. The instruments, by which we have done this, have proven their effectiveness over time. Through our common commitments local and regional authorities can rely on financial

stability for financing investment and services in their regions, even in the difficult economic environment we are facing today. I hope that our experience can serve as a model for other regions in the world.

However we must always question our own actions. Are we doing the right thing? Are we doing all we can? Are we achieving our goals and realising our values? I am concerned about the rising wave of populism in many member states. The Lisbon Treaty is designed to make the European Union more efficient. It would create a more functional presidency. It would integrate different pillars of policy making, notably Justice and Home Affairs and a Common Security and Foreign Policy. It also gives a greater role to the European Parliament. All this is needed and warranted. But the referenda in Ireland, France and in the Netherlands carry a message that we need to listen to: citizens want to have a greater say in how policy decisions are taken in Europe. We must develop a system where citizens no longer feel they must reject Europe when they only disagree with certain policies. This is the challenge of the future. The issue of European democracy will remain the main construction site for the European Union in the years to come.

Ladies and gentlemen, this is a moment of celebration but also a moment to look ahead. Associations like your own have played a valuable role in bringing forward new ideas to the European debate. I hope you will continue in this task. Thank you.