Klaus Welle speech at the Johns Hopkins University School of Advanced International Studies (SAIS)  
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Thank you very much, Dan Hamilton,  
Also thank you for the interest that you're showing today!

I’ve been asked to speak about the Eurozone crisis and the answer, which is European integration and Trans-Atlantic partnership.

When we say "Eurozone crisis", I think it's better to speak about the debt crisis, which is by far not limited to the Eurozone.

In fact, we are having a debt crisis all over the industrialized world. I don’t need to start with Japan, which is now clearly above 200% debt to GDP. I could also mention the United States, which is still having a deficit of about 10%. I could mention Great Britain which is having a public deficit of above 8%, and, if we include banking rescue, an overall debt of about 130% of GDP. Compared to those figures, the actual figures in the Eurozone are not worse. Sometimes they are even better.

The question then is why has the debt crisis hit the Eurozone so much more and so much more intensely than it did the United States or Great Britain?

(1) A major leap forward in European economic integration

Protection mechanisms and solidarity in the Economic and Monetary Union

I think the answer to that question has to do with what we have done when the euro was created 20 years ago. What we did at the time was to abolish the traditional protections that were available at the national level: for example, the possibility to devalue a currency, the possibility to intervene by the Central Bank, etc... But at the same time we did not create similar protective mechanisms at the European level. That meant that, when the debt crisis hit Britain, it was able to defend itself. The United States was able to defend itself. But in the Eurozone we were left without the appropriate protective mechanisms that we used to be familiar with in the national settings. So in fact what had to be done was that those protective mechanisms had to be created in the middle of the crisis! That is naturally not a very easy process if you need to have such negotiation when the crisis is already there. So what have we done? In the last years we have created the ESM, which is equivalent to a European IMF, with more than 700 billion Euros of firepower. It means that the member states set up a system of solidarity toward each other. It’s not only that some member states received support. What is important is that other member states in the crisis were ready to provide that financial support.
**Banking Union**

We are now in the middle of creating a banking union. “Banking union” sounds pretty harmless. But when you have a look at the details, what does it mean? It means that a European actor in the future, which will be the European Central Bank, will be entitled to replace the management of banks; it will be entitled to call for the additional input of capital for banks; it will be allowed to close down banks. How many banks? In fact, potentially all the European banks. Not all the European banks will be under the daily supervision of the European Central Bank, but there is not a single European bank left which can close its doors against this new European supervisor. That means the member states are effectively handing over control of their banking system to a federal European actor, which is the European Central Bank second pillar. I think that’s a decision of a magnitude which cannot be estimated highly enough, because if you hand over the control of your banking system, you’ve handed over a lot concerning your own economic sovereignty.

**National budgets**

At the same time, we have stopped seeing national budgets just as a national affair. When member states are nowadays establishing their budgets, those budgets are communicated in their draft form to the European Commission. Not just to take note of those budgets. The Commission is actually coming back with recommendations. To make it practical: last year the European Commission came to the conclusion that the draft budget of Belgium was unrealistic, because it overestimated income; and the European Commission asked Belgium to correct its budget; and Belgium had to find additional resources close to one billion Euros. So that is not about commenting, that is not about having a debate. There is now a very strong impact of a federal European actor in national politics.

**Changing role of the European Central Bank**

I would argue that the role of the European Central Bank has fundamentally changed. It started off being created according to the model of the German Bundesbank. But it has gone a long way in crisis management. We have now an answer to the question, “who is the lender of last resort in the Eurozone?” The lender of last resort in the Eurozone is the European Central Bank, which means it has taken away what economists call the tail risk. The tail risk is that one member state could run out of money and would have to leave the Eurozone, and, as a result, the Eurozone system could collapse. What is the result? It is exactly what you have seen since the summer with interest rates like Spain's and Italy's coming drastically down. The European Central Bank has moved in this towards the Fed model. But there is a very important difference: we are not doing quantitative easing in Europe. Every additional amount of liquidity provided for the markets is neutralized, at the same time, by the European Central Bank. So we have the European Central Bank as the lender
of last resort, but we have not engaged, like Britain has, or like the United States has, in what is called quantitative easing. Quantitative easing basically means that all the issuance of state bonds more or less goes into the hands of the Central Bank. Then it is not surprising that interest rates are very low. They are not very low as a reflection of market sentiment. They are very low, because in fact the debt is going from one public hand into another public hand, which is the Federal Reserve or the Bank of England.

If we take these elements together:
- the creation of the ESM,
- the creation of a banking union, which will be complemented by a banking resolution,
- the possibility for the European level to have a decisive impact on national budgets,
- the redefined role of the European Central Bank...

... I think it is fair to argue that we have seen a major leap forward in European integration, in the field of economy and finance.

(2) Uploading democratic progress without Treaty change

A new business model for the European Union

If we are integrating so much stronger, that’s also changing the nature of the European Union. I would argue that the European Union has changed its business model. What has been the business model of the European Union up to now? The European Union was passing legislation, regulations, and directives, which of course had an impact on people’s lives, but rather gradually, and by the addition of different measures. Any single measure was not perceived as having a dramatic influence on the economic and social living conditions of people.

Through the Euro-Crisis, this has fundamentally changed: measures and decisions now taken at the central level are having a direct impact on the economic and social living conditions of people in the European Union. You do not need to explain this to people in Greece.

You do not need to explain this to people in Portugal and Ireland.

You don’t need to explain this to people in Spain, which had to take a lot of measures in anticipation to escape a full-fledged bailout.

But, equally, you don’t need to explain this to the population of the countries who have to provide the amounts to give the guarantees.

They are not directly concerned, but they know very well that now they give guarantees in the amount of hundreds of billions of Euros for other countries, which could at the end effectively be used.
So, if the European Union is now being perceived as and, in reality, is impacting so strongly people’s lives in their economic and social living conditions, this also provokes a necessity to come up with a completely different degree of legitimacy of the system.

**Democratic scrutiny at European level**

Of course, this gap of legitimacy can be partly covered by national parliaments. Where for example national financial means need to be provided, it is absolutely natural that national parliaments take those decisions. But at the same time, in those crisis situations, a Greek parliament, a Portuguese parliament, or an Irish parliament is relatively weak, because the country is dependent on foreign aid and desperate to get fresh support and money. So, is it going to be the national parliament that will defend the interests of the citizens. Of course. But isn't there at least a complimentary role for the European Parliament as well, on the European level? That’s why our president, Martin Schulz, has suggested that we create a special committee, or subcommittee, dealing with scrutiny on executive economic decisions in the Eurozone.

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That means it supervises the activity of the European Central Bank on banking supervision. Of course, the European Central Bank is independent when it comes to monetary policies, but the moment the European Central Bank engages in banking supervision, it cannot claim the same independence.

We also have the question, “who is accompanying the work of the Eurogroup?”

We also have the question of the *Troika*. When the troika is going out and "giving its advice" to individual member countries what to do? That advice is necessary. It is an executive function. But at the same time, the criteria which are the basis of that advice - those criteria should be available for public debate and discussion and should be made transparent. That’s a responsibility the European Parliament could take.

There are still many possibilities by which we could strengthen democratic legitimacy in the European Union without going to treaty change. It is very easy to say “we can’t do a lot because we need treaty change, treaty change needs ratification in 27 - in the future 28, member states - it’s very insecure. Who knows whether ratification will take place? And anyhow it will take years. Therefore, I think it is very important to develop an agenda for democratic legitimacy, which can be executed without treaty change. I would like to give a few examples.

**European electoral law**

We have some common elements in European electoral law, but basically we still have national laws for the European elections. But there are elements where we could do better. To start with: candidates’ nomination. Shouldn’t they follow a transparent procedure, which
follows common standards in all the member states? We still have some member states where basically a party leader, a few weeks before the elections, taps into his jacket and gets a list out and says, “OK, these are going to be the candidates.” That’s probably not good enough. Candidates should be nominated in a proper, transparent, and decent process.

Another small change: when we are conducting elections, we are conducting them between Thursday and Sunday for reasons of religious tradition, because in some of our member states an election cannot be held on Sundays. That is absolutely respectable. But shouldn't we at least close the election at 8 o'clock? Because at the moment it's closing at 10. But when it's closing at 10 because of some southern member states, northern Europe is already deeply asleep: Northern Europeans go to bed, which means that there's not the experience of a common European election, just of the national election, and the next day another story is around.

Let's take another point. The real experience in the European Parliament is not a national experience. We are working together in transnational political parties, political groups (all together, there are seven of them). But can the voter actually perceive this? If you are going to vote, you are going to vote for a national party. You are not even aware that this national party is also part of a European party and that all the work afterwards is taking place in a European political party. Shouldn't the name of the European political party at least be on the ballot paper?

**Lead candidates for European Commission's President**

The third element which is going to change the democratic legitimacy in the system is the way we are going to select the European executive the next time around. With the Lisbon Treaty, the language is very clear. The European Council, which is the heads of state and government, proposes and the European Parliament elects. How does the European Council propose? - Taking into account the outcome of the European elections. Just like this? No. There is Declaration number 11, which foresees that the president of the European Council has to consult with the European Parliament on the name of the next president of the European Commission before he makes a proposal. If you combine this with the fact that European political parties have decided to put forward next time around before the elections lead candidates for the European elections, this will amount to a major constitutional change.

Because the name of the president of the executive will be known in advance, people will be having a choice. Even though this might be disappointing for any Parliament, when citizens are going out to vote, they are not just thinking about the composition of the Parliament. They are normally going out to vote, at least in the European tradition, to have an executive. So we need to combine the composition of the Parliament and the composition of the executive. When European decisions have more and more impact on the personal economic and social living conditions, then citizens need to be given a real choice.

This is the situation within Europe, but how does the transatlantic element come in to this?
(3) Refocusing transatlantic relations

First, I think it is important to notice that over the last years the US administration has managed to restore faith in that relationship. We had in the Parliament the visit of Joe Biden, we had several times (three times) the visit of Secretary Hillary Clinton, and the impression is back that this is a real partnership of equals. We don't have the same strengths in every aspect, but we regard each other as partners and we are willing to build up an equal relationship.

The most recent proposal of President Obama to come forward with a trade and investment partnership is an expression of this regained faith in that relationship. It stresses that this relation is still and by far the most important economic relationship both for the United States and also for the European Union.

Jointly setting global standards

What is maybe more important than the simple trade aspect is that - if this is working out - we still have the chance to continue setting together global standards for a long time to go. So it's not just an enterprise that will have an impact on our bilateral relationship, but it's an enterprise that, if successful, will shape the global agenda as well.

And at the same time we are making a clear point that democracy matters because the agreement will come as a result of the relationship between European democracies and the United States of America.

A shift towards economic and business regulation

I think this is signalling another important change as well. Traditionally, we have been thinking about the relationship between the United States and Europe as a relationship determined by security and defence interests. If you think of this relationship as a relationship focused primarily on security and defence, then it is primarily a relationship between executives, because executives are primarily responsible for security and defence.

I think what we are going to learn from that agreement is that we are seeing a shift from a relationship on security and defence to a relationship on regulatory and legislative matters. But if there's a shift toward regulatory and legislative matters, then Congress and the European Parliament will have to take center stage.

A new pragmatism in legislative cooperation

Exactly for those reasons, I have decided three years ago to establish our own office in Washington, D.C. Parliament has been represented here for three years now with its own office, 11 staffers, who are establishing a close relationship with Congress and who are helping us to understand where we are on the same track with legislation, where potential difficulties are coming up, and where we are on a collision course. Why is this important?
This is important because if you identify potential risk early on, you can give each other the benefit of the doubt and talk. If you don't do that, you are finding out about problems later, if not too late. I think the most striking example of how it shouldn't be was when not so long ago, we had the visit of Senators in Europe who tried to change the legislation on climate change and the involvement of airline companies in that legislation. But that legislation was closed one and a half years earlier. So we shouldn't just talk to each other when the problem is there; we have to talk to each other in the run-up of legislative and regulatory decisions.

We are not starting from scratch; there are many institutions and organisations who have engaged in this for very many years and this institution here today is one of them, but I would also like to mention TPN (Transatlantic Policy Network) which is doing a great work in Brussels and Washington.

I would like to mention the Transatlantic Legislators' Dialogue, which can surely become still more focused on issues, but which is a wonderful forum that allows us to have this regular exchange. And people like James Elles, Erika Mann and Elmar Brok have done a lot to further that relationship.

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To come to the end of this brief introduction, I believe that especially in crisis, the European Union had been largely underestimated. There have been many who have been giving the prognosis that this is the end of the Eurozone, that this is the end of the European Union, and there have been very few, also in the academic world, who have had the courage to say otherwise.

I've been speaking on Monday at the Petersen Institute, and I've been reminding that Fred Bergsten and Jacob Funk Kirkegaard have been publishing regularly papers on the upcoming resolution of the Eurozone crisis. You needed some courage to do this in February 2012. You still needed some courage to do this in October 2012, because basically you put your academic reputation on the line. But I believe they've been right.

And when you look back to the last 20 years, in 1990, when the Wall came down, we were 12 member states. We are today 27. We have largely increased the area of competence of the European Union through four consecutive treaties (Maastricht, Amsterdam, Nice, and Lisbon). The former Communist states in Central and Eastern Europe have been stabilized in a spectacular fashion. We have not only created a single currency, but we have also gone through its first major crisis. We have created the Schengen area. And I would also like to remind that also in the United States, not everything has been created on the first day. I would just like to mention some.

The introduction of the federal income tax in the United States happened in 1913--140 years after the creation of this country.
The fight against the mafia in the 1920's and 30's still had to be done on the grounds of tax evasion-- 150 years after the creation of this country. The big Social Security legislation in fact happened during the New Deal during the 1930's and 1940's-- 160 years after the creation of this country.

The imperial presidency, as some like to call it, was not the United States of the 19th century; it has been the product of the Cold War confrontation with the Soviet Union-- 170 years after the creation of this country. So this country has been built step by step.

That's also what the European Union project is all about. We surely are not naive about shortcomings in this country too. Nevertheless I would like to conclude by saying that we continue to be inspired by the great American experience. Thank you very much.