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No Problem of a Tap

Thank you. It is a great pleasure to be in Vienna today.

In response to Professor Aizenman: He describes the Europeans as “Panglossian” i.e. too optimistic in his view. Usually the Americans tell us “be positive”... one could be surprised...

It is not a problem of a tap. And as you have invited a German and a French speaker, I want to underline that I do not want to open the tap... This is a systemic crisis and not only of the financial sector. With another reference to Voltaire and Pangloss, we have experienced an earthquake. In my opinion, this is a systemic crisis of democracy at the national and at the European level. At the national level, in many Member States, we are confronted with short termism, a lack of competitiveness, loss of productivity and/or deficit and debts.

1 Recent Efforts to Improve a Flawed Governance of the EMU

Mr. Praet and Mr. Regling reminded us of the rules put in place since May 2009:

- Financial supervision: at the macro level creation of the European Systemic Risk Board (ESRB)/ and at the micro level the European Banking Authority (EBA)
- The Heads of State create the European Stability Mechanism (ESM) and commit to the strengthening of financial market regulation and economic governance
- The euro area ministers establish the European Stability Facility (ESFS) with a lending facility of up to EUR 440 billion
- Reinforcement of economic governance in the EU and the euro area: adopting the so called “six-pack”, a legislative package consisting of six proposals providing for improved surveillance and enforcement

- Introduction of the “European semester” in order to close the gap between the national and the European level
- the European Fiscal Compact to be ratified

These decisions represent huge steps forward. However, there remain challenges to be addressed:

- Creation of a banking resolution fund
- Incentives for investment/growth strategy
- EU budget for growth and counter cyclical actions



2 The Democratic Deficit Remains

The problem is not the democratic deficit which everybody is talking about referring to the European Commission or the ECB bureaucracy; these institutions are more accountable than many people believe.

In my opinion, the main problem lies within the European Council:

- Each member is legitimate in his/her own country but none of them is elected to rule the neighbourhood; there is a lack of collective legitimacy; the Europeans can never express their views on the “governing” body of the EU;
- There is a lack of transparency; discussions behind closed doors; no public debate;

- No accountability (not even Mr. Van Rompuy)
- Big/small and rich/poor confrontation; the risk of having a hegemony of triple-A countries; very far away from the spirit of the European economic community

In general, there is no public exchange between the governments. In the public, this lack leads to the perception in Greece that the EU stands for diktat instead of help, while the perception in the north is that of irresponsible people in the south. The only place where this debate can take place is in the European Parliament.

3 What Could Be the Solutions?

As Professor Fritz Scharp already underlined, it will not be easy but in any case. However, in my opinion two issues are essential:

- There is a need to improve democracy: input legitimacy (“government by the people”)
- There is a need to improve the output legitimacy (“government for the people”) with respect to unemployment, rise in inequalities, poverty etc.

First steps can be taken within the current treaty framework: more respect for the institutions and all the partners (the end of “Merkozy” is good news).

Particularly with regard to a possible treaty change the following points seem relevant:

- A new “governance”? Trichet’s proposal to create a Minister of Finance of the European Union with a European treasury? Controlling discipline, debt, one day the common emission of debt (See his intervention for the Charlemagne (Karslpreis) Price Ceremony in Aachen, June 2, 2011¹).
- Eurobonds? (with strict discipline, in order to draw the advantages of a global currency/a deep and liquid market)
- A new budget with own resources is essential

¹ www.ecb.int/press/key/date/2011/html/sp110602.en.html. Retrieved on May 30, 2012.