



EUROPEAN COMMISSION

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**Speech by President Barroso at the State of the Union
conference: Restoring confidence**

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

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Ladies and gentlemen,

First let me thank you for having invited me again to be here with you on Europe Day. It is always with a great pleasure that I come to Italy and to Florence where we can feel such a great European spirit.

May I confess to you that when I come back to a same place, I find it always interesting to see if what I said before remains consistent and coherent overtime.

Allow me to quote what I said when I addressed this conference last year: "The choice should not be austerity versus growth. The choice is unsustainable short term stimulus that will lead to a short-living relaunch of growth versus sustainable long term reforms that will make a difference over time. And our choice is clear. It is about investing in lasting sustainable growth while immediately addressing the most urgent issues and first of all unemployment, which has reached intolerable rates. "

I also added that we should show the same speed and determination in implementing our growth agenda as we have already shown in fiscal consolidation.

A year later, I am happy to see that these views are now broadly shared. I hope that now the Member States, with the European institutions, main political parties and social partners will finally agree on the way forward because consensus is key to restore confidence.

This is why this year I would like to focus my intervention on how to regain confidence. This is obviously a critical political issue but it goes beyond that. Confidence is key for the economy. It is important for banks to be able to lend; companies to be willing to invest and consumers to be willing to spend.

The crisis has certainly been a serious wake-up call for Europe. It has exposed vulnerabilities within individual Member States and weaknesses in the implementation of the rules agreed by themselves.

The reality is that for too many years we fell short of drawing all the implications of sharing a common currency. For too many years we ignored some critical consequences of the Maastricht treaty. Too often some Member States have lulled themselves in a false sense of complacency.

The crisis has clearly shown that we will never have an efficient monetary union without a closer economic union. Both are needed for stability. And we need stability to better resist internal or external disturbances.

The crisis has amplified the urgent need for a stronger cooperation and governance at European level and bold reforms at national level. And the role of the European institutions is not simply to reform themselves but to support reform in Member States, both in the public and the private sector.

This is why our response to the crisis is a comprehensive one addressing its root cause that is a dangerous combination of private imprudence, public indulgence and economic inefficiency. The aim is to have a financial sector at the service of the real economy; government policies promoting competitiveness and sound public finances; and a genuine Economic Monetary Union with a fully equipped toolbox including a banking union and a strengthened social dimension.

To achieve this agenda successfully we have moved a number of key issues from the backroom to the front row. The fact is that a crisis is a terrible time to go through; and it is even more a terrible thing to waste. This is why we are using this crisis as a unique opportunity to promote a long-overdue reform agenda.

Its impact can already be seen in the profound restructuring of our economies, which is politically challenging and socially demanding, but necessary to lay the foundation for future sustainable growth and competitiveness. And we are making progress in this direction. The competitiveness of some of our most vulnerable countries is slowly improving. Their debt and interest rates are falling. Their export rates are rising. But it is a progress that takes time, commitment and stamina.

It can be seen as well in the very good progress made in the European economic governance over the last two years. Indeed, we are steadily dealing with the 'unfinished business of Maastricht'. We have already significantly moved forward on the way Member States' economic and budgetary policies are assessed, coordinated and where necessary, revised. And by signing the Treaty on Stability, Coordination and Governance, Member States have legally underlined their commitment to balanced budgets and instated much stronger oversight by the Commission.

And this is precisely what 'more Europe' means. 'More Europe' does not mean "more Brussels", in the sense of more centralisation. The European Union is certainly not about power-grabbing but about power-sharing. Subsidiarity is indeed an essential democratic concept and should be practised. We should concentrate European action on the real issues that matter and can best be dealt with at the European level. And this is precisely what we are doing. 'More Europe' means to deepen economic integration by recognising that an intergovernmental approach to economic and fiscal policies is not suitable with the existence of a common currency.

But we have to recognize that our Union is under severe stress, caught between two opposing forces: this dynamic for change and a resistance to change. And the Commission has been actively promoting the agenda for change.

Ladies and gentlemen,

Since the beginning of the crisis, what is coming to the surface all too often is a feeling of doubt. The crisis has unleashed uncertainties about Europe's political and institutional capacity and durability.

I do understand the anxieties and even the pessimism of European citizens faced with a fast-changing, interdependent, competitive and unpredictable world. But we have to confront discourses that call for an inward-looking - sometimes nationalist - approach.

Indeed as we are striving to strengthen the foundations of the Euro and improve the sustainability of our economies and thereby restore trust and confidence, a resurgence of populism is precisely corroding trust and confidence.

The point is certainly not to demonize such discourses. The point is to demonstrate that our policies go in the right direction for the long term, that the European alternative is the best one, the one to be trusted most. Of course, this is not easy because the populist discourse manipulates anxieties and pretends to bring simple solutions to complex problems. But we should not shy away from exposing the complexity of the issues we are dealing with.

Let me take just one example. According to some of these discourses, Europe and the Euro are the cause of the problem. Let's be intellectually honest and let's spare no effort to explain again and again that while known as the 'euro crisis', this is not a crisis of the euro itself. The euro remains a credible, stable and strong currency.

This is an economic and financial crisis in individual countries that impacts on the rest of the euro area. And the financial crisis was also not euro-specific, for it affected countries in the Eurozone and outside, inside the European Union and outside, as the case of Iceland clearly shows.

This crisis was the result of the combination of irresponsibility of a significant part of the financial sector with aggravating unsustainable public debt and the lack of structural competitiveness in some Member States. The monetary union absorbed some of the shocks – as it was intended to do - but was itself severely shaken as a result. It is therefore appropriate to say that while this is not a crisis of the euro area as such and was certainly not created by the European Union, it has posed very specific challenges – economically but also institutionally and politically - to the euro area and implicitly to our European Union.

And although we are not yet out of the woods, the existential threat to the Euro is essentially over. The doom-mongers that have been predicting the implosion of the euro have been proven wrong. I believe it is fair to say that there is no longer a perception of the risk that the euro area will fall apart. Investors have realised that when we say that we will do everything possible to safeguard the financial stability and the integrity of the euro we mean it.

I am not suggesting that all the problems have been solved. I do not ignore the economic and social difficulties being felt in so many European countries. We must not be under any illusions and refrain from creating false expectations in the short term. There is still some way to go from economic downturn to economic turnaround. Reforms and adjustment must be pursued with determination, without overlooking the important aspect of social justice.

It is indeed necessary to have balanced public accounts and to consolidate reforms in order to ensure competitiveness. But in order to attain sustainable economic growth it is also necessary to invest in the sectors that will allow us to rise to the challenge of globalisation.

Speaking now of Italy, I was very positively impressed by the strong European commitment of Prime Minister Letta with whom I share the ambitious view on a federal future for Europe and a clear support to the community method. And I am happy to see that the new government is committed to economic reform and to the budgetary targets put forward in Italy's stability programme. In fact, the Prime Minister confirmed this when I received him in Brussels last week. And this is particularly important in views of Italy's very high level of public debt. The reality is that sound public finances are a sine qua non for confidence and without confidence there is no investment; and without investment there is no growth. And I share concerns on the need to restore growth in Italy. A broad-based structural reform agenda is essential to reverse the deep-rooted and long decline in Italy's competitiveness and thus boost its export performance. Indeed the fundamental issue for Italy is to restore its competitiveness, to restore its capacity to grow again and create jobs which will also reduce pressures on public finances. I deeply believe in Italy's capacity to achieve these goals.

Let me say also a few words on an issue, which is affecting Italy and also other countries mainly in southern Europe. This concerns financial fragmentation and lending conditions of small and medium-sized enterprises in the euro area. We believe that this is a very serious obstacle to growth. Looking at the lending surveys, we see that the problem is not only demand but also very much the divergence of lending spreads that are related less to the intrinsic quality of borrowers and more to their geographical location. In the European Commission's Annual Growth Survey we have clearly identified as a priority the need to secure adequate financing of the economy. The ECB and the EIB are working on this matter. I sincerely hope that some answer can be found soon. And the Commission will support all efforts to address this issue of financial fragmentation and improve lending capacity, knowing that the sustainable solution can only come after correcting the economic imbalances; restoring the good health of our economy; and establishing a banking union – a priority on which we should not lose the momentum.

Ladies and gentlemen

As we are now confronting all these challenges, and contrary to what some Eurosceptics pretend, I dare not imagine how weaker we would be today without all that has been achieved over the last sixty years of European integration!

We should be careful not to let our key achievements being unravelled. On the contrary we have to capitalize on our collective strengths and tap together the full potential of our single market and of our trade policy, which are powerful drivers of growth. In this context, the Transatlantic Trade and Investment Partnership that we will launch with the United States is of critical importance. We have also everything to gain from making the necessary reforms and investment in education, research and innovation in order to keep our collective competitive edge.

Indeed we should not spare any effort to deliver more concrete results to European citizens and show them that when we act as one Union, wherever it is necessary, we can bring a big difference in their daily life.

First and foremost we have to act more decisively as one Union on the front of unemployment. The implementation of the growth compact decided by the Heads of State and Government last June remains insufficient and below our expectations. It has to be reinforced notably with ambitious actions to fight youth unemployment.

We have already reached an agreement in February on a Youth employment initiative. It will provide 6 billion euro in much-needed support for young people in regions with youth unemployment rates above 25%. It will also fund the Youth guarantee and other measures the Commission proposed in its Youth employment package in December 2012. It is indeed an important agreement but it is not enough and will be implemented only when the next Multiannual Financial Framework will be in place, that is not before 2014. We have to do quicker, better, and more. And I hope that the next European Council will come to this conclusion.

Indeed we have to clearly act as one Union to promote a Europe of fairness. This also includes, in these demanding times, that those who make the biggest gains should pay a fair share of tax on them and in the countries where their wealth is generated. Bringing a new balance to the way we tackle tax fraud and tax evasion is an intrinsic part of the overhaul of the EU regulatory agenda in the aftermath of the crisis. I know it will not be easy to convince all Member States of the need to act and to act together at EU level but the Commission will continue to press for action on an issue of growing public importance.

And we will soon present a legislative proposal to extend the scope of automatic exchange under the Administrative Cooperation Directive. This will ensure the full and consistent coverage of all relevant types of income across all Member States. And building on EU arrangements, collectively we should agree on a strong and coordinated EU position in the G8, G20 and OECD so that automatic exchange of information becomes the new global standard.

To sum it up, I believe that to restore confidence we have do a better job to explain what is at stake and to be more effective in delivering concrete results to our citizens in areas where acting as one Union really makes a difference.

This is a responsibility that lies not only with the European institutions but with all the Member States because Europe is about collective leadership and ownership by all stakeholders. And this is also increasingly about ownership by the citizens.

Ladies and gentlemen,

The crisis has not only highlighted Europe's increased economic interdependence. It has also underscored that the question of a political union can no longer be swept under the carpet. But this can only be achieved through a fundamental public debate on how far we want to go with our political integration and how far we are willing and able to go in reforming our political institutions.

We are at a point in time when European integration must be pursued openly, transparently and with the explicit support of the citizens of Europe. The times of European integration by implicit consent of citizens are over. Europe has to be ever more democratic. Europe's democratic legitimacy and accountability must keep pace with its increased role and power.

This is why I have called for a wide and open debate on our future. And the European Commission's Blueprint for a deep and genuine Economic and Monetary Union is not only providing the big picture of the practical changes needed to move forward. It also provides a renewed sense of purpose. It opens a European debate on a future where economic governance, democratic legitimacy and social commitments will have to move forward hand in hand.

One of Europe's most important and respected philosophers, Jürgen Habermas, recently referred to our Blueprint as "the first more detailed document in which the European Union develops a perspective for reforms in the medium and long term that go beyond the present".

Let me say that I am happy to see that the Blueprint is followed up by open debates beyond Brussels. Of course, the issue goes well beyond the Economic and Monetary Union. It is about the very concept of our willingness to live together and our place in the world. And I could not think of a better place than this one to discuss our European future, on Europe day.

Indeed, Florence and Italy remind us that, from the outset, European integration has been much more than an economic integration project. It is fundamentally a political and cultural project based on strong values.

We hold its future in our hands. It just depends on us, on our confidence, on our efforts. We just cannot spoil it! That is why we have to debate it openly, as we are doing here in this conference, with such distinguished participants from all over Europe. I am sure that a very valuable contribution will come from this discussion to move forward our European project and bring it closer to the European citizens.

I thank you for your attention