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**Speech by Herman Van Rompuy,
President of the European Council
at the Stockholm School of Economics**

It is a pleasure to speak here in Stockholm and share a few thoughts on the road ahead for Europe and the Eurozone, just as I am about to enter my second term as President of the European Council.

It will also be my final term, because the so-called "permanent" President is not supposed to become too permanent!

It is a pleasure to speak in this excellent school, which has trained so many of the best Swedish economist, business leaders and politicians, many Nobel Prize winners and Dag Hammarskjöld among them. I read his diary as a young man. It inspired me a lot at that time. (As I teenager I saw the films of Ingmar Bergman. I knew Sweden without having ever been in the country.)

I feel at home here all the more that I am myself a former student of Economics and the son of a Professor in Economics! My other field of study was philosophy. I do not want to discourage the economy students among you, but in dealing with the public debt crisis in Europe during the past two years, it was sometimes difficult to decide which of the two fields was most useful...!

As some may know, I also write haiku poetry. I am not a poet-politician, but a politician-poet. It is an interlude between political activities. No more, no less.

P R E S S

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In this regard, I am a great admirer of the great poet Tomas Tranströmer. Of his powerful language. I will never forget reading for the first time his famous poem "Roman arches". In which.. *"inside the great Roman Church, in the semi-darkness (...) the voice of an angel caught me - filled me whispering into my very body: 'Do not feel ashamed human, be proud! ...' "* (I resist quoting more... To Swedish ears it must hurt to hear a translation of this great national poet...)

Many in Sweden have looked at the debt crisis from a distance. Yet, as you are well aware, what happens in one country in Europe affects all the others. Interdependence is the key lesson of the financial crisis. Interdependence, and its political corollary: co-responsibility.

This interdependence is particularly strong between euro countries, but also beyond. A deficit in Greece, a banking crisis in Ireland, a recession in Estonia can impact all neighbours, all economies in the Union.

Before saying more about the economic aspects of the crisis and the way to come out of it, I should like to emphasize the political side.

This interdependence, after all, is not an unintended consequence of our actions. No, it was a prime motive behind uniting Europe in the first place! Tying the economies and societies on our continent ever closer together. Strengthening the bonds between neighbours and former enemies to achieve deeply political objectives: peace, between states. Prosperity, for the citizens. Power (or influence), for Europe in the world.

A word on peace. I am aware that this aim may look less essential given Sweden's own history. You managed to stay out of the disastrous world wars of the first half of the 20th century, which destroyed so many European lives and cities. Swedes have always been active traders and travellers, but when you joined the Union in 1995, your country had been politically neutral for 180 years ! -- (Certainly, after having been an active military power on the continent before that.)

Yet this recent history makes Sweden exceptional. For most, Europe was (or is) an anchor of peace and stability. It is true for Germany, France and the other founders after the Second World War. It is true for Greece, Spain and Portugal after their dictatorships fell. It is true for the former communist countries, and for the countries of the Western Balkans.

Of course, I know very well that for the younger generations in Western Europe, as in Sweden, the idea of Europe as a means to guarantee peace has become less convincing. It all seems too long ago: a memory that has become history. Yet these underlying forces and motives still shape Europe today.

This is also true for the euro. The launch of the single currency came about not only for economic reasons. Of course, it made economic sense, once you had a single market, to have also a single currency. But pooling national currencies is an existential political step, which requires more than a good idea.

European leaders took the decision in December 1989, that is, one month after the fall of the Berlin Wall, no doubt the biggest geopolitical shock on the continent since 1945. It was the moment, the prospect of a reunified Germany that focused the minds.

By giving up the D-mark, Germany reassured its neighbours, and in particular France, that its destiny lied in Europe. So the decision to create a common currency was just as much about war and peace in Europe, as about Robert Mundell's "optimal currency area" theory!

That is why so much was and is at stake during the sovereign debt crisis of the past two years. When Eurozone leaders declare they will do "whatever is required" to maintain the financial stability of the Eurozone (as we did several times at summits), it is very simple: we mean it. In the Eurozone we are together, "for better and for worse".

Our action was threefold: Stopping the crisis, preventing future ones from arising, and laying the basis for future growth and jobs.

When I entered office in early 2010, soon after the Greek crisis erupted, I found an empty toolbox. A weakened Stability and Growth Pact for budgetary surveillance; no macro-economic surveillance at all; no rescue funds to deal with a financial crisis. So we had to develop all those instruments in the midst of a crisis. It was like building a life-boat at sea. Which we did.

I remember very well my first European Council, in February 2010. One hour before the summit started, the French President and the German Chancellor entered my office and they were clearly in disagreement. It was at the start of the Greek crisis.

Of course, when Paris and Berlin agree, the others sometimes protest or have the feeling decisions are imposed on them. Outside observers tend to underestimate how far apart starting positions usually are; in fact, any Franco-German agreement is a laborious compromise, often involving other actors from Brussels or other capitals... Yet when the two do not agree, people also complain...

In February 2010 we faced a tough question. Could we do anything to help a country that risked bankruptcy, and if so, what? We reached a compromise, first sketched in informal talks in my office and finalised an hour later with all 27 leaders. It was built around the two principles that have guided all further action in the crisis: responsibility and solidarity.

Responsibility of each government to bring its own house in order. Solidarity from all when the financial system of the Eurozone as a whole is at stake.

The EU has often been criticised for dealing too slowly and timidly with the situation. Yet when you take all the steps that we have taken in the course of two years, it adds up to a leap forward. Stricter control of budgets and debt levels, better oversight of bubbles and imbalances, a permanent firewall and rescue funds, courageous reforms, undertaken by countries facing market pressure or benefiting from EU support.

In many respects, the Union's economic governance has evolved beyond recognition over the past two years. Moreover, many of these reforms are only beginning to kick in.

Importantly, they have not only resulted in stronger institutional pressure to keep deficits under control, but also in increased peer pressure among European leaders. All colleagues are now well aware that the failure - or the success - of one country, can change the outlook for all. This gives the discussion among leaders at the European Council a new intensity. And I consider it my duty to remind colleagues -- gently but constantly -- of their individual pledges and collective commitments.

Sweden has taken part in these efforts to stabilise the situation in the Eurozone. Already in 2010, your government agreed to use the EU's budget as part of the rescue packages. Two months ago, your government signed the Fiscal Compact. You also committed to contribute to the Irish rescue package and agreed to back the euro area indirectly by contributing at least 10 billion dollars to the IMF. We appreciate these efforts as a sign of clear commitment and political will towards Europe.

Of course, the interdependence I mentioned hit Sweden early on, already in the financial crisis of 2008-2009. Your banking system suffered, in particular due to its large dependence on the Baltic countries. Confidence was restored, also thanks to European actions. Mid 2009, to help secure financial stability, the European Central Bank, for example, provided a euro 3 billion loan to the Riksbank. The EU and the IMF developed a program for Latvia, which helped your neighbour to weather the storm. Eurozone countries count among your top export destinations. Despite these close ties, it seems like the benefits of membership and the single market sometimes go unnoticed... A weak external demand is one of the reasons behind Sweden's recently worsening growth prospects and growing unemployment. So it is as much in Sweden's interest as in that of the Eurozone that we leave this situation quickly behind us, focussing fully on stimulating growth.

In my view, there are also some important lessons that the Eurozone can draw from Sweden. At meetings of the European Council, Prime Minister Reinfeldt shared more than once with colleagues how your country dealt with the economic crisis of the early 1990s. Decisive action to overcome the banking crisis and restructure the economy paid off. Twenty years of exemplary fiscal policies allowed you to buffer effectively the shocks of the latest crisis.

Finally, and very importantly, your country has been a pioneer in trying to bring the financial sector regulation in line with today's realities of increased financial integration. You led the way in setting up colleges of supervisors, well ahead of EU requirements. Yet, more is needed, and in my view, financial sector policy integration is the area where our Union most urgently needs to make further progress.

Safeguarding the stability of the Eurozone has been the overriding objective of the past two years -- and we are not out of the woods yet. But it can only be half of the work. The ultimate aim of stability is growth. It is a paradox. The stability of the Eurozone is not an objective in itself. Growth and employment are, and always have been, our fundamental concern -- and within the Union Sweden has always been a strong advocate of this cause.

The stakes are high. Growth, quality growth, is the most convincing answer to the hardship and simmering resentment caused by the economic crisis. I do not have to spell out the risks of populism and fact-free politics. All governments know they must ensure that the sacrifices were worth the effort.

The fact is, all along the crisis years, in the EU, we never stopped working on growth -- on trade, on innovation, on labour market reform, on banking credit... But the fact is also that in the short term, macro-economic policy margins to stimulate growth are limited: our fiscal and monetary instruments were fully mobilised during the crisis. That is why structural reforms remain the main lever at our disposal. Their effects are not immediate nor can they be, but they will make a difference over time, and create jobs in due course.

We have come quite far already. In recent years, courageous decisions have been taken across Europe. Going against vested interests, of all kinds: in the financial world, in the energy sector, in the labour market, in the sheltered services.

Many colleagues have taken the bull by the horns. Spain and Portugal have made their labour markets more flexible. Greece has drastically cut pensions and public sector salaries, in some cases more than 20 percent. Finland and many others have shifted tax away from labour. Italy is opening up closed professions. Poland has cut red tape for start-ups and companies. The Baltic States, who -- as you know - were among those hardest hit worldwide, took drastic measures. Today, growth is back and nowhere in Europe are employment levels rising faster than in Lithuania, Latvia and Estonia! And this with fixed exchange rate systems.

A lot of this work to improve competitiveness has to be done by the Member States individually. But some of the work to provide a growth-friendly environment we can only do together, at EU level.

This is obviously the case when it comes to markets - whether completing the EU's single market, or securing fair access for our companies to new markets abroad, through the trade deals that we negotiate on behalf of the Union. Sweden has benefited enormously from the opportunities the single market offers to your entrepreneurs. Even if you export globally, Europe is your home market. An engine for growth and jobs.

We also work together on innovation, on exploring new areas within ICT and creative industries such as music and design. The creation of the much-awaited European patent will be key. For the moment patenting costs are 20 times higher in Europe than in the US or Japan. Today we are closer than ever to an agreement, on which I am working with the Danish Presidency of the Council, which should reduce these costs by 80 %.

Our common European financing instruments can also play a key role to ensure that innovative ideas turn into reality. The European Investment Bank is a major partner in developing transport and renewable energy projects, or financing ambitious research or digital networks.

We are working to ensure that where it is most needed, it can expand its role. With a 10 billion increase in the capital, the Bank's overall lending capacity could reach 60 billions of new loans in the next three years, making possible new investments up to 180 billion euro. Such support can help countries and companies to grow themselves out of the crisis.

Our common EU budget should likewise be geared towards innovation. Before the end of the year, we will be defining its scope for 2014-2020 (one of the issues I will be discussing with Prime Minister Reinfeldt later today). This is a unique occasion to transform this budget into a tool for future growth. I also want to make sure that Member States do not only focus on net contributions or return, but also take the broader European interest into account.

There is also much we can do to make sure that our workforce remains the most skilled in the world. In the European Union as a whole, there are about 25 million unemployed, but also more than 2 million vacancies!

But let's be concrete. What can we do for a 18 year old in Spain, Slovakia or... Sweden? First: invest in education and training, bridge the gap between the classroom and the workplace. Secondly, we must make it easier for young people to get the first foot on the ladder: apprenticeships, work experience, first proper contracts. The era of a job-for-life is over, so everybody should at least get a fair first chance. Thirdly: we must make it easier to go where the jobs are. Citizens can already consult vacancies EU-wide thanks to a website launched by the Commission.

To conclude. Our objective is clear and shared by all: Europe must remain that very attractive continent in which to live and work, create wealth and spend it, for all citizens. Our global partners also expect this from us.

When I represent the European Union for instance at the G20 Summits, they look at us, like we look at them. Everybody should bring his house in order. In that respect, the European Union's global credibility starts with fixing the economy. But we also expect our partners, such as the United States or China, to tackle their own imbalances and challenges.

For those that have been predicting the unravelling of the European project, I say this: of course, we need to be aware of the challenges and problems, but so far crises - the one at hand and others - have led not to less but to more integration. Because in the end, to secure the prosperity and security of their citizens Europeans governments know, sometimes despite themselves, that they must work together. That together, we have something special to defend.

In the world at large, Europe is a unique continent. We are a living proof that it is possible to combine prosperity and social justice; to have efficient decision-making and democratic accountability; to be an attractive place to work and to live.

This is also a question of attitude. With the wise words of Tomas Tranströmer in mind I would say: Do not be ashamed European, be proud!