

Speech by John Bruton, former Taoiseach and former EU Ambassador to the United States

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THE EURO ZONE CRISIS IS A CRISIS OF EUROPEAN POLITICS

The crisis in the euro zone is, first and foremost, a political crisis. Our institutions may be European, our problems may be European, our future may be European, but our political thinking, and the scope of our vision, is still stubbornly national. This is as true of so called “core”, as well as of so called “peripheral “, countries.

Our politics has not caught up with our economics. Our politics is national, but our economics is European.

As Lorenzo Bini Smaghi, a member of the Executive Board of the ECB said recently that ,as a result of the euro, for practical purposes,

“we already have a political union”,

among the euro area countries. This is because our banking and monetary systems of those countries are so inter twined that we all sink or swim together. The difficulty is that our political thinking, and our political institutions in the EU, have not caught up with this reality.

Let me illustrate what I am talking about. The crisis has two dimensions.

THE BANKING DIMENSION

It is a crisis of banking, and it is a crisis of sovereign debt.

I will refer first to the banking dimension of the crisis.

When the arrangements for the euro were first put in place, in the Maastricht Treaty of 1992, the European central Bank was given responsibility to manage monetary policy. But it was also given explicit responsibility for the “prudential supervision of credit institutions”. That would have involved in supervising and preventing the reckless lending to, and borrowing by, the Irish banks. The ECB never exercised, and in some respects was not allowed to bring into force, its Treaty based prudential supervision role of the banks. It confined itself to monetary policy.

It was only after the crisis had already taken place, that the European Banking Authority was brought into being , to exercise the very responsibility the ECB had been given back in 1992, but had never exercised.

This omission happened for nationalistic political reasons.

France did not want the ECB, an institution based in Germany, to exercise prudential supervision over French banks. I imagine that France was not alone in this. Central Banks in other euro area countries probably felt they could manage their own banks without the ECB looking over their should. We

now know how wrong they were. If the ECB had exercised its proper responsibilities for prudential supervision, the present extent of French bank exposure to Greek sovereign debt might not have happened, and everybody, including Greece and France, would be better off. Even today some banks in major European countries are resistant to European stress tests for nationalistic political reasons.

THE SOVEREIGN DEBT DIMENSION

The other dimension of the crisis, the sovereign debt dimension, was also influenced by politics.

The decision taken by the ECOFIN Council, in November 2003, not to act on the European Commission's recommendation regarding excessive deficit procedures against France and Germany was also a political decision, not an economic one. It was supported by Ireland at the time, perhaps because Ireland itself had earlier rejected a Commission recommendation to cool down its economy.

The Commission's decision to accept the setting aside of its recommendation on the excessive deficit procedure against France and Germany was a display of political weakness on its part. This political weakness would not have been so great if candidates for the Presidency of the Commission did not have to ingratiate themselves with powerful member states to be appointed and if the European Parliament had not been as aggressive in seeking to enhance itself at the expense of the Commission.

As a result of that November 2003 decision, the whole Stability and Growth Pact was subsequently altered to make it weaker, and less automatic, and the Commission went along with that. At least nobody resigned in protest.

This weakening of the controls meant that the authorities were not as tough with Greece over its false public accounts, and its spiralling debts, as they should have been. As Lorenzo Bini Smaghi put it recently,

“There is limited awareness in the domestic political arena that governments are also responsible for the monitoring of the other members of the euro area, in particular in respect of the Stability and Growth Pact, and for ensuring that they abide by it”

So if Greek finances are a mess today, that is in part due to a failure of supervision in the past by the Irish, German, French and other euro area Finance Ministers, who did not take their responsibilities seriously enough under the Stability and Growth Pact.

GERMAN CONSTITUTIONAL CONSTRAINTS ON FURTHER EU INTEGRATION CAN ONLY BE OVERCOME IF THE EU BECOMES MORE DEMOCRATIC

There is another important issue that must be addressed. That is the attitude of the German Constitutional Court which requires that transfers of authority to the European Union be explicitly and individually approved by the German Bundestag, because it feels the EU itself is insufficiently democratic.

In its judgement on the Lisbon Treaty, it said that

“an increase in integration (in the EU) can be unconstitutional (in Germany) if the level of democratic legitimation (in the EU) is not commensurate to the extent and weight of the supranational power or rule” at EU level

And it added that, for it, the test of democratic legitimation is whether

“the allocation of the highest ranking political offices”

is by means of

“competition of Government and Opposition”

In a free and equal election .

Essentially, the question it posed was,

Can the people vote the EU government out of office? At the moment, they cannot.

Even though the European Parliament is directly elected, the Court did not believe that the EU yet passed that democratic test.

The Court was therefore very reluctant to agree to further EU integration, beyond that proposed in the Lisbon Treaty, without a qualitative improvement in democratic governance at EU level. But the difficulty we now face is that, to make the euro work, we are probably going to require more integration at EU level, at least among the states that are in the euro.

I am certain this issue of whether there is sufficient democracy at EU level will arise again in any appeal to the Court against the proposed closer integration of Germany in responsibilities to, and for, the rest of the euro. Such an appeal will take place and has the potential to destabilise financial markets unless something is done to forestall the problem. I really do not believe that it would be wise for EU leaders to sit and wait to see what the German Court might say. Its jurisprudence is already published in its judgement on the Lisbon Treaty.

I have long advocated a simple remedy to this problem.

ELECTING AN EU PRESIDENT DIRECTLY

During the Irish Presidency of the EU in 1996, I commissioned a study on the possible direct election of the President of the European Commission by the people of Europe in a free and equal election of all the people of the EU.

The European Council could decide, without changing the Lisbon Treaty, that in future it will only nominate as President of the European Commission, as President of the European Council, and/or as President of the Eurogroup, a person who has won a majority of votes in an EU wide election for that post, held on the same day as the European Parliament election.

That would create a similar level of democracy at European level to that we each enjoy at national level.

The present crisis is an opportunity, not only to deal with long ignored fiscal problems, but also an opportunity to make the European Union even more democratic.

THE EUROPEAN UNION MUST DEVELOP A PATRIOTISM OF ITS OWN

The European Union will only survive the dramatic changes that the twenty first century will bring if the citizens of all EU states develop a common sense of European patriotism, alongside their national patriotisms. Appeals to monetary self interest and rational calculation alone, will not be enough to keep the Union together in face of a new world dominated by Asian economic power.

European patriotism, like national patriotism, is not something that will arise spontaneously. It has to be fostered by the use of symbols, and appeals to people's emotions, by political leaders who make a conscious decision to do so.

I do not believe Europe's citizens will become really proud of the Union unless they each feel, that they, personally, have a direct stake in the Union. That is why I favour a direct EU wide election of a person or persons to lead EU institutions.

Note for Editors; John Bruton is currently one of the vice Presidents of the Fine Gael party. He is also a member of the board of the Centre for European Policy Studies. He was a vice President of the European Peoples Party for many years and is currently associated with its affiliated think tank, the Centre for European Studies.