

Speech by Klaus Welle,
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'Impact of the financial crisis on the European institutional system'

I would like to speak about the European institutions and the impact of the financial crisis with seven sub-headings:

- 1) What kind of Union has been created by the Lisbon Treaty?
- 2) What is the nature of the fiscal crisis?
- 3) The new European business model.
- 4) The need for democratic scrutiny.
- 5) Choice.
- 6) European identity.
- 7) I can't avoid it... Germany and France.

First, let's start with: what kind of Union has been created by the Lisbon Treaty?

I think it is important to respond to this question because if we don't have a clear view on what kind of Union we are working on, it is very difficult to speak about how it is going to change. So, what kind of Union are we working on?

It is very popular to say that this is a construction *sui generis*: We can't really know anything, we can't say who is who, we don't know what is what and that is very convenient, especially in a political context.

But I believe that we can know who is who in this set-up and I even believe that we have to say who is who in this set-up, if we want ordinary citizens to understand what is happening.

What Union has been created by the Lisbon Treaty?

It is very important to understand that the Lisbon Treaty is a treaty of Parliaments. With the Nice Treaty we had basically reached the end of our development possibilities because the method of treaty change was Intergovernmental Conferences by national civil servants. National civil servants were asked what they would like to additionally give to the European Union as their competences. And the answer in Nice was extremely clear - the answer was: "NOTHING", they were not ready to give anything additional to the European Union. Except one thing - very important - the legal base for European political parties. But it did not come from them, it came from us. We produced it in the European Parliament. So, with the Nice Treaty basically the possibilities to further deepen the European integration on the basis of that past model were finished.



Klaus Welle giving speech at the Ecole nationale d'administration (ENA). On the podium (left): François-Gilles Le Theule, Director for European Affairs at ENA - Strasbourg, 16 January 2013

For Treaty change and in order to go further with the European integration we needed a change in the model how to elaborate treaty change. And we favoured the idea that came from the European Parliament and through political families to

change the past method and go for the model of the Convention. This new model had just been extremely successful under the chairmanship of German former federal president Mr. Herzog for the Charter of Fundamental Rights. The Convention meant that it was not national civil servants sitting together, but Members of European Parliament and Members of national Parliaments sitting together with representatives of the governments and two Commissioners.

And they were again asked the question: what you would like to additionally give to the European Union as new competences? And they came with a lot of ideas. Basically the outcome was that everything we had always hoped for, with very few exceptions, was put into the text. And then the governments tried to contain it as much as possible. But still a lot survived. By that new method, the European Parliament has been very much strengthened. We have basically generalised the so-called co-decision method, meaning that we are equal partners with the Council. Very important: the last word on all international agreements, including trade, is now with the European Parliament, which means that on the international level the standing of the European Parliament has been incredibly increased. Because everybody who is engaging in the negotiation with the Council or the Commission - be it on trade or on other issues, sometimes highly sensitive issues like ACTA, passenger name record or SWIFT - knows that this is the European Parliament who has the final word and can say yes or no.

We are also electing the Commission President now.

We also can initiate Treaty change, even if nobody is aware of it.

And we have many other possibilities but that is not the main topic of today.

What is equally important for the present set-up which is normally forgotten is how the Council of Ministers has been changed by the Lisbon Treaty. Because the Council of Ministers effectively, like in the *De Bello Gallico* from Julius Caesar, was divided into three parts: the Council of Ministers, the European External Action Service, with Baroness Ashton, and the European Council which became a separate institution.

What is the Council of Ministers doing now? It is basically doing legislation.

The rotating Council Presidency is no longer presiding over the Foreign Affairs Council. It is no longer presiding the European Council. If the rotating Presidency wants to be successful they have to be successful in legislation. And how can it be successful in the Council of Ministers in the field of legislation?

There is only one way: this is by agreeing with the European Parliament. So, through the Lisbon Treaty the European Parliament and the Council of Ministers have become equal partners, and also interdependent partners. And to be interdependent is an excellent thing because the moment you realise that you are interdependent all the preconditions are there for a true partnership.

De facto, even if you don't find it so much in writings, we have established a two chamber system in the European Union with the European Parliament representing the European citizens with direct elections by 500 millions of citizens and the Council of Ministers representing the second source of legitimacy, the other source of legitimacy I should better say, which are the Member States. Only if the States' and the citizens' chambers agree we are going to have laws. The relationship between the Council and the European Parliament has been fundamentally changed for the better in the last years.

If these are two chambers what is then the European Commission? The only possibility to describe the European Commission, and I think they needed some time to come around to that conclusion themselves, is that they have to be the European Executive. Because if they are not the European Executive, there is no democratically legitimate and controlled European Executive in existence in our system. That's maybe not shared by everybody, but that's pretty clear.

But what are we then doing with the European Council? If the European Commission is the Executive, what is the European Council? The European Council is situated at the place where, in the national systems you would find the presidency, in this case, a collective presidency. So we have a collective presidency with the European Council which gives inspiration and direction to the system.

The problem they are then having is, what kind of presidency they would like to be. And that has been a lot of the debate in the last years, because in the EU we have very different kinds of presidencies. We have the German presidency who leads by inspiration and we have the French presidency that has the right to intervene into every detail of politics and policy making. So that's the issue that the European Council had to sort out. Of course, spontaneously, they all prefer the French model. But they also realized that if the European Council has to follow the French model, not all of them can be a French president. It's maybe only one or two in the room able to play that role. And that's raising difficulties for the others.

The actual functioning of the European Council has been very much determined by the effects of the fiscal and financial crisis of the recent years. And I think the crisis has allowed us to come forward with four conclusions about the functioning of the European Council so far.

The first is what they really have achieved is - and that has to be admitted and is positive - they have lifted issues which up to now could not be discussed on the European level and made them available for discussion and partly decision on the European level. Issues like national budgets, for example, and we know many other interventions which were necessary during the fiscal crisis. I like to call this the elevator function. They elevate issues from the national level to the European level, and they are the only ones who have the legitimacy to do so.

But at the same time we have seen a number of shortcomings. The first shortcoming might be very surprising, but I think the case can be made. The European Council on numerous occasions has shown a lack of expertise. Why a lack of expertise? Because what we normally get for a decision on the European level comes through a Commission process which has been checked and rechecked and rechecked and consulted with different levels of society and experts. So what's coming up for decision is the product not only of months but years of discussion and reflection. The working method of the European Council is very different. If you are a powerful member you can bring your kind of solution to the table, but maybe you have only consulted with two or three of your most important advisers. This is not the same degree of expertise that you get through the community model. This meant in the crisis that more than once decisions were taken, sold as a major success, and half a year later the opposite was done and again portrayed as a major success.

But if you are missing the expertise, you're also missing the efficiency, because if the expertise isn't there in the first place, you might simply find out that what you have decided on the highest political level cannot be implemented later on. So a lack of expertise, a lack of efficiency, and also the chances of everyone around the table to impact the outcome of those deliberations were sometimes very unevenly shared. Which means we didn't only have a lack of expertise, we didn't only have a lack of efficiency, we also had a lack of legitimacy.

The system which is being established and which I have tried to describe is a system which is very different from the national systems we know in the European Union. In the national systems you have a parliamentary majority which is supporting the government. At the moment that the parliamentary majority refuses to support the government, the government falls and the parliament is being dissolved. What we have in the EU is something very different. We might have different majorities in the Council and in the European Parliament and in the Commission. So what we are seeing is permanent procedures of negotiations where the outcome is not clear in advance. That kind of system is much more comparable to what we know in the US than what we know in our member states, fortunately though without the dis-functionalities that we know in the American system as well.



Klaus Welle gives a speech at the Ecole nationale d'administration (ENA) - Strasbourg, 16 January 2013

What is the nature of the crisis?

My second question: what kind of crisis are we living, what is the nature of the crisis? Among scientific experts there have been very different attempts to describe the crisis. It is clear this is not just a Euro zone crisis, it is a global crisis. It is a crisis that has reached all of the industrialized nations around the world. We could maybe argue about Japan, but the crisis has reached them fifteen years earlier so in that sense maybe they are an exception. If it is a global crisis, if other countries have been touched in a similar way, why do we then have this impression that the instability was that much greater in the European Union or the Euro zone? So, is it correct that other countries have been touched in an equal manner?

Absolutely yes. The deficit in the US is above ten percent still. The overall debt in the US is around 100 of GDP. The British deficit is above eight percent still. The overall debt if you include banking rescue, and I don't know why we shouldn't include banking rescue, is just about under 130 percent of GDP. Those figures are not better, they are considerably worse than the average figures in the Euro zone.

Why then instability in the Euro zone? The instability in the Euro zone happened because while creating the Euro we abolished the traditional crisis management instruments which were available to the nation-state, but we did not create the new instruments for the Euro zone. So, who is the lender of last resort in the Euro zone? What are the possibilities to intervene centrally? A budget with only one percent of GNP, so where is the firepower coming from when you need to defend a currency? At the same time a currency zone where when you sell state bonds it is very easy to transfer the money out of that country.

In fact I would argue that the specific nature of the Euro zone crisis was an institutional crisis. We created a currency but we didn't have the political will to give us all the institutions that need to go with it. We had to create our own kind of international monetary fund, the EMS, in the middle of the crisis. The European Central Bank had to change its own business model in the middle of the crisis. And for me it's very revealing that what I think is the turning point of the whole crisis is not one of these many, many, many meetings of the European Council - the turning point was delivered by a federal European institution, and that's the European Central Bank. It was as Mr. Draghi said, in London, that

the European central Bank will do whatever it takes, and believe me, that will be enough. It was the turning point: decisive action by a federal European institution, and not the European Council.

A new business model

How has the crisis changed the European Union? I would argue that the crisis has changed the European Union in the sense that we could say that we now have a new business model. What was the old business model of the European Union? The old business model of the European Union was that we were doing terribly important things, but they were perceived by the citizens as basically actions of the member states when they were implemented two years later and they were rather having their effects through cumulative effect over time, like on the internal market. What has changed with the fiscal crisis is citizens are now aware that what's happening on the European level, what's being decided on the European level, is touching the heart of the social and living conditions of European citizens. That's nothing you have to explain to Greek citizens, to Portuguese citizens, or to Irish citizens. They know it very well. You also don't have to explain it to Spanish or Italian citizens. But even those who have to give guarantees, like the Germans or the Dutch or the Austrians, the citizens in those countries have understood that nowadays we are interdependent, and what is happening in a relatively small member state like Greece is having full effect on their own future prospects and therefore we are interdependent, we belong together.

The need for democratic scrutiny

We have changed the business model from low interventionist to highly interventionist. If that thesis is correct, it also means that the need for democratic legitimacy in that new model is reaching a completely different dimension. If nowadays the European Union intervenes into the heart of the social and economic living conditions, pensions rights, social rights, health care, through the measures that are taken on the European level, you have a different degree - a different necessity - of legitimation on the European level.

There is a different need for democratic scrutiny. And therefore I believe, and I said this recently in a meeting at the European Central Bank, the discussion about democratic scrutiny nowadays is not one about being able to have a debate. We are having debates about these issues every single day.

Member countries are happy to provide us with additional forums for debate but it is not about being allowed to have a debate, it is about to have capacity for decision, decision making capacity on European level. Of course, national Parliaments also have to play a key role. But again, they are not in a necessity to be allowed to have a debate, they have to effectively control their governments when acting on the European Union level. And there are different participation possibilities in the individual member countries of the European Union and they are very different. So, the question is: shouldn't there be minimum qualitative standards of participation of individual national Parliaments in the control of their individual governments in the Council. But equally on our level, when decisions are taken on national level, national Parliaments have to be able to control, but when decisions are taken on the European level the European Parliament is the only effective forum for control.

The European Central Bank is now becoming the supreme authority on banking supervision. Banking supervision sounds pretty nice and harmless.

What are we talking about? We are talking about that the banking sector, which is finally the heart and the engine of all our economies, is being submitted to the control of a European institution, which means that this institution can decide to dissolve the bank, to ask to recapitalise the bank or it can force the bank to change its management. These are not minor decisions. These are major decisions in the economic and political life of our Member States. Therefore in that area the ECB cannot claim and does not claim to be an independent actor like in monetary policy, but it has to submit itself to proper democratic scrutiny. We can take a lot of inspirations from the United States and the daily cooperation between the US Congress and the Federal Reserve Bank.

The same for Troika missions. Of course, Troika missions have to be efficient and they have to be working. But at the same time, should not the criteria for the recommendations of Troika missions to individual Member Countries be transparent and part of the democratic debate? And if they should be open for democratic debate, where can that democratic debate take place? It will take place in the national Parliaments. But a national Parliament, in that situation where it is dependent on foreign funds, is incredibly weak. Therefore I think the European Parliament would lend itself to be the place of that democratic debate.

Also, the ESM. We know it is an intergovernmental institution but I think also the ESM should be open for exchange and dialogue. It is for all of those reasons the president of Parliament has recently decided to suggest the establishment of a special subcommittee or committee on scrutiny for issues of the Euro. We are very active in the legislation and the legislation will hopefully serve that we can avoid the next crisis. But the people are affected now, so the scrutiny responsibility we have to execute now. And that is an area where we organisationally very much have to develop.

Choice

It is very good if the European Parliament is executing the scrutiny role, but what about the citizens? There are many definitions for democracy. The one I personally like the most is that you have a democratic system when you can change your government without blood shed. I know it is a very basic requirement but how do you change the European executive without blood shed? How can you change the cause of events in the EU as a citizen without blood shed? It is currently not very clear to see. If you are unhappy with the direction the Commission is going which has the monopoly on legislative initiative, how can you change that direction as a citizen and impose that a different direction is followed in legislative proposals? How is the relationship between the citizens, the outcome of European elections and the composition of the European executive and therefore the policy directions?

We will have very important political innovations for the next European elections: one is that European political parties will present lead candidates for Commission president well in advance for the elections. That means, you know, if the Socialists are the dominating force this will be the person who has the prime responsibility for the Commission. If it is the EPP, it is that person. If it is the Liberals, it is that person. And it is no longer coming like a rabbit out of the cylinder after the election is done by a meeting behind closed doors of Prime Ministers. So citizens next time around will be able to know: dependent on the political majority, we will get that person or that person or that person and different policy standpoints.

European political parties have very much developed in the past years and now have a proper legal base they are still about to improve, they have some financing, they are preparing European Councils, they are preparing Council of Ministers and the next step which I have been describing will be a very important step.

We also have a proper legal base for this because with the Lisbon Treaty, for the first time, it is absolutely clear that the European Parliament will elect the Commission president and that already the proposal for Commission president has to be made by the European Council in the light of the outcome of the European elections. The European Council is not allowed to disregard the outcome. It has to make the proposal in the light of the outcome of the European elections.

And there is one text which only I know, but now you will know it as well: that is declaration number 11. So who of you knows declaration number 11? Nobody. OK. So what is declaration number 11 saying? Declaration number 11 is saying that the president of the European Council after the European elections has to start consultations with the European Parliament on the name he is going to propose for Commission president to the European Council. So, in fact, we could see something which we know from our Member States where a Queen, a King or the President starts official consultations with the political families in order to find out who can command a majority in Parliament for the next legislative term. It is something which is politically very important, but it is also very important for the citizens because it means "your vote counts; the majority you composed counts" not only for the composition of the parliament but also for the composition and for the direction of the executive.

And that will also allow that next time around, there could be political negotiations between a majority composed in parliament and the incoming Commission president. Because if the European Parliament is asked to support a candidate, it is a very legitimate question to ask: what kind of policy initiatives are we going to see from you over the next years if we support you? All of this opens for a very different way of participation of voters in the choice not only of the parliamentary majority but also of the executive. And all of this can be done without treaty change.

European identity

If all of this is in the making, what is the cultural base for this? Because in order to do this, of course, we have our regional identity, we have our national identity, but we also, in order to support this process, we also need an additional European identity. We need to know that we are not only German and French or British or Dutch, but that we are also Europeans.

And I believe that one of the astonishing outcomes of the crisis is that this European demos where we always say no, we don't really have a feeling of belonging together, that the crisis has started to create that. Because people are now aware that, in fact, we are belonging together. We have to care what is happening in Greece, what is happening in Portugal, what is happening in Ireland, because it affects all of us. So that European identity which traditionally we maybe perceived strongly only when we are abroad is also finding itself the sentiments of the citizens.

But at the same time, we need to actively engage to support and create that European identity. It is not that the facts are not there, but we also need to start thinking of our own history not just as national history but also as joint European history. The Nation States have invested a lot to reconstruct their history as national history in national history museums. I am coming from a country, Germany, which only created its national state very late in 1870. The whole German history was reconstructed as if we had always had a German Nation State which is simply not true. At the time of Napoleon, we still had more than 300 Germanies. Even the expression Germany did not exist in the singular, it only existed in the plural.

The European Parliament has decided, after having opened the Parliamentarium - its visitors centre - one year ago, where you do not only see the functioning of the European institutions, but also what led to the creation of these institutions, to construct a House of European History in Brussels. It will be opened in autumn 2015 and will be a unique place where you can see that we are not only having a national history or regional history, but that we also have a very rich common European history.

We also are the very proud owners of the House of Jean Monnet in Houjarray. We are the owners, we are investing into this, and I have started to send all new administrators of the European Parliament in the first months for an induction course to the House of Jean Monnet in Houjarray. Because they have to realise that when you are working for the European Parliament, it is not as if you were working for a bank, and it is not as if you were working for an insurance company. You are working for a project which has a history and an ambition for the future.

And in the same spirit, we have named the main place in Brussels between our Parliament buildings after Simone Veil. Because we believe that Simone Veil, the first directly elected president of the EP, is a great source of inspiration. And she embodies in her person and in her personal life exactly our project: from the darkest hours in Auschwitz to the European unification and to be a lead person in that project.

Germany and France

Let me say a last few words about Germany and France. It is absolutely clear that Germany and France have no special rights and they surely do not have the right to try to dominate everybody else. But they have a special responsibility. They have a special responsibility because if Germany and France can find a solution, it is very likely that that solution is a good solution for many others. And why do they have this capacity? Not because they are so similar, but because they are so different. If Germany and France, which are so different, can come to a joint conclusion it is very likely that everybody else can also agree. But it is also because Germany and France have experienced two World Wars, which at the same time were European civil wars. So they have to know better, they have to make that experience a very practical one for our European project. There is a very famous German philosopher Immanuel Kant who has said in a famous article: "Aufklärung ist der Ausgang aus selbst verschuldeter Unmündigkeit".

Now I am starting to speak German.

I think in a very similar spirit, we can also say for the European nations that Europäische Integration ist der Ausgang aus selbst verschuldeter Unmündigkeit. Vor 100 Jahren waren die Europäischen Völker führend in der Welt. Durch zwei Europäische Bruderkriege sind wir in der Gefahr, zum Objekt der Geschichte und zum Spielball anderer zu werden. Europäische Integration ist die Chance, unser Schicksal gemeinschaftlich in die eigenen Hände zu nehmen. Herzlichen Dank!