

Lecture by Herman van Rompuy at the Graduate Institute/EU lecture series "The EU in a global storm", 21 October 2019

Check against delivery!

A few years ago I wrote a book 'Europe in the storm, that I strongly recommend!

Today we should talk about 'The world in the storm'.

These are strange times for the world, the West, the nation states and the European Union. Established values and institutions, internal and international power relations, are changing rapidly, against a backdrop of revolutionary developments in the digital field and with regard to the climate. Even though global prosperity continues to grow and there are hardly any wars outside the Middle East, there is still a feeling of unease everywhere. Until recently one could say that Asia incarnated hope and the West incarnated fear, but that is less clear today. There's uncertainty all over the world.

We are also experiencing a kind of globalisation of nationalism! It is often about nostalgic nationalism. The late French president François Mitterrand said once 'Nationalism means war'. It is historically proven.

Fortunately, the EU has been spared the slogan: 'Make the EU great again!'

But Europe, like the West as a whole, is undergoing profound changes in society itself. This is also the case in authoritarian regimes where social and sometimes even political tensions are very high, especially if the economies are not performing well.

EU-citizens are aware that the national framework is too narrow to protect them better from real or perceived threats by their leaders at every level of power and to solve the major problems of our time such as irregular migration, climate change, inequalities caused by i.a. major international tax fraud and terrorism, trade wars, financial instability. But the national democratic institutions are the only ones that citizens so to speak have control over. The reasons for the reluctance to 'more Europe' are thus related to the fact that national democratic legitimacy is stronger than European legitimacy.

It is therefore more difficult for citizens to transfer national sovereignty to a higher level of power (EU), where they have the impression that they do not have enough control over it.

I repeat, although citizens know that this transfer of powers to the EU is necessary to address precisely the reasons for their concerns and lack of protection.

In times of confusion political leadership and courage are key. It is not an easy task at a time when there are 11 minority governments in the Union. Europe has to be strong at a time when the member states are weak.

As a result of those tensions steps towards more European integration and cooperation will only be taken in the Union when there is no alternative, but all too often in a crisis. But big and difficult decisions in personal and economic life are often made with their backs to the wall. I know gradualism is inevitable, but the steps must not be too small.

These tensions are also reflected in populism. The vast majority of citizens do not want to leave the Union and the euro area. Populism wants to remain popular. Therefore populists can only claim to reform the EU from the inside out, not to leave. They have had to review their attitude towards the EU.

Just a few words about Brexit. It's too sad a story.

In the event of a deal approved by the British parliament, there will be a transitional period until the

end of 2020 during which the UK will remain in the customs union and in the single market. However, that period will be longer because negotiating an FTA is a very complex process for the UK and for the EU. 45% of the UK's exports of goods and services go to the EU-27. Conversely, the UK is only the destination for 8% of EU exports. These negotiations will be difficult because the EU will insist on its norms and values of mutual trade and will demand a level playing field that will make any model of low tax country impossible. The uncertainty for investors and the economy at large can therefore last for many years to come.

The EU's so-called crisis has been pushed into the background by the trade war, by Brexit and by the rise of national populism. The European project itself is stagnating in the 27 countries, but there is no sign of dissolution, especially now that many citizens are seeing the consequences of the British debacle.

The EU will lose one member but, at the same time, we are negotiating with other countries. But it is more than just a mistake not to have rewarded North Macedonia for the political courage it showed in the name change agreement with Greece. This lack of empathy will further increase the distance between East and West in the Union. It has implications for the region as a whole beyond the North Macedonian issue.

Of course, the conditions for accession must be met. The experience of recent years in some of our member states has prompted the Union to exercise greater caution. However, the prospect of new membership of the Union must be maintained. The economic future of those countries should lie not in Beijing or Moscow but in the Union. Even for the three countries that belonged to the former Soviet Union such as Ukraine, Georgia and Moldova, linked to us by an association agreement, such a link is not the last step in the cooperation with the EU.

What should be the EU's strategic agenda for the coming year and years?

First of all, the EU must remain faithful to its principles.

The first area where this applies is trade. The EU has remained almost the only defender of free and fair trade and rules-based trade. It resolutely rejects protectionism. The EU will continue to do so after Brexit. The recent proof of this, is the FTA concluded with Japan and the political agreement on an FTA with the Mercosur countries.

The EU wants to resolve the trade disputes that it has with countries such as China through dialogue, not through a tariff war and within the framework of the

WTO. An important test is the EU-China investment agreement to be concluded next year. It must show that negotiations pay off.

Our approach is thus: firmness and dialogue.

If the EU and the US had negotiated with China to create a level playing field for investors and for trade, we would have stood much stronger and would not have pushed the world economy into uncertainty or stagnation and recession.

The Union has shown recently that it can defend its interests by taking retaliatory measures, including with regard to the USA, and by combating dumping, if necessary. The EU now has the new legal instruments to do this. They may not yet be sufficient. On the other hand, every effort must be made to ensure that the WTO continues to function, as the USA is trying to prevent.

More than a year ago, the President of the European Commission negotiated a kind of armistice in the trade dispute with the EU. J.C. Juncker was able to do this because he could speak on behalf of 500 million Europeans. We spoke with one voice. But the threat is of a trade war is not over yet. In 2018 the United States (21 %) was the largest partner for EU exports of goods and the second largest partner for EU imports of goods

(13 %). A trade war between those two blocks is the most dangerous of all.

The EU has applied its principles in its negotiations with the UK. That is why it hasn't deviate from its principles. The integrity of the single market and the four freedoms are essential for all 27 countries. The Union didn't sacrifice this acquis to accommodate a country wishing to leave the Union.

These principles are also reflected in the fact that the single market is safeguarded against unfair competition, including tax competition, and against dominant positions. The Commission's actions, including with regard to the GAFA companies, must be seen in this light.

The Union and the euro area must defend their interests in various areas in the name of European sovereignty or autonomy.

The EU and its Member States have fallen behind competitively in the new economy, which is permeating all sectors, such as the very important car industry. Among the 15 most important digital companies in the world, there is not a single European one. In terms of sustainable batteries, we have become

too dependent on Asia. We are also lagging in this crucial sector of Artificial Intelligence.

STEM study programmes in Europe must be given a 'boost', especially for girls. We shouldn't lose the war for talents. China and India are already home to the highest numbers of university and STEM graduates. There's a brain drain. In the Netherlands, for example, fewer young people can graduate in AI because there is a shortage of professors.

The only way to restore our sovereignty is cooperation between Member States. The scale has become essential in global competition. Size matters! Our British friends are not fully aware of it.

We offer the largest single market in the world, but others are making increasing use of it. I would also refer in passing to the acquisitions of own European companies by non-Europeans, especially in strategically important sectors. The EU and the Member States finally have instruments to prevent this from happening easily. Protect without falling into the trap of protectionism.

France and Germany have understood this and are now working better together at least in this field. The draft

EU budget focuses on R&I as a top priority. It's about competitiveness.

In the military field, too, we need to move towards much greater sovereignty, especially at a time of growing American isolationism and greater Russian assertiveness. Here too, things are getting better when I look at an initiative such as PESCO with the participation of 25 member states and at a European intervention force. The ultimate goal must be a European army. Dreams are not forbidden! Only then will the Union be a global power, otherwise it will be a global player, albeit in crucial areas such as trade and climate.

In the field of energy, too, we must get rid of the over-dependence on oil and gas on one supplier, namely Russia. Here, too, progress has been made in recent years, as well as in creating the free flow of energy throughout the Union.

Achieving the ambitious climate targets for 2030 (-40% GHG emissions) and 2050 (net zero emissions) will contribute greatly to regaining this energy sovereignty. That will take efforts. I add that we were able to meet our emission targets for 2020, -20% compared to 1990. "I want Europe to become the first climate-neutral

continent in the world,” van der Leyen said. People realise that our current ‘way of life’ is untenable, but changing it is difficult. Whoever sees the good, doesn't do it.

America's control of dollar transactions, and of US subsidiaries of foreign businesses, gives it significant power. America's use of the dollar clearing system (which facilitates cross-border transactions in dollars) to enforce sanctions on states, has encouraged some countries to reduce their dependence on the dollar. The euro makes the EU more autonomous. The euro is the currency of 340 million people and the second one most used in the world with a share of 35.7 % of global payments.

Protecting the Union's external borders is also a matter of sovereignty. As a Union, we must be able to decide for ourselves who enters our territory and who does not. The more secure the borders are, the less solidarity we need to call for in the distribution of asylum seekers across the Union as a whole. It is much easier to reach a consensus among the Member States on the former than on the latter. Solidarity in all areas becomes difficult in the EU. Solidarity on migration

divides the Union deeply between East and West, North and South. It also divides the UK and the US.

Significant progress has also been made on border control since 2016. However, we must be aware that we need the Mediterranean riparian countries in order to achieve this goal.

The Schengen area has survived the crisis of 2015-2016. However, the fourfold increase in the population of Africa by the end of this century will require further strengthening of our external borders on top of other policies supporting growth for all in Africa. Africa is our neighbour!

Migration policy cannot do without humanity either. Our degree of civilisation is measured by what we do for the most vulnerable. There is a looming humanitarian catastrophe this winter. The number of asylum seekers arriving in Greece increased with 23 percent compared to 2018. And I do not include the consequences of Turkey's military invasion of northern Syria.

We must also be aware that legal migration is inevitable. For example, Eurostat recently showed that by the end of this century the Italian population will have halved without migration! We need popular

support for legal migration. But as long as irregular migration is not under control, we will have problems promoting legal migration.

Immigration is perceived, rightly or wrongly, as a threat throughout the EU, but emigration and the resulting ageing of the labour force at home is a real threat, especially in Central and Eastern Europe. It also includes brain drain, the loss of future growth drivers.

In addition to sovereignty, cohesion is a major objective of the Union.

Cohesion is not only about income distribution but also about the relationship between cultures, religions and ethnic groups. But there are also interfaces between the two. The cohesion of European societies will be a major concern in the coming years.

The convergence in income levels between the Member States is impressive, albeit that since the multiple crisis that movement has been interrupted.

But a new structural problem arises. Economic activity, especially one that is knowledge- and innovation-intensive, tends to spatially cluster in areas that are already more advanced. Productivity, innovation, skills and thriving firms will increasingly concentrate in a few wealthy areas, while the less prosperous are excluded from the gains. The current debate on an EU industrial policy overlooks this issue of inequality.

This phenomenon, or the accumulation of wealth in certain regions, has already been known in post-war history. For this reason, a regional policy was adopted to counteract the effects of market forces. This new concentration of prosperity favours cities over rural areas. The gap between the two is in danger of widening. Frustrations are already mounting in the countryside. Look at France.

I would like to elaborate on this theme of the convergences or divergences of incomes in each member state.

Unemployment (also as a result of digitalisation), the backwardness of many with a migration background, the gap between the highly skilled and those with lower qualifications, all this can increase inequalities, which in turn are the source of populists' successes. Precarious jobs create uncertainty. One can therefore

have full employment and social malaise at the same time. These inequalities explain a lot about Trump and Brexit. By the way, inequalities are much higher and are widening in the Anglo Saxon world than in the EU. But social inequalities are on the rise in EU countries. The proportion of employed persons at risk of poverty has risen from 8% in 2010 to 9% in 2017 – meaning that, today, nearly one in ten employed people over the age of 18 in Europe are at risk of poverty after social transfers.

These income inequalities are sometimes less a matter of absolute level than of relative position, in the EU more related to wealth than to income. Unhappiness comes from comparison with others. On the other hand, the accumulation of wealth among some is causing frustration in Europe. An unwanted consequence of low interest rates is that it deprives pensioners of a supplement to their pension. The high rise in share prices resulting from these low interest rates increases the inequalities in wealth.

It is possible that we have to achieve these objectives in a climate of economic stagnation or recession, at least in some advanced economies. This all needs to be seen in perspective. Most major economies are continuing to grow. Even in the Euro area GDP growth

will be around 1% in the coming years. But we have to remain concerned. I explain.

The yield on the ten-year US Treasury bond has been below the yield on the three-month Treasury bill since May. Every recession of the post-war era was preceded by an inversion of the yield spread.

The very slow or even stagnation in 2019 of the strongest economy in the eurozone is very significant, even if Germany has the most cyclical economy because it is the most industrialised and the most export-led.

The current problems in the global economy are mainly 'manmade' or 'homegrown': trade war, Brexit. At the same time, the economic problems are also the result of 'not enough Europe'! In a way, this is also 'manmade'. Our economies could be structurally much stronger if we were to cooperate more in the EU on industrial policy. The threat of stagnation or recession must be a stimulus to work on the problems of European competitiveness.

A question: In such a recessive climate, should we launch a new round of fiscal austerity due to the fact that a number of countries will not respect the 3% deficit rule? The ECB calls for more fiscal stimulus, especially in those countries that can afford it. In this

way, expansionary monetary (with the lowest interest rates for centuries) and fiscal policy would work in the same direction. But it must be a fiscal stimulus through investment. And investment in those sectors which are high on the societal agenda such as climate change, mobility, renewable energy, education. Initiatives were taken at EU level (Juncker plan for strategic investments good for 500 bn € investments) and at national level in the Netherlands and Germany. But more is needed.

We should also be aware that in the EU we also suffer from under-investment in the private and the public sector for budgetary reasons, while in China, for example, there is over-investment. This gap between savings and investment, between supply and demand, in the EU explains partially the negative interest rate.

The question with economic growth is: who benefits from it? In the case of budgetary consolidation or climate change policies, the question is also: who pays? The issue of the distribution of costs and benefits is once again crucial. Populism is increasingly being driven by the social elements. Many populist parties are on the right on a socio-cultural level but on the left on a socioeconomic level!

A possible recession will also have an impact on the eurozone. Divergences among member states will increase. Therefore, it is unfortunate that the banking union is not yet completed despite the incremental improvements agreed in recent months. The eurozone and most banks have become more solid. Greece is now also benefiting from short-term negative interest rates and from a rate of barely 1.5% over 10 years.

But the euro area as a whole is not yet solid enough in view of a possible subsequent financial crisis due to a particularly high level of global private and public debt, higher than ten years ago when the financial crisis broke out. We need a stronger Franco-German in the area of the EMU.

The European countries are forced to revise their model based on the social market economy. We already had a strong social correction with the creation of the welfare state.

A pressing question: how can Europe's social model survive with a rapidly ageing population and as the rise in non-standard work can erode public revenues in the longer term? 40% of the European workforce is today engaged in 'non- standard' forms of work.

Yet, labour taxes (i.e. personal income tax and social security contributions) are a large source of government revenue for most advanced economies and the foundation of Europe's social model. Today, an

average 41% of EU28 government revenues are spent on social protection. Addressing this gap will require recalibrating taxation systems in order to shift the burden away from labour to new forms of taxation, and to ensure fairer corporate tax systems.

An ecological correction of our model is also needed, The climate problem is also “manmade”. The same goes for the solutions. Technology alone will not solve the problem. Policies will make the difference. The political agenda is shifting in many advanced economies. But climate objectives require more than a correction; they need a transformation in all sectors of the economy. No one escapes it. It is a matter of survival, an existential problem. ‘Life or death’ as some say. Even the implementation of the Paris Agreement (2015) will be far from sufficient to achieve the objective of staying below the 2 degrees Celsius increase. Nevertheless let us be realistic: implementation of the current plans is now the biggest priority. I am less interested in bidding on ever more ambitious targets. The question: who pays the taxes and who will finance the investments, will be the central political question.

On an international level, choices have to be made. It remains strange that it is the USA that is questioning the multilateral framework. But other global actors too

often pay only lip service to this framework. Saving multilateralism is one of the main priorities for the coming years. It is a choice between 'order or chaos'. I continue to hope that the overriding interest that will eventually coincide with self-interest will prevail.

People may not be happy with the EU, but they are increasingly happy in the EU. Leaving is not the wish of the overwhelming majority of the citizens of the EU-27. Support for EU membership is now at its highest for 27 years.

In a quiet environment with nice neighbours, the European project could have been watered down. But we are surrounded by global actors who use import tariffs, data and refugees as weapons against us. This external pressure will mean that Europe will have to reinvent itself once more. As a geopolitical power, this time.

There are many reasons to be skeptical, insecure or anxious. But pessimism is a form of intellectual laziness. A pessimist is always right. Either his prophecy turns out badly and he says: happily so! Or he the pessimist is right and his reaction is: I told you so! Better to remain a man or woman of hope.

